BANKING AND REGIONAL DEVELOPMENT

A STUDY OF INTERREGIONAL DISPARITIES IN BANKING DEVELOPMENT WITH SPECIAL REFERENCE TO KERALA

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G. RAMBABU

CENTRE FOR DEVELOPMENT STUDIES
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I hereby affirm that the research for this dissertation titled "Banking and Regional Development: A Study of Interregional Disparities in Banking Development with Special Reference to Kerala" being submitted to the Jawaharlal Nehru University for the award of the Degree of Master of Philosophy in Applied Economics, was carried out entirely by me at the Centre for Development Studies, Thiruvananthapuram.

G Rambabu

Thiruvananthapuram
21-07-1995

Certified that this dissertation is the bonafide work of G.Rambabu, and has not been considered for the award of any other degree by any other university.

T M Thomas Isaac
Associate Fellow

I S Gulati
Honorary Fellow

Supervisors

Chandan Mukherjee
Director
Centre for Development Studies
Thiruvananthapuram

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Chapter I

INTRODUCTION

The financial sector plays a vital role in the process of economic development. It lubricates the engine of growth by mobilising savings and extending credit for productive investment. However, in academic literature, it has been debated whether financial development precedes, and therefore plays an active role in economic development, or whether it merely adjusts to the growth of the real sector. The two opposite view points can be described as the *demand following* and *supply lending* phenomena.[1] Such classifications, however, do not conclusively explain the direction of causality. The cause and effect relationship between financial and real sector development is difficult to disentangle. In reality, financial development and economic growth are closely intertwined and they interact in any economy over a period of time in a mutually reinforcing manner. This holds true for both the developed and the developing countries.

In developed countries market forces help to evolve financial institutions and instruments, in other words, economic development precedes financial development, but in the case of developing economies, they have to make deliberate efforts to promote and nurture institutions and investments as part of the process of development. India is no exception. The conscious government intervention over the years has seen rapid progress in the financial sector. Of particular importance is the nationalisation of banks in 1969, which has been the most outstanding feature of the evolution of the financial sector in independent India. It was a recognition of the potential of the banking system to promote broader economic objectives such as growth, better *regional balance of economic activity* and the diffusion of economic power (Reserve Bank of India, hereafter RBI, 1991:8). In other words, banks were expected to play the `supply lending' role in promoting economic development.

In this context, the interregional disparities in banking development becomes relevant. Although there have been several works on regional economic development in India, very few have attempted to analyse regional disparities in commercial banking development within the framework of regional development. More so, when studies have repeatedly pointed out that regional economic imbalances in the country have been increasing over the years. In what follows, we look at a few studies which have analysed these disparities in banking development between states in general and within Kerala in particular.

Regional disparities in Banking Development in India:

Committee Reports and Official studies of Reserve Bank

Regional disparities in banking growth in India remains an issue that has not received adequate analytical attention by any committee of the RBI. After Independence, the first major effort to assess the credit requirements of the rural sector and to examine the performance of existing credit institutions was made by the All India Rural Credit Survey (RBI:1953) conducted by RBI. This report revealed that 93 per cent of agricultural credit was issued by the non institutional agencies, while the share of co-operatives and government together was about 6 percent. The commercial banks accounted for less than 1 percent of the total credit. Among the provincial banks, the committee noted that Madras and Bombay were in a strong position. Elsewhere, the process of reorganisation, consolidation and extension of banks was lopsided. There was heavy concentration in large towns and cities, while smaller and semi-urban towns received less attention. It concluded that the diversity of banking institutions is inherent in the variety of conditions and circumstances obtaining in different regions and is the natural consequence of historical circumstances.

Subsequent studies and surveys dealing with rural credit gave greater recognition to the role of commercial banks in meeting the credit needs of the rural sectors. An inter district comparison of the spread of banking was made in the RBI Bulletin (RBI:1969). It sought to construct and study the composite indices for the measurement of agricultural development, spread of banking facilities and extent of deposit mobilisation in 302 districts in the country during 1961 and 1965. Composite indices were constructed it was seen that there were considerable gaps in banking development between the districts.[2]

The nationalisation of banks in 1969, sought to remove these disparities between regions. The Report of the Review Committee of Regional Rural Banks (RBI:1977) notes that since the adoption of the multi-agency approach in 1970, commercial banks have made commendable efforts to extend their branch network to rural areas. An interstate analysis showed that by 1977, the share of the high income states of Gujarat, Haryana, Maharashtra, Punjab and West Bengal in the total branches came down from 35 to 32 percent and the low income states of Bihar, J&K, Madhya Pradesh, Orissa, Rajasthan and Uttar Pradesh increased from 23 to 28 percent. In terms of the direct finance to agriculture by commercial banks, the share of the South was the highest (69.4 percent) while that of the North was only 3.9 percent. The term finance situation was better balanced. South had a share of 25.5 percent and the North, a share of 21.3 percent. It was also found that the bias of commercial banks loans was favourable to large farmers particularly in Gujarat, Maharashtra, Punjab and Madhya Pradesh. In terms of agricultural credit per hectare, agricultural credit per hectare outstanding, and agricultural credit per household, Kerala was found to top the list followed by Punjab and Tamil Nadu.

The problem of regional imbalances in commercial banking was also studied by the Raj committee (RBI:1978b) which was appointed by the RBI to study the efficiency of Public Sector Banks. The committee made an effort to measure the regional imbalances in commercial banking development by constructing the index numbers of each state by dividing the share of offices, deposits and advances by the share of population in each state for 1977. It felt that the growth of banking should be directed more towards rectifying the regional imbalances, not only in respect of credit disbursal, but also of branch expansion. The states of Assam, Bihar, Madhya Pradesh, Orissa and Uttar Pradesh deserved special attention. Even in the so called well banked states such as Maharashtra, Tamil Nadu and West Bengal, if the metropolitan cities are excluded, the performance is poor. The rapid expansion in bank branches was not accompanied by a similar rise in deposits and credit. The state-wise distribution of priority sector advances in June 1977 also showed wide disparities between states. The states of Haryana, Himachal

Pradesh, J&K, Manipur, Meghalaya, Punjab and Tripura disbursed more than 50 percent of their outstanding credit to the priority sector, while the rest of the states disbursed a relatively less amount to the priority sector.

The Report of the Expert Group on Agricultural Credit Scheme of Commercial Banks (RBI:1978a) noted that there was a substantial growth in the flow of commercial banks credit to the agricultural sector after nationalisation in 1969. The share has increased both in short term and medium/long term loans, although it was faster in the former. An inter regional analysis showed that South alone accounted for 64 percent of total direct loan accounts and 47 percent of the outstanding loan accounts, whereas the North east had a share of 1 and 0.5 percent respectively. The regional distribution of direct loans showed very uneven distribution. Even within each region, the share of the different states and territories were quite unequal.

The Report of the Committee on the Working of the Monetary System (RBI:1985) made a comprehensive review and suggested measures for improving its effectiveness as an instrument for promoting the basic objectives of planned economic development. It was noted that since 1969, Commercial banks and in particular 28 public sector banks have made rapid strides in the various spheres of banking operations. Deposits mobilised by the rural banks increased in 1981 from its low level in 1969. The share of metropolitan branches too declined. While the credit disbursed by commercial banks showed an increase of twelve times, the Credit Deposit (CD) ratio fell by almost 10 points during the same period. However over the years, there has been a reduction in the urban-rural disparities in the CD ratio.

The latest in the series of committees on banking, the committee on the reform of the financial sector (RBI:1991) presents a review of the financial system and gives certain recommendations for "infusing greater competitive viability into the system" of commercial banks as a concomitant to the structural reforms initiated by the Government of India. The committee notes that the expansion of the priority sector lending and the emphasis on the area approach has led to a degree of evening out of regional disparities in Banking (RBI, 1991:14). But, it also admits that serious problems have emerged in the banking sectors, and suggests policy measures for the same. Among the major suggestions are a rationalisation of interest rate, phasing out of directed lending, setting up of Rural Banks, abolishing of branch licensing policy and provision for more effective loan recovery. Fears have been expressed that the general approach of the Narsimham committee favouring greater deregulation of banking, would lead to widening of the interregional disparities in banking.

Studies by Individual Scholars:

Among the first attempts by an individual scholar, to study the interregional disparities in banking development in India, was by Hester (1964). He conducted an empirical study of the operations of 67 Indian banks on the data base of 1959 and investigated regional variations in Commercial banks rate of interest on deposit and credit. One of his major findings was that the banks serving the South paid significantly higher rates on fixed and savings deposits than the ones in the North, revealing that the growth of banking was actually stronger in the South.

Shukla (1971) and Basu (1979) made an interstate analysis of commercial bank credit to agriculture. Shukla ranked the states with regard to various indicators of banking. The number of persons per bank office showed that Gujarat, Punjab, Kerala and Karnataka occupied the first four ranks in 1971, while Bihar, Orissa and Assam occupied the last three ranks. In terms of the advances per account holder, Maharashtra, Assam, Punjab and Gujarat were leading and Madhya Pradesh, Orissa and Tamil Nadu were at the bottom.

Basu on the other hand analysed agricultural credit in 283 selected districts for the year 1973. He found that there were wide variation across the states with regard to the growth of bank offices and per hectare credit to agriculture. The inter district disparity measured in terms of coefficient of variation was very high. The major share of bank credit in 1973 went to Maharashtra and West Bengal. Within these two states, Bombay and Calcutta availed of the bulk of the loans. Which shows that the degree of urbanisation has been a determining factor influencing the regional disparity in the intensity of credit operations of commercial banks. Even the CD ratios continued to have wide regional divergence. It ranged from 7 to 245 percent with a coefficient of variation of 98 percent. The study also sought to trace the determinants of the regional disparity of agricultural credit by using regression method and found that certain banking, institutional and productivity variables are responsible for this variation. He found that in quite a number of states, the bulk of the agricultural credit goes to finance the plantations. But, even after deducting for plantation credit, Tamil Nadu, Kerala and Maharashtra, accounted for a good share.

An interstate comparison was also made by Minocha (1973). The study looks at their impact on regional development and the extent to which they have been instrumental in reducing regional disparities. By analysing 328 districts and the various states he showed that the branch expansion has been impressive in the rural areas. Meghalaya, Punjab, Gujarat and Kerala showed the highest share while Orissa Bihar Assam and Madhya Pradesh had the lowest. It was seen that even after nationalisation, the concentration of banks in the relatively developed states as also the districts persist. The annual growth rates of deposits, credit and the credit deposit ratios also showed similar results. He was of the opinion that the `pull' factor of growth in agricultural income was responsible for the increased concentration of bank branches.

Shiv Kumar (1979) classified the all India districts into broad homogenous groups according to the levels of Banking Development by applying the technique of Cluster analysis. The chosen variables were: Rural population served per bank, Urban population served per branch, per capita deposits for rural population and per capita deposits for urban population.

A full scale assessment of the regional disparities in commercial banking was made by Chippa (1987) and Kannan (1987). Chippa attempted to identify the factors which are associated with the regional disparities in commercial banking in the country. Notably, the commercial banking development was measured in terms of composite indices calculated on the basis of suitable indicators of various aspects of banking. These indices were estimated with the help of modified factor analysis technique. The major share of bank offices, deposits and credit were found to be concentrated in Gujarat, Maharashtra, Tamil Nadu and West Bengal. Correlation analysis was used to find out the factors which are associated with banking development in the country. While agricultural development and banking development were found to be poorly related, Industrial development and literacy had a high correlation with banking development.

Kannan constructed an index of banking development using the factor analysis technique for three time points, 1969, 1975 and 1985. The analysis was supplemented by estimating the `economic distance' between regions. It was found that there is no significant variation in the ranking pattern of states for the period 1969 to 1975, although there was a substantial reduction in disparities from 1975 to 1985. The industrially backward states of MP, Jammu and Kashmir, Bihar, Assam and Orissa had a low banking index, while Punjab, Maharashtra, Kerala and Gujarat were well developed. The three main indicators that were used in the analysis were the population per bank office, per capita credit and per capita deposit.

The priority sector advances of commercial banks were analysed by Sarker and Nayak (1993) at two time points, that is, June 1985 and March 1990. They sought to study the pattern of changes in the share and hierarchical positions of the various regions during this period. It was noticed that there are wide imbalances in the distribution of credit over different regions and the positions remained more or less the same during this period. The Northern region came out on top, while at the bottom of the list was the North Eastern region. Non-parametric tests for paired observations and the Multi dimensional scaling technique showed that the North Eastern and the Central region were leading in achieving their targets while the Western region failed in its target.

At an aggregate Country level, these were the few important studies. It has been noticed that inter regional variations in banking still exist. These inter regional variations have broadly reflected the comparative level of economic development attained in these regions. While the South comes out as the best developed region in Banking, different studies gave different views of interstate dispersal. Kerala, it was seen is relatively, one of the better banked states in the country. Since we plan to study interregional disparities in banking development with special reference to Kerala, we also looked at the few available studies on the development of banking in the state.

Studies on Banking in Kerala

Among the studies on the State of Kerala, few have looked at the inter regional development of banking. The Travancore-Cochin banking enquiry committee report (Government of Kerala, 1956) was the first of its kind in the post Independence era. The report traced the development of banking in the two regions of Travancore and Cochin. It noted that in terms of the average number of people per bank office, they had the smallest figure in the whole of

India. It was noted that the expansion of commercial banks in the rural areas is more pronounced than in any other state.

Oommen (1976), historically reviewed the expansion of commercial banking in the Travancore-Cochin region prior to the period of planning. He notes some of the salient features of banking in Kerala: their community or sectarian origin and ownership , the rural areas bias, overextension of credit, and predominance of small accounts. There was seen to be a special concentration of banking in Tiruvalla and Trichur.

The Kerala Planning Board (1982) too made an effort to understand the performance of commercial banks in Kerala after nationalisation. This study was confined only to a quantitative assessment of the performance of Nationalised banks, and looked at the mobilisation of deposits, trend in credit expansion, and the sectoral distribution of bank advances. Even though the number of bank offices in the state is more even than other states, some districts like Malappuram, and Idikki lacked banking infrastructure. Ernakulam was found to be the best banked district in the state followed closely by Trivandrum. It accounted for 22 percent of the deposits and 30 percent of the credit disbursed in the state. Idikki, Malapurram and Palghat were way behind.

Among the more recent studies, Sunanda's study (1991) of institutional agricultural credit in Kerala highlights the inter district disparity. She reviews the socio-economic background for the origin and growth of banks in Kerala [performance of commercial banks and co-operatives only] and concentrates on the agricultural credit disbursed by them. In per hectare credit, Ernakulam and Trichur stood highest while Palghat ranked the lowest. Regional disparity of agricultural credit from commercial banks decreased between 1974/75 and 1985/86 while that of co-operatives increased. She has used Principal Component Analysis to explain the variation. Three sets of variables are used for explaining the variation of per hectare credit from Commercial Banks and co-operatives viz., Banking Variables, Asset Variables and Productivity Variables.

The above studies showed that wide interregional disparities in banking development exist in the country. Even in the case of Kerala, intra-regional disparities, between districts have been noted. However, these studies have stopped short of tracing these development s in banking with their economic performance. Our attempt would be to extend this line of research further and make a more comprehensive and systematic analysis of inter regional disparities in banking development in the country.

The studies that made an inter state comparison of commercial banking development discussed overlooked a few important indicators related to banking. They were subject to a few limitations. Most of the studies are static or comparative static and while constructing composite indices of banking development, many of the studies have normalised the series of deposits and advances for the population of the region/state, none has taken the size of the economy (SDP) into account.

As far as Kerala is concerned, though we shall be looking into the historical evolution of banking in Kerala, our focus is on the banking performance since 1956 when the state was formed. We attempt at examining the factors that have affected banking activity in Kerala, in the context of its economic growth. It is also sought to analyse intra-regional disparities in the development of banking within the state.

The objectives of our study:

1) To analyse the interstate disparities in the development of Commercial banking in India.
2) To trace the development of banking in Kerala since its formation in 1956 and identify the various factors which have influenced deposit mobilisation and credit disbursal.
3) To compare banking performance in the different regions of the state and identify the existing regional disparities.

Data sources:

Our analysis is based upon published secondary data available in various publications Reserve Bank of India (RBI) publications like *Banking Statistics, Basic Statistical Returns; Report on the Trend and Progress of Banking in India*; *Statistical Tables Relating to Banks in India*; *RBI Monthly Bulletins*; *Annual Report*; and *Report on Currency and Finance*. In addition, we have also availed of macro economic data from Centre for Monitoring Indian Economy (CMIE) and Central Statistical Organisation (CSO) publications. *India Database*, by Chandok,H L and the Policy Group also provides a wealth of information on these aspects.

Detailed information on the state of Kerala was collected from the State Level Bankers Committee Reports and Government of Kerala

Publications like *Kerala Economic Review* and *Statistics for Planning*.

Chapter scheme:

The chapter scheme of this study is as follows. In the next chapter we analyse the growth of Scheduled Commercial Banking in India. First we examine the rural-urban disparities in banking performance since nationalisation (1969). Then, we compare the various states of the country and the regional imbalances in Banking development. The relationship between banking and economic growth is also sought to be statistically tested. It is hoped that this discussion would highlight Kerala's position vis-a-vis the other states in banking performance.

In Chapter III, we make a detailed analysis of banking development in the state of Kerala from its formation in 1956. We identify the various factors influencing the deposit mobilisation and credit disbursal in the state.

In Chapter IV an interregional analysis of Kerala is made regarding the banking performance. The various disparities between districts are identified and an attempt is made to link it with the historical performance of banking. Chapter V summarises our major findings and conclusions.

End notes

1. *Under the demand following hypothesis, as trade and industry expand, the financial services needed by them are provided by the financial system. Accordingly, financial development is supposed to passively accommodate to the growth of the real economy. The supply lending phenomenon is the situation in which financial development occurs first and provision of the necessary financial services acts as a stimulant to economic growth and development.*

2. However, as the credit disbursement was not included in the composite indexes, the inter-district disparity of credit was not assessed in this study.

Chapter II

INTERSTATE DISPARITIES IN BANKING DEVELOPMENT

Prior to independence, commercial banking in India was, based on the British banking system, providing basically short-term finance to trade and industry. Most of the banking network was confined to the metropolitan/port towns, and lending was oriented towards trade and commerce. As a result, their presence in the rural areas was marginal. In 1916, more than two-fifth of the commercial bank offices were located in twenty one large cities which accounted for only 4 per cent of the population. The three largest cities and leading financial centres, namely, Bombay, Calcutta and Madras, together had almost one-fifth of all bank offices in the country, although their share in population was below 1 per cent. Even by the end of 1946, many of the smaller cities and practically all villages were still without a commercial bank office. The banking system was characterised by a relatively small size, not only in relation to the country's area and population, but also to its national income. It was practically limited to cities and to short term commercial credit operations (Goldsmith, 1969:171).

However, when India embarked on the path of planned economic development, it was clear that organisational and institutional changes had to be made for mobilising and channelising investible resources for stepping up the rate of capital formation[1]. A significant step-up of saving and investment rate in the economy was a precondition for acceleration of growth. Similarly, the importance of revamping the rural credit was also acknowledged. A more even spread of banking facilities was considered important to reduce the inter-regional economic disparities.

The aim of the present chapter is to examine how far these objectives have been met, particularly, with respect to the regional spread of banking. In section I, we shall discuss the expansion of banking and its broad features during the post-Independence period. A description of the changes in the banking policies that have contributed to the above outcome is also presented. Section II examines the banking disparities existing in the sixteen major states of the country, and the relationship between banking and economic development of these states.

Section I

Expansion of banking network:

The development of banking generally assumes one of the two forms. Either a few big banks, by setting up a network of branches produce a country wide banking structure as in United Kingdom, Australia and Japan; or a large number of unit banks springing up independently, create a country-wide banking system as in the Unite States of America. In India, it was branch banking that was promoted during the post independence period.

Till 1960s, the RBI followed a rather conservative policy towards opening of new branches and banks. This was partly because of the concentration of banks in the private sector, which had a history of failures. The large number of bank failures between 1913 to 1936 were accounted for by this segment. Therefore, initially the emphasis was on consolidation and strengthening of the banking system rather than expansion. As a matter of fact, the number of banks during the period 1951 and 1969 declined from 566 to 89 on account of closures and mergers/amalgamation with larger and stronger banks. However, the number of branches per bank increased from 7 in 1951 to 17 in 1961. The 1960's had experienced acceleration in the number of branches that were allowed to be opened. As a consequence, the average number of branches per bank rose to 93. However the year 1969 was a turning point from whence a phenomenal expansion of bank branches took place (see Table 2.1). There was a four fold increase of branches during the seventies and nearly a two fold increase during the eighties. The number of banks also began to rise. In 1992, there were 276 banks, each on an average with 222 branches. The population per office which was 87,000 in 1951, declined slowly to 64,000 in 1969 and has since then sharply declined to 14,000 in 1993.

Table 2.1 General Banking Trends in India

	1951	1961	1969	1980	1993
No. of Commercial banks	566	292	89	153	276
i) Scheduled	92	82	73	148	272
ii) Non-Scheduled	474	210	16	5	4
Total branch offices	4151	5012	8262	32419	60570

Source : RBI, Trend and Progress of Banking in India, Various issues
CMIE, Basic Statistics Relating to Indian Economy, August 1994

It may be noted that, there was a decline in the number of Non Scheduled Commercial Banks (NSCBs), indicating greater degree of control of the RBI on the banking sector in India[2]. In 1951 there were 474 NSCBs but, they had become almost extinct by 1969. In 1992, there were only 4 such NSCBs.

Deposits and Advances:

The deposits mobilised and the advances disbursed by Scheduled commercial banks (SCBs), from 1956 are given in Table 2.2 below. It shows us that the policy of opening up offices in the unbanked areas has paid rich dividends. Till 1969, the growth of deposits and advances (as indicated by the per office and per capita figures) was slow. But after the nationalisation of banks, there has been a quantum jump in these indicators. As a proportion of GNP, the deposits which were only 10 per cent in 1956. It increased at a slow pace during the next decade. The ratio was 13 per cent in 1969. But by 1993 it was 50 per cent. Clearly 1969 was a turning point in the performance of banking in the country.

Table 2.2 Deposits and advances of Scheduled commercial banks

(Rs lakhs)	1956	1961	1969	1980	1993
Deposits Per office	29	40	57	117	449
Per capita deposit	29	46	96	738	3111
Deposits/GNP (%)	10	12	13	30	50
Advances per office	20	26	41	72	253
Per capita advances	21	29	69	457	1752

Source: Same as in Table 2.1

If we look at the all India situation in terms of deposit mobilisation and credit disbursal by SCBs after 1969, the figures appear very impressive. However, what about the Rural-Urban disparities ?

Rural-Urban disparity:

Examining the regional distribution of the SCBs, it can be seen that the rural branches which accounted for only 22.5 per cent of the total branches in 1969 now account for 57.19 per cent. The strong bias the RBI has exercised in favour of extending banking facilities in the rural areas has been one element in the striking change in the distribution of branch offices. The branches in rural areas were only 1860 and in the urban were 6461 in June 1969. These branches had subsequently increased to 35301 in rural and 25934 in urban areas by March 1992. The banking density as measured by the number of bank offices per lakh rural population increased from 0.4 in 1969 to 5.6 in 1992[3]. As the Narsimham committee notes, such a pace of expansion has few, if any, parallels in the history of banking development anywhere.

Rural deposits which were 3.10 per cent of the total deposits in 1969 increased to 15.04 per cent in March 1992. The per capita deposit figures show that, although both the rural and the urban groups have improved their performance, there has not been any change in their relative positions. The rural areas by 1992 had a per capita deposit of Rs 494.33 and the urban areas Rs.7813. Clearly, the urban share of deposits is still large, but, it should also be kept in mind that the rural deposit share has increased nearly five-fold.

The same trend follows for the credit disbursal by banks. While the total credit disbursed by the Scheduled commercial banks increased from Rs 3599 crores in 1969 to Rs 131520 crores in 1992, the per capita credit of SCBs increased from Rs 68 in 1969 to Rs 1516 in 1992, and the credit per office increased from Rs 44 lakhs to Rs 217 lakhs. Here, the urban areas accounted for 98.5 per cent of the total credit in 1969, which declined to 85.52 per cent in 1992. This indicates an increase in the credit disbursed through the rural branches.

The above transformation of the size and structure of the financial sector, has been achieved as a result of planned intervention by the government.The social control of the banks did not mean only the opening up of banks in the hitherto unbanked areas, which improved banking performance. It also meant the introduction of various schemes and policies to facilitate planned intervention. The reduction in rural urban disparities, can therefore be traced to the policy of social control that was followed by the RBI.

Social control of banking:

Nationalisation of the Imperial Bank in 1955 and its reemergence as State Bank of India (SBI), can be rated to be the first step towards giving the banking system a new orientation in keeping with the policy of economic planning. By nationalising the Imperial Bank, the Central Government took control over the largest commercial bank in the country. In 1960, seven more banks (State banks of the erstwhile princely states) were nationalised and made into subsidiaries of the SBI. With a view to achieving an equitable and purposeful distribution of credit in line with the developmental priorities, the government initiated a policy of social control of banks. Under this policy a National Credit Council was formed which was composed of representatives from various sectors, including agriculture and small industries. This credit council was to decide upon the allocation of credit between different sectors. However, in 1969 after heated political debate, this policy of indirect social control was given up in favour of direct control through social ownership. Most important of the fourteen Scheduled banks were nationalised. This brought nearly 90 per cent of the banking system under state control. It signalled the reinforcement of the role of the state in directing the course o[illegible]t in India.

RBI branch licensing policy emphasised the spread of banking facilities to unbanked areas, particularly to the rural areas. The rapid expansion of the banking network has indeed led to greater accessibility to banking services throughout the country. In addition to the commercial banks, there was one more intermediary, namely Regional Rural banks (RRBs), which were started in 1975, in pursuance of the recommendations of a working group chaired by M.Narsimham. The working group felt that the operations of the existing commercial banks were not suitably oriented towards the needs of agriculture and the rural sector and suggested the setting up RRBs in areas where existing credit institutions had not yet made their impact.

The main features of these institutions were to be as follows:

a) Area of operation for each RRB branch was limited.
b) Lending rates were lower as compared to commercial banks and on par with cooperative credit institutions.
c) RRBs were to have a low cost structure; their staff would have lower salary scales as compared to commercial banks but on par with the state government staff.
d) RRBs were to be sponsored by a commercial bank with 35 per cent of the equity, and the balance 50 per cent and 15 per cent taken by the Central and the State governments respectively.

Although the suggestion was to set up only five such banks initially on an experimental basis, pressure from various quarters compelled the opening of more such banks. By 1980, the total number of RRBs was 75 with over 2700 branches and by 1992 there were as many as 196 RRBs with 14,531 branches. These banks have been provided with a number of special facilities by the sponsor banks, RBI, Central and State governments to overcome their basic handicap of poor viability.

The expansion of the banking network with emphasis on opening more branches in the rural areas, was not the only step taken for reducing the disparities between the access to credit between different sectors and regions. Another innovative measure in the field of commercial banking has been the administrative intervention of laying down of targets and sub-targets in financing the preferred sectors of the economy, called `priority sectors'.

The concept of the priority sector evolved in the 1960 and it included the following:

a) Agriculture
b) Small scale industry
c) Road and water transport
d) Retail trade
e) Small business and self employment

However till the advent of nationalisation very little progress was actually made to change the pattern of credit flow.

In the policy guidelines issued in 1975, the RBI directed all public sector banks, that their priority sector credit should reach one third of their total credit by 1979. This target was actually reached by 1981. Subsequently, it was stipulated that 40 per cent of the total credit should be given to the priority sector and this target was reached by the public sector banks by 1987. Among the Scheduled Commercial Banks, if we look at the public sector banks' advances to the priority sector, the total priority sector advances has increased from 14.6 per cent of net bank credit to 39.3 per cent in 1992. Thus the prescribed ratio was more or less being maintained.

While the overall ratio of the priority sector has shown an increase in keeping with national priorities, its composition also has shown changes. Of the priority sectors, in 1969, the small scale industries accounted for the highest share with 8.5 per cent, whereas in 1992, the agriculture sector accounted for the highest share with 16.1 per cent followed by the small scale industries (15.5 per cent).

Table 2.3 Advances to Priority sector by Public Sector Banks
(amount outstanding as a per centage of net bank credit)

Priority Sector Groups	1969	1992
Agriculture	5.4	16.1
Direct finance	1.3	14.9
Indirect finance	4.1	1.2
Small Scale Industries	8.5	15.5
Other Priority sectors	0.7	7.7
Total Priority sector	14.6	39.3

Source: Report on Trend and Progress of Banking in India 1992-93, RBI

In agricultural financing, the commercial banks in India have been able to make considerable headway through the 'one window' approach for short term as well as medium term loans, making available larger resources to meet production and investment finance for agricultural activities and appointing technical staff who are able to prepare financing schemes for diverse rural activities.

The Government of India introduced the Differential Rate of Interest scheme (DRI) from April 1972 covering 162 districts. Later the scheme was extended to the whole country. Under this scheme, advances would be earmarked for the weaker sections comprising of the SC/STs, Small and the marginal farmers,landless labourers at a concessional rate of interest of 4 per cent. The RBI has also given directions to the PSU banks that 60 per cent of the deposits mobilised in rural areas should be lent in rural areas itself. This scheme has shown a marked increase in the number of accounts (3.2 million) and advances outstanding were Rs.727 crores at the end of March 1992. From the fifth plan onwards, a practice was started for incorporating the credit component for each of the agricultural and rural development programmes in the design of the model schemes itself. For example in the IRDP (1978) scheme, credit, subsidy and the margin requirements were estimated for the model schemes as also for the total programme. Under this programme, banks assisted nearly 2.5 million beneficiaries during 1991-92 (upto March) and disbursed a total amount of Rs.1130 crores as loan and Rs.800 crores as subsidy. Several new schemes for rural and urban self employment (eg. TRYSEM, SEEUY, SEPUP etc) have since been started each with an explicit credit component. The creation of the National Bank for Agriculture and Rural Development (NABARD) was the culmination of the efforts to create a proper institutional framework for this sector. More recently, the creation of the Small Industries Bank of India (SIDBI) is yet another similar effort to provide greater impetus to the policy of directed lending.

With the expansion of the banking network particularly in the rural areas, the need to achieve better coordination between different lending agencies was felt. The National Credit Council, set up under the Chairmanship of D.R.Gadgil, recommended the introduction of Lead Bank Scheme in each district. Under this scheme, the development of each district was to be taken up in an integrated manner under the leadership of one nominated public sector bank which was to be designated as the lead bank. The lead bank was naturally to be one which had the maximum presence in the district in terms of branches. The lead bank was to take upon itself the task of assessing the credit requirements of the district and coordinate activities of different lending agencies including those in the cooperative sector.

The Lead Bank Scheme assumed greater importance from 1975 onwards with the introduction of the system of 'District Credit Plans'. While the Five year plans had all along stressed the need for adequate and timely credit allocations particularly for developmental activities, there was no system or practice of credit planning at the macro level even upto the fifth plan. District Credit Plan could therefore be considered as the first step towards linking physical targets with credit allocation at the district level. These plans are prepared by the lead bank in consultation with the members of the District Development Council. This scheme has been continued over the years, and as many as 492 districts were covered under the scheme by 1992.

The intensive area approach of the State Bank of India was a major innovation, aimed at reducing the cost of handling agricultural accounts and financing agriculture in a planned and systematic manner. Here the 'Village Adoption Scheme' was enforced, under which a group of villages was adopted by the bank branches for intensive lending in compact areas. A further refinement of the intensive area approach was the establishment of 'Agricultural Development Branches' at selected centres for intensive lending. In

April 1989, the commercial banks adopted the 'Service Area Approach' under which a cluster of 20-25 villages was allotted to each rural and semi-urban branch. Within this cluster of allotted villages, only one branch operated, thereby avoiding multiple financing and scattered lending, at the same time ensuring greater credit discipline.

The above discussion points out to the major responsibilities of commercial banks for developing and diversifying the economy in accordance with the national plans, policies and priorities. Clearly, they have come in a big way to help agriculture and hitherto neglected sectors. During the last four decades since Independence, particularly during the last two decades since nationalisation, commercial banks have transformed and developed beyond recognition. On the whole looking at the progress made by the Indian banking sector during the entire period, whether it is in terms of branch expansion or in terms of the greater involvement of the banking system in the nations economic activity, the record is impressive and creditable in quantitative terms. The Narsimham Committee Report says so in as many words:

> " The two decades since nationalisation have seen progress with respect to its various objectives. The extension of the geographical spread of banking was given primary importance both as an instrument for deposit mobilisation on the one hand and purveying credit, especially in the rural hinterland of the economy ..."[4]

We shall now look into the behaviour of inter state disparities in banking development since nationalisation.

Section II

Interstate analysis:

The percentage shares of the different states in the total number of offices in 1969 showed that the four states of Maharashtra, Tamil Nadu, Karnataka and Gujarat together accounted for nearly 45 per cent of the total offices in the country, while Maharashtra, West Bengal and Gujarat accounted for more than 46 per cent of the total deposits in the country. As a share of the total advances, the states of Maharashtra, Tamil Nadu and Gujarat had 47 per cent. In other words, a handful of states led by Maharashtra dominated in the share of offices, deposits and advances in the country (see Table 2.4).

Table 2.4 Inter State distribution of Bank Offices,Deposits and Advances

States	Offices		Deposits		Advances	
	1969	1992	1969	1992	1969	1992
Andhra Pradesh	6.86	7.65	3.1	5.22	4.02	6.9
Assam	0.89	2.01	0.85	1.04	0.43	0.84
Bihar	3.29	8.03	4.33	4.27	1.71	2.77
Gujarat	9.11	5.59	10.28	5.88	6.43	5.16
Haryana	2.09	2.09	1.26	1.86	0.76	1.73
Himachal Pradesh	0.49	1.21	0.31	0.68	0.10	0.37
Karnataka	9.15	7.09	4.82	4.81	4.71	6.18
Kerala	7.27	4.70	3.00	4.03	2.54	3.42
Madhya Pradesh	4.13	7.19	2.74	3.64	2.08	3.80
Maharashtra	13.52	9.27	23.16	22.73	30.05	23.25
Orissa	1.20	3.45	0.74	1.30	0.49	1.54
Punjab	4.25	3.54	4.74	4.75	1.65	3.28
Rajasthan	4.43	5.04	1.90	2.64	1.25	2.41
Tamil Nadu	12.81	7.11	5.98	6.50	10.25	10.63
Uttar Pradesh	9.05	14.01	8.64	9.67	5.07	7.07
West Bengal	6.07	6.95	11.7	8.93	17.33	7.72

Source : CMIE, Basic Statistics Relating to the Indian Economy, August 1994

In terms of the shares, there was practically no change in the rankings of the various states over the twenty four years. In 1992, Maharashtra, West Bengal, Gujarat, Uttar Pradesh and Tamil Nadu still held the top five positions while Assam, Orissa and Himachal Pradesh were the bottom three. A look at the per centage change in the share of the different states from 1969 to 1992, shows that while 10 states registered an increase in their share of offices in the country, 11 showed an increase in the deposits share and 13 states showed an increase in the share of advances. Clearly, many of the states have improved their share in the banking infrastructure.

However, the per centage shares do not take into account the size of the population in the states. Table 2.5 presents the number of offices per lakh population, per capita deposits and per capita advances are important indicators of banking development in the states.

Punjab and Kerala had a high density of bank offices in both the time periods, while Bihar and Orissa continued to have a low density of bank offices. There were 9 states below the national average of the density of banks. The banks offices in Maharashtra, Punjab, Gujarat and Kerala had the highest per capita deposit figure, while Assam and Orissa had the lowest in the country. The number of states below the national average of per capita deposits declined from 12 in 1969 to 10 in 1992. The per capita advances were the highest for Maharashtra, West Bengal and Gujarat in 1969 whereas Maharashtra, Tamil Nadu and Punjab had the highest in 1992. The states of Orissa, Assam and Bihar continued to have the lowest per capita advances in the entire country. The number of states below the national average declined from 12 in 1969 to 11 in 1992.

The deposits and advances per office also show similar results. In 1969, while Maharashtra, West Bengal and Punjab had the highest amount of deposits per branch, Kerala had the lowest. But over the years, Kerala has shown tremendous improvement, and by 1992, although the ranks of the other states had not changed much, Kerala ranked seventh in the country.

Table 2.5 Indicators of banking development

	No. of Offices per lakh population		Per capita deposits (Rs)		Per capita advances (Rs)		Deposits per Office		Advances per Office	
	1969	1992	1969	1992	1969	1992	1969	1992	1969	1992
Andhra Pradesh	1.4	7.0	28	1835	28	1481	21.10	262.10	21.36	211.06
Assam	0.5	5.5	23	1087	9	534	44.59	199.17	17.56	97.86
Bihar	0.5	5.6	30	1154	9	456	61.67	204.43	18.97	80.78
Gujarat	3.0	8.2	150	3329	73	1783	52.90	404.15	25.72	216.41
Haryana	1.8	7.8	49	2664	23	1506	28.16	342.69	13.21	193.76
Himachal P	1.3	14.4	34	3120	9	1039	29.26	216.75	7.31	72.20
Karnataka	2.7	9.6	64	2504	49	1963	24.70	260.83	18.79	204.48
Kerala	2.9	9.8	55	3237	36	1679	19.33	328.98	12.72	170.62
Madhya Pradesh	0.9	6.6	26	1285	15	819	31.10	194.54	18.31	123.96
Maharashtra	2.3	7.1	179	6733	181	4202	80.26	942.32	81.06	588.06
Orissa	0.5	6.6	13	960	7	693	29.00	144.50	15.00	104.34
Punjab	2.6	10.6	136	5477	37	2311	52.25	515.08	14.12	217.36
Rajasthan	1.5	7.0	29	1403	15	780	20.05	201.47	10.29	112.07
Tamil Nadu	2.7	7.8	57	2725	75	2720	21.85	351.08	29.17	350.34
Uttar Pradesh	0.9	6.1	38	1624	17	724	44.75	265.16	20.45	118.30
West Bengal	1.2	6.2	103	3061	119	1614	90.29	493.48	104.15	260.26
All India	1.6	7.2	71	2765	55	1687	46.85	384.06	36.47	234.32

Source: Same as in Table 2.4

While the advances per office were the highest in West Bengal, Maharashtra and Tamil Nadu, it was the lowest for Himachal Pradesh during the entire period. Here again, Kerala has shown an improvement in its performance, though not to the extent it did in deposits. The number of states below the national average has only marginally declined in this period.

The performance of the bank offices via deposits mobilised and credit disbursed can be better understood by looking at them in relation to the income of the state. This is so because, the size of its economy influences to a great deal the deposits mobilised and credit disbursed in the state.

Table 2.6 Deposits and Advances as Proportion of SDP

States	Deposits		Advances	
	1969	1992	1969	1992
Andhra Pradesh	5.92	33.70	5.97	27.19
Assam	4.74	25.35	1.87	12.46
Bihar	8.43	39.13	2.59	15.46
Gujarat	26.53	51.70	12.90	27.68
Haryana	8.22	30.08	3.86	17.00
Himachal Pradesh	6.34	56.86	1.58	18.94
Karnataka	11.53	44.10	8.77	34.57
Kerala	11.77	69.31	7.75	35.94
Madhya Pradesh	6.50	31.04	3.83	19.78
Maharashtra	27.17	85.33	27.44	53.25
Orissa	3.01	23.41	1.56	16.91
Punjab	15.87	56.39	4.29	23.80
Rajasthan	7.54	31.58	3.87	17.57
Tamil Nadu	12.10	52.49	16.14	52.38
Uttar Pradesh	8.80	39.98	4.02	17.84
West Bengal	16.59	58.10	19.14	30.64

Source: Calculated from CMIE, August 1994

The ratio of the deposits to SDP (deposit quotient) show that Maharashtra and West Bengal have had a consistently high ratio. While Kerala, which had a low ratio in 1969 has improved its position to become the second highest in the country. The states of Assam and Orissa have had chronically low deposit quotients. Regarding advances (credit quotient), again Maharashtra and Tamil Nadu have the top ranks, while Kerala has shown the most improvement in performance. Himachal pradesh and Orissa were the lowest in 1969 while in 1992, Bihar and Assam had the lowest ratios.

As we have seen, in terms of banking density, per capita deposits per capita advances, deposits per office, advances per office, deposit quotient and credit quotient, there is not much change in the rank orders of the various states. The states which dominated the banking scenario in 1969 continued to do so in 1992. However, the disparities between them have considerably narrowed down. It can be seen from the decline in the coefficient of variations between the states for the various indicators are presented in Table 2.7 below.

Table 2.7 Coefficient of Variation between states for various banking indicators.

Indicators	1969	1992
Banking density	52.82	28.23
Per capita deposits	77.55	58.85
Deposits per office	52.02	56.71
Deposit quotient	62.89	37.58
Per capita advances	105.81	62.13
advances per office	96.28	63.85
Credit quotient	94.65	47.26

All the indicators of banking development, except for the deposits mobilised per office showed a decline in the coefficient of variation between states. The above figures are impressive in terms of the reduction in disparities between states since the nationalisation of banks. The deposits mobilised per office shows a slight increase in the variation between states.

Credit-Deposit Ratios:

As we had mentioned earlier, the Credit-Deposit ratio (CD ratio) is the proportion of the credit disbursed by the banks in a State to the deposit mobilised in that State. It indicates the degree of absorption of deposits in the area and explains the extent to which a region has benefited from bank credit out of their deposits. It was seen earlier that disparities between states in terms of banking performance have declined tremendously since 1969. But, what about the absorbtion of deposits in the same economy ?

It is a widespread opinion that the inter-state variations in CD ratio have broadly reflected the comparative level of economic development attained in these regions. Inter-state variation in this ratio suggests that certain states gain more than others in terms of credit flows. This has led to complaints that the banks mobilize resources as deposits in certain areas and use them elsewhere, thus aggravating regional imbalances.

Table 2.8 Credit Deposit ratios of the sixteen states

	AP	ASS	BHR	GJT	HRY	HP	KTK	KRL	MP	MHT	ORS	PJB	RJS	TN	UP	WB	India
1973	0.86	0.42	0.31	0.57	0.60	0.11	0.89	0.70	0.46	0.81	0.54	0.33	0.52	1.16	0.44	0.73	0.70
1974	0.84	0.46	0.35	0.62	0.69	0.17	0.92	0.72	0.62	0.89	0.55	0.45	0.60	1.08	0.49	0.85	0.75
1975	0.80	0.48	0.45	0.60	0.67	0.21	0.96	0.69	0.63	0.80	0.58	0.35	0.67	1.06	0.54	0.70	0.72
1976	0.72	0.48	0.44	0.57	0.56	0.19	1.00	0.71	0.51	0.80	0.55	0.31	0.63	1.19	0.45	0.66	0.77
1977	0.66	0.45	0.38	0.67	0.59	0.21	0.88	0.64	0.51	0.72	0.61	0.32	0.60	1.01	0.47	0.66	0.72
1978	0.70	0.43	0.41	0.51	0.61	0.24	0.80	0.62	0.54	0.74	0.61	0.36	0.59	0.93	0.46	0.64	0.70
1979	0.70	0.41	0.39	0.52	0.64	0.27	0.78	0.66	0.54	0.76	0.64	0.38	0.67	0.91	0.48	0.61	0.69
1980	0.71	0.41	0.42	0.52	0.66	0.29	0.78	0.68	0.52	0.79	0.61	0.39	0.66	0.88	0.44	0.61	0.67
1981	0.85	0.45	0.42	0.54	0.70	0.37	0.75	0.74	0.61	0.78	0.69	0.43	0.71	0.98	0.47	0.56	0.67
1982	0.70	0.45	0.42	0.53	0.72	0.41	0.76	0.66	0.60	0.77	0.76	0.43	0.70	0.98	0.49	0.58	0.67
1983	0.68	0.46	0.44	0.52	0.70	0.42	0.82	1.25	0.60	0.91	0.80	0.41	0.71	0.95	0.47	0.59	0.68
1984	0.78	0.49	0.40	0.50	0.92	0.57	0.83	0.73	0.64	0.99	0.93	0.60	0.76	0.91	0.55	0.52	0.71
1985	0.75	0.45	0.37	0.53	0.85	0.52	0.80	0.67	0.60	0.94	0.86	0.70	0.71	0.85	0.45	0.58	0.68
1986	0.75	0.45	0.35	0.52	0.83	0.54	0.85	0.63	0.58	0.80	1.39	0.56	0.64	0.88	0.44	0.46	0.62
1987	0.74	0.49	0.33	0.51	0.58	0.37	0.92	0.70	0.61	0.72	0.93	0.42	0.59	0.91	0.40	0.47	0.60
1988	0.74	0.55	0.32	0.51	0.57	0.34	0.86	0.66	0.60	0.66	0.95	0.40	0.55	0.91	0.37	0.48	0.56
1989	0.78	0.54	0.33	0.54	0.57	0.35	0.86	0.66	0.68	0.72	1.06	0.41	0.60	0.99	0.40	0.58	0.61
1990	0.87	0.56	0.40	0.61	0.61	0.39	0.91	0.64	0.69	0.80	0.81	0.45	0.62	0.99	0.47	0.55	0.66
1991	0.83	0.51	0.40	0.60	0.60	0.37	0.86	0.59	0.67	0.76	0.77	0.45	0.57	1.00	0.46	0.55	0.66
1992	0.81	0.49	0.40	0.54	0.57	0.33	0.78	0.52	0.64	0.62	0.72	0.42	0.56	1.00	0.45	0.53	0.61

Source: RBI, Basic Statistical Returns, Various Issues

The CD ratios in Table 2.8 show that in 1973, the highest belonged to Tamil Nadu (115.96 per cent) followed by Karnataka and Andhra

Pradesh (all Southern states), while, the lowest belonged to Himachal Pradesh (11.10 per cent). Ten states were below the national average. By 1993, the situation does not seem to have changed much. There were still ten states below the national average with the highest in Tamil Nadu (87.14 per cent) and the lowest for Himachal Pradesh (31.73 per cent). Over the years, the states of Maharashtra, West Bengal and Kerala have shown a significant decline in their CD ratios, while, Himachal Pradesh, Orissa and Madhya Pradesh have shown a significant increase. Although in terms of relative positions, there is not much change there has been a sharp decline in the range.The coefficient of variation also showed a decline from 42.87 per cent in 1973 to 27.89 per cent in 1993.

Table 2.9 Correlation of the growth rates of CD ratio with per capita deposits and advances (1973-1993)

	PCDEP	PCADV
Andhra Pradesh	-.03	.88**
Assam	-.38	.53*
Bihar	-.33	.91**
Gujarat	-.08	.94**
Haryana	-.11	.94**
Himachal	.03	.96**
Karnataka	-.44	.83**
Kerala	-.77**	.17
Madhya Pradesh	-.52	.96**
Maharashtra	-.36	.88**
Orissa	-.18	.96**
Punjab	-.16	.97**
Rajasthan	-.30	.89**
Tamil Nadu	-.49	.82**
Uttar Pradesh	-.45	.91**
West Bengal	-.41	.95**

* - significant at 1 per cent level
** - significant at .5 per cent level

Since the CD ratio is the proportion of the deposits mobilised to the credit disbursed in the state, it is natural to expect this ratio to have a negative relationship with the growth of deposits and a positive relationship with the growth of advances. In other words, as the level of deposits in the state rises, the CD ratio falls and as the level of credit rises, the ratio increases. However, since the ratio on the whole is affected by both these components, the degree of each relationship varies from state to state. Table 2.9 shows some very interesting results. As expected all the states (except Himachal) showed the expected signs. However, it is noticed that only Kerala shows a significant inverse relationship between the CD ratio and the growth of per capita deposits. While on the growth of the credit side, it again is again only Kerala, which exhibit no relationship between the growth of the CD ratio and per capita advances. The banking pattern in Kerala is clearly different from the rest of the states. The relationship between the banking performance and economic growth in each of the sixteen states remains to be examined.

Interstate disparities in economic growth:

In the course of development, both demand and supply pattern change substantially and the composition of domestic demand is altered as per capita income rises. Therefore, to study inter state disparities in economic development, the present analysis is devoted more specifically to the per capita state incomes (at constant prices). It is considered to be the most satisfactory measure of economic development[5].

The per capita SDP, in Appendix 2c, shows us that Punjab, Maharashtra and Haryana were the leading states in 1973 in terms of economic growth, while Bihar and Orissa were at the bottom. By

1993, the above states remain at the top while Bihar and Uttar Pradesh are at the bottom. The relative positions of the states can be better understood by calculating their `distance' from the national average (the imbalance quotient). That is, the ratio of the states per capita income to the nation's per capita income. It is hoped that such an analysis would give us the relative positions of the various states. The results of this exercise are shown in Appendix 2d. An average of the imbalance quotients over the years 1973 to 1993, tell us while Punjab, Maharashtra, Haryana, Gujarat and Karnataka have been above the national average, the rest of the states have been consistently below. The lowest quotients belong to Uttar Pradesh, Orissa and Bihar.

The coefficient of variation between states for the real per capita SDP have increased, from 23.46 per cent in 1973 to 33.46 in 1992. This indicates a widening of the disparities within various states in the country. Coincidently, some of the few states with high per capita SDP are well developed in Banking.

In order to verify the relationship between these two sets of variables ie. banking and economic, we have calculated the correlation coefficients for each of the states over the time period 1973-1992. The correlation coefficients between the deposit quotient and the income quotients (per capita SDP at constant prices) for fifteen out of sixteen states were significant (at 1% level). The only exception was Kerala which showed a significant correlation at 5% level of significance.

Table 2.10 Correlation coefficients between banking and economic indicators (1973-1992)

States	DQ :: IQ	CQ :: IQ
Andhra Pradesh	.8241 **	.8716 **
Assam	.8860 **	.8928 **
Bihar	.9487 **	.8829 **
Gujarat	.8981 **	.8857 **
Haryana	.9183 **	.7426 **
Himachal Pradesh	.8677 **	.6819 **
Karnataka	.8356 **	.8227 **
Kerala	.6031 *	.4308
Madhya Pradesh	.8482 **	.8980 **
Maharashtra	.9206 **	.8494 **
Orissa	.8567 **	.7530 **
Punjab	.9455 **	.7865 **
Rajasthan	.6613 **	.5919 *
Tamil Nadu	.8970 **	.8766 **
Uttar Pradesh	.9581 **	.9392 **
West Bengal	.8691 **	.8184 **
All India	.9644 **	.9514 **

** significant at 1% level
 * significant at 5% level

This means that there is not as strong a correlation between the deposit quotient and the per capita income of the state of Kerala. As far as credit is concerned, while all the other states exhibited a strong positive correlation, in the case of Kerala, there was no significant correlation at all. This clearly calls for a closer examination of banking development in the state.

Summary

A brief sketch of commercial bank development in the country showed that the nationalisation of banks in 1969 marked a turning point. There has been a faster growth of banking activity and the rural-urban disparities have narrowed down. This `social control' was accompanied by various innovative schemes by the RBI, in particular the Rural Bank scheme, the Lead Bank Scheme, the stipulation of Priority Sector Advances, and more recently, the Service Area

Scheme. But it was noticed that the inter-state disparities in banking development still persist.

An inter state comparison in terms of the banking density, per capita deposits, per capita advances, deposits per office, advances per office, deposit quotient, the advance quotient and the CD ratios revealed that the variations between states had declined but their relative rank positions had not changed much. A few states continued to account for most of the banking activity, while the rest were relatively under banked.

The correlation between the rates of growth of the CD ratio with per capita deposits and advances places Kerala in a unique position. It was the only state which showed a relationship between the CD ratio and per capita deposits. Further, unlike the other states, there was no significant correlation between the CD ratio and the growth of per capita advances.

The few states which did well in banking were also found to be the high income states. It was only Kerala, which showed a weak relationship between banking and economic growth. This peculiar feature of Kerala in terms of banking and economic development calls for a closer analysis of the banking performance and factors influencing deposit and credit in the state. In the next chapter, we first analyse the development of banking in Kerala from its formation in 1956. After which, the factors influencing deposit mobilisation and credit disbursal in the state are analysed in greater detail.

End notes

1. *The First Five Year Plan states "Central banking in a planned economy can hardly be confined to the regulation of overall supply of credit or to a somewhat negative regulator of the flow of bank credit. It would have to create the machinery needed for financing developmental activities all over the country and secondly, ensuring that finances available, flows in the direction intended"- quoted in Rangarajan and Jadhav 1992:147.*

2. *Scheduled banks are those banks which are included in the second schedule to the Reserve Bank of India Act, 1934. The following conditions have to be fulfilled, in order to be included in the second schedule:*

> *1) The bank must have a paid-up capital and reserves of an aggregate value of not less than Rs.5 lakhs*
> *2) It must satisfy the RBI that its affairs are not being conducted in a manner detrimental to the interest of its depositors*
> *3) It must be a company as defined in the companies Act, 1956 or a corporation or a company incorporated by or under any law in force in any place outside India.*

3. *There have been definitional inconsistencies with regard to population groups over the years. Therefore, we have combined the semi-urban, urban and metropolitan groups into one unit and worked out their shares.*

Rural centres	*: places with population upto 10,000.*
Urban	*: population over 10,000*

4. *See RBI,1991 pp.9*

5. *The measure of SDP suffers from two major limitations. First and foremost, the measure refers to "income originating" within the boundaries of the state and do not take account of interstate flow of goods and services and interstate transfer of incomes. Another factor which substantially affects the comparability between states is the variation in purchasing power of the rupee. However, the Planning Commission uses the estimates of SDP as the main index for measuring the relative backwardness of the states. Even the different Finance Commissions set up from time to time have been making use of SDP along with other indicators for obtaining an index of tax efforts for the allocation of resources between states.*

Appendix IIa Deposits mobilised / SDP of the states

	AP	ASS	BHR	GJT	HRY	HP	KTK	KRL	MP	MHT	ORS	PJB	RJS	TN	UP	WB	India
1973	0.09	0.07	0.12	0.23	0.10	0.16	0.16	0.16	0.08	0.36	0.04	0.20	0.07	0.17	0.14	0.28	0.17
1974	0.09	0.07	0.12	0.27	0.11	0.16	0.16	0.16	0.08	0.32	0.05	0.21	0.08	0.21	0.13	0.26	0.17
1975	0.13	0.08	0.14	0.25	0.11	0.17	0.20	0.18	0.10	0.36	0.06	0.24	0.09	0.24	0.16	0.31	0.19
1976	0.16	0.09	0.16	0.26	0.12	0.20	0.23	0.20	0.12	0.38	0.08	0.24	0.10	0.24	0.17	0.32	0.22
1977	0.18	0.11	0.17	0.29	0.14	0.20	0.25	0.27	0.12	0.43	0.08	0.26	0.12	0.26	0.18	0.35	0.24
1978	0.21	0.13	0.18	0.30	0.16	0.24	0.30	0.32	0.16	0.45	0.10	0.31	0.13	0.31	0.22	0.40	0.27
1979	0.24	0.16	0.22	0.35	0.20	0.29	0.30	0.35	0.19	0.46	0.13	0.34	0.18	0.32	0.25	0.44	0.31
1980	0.23	0.14	0.23	0.36	0.19	0.26	0.29	0.35	0.18	0.41	0.11	0.39	0.18	0.32	0.22	0.43	0.30
1981	0.24	0.13	0.25	0.35	0.20	0.28	0.30	0.40	0.19	0.45	0.13	0.41	0.19	0.30	0.26	0.47	0.31
1982	0.28	0.14	0.25	0.37	0.21	0.32	0.32	0.40	0.19	0.45	0.14	0.44	0.20	0.33	0.25	0.48	0.32
1983	0.27	0.15	0.29	0.32	0.23	0.33	0.30	0.40	0.19	0.45	0.13	0.46	0.19	0.35	0.29	0.47	0.33
1984	0.31	0.15	0.25	0.37	0.25	0.40	0.32	0.45	0.23	0.51	0.15	0.47	0.23	0.35	0.30	0.44	0.34
1985	0.34	0.18	0.29	0.44	0.25	0.39	0.37	0.49	0.24	0.54	0.15	0.50	0.26	0.38	0.32	0.48	0.37
1986	0.37	0.19	0.31	0.43	0.29	0.45	0.37	0.50	0.28	0.62	0.17	0.53	0.29	0.38	0.34	0.54	0.40
1987	0.37	0.21	0.34	0.49	0.32	0.48	0.38	0.54	0.28	0.60	0.20	0.54	0.32	0.38	0.37	0.55	0.41
1988	0.36	0.23	0.36	0.40	0.29	0.51	0.38	0.56	0.28	0.59	0.19	0.55	0.28	0.40	0.38	0.56	0.41
1989	0.36	0.25	0.38	0.49	0.33	0.56	0.45	0.62	0.29	0.68	0.22	0.62	0.30	0.48	0.42	0.59	0.47
1990	0.37	0.24	0.42	0.49	0.35	0.55	0.46	0.61	0.31	0.67	0.26	0.58	0.33	0.49	0.43	0.62	0.49
1991	0.37	0.25	0.41	0.49	0.32	0.58	0.46	0.64	0.29	0.69	0.24	0.59	0.31	0.52	0.42	0.60	0.48
1992	0.34	0.25	0.39	0.52	0.30	0.57	0.44	0.69	0.31	0.85	0.23	0.56	0.32	0.52	0.40	0.58	0.48

Appendix IIb Credit Disbursed / SDP of the states

	AP	ASS	BHR	GJT	HRY	HP	KTK	KRL	MP	MHT	ORS	PJB	RJS	TN	UP	WB	India
1973	0.07	0.03	0.04	0.13	0.06	0.02	0.14	0.11	0.04	0.29	0.02	0.07	0.04	0.20	0.06	0.20	0.12
1974	0.08	0.03	0.04	0.17	0.07	0.03	0.15	0.12	0.05	0.29	0.03	0.09	0.05	0.23	0.07	0.22	0.13
1975	0.11	0.04	0.06	0.15	0.07	0.03	0.19	0.13	0.06	0.29	0.04	0.08	0.06	0.25	0.09	0.22	0.14
1976	0.12	0.04	0.07	0.15	0.07	0.04	0.22	0.14	0.06	0.30	0.04	0.07	0.06	0.28	0.08	0.21	0.17
1977	0.12	0.05	0.07	0.19	0.08	0.04	0.22	0.17	0.06	0.31	0.05	0.09	0.07	0.26	0.08	0.23	0.17
1978	0.14	0.06	0.08	0.15	0.10	0.06	0.24	0.20	0.08	0.33	0.06	0.11	0.08	0.29	0.10	0.26	0.19
1979	0.17	0.06	0.09	0.18	0.13	0.08	0.23	0.23	0.10	0.35	0.08	0.13	0.12	0.29	0.12	0.27	0.22
1980	0.17	0.06	0.10	0.19	0.13	0.08	0.22	0.23	0.09	0.33	0.07	0.15	0.12	0.28	0.10	0.26	0.20
1981	0.20	0.06	0.10	0.19	0.14	0.10	0.23	0.30	0.11	0.35	0.09	0.18	0.13	0.30	0.12	0.26	0.21
1982	0.20	0.06	0.10	0.20	0.15	0.13	0.24	0.26	0.12	0.35	0.11	0.19	0.14	0.33	0.12	0.28	0.22
1983	0.18	0.07	0.13	0.17	0.16	0.14	0.25	0.27	0.11	0.41	0.11	0.19	0.13	0.33	0.14	0.28	0.22
1984	0.24	0.07	0.10	0.19	0.23	0.23	0.27	0.32	0.15	0.50	0.14	0.29	0.17	0.32	0.16	0.23	0.24
1985	0.25	0.08	0.11	0.23	0.21	0.20	0.29	0.33	0.15	0.51	0.13	0.35	0.18	0.32	0.14	0.28	0.25
1986	0.27	0.09	0.11	0.22	0.24	0.24	0.31	0.32	0.16	0.50	0.24	0.30	0.18	0.34	0.15	0.25	0.25
1987	0.27	0.10	0.11	0.25	0.18	0.18	0.35	0.38	0.17	0.44	0.19	0.23	0.19	0.35	0.15	0.26	0.25
1988	0.27	0.12	0.12	0.20	0.17	0.17	0.33	0.37	0.17	0.39	0.18	0.22	0.15	0.36	0.14	0.27	0.23
1989	0.28	0.14	0.13	0.27	0.19	0.20	0.39	0.41	0.20	0.49	0.24	0.25	0.18	0.47	0.17	0.34	0.29
1990	0.33	0.14	0.17	0.30	0.21	0.21	0.42	0.39	0.21	0.54	0.21	0.26	0.21	0.49	0.20	0.34	0.32
1991	0.30	0.13	0.16	0.29	0.19	0.22	0.40	0.38	0.20	0.53	0.19	0.26	0.18	0.52	0.19	0.33	0.31
1992	0.27	0.12	0.15	0.28	0.17	0.19	0.35	0.36	0.20	0.53	0.17	0.24	0.18	0.52	0.18	0.31	0.29

Appendix IIc Table Per Capita Income at constant prices

	AP	ASS	BHR	GJT	HR	HP	KTK	KRL	MHT	ORS	PJB	RJS	TN	UP	WB	India
1973	1128	1192	778	1386	1870	1510	1491	1474	1819	1181	2141	1169	1509	1140	1444	1406
1974	1318	1197	748	1654	1810	1589	1680	1442	1993	1234	2155	1276	1550	1063	1462	1445
1975	1325	1167	769	1390	1773	1523	1634	1431	2134	1046	2180	1116	1325	1085	1483	1431
1976	1319	1244	803	1743	2076	1693	1699	1468	2192	1212	2317	1324	1542	1154	1553	1540
1977	1175	1210	821	1811	2155	1576	1587	1424	2261	1109	2413	1374	1565	1161	1571	1512
1978	1301	1249	846	1890	2186	1726	1830	1419	2393	1283	2559	1391	1690	1232	1661	1612
1979	1393	1232	847	1965	2343	1735	1856	1424	2500	1344	2690	1417	1724	1253	1597	1665
1980	1334	1153	802	1923	2122	1528	1865	1460	2482	1106	2646	1179	1719	1055	1500	1542
1981	1380	1200	878	1951	2370	1698	1596	1494	2427	1231	2675	1222	1498	1286	1612	1625
1982	1558	1307	896	2105	2396	1769	1655	1453	2434	1227	2848	1285	1640	1287	1597	1687
1983	1545	1367	873	2025	2475	1673	1665	1462	2473	1133	2875	1276	1527	1360	1571	1697
1984	1578	1375	954	2343	2457	1719	1737	1377	2576	1341	2859	1525	1582	1386	1684	1801
1985	1505	1457	999	2304	2483	1592	1834	1435	2576	1210	3011	1379	1758	1379	1631	1827
1986	1552	1483	1007	2049	2778	1771	1727	1462	2710	1390	3167	1338	1788	1484	1707	1858
1987	1461	1474	1065	2163	2714	1865	1852	1408	2644	1365	3223	1333	1755	1441	1755	1889
1988	1530	1521	979	1842	2598	1818	1908	1413	2813	1320	3310	1241	1821	1455	1828	1933
1989	1789	1516	1156	2629	3247	1974	1987	1578	3049	1493	3526	1783	1894	1551	1922	2105
1990	1825	1771	1119	2622	3234	2175	2045	1658	3465	1579	3750	1678	2009	1568	1971	2169
1991	1823	1799	1189	2613	3449	2151	2055	1736	3623	1615	3744	1898	2023	1628	2004	2239
1992	1839	1915	1142	2526	3456	2074	2171	1886	3440	1652	3864	1717	2056	1606	2084	2250

Note: The per capita income of Madhya Pradesh (MP) is based on the old series and has been omitted.
Source: CSO , NAS various issues

Appendix IId Income Imbalance Quotients

	AP	ASS	BHR	GJT	HRY	HP	KTK	KRL	MHT	ORS	PJB	RJS	TN	UP	WB
1973	0.80	0.85	0.55	0.99	1.33	1.07	1.06	1.05	1.29	0.84	1.52	0.83	1.07	0.81	1.03
1974	0.91	0.83	0.52	1.14	1.25	1.10	1.16	1.00	1.38	0.85	1.49	0.88	1.07	0.74	1.01
1975	0.93	0.82	0.54	0.97	1.24	1.06	1.14	1.00	1.49	0.73	1.52	0.78	0.93	0.76	1.04
1976	0.86	0.81	0.52	1.13	1.35	1.10	1.10	0.95	1.42	0.79	1.50	0.86	1.00	0.75	1.01
1977	0.78	0.80	0.54	1.20	1.42	1.04	1.05	0.94	1.50	0.73	1.60	0.91	1.04	0.77	1.04
1978	0.81	0.77	0.52	1.17	1.36	1.07	1.14	0.88	1.48	0.80	1.59	0.86	1.05	0.76	1.03
1979	0.84	0.74	0.51	1.18	1.41	1.04	1.11	0.86	1.50	0.81	1.62	0.85	1.04	0.75	0.96
1980	0.87	0.75	0.52	1.25	1.38	0.99	1.21	0.95	1.61	0.72	1.72	0.76	1.11	0.68	0.97
1981	0.85	0.74	0.54	1.20	1.46	1.04	0.98	0.92	1.49	0.76	1.65	0.75	0.92	0.79	0.99
1982	0.92	0.77	0.53	1.25	1.42	1.05	0.98	0.86	1.44	0.73	1.69	0.76	0.97	0.76	0.95
1983	0.91	0.81	0.51	1.19	1.46	0.99	0.98	0.86	1.46	0.67	1.69	0.75	0.90	0.80	0.93
1984	0.88	0.76	0.53	1.30	1.36	0.95	0.96	0.76	1.43	0.74	1.59	0.85	0.88	0.77	0.94
1985	0.82	0.80	0.55	1.26	1.36	0.87	1.00	0.79	1.41	0.66	1.65	0.75	0.96	0.75	0.89
1986	0.84	0.80	0.54	1.10	1.50	0.95	0.93	0.79	1.46	0.75	1.70	0.72	0.96	0.80	0.92
1987	0.77	0.78	0.56	1.15	1.44	0.99	0.98	0.75	1.40	0.72	1.71	0.71	0.93	0.76	0.93
1988	0.79	0.79	0.51	0.95	1.34	0.94	0.99	0.73	1.46	0.68	1.71	0.64	0.94	0.75	0.95
1989	0.85	0.72	0.55	1.25	1.54	0.94	0.94	0.75	1.45	0.71	1.68	0.85	0.90	0.74	0.91
1990	0.84	0.82	0.52	1.21	1.49	1.00	0.94	0.76	1.60	0.73	1.73	0.77	0.93	0.72	0.91
1991	0.81	0.80	0.53	1.17	1.54	0.96	0.92	0.78	1.62	0.72	1.67	0.85	0.90	0.73	0.90
1992	0.82	0.85	0.51	1.12	1.54	0.92	0.96	0.84	1.53	0.73	1.72	0.76	0.91	0.71	0.93
AVG	0.84	0.79	0.53	1.16	1.41	1.00	1.03	0.86	1.47	0.74	1.64	0.80	0.97	0.76	0.96

Chapter III

DEVELOPMENT OF BANKING IN KERALA

In the previous chapter we had noted certain specific features of the development of banking in Kerala. While the rate of growth of deposits and credit were relatively higher, its credit deposit ratio had been undergoing a secular decline since the mid eighties. It was also the only state which showed a very strong correlation between the growth of the CD ratio and the rate of growth of per capita deposits. It also differed from the other states in showing an insignificant relation between the growth of the CD ratio and the rate of growth of per capita advances. Further, Kerala had a unique position in terms of growth of banking in relation to its economic development. The savings outflow from Kerala in the context of economic stagnation of the state has become a politically sensitive issue. The thrust of the present chapter is to analyse the phenomenon of decline in the CD ratio of the state.

In section I, we shall examine the expansion of banking network in the state and the long run trends in deposit mobilisation and credit disbursal. The declining CD ratio indicates that the deposits have been increasing at a rate faster than the advances. Can one discern any break in the broad trends of expansion of bank deposits and advances and thus periodise expansion of banking in Kerala into analytically meaningful periods? Having identified certain broad phases in the banking expansion, we shall attempt in the following sections to analyse factors that have contributed to the above trends. In section II, we shall take up trends in trends in deposit growth and in section III trends in credit disbursal.

Section I

Expansion of banking facilities:

Table 3.1 presents the expansion in the number of bank offices and the total value of bank deposits and advances in Kerala between 1956 and 1994. The share of each of these variables in the all India total is given in parentheses. At the time of its formation in 1956, there were 174 SCB offices in Kerala which accounted for 6 per cent of the total bank offices in the country. Kerala's relatively much better banking network may also be readily seen from the number of offices per lakh population in Kerala and India presented in Table 3.2. As against the all India average of 0.74 offices per lakh population, Kerala's ratio was 1.28. During the next decade the branch expansion in Kerala continued at around the same rate as in the rest of India. During the decade that followed the nationalisation of banks in 1969, we find that there was a relatively higher acceleration of branch openings in Kerala. However, from 1978, we find a significant deceleration in branch expansion so that Kerala's share in the total number of bank offices declined to 4.8 per cent in 1994. The banking density also stagnated during this period. In fact, it has declined from the peak of 10.16 reached in 1985 to 9.77 in 1994. Thus the gap in banking density between India and Kerala has tended to narrow down.

Table 3.1 Banking development in Kerala

Years	Number of Offices	Deposits (Rs Lakhs)	Advances (Rs Lakhs)
1956	174 (6.0)	3504 (3.0)	1785 (2.0)
1957	188 (6.0)	3687 (3.0)	2311 (3.0)
1958	229 (6.0)	4377 (2.8)	2664 (3.1)
1959	229 (6.0)	5258 (2.9)	2929 (3.0)
1960	231 (6.0)	4328 (2.3)	2860 (2.4)
1961	241 (5.5)	5167 (2.6)	3083 (2.4)
1962	258 (5.6)	5532 (2.6)	3242 (2.3)
1963	299 (5.9)	6791 (2.8)	3671 (2.3)
1964	379 (6.9)	8046 (3.0)	4934 (2.6)
1965	387 (6.6)	9428 (3.1)	5724 (2.7)
1966	400 (6.3)	11148 (3.1)	6626 (2.7)
1967	406 (6.0)	11862 (3.0)	7107 (2.6)
1968	426 (5.7)	13038 (2.9)	8634 (2.7)
1969	516 (5.8)	15272 (3.0)	10514 (2.8)
1970	688 (6.3)	18363 (3.1)	13090 (2.9)
1971	838 (6.5)	21842 (3.0)	15057 (3.0)
1972	942 (6.5)	24733 (3.0)	17487 (3.1)
1973	982 (6.4)	28413 (3.1)	20019 (3.1)
1974	1068 (6.3)	33917 (3.2)	24534 (3.0)
1975	1185 (6.4)	40665 (3.2)	27947 (3.0)
1976	1344 (6.4)	48573 (3.2)	34576 (2.9)
1977	1607 (6.5)	67098 (3.5)	42935 (3.1)
1978	1975 (7.1)	89000 (3.8)	55253 (3.4)
1979	2060 (6.8)	111900 (3.9)	73671 (3.7)
1980	2152 (6.6)	128786 (3.9)	86972 (3.9)
1981	2357 (6.5)	156731 (3.9)	116562 (4.3)
1982	2468 (6.1)	181604 (4.0)	120204 (3.9)
1983	2542 (5.8)	214949 (4.0)	146779 (4.0)
1984	2597 (5.7)	263274 (4.1)	191846 (4.2)
1985	2718 (5.1)	347913 (4.5)	218074 (4.1)
1986	2721 (5.0)	360080 (3.9)	237115 (4.1)
1987	2722 (4.9)	415499 (3.8)	276876 (4.3)
1988	2765 (4.9)	481132 (3.8)	311606 (4.4)
1989	2801 (4.8)	566675 (3.9)	370114 (4.1)
1990	2829 (4.8)	662008 (3.8)	411816 (3.7)
1991	2839 (4.7)	784767 (3.8)	463819 (3.4)
1992	2853 (4.7)	967092 (4.0)	500296 (3.4)
1993	2885 (4.7)	1211224 (4.0)	581799 (3.4)
1994	2948 (4.8)	1599031 (5.0)	601463 (3.3)
Average Annual Rate of Growth			
1956-75	11.0 [10.3]	14.2 [13.9]	15.9 [13.9]
1976-94	5.1 [6.7]	21.1 [18.5]	18.3 [17.2]
1956-94	8.1 [8.5]	17.6 [16.2]	17.1 [15.5]

Note: Figures in ( ) represent percentage share to total in India; Figures in [ ] are the growth rates for India

Source: RBI, BSR, Trend and Progress of banking ., GOK, Economic Survey, Various issues

The deceleration in the bank branch expansion in Kerala has not affected the deposit mobilisation in the state. As can be seen from Table 3.2, the value of deposits per bank office in Kerala was only around half the all India average upto the late 1970's. Since then, the deposit mobilisation by an average branch has tended to increase at a much faster rate than all India average, so that, by 1994, deposit per office in Kerala and India were nearly equal. Therefore the phase of deceleration in bank branching was in reality, a phase of consolidation of the existing bank infrastructure within the state.

In 1956, the total deposits in the state was Rs. 35 crores, forming around 3 per cent of the total deposits in the country. Upto the middle of the 1970's, this ratio has remained fairly constant, indicating that the deposit mobilisation in the state had been increasing only at the same rate as the national average. In terms of per capita deposits, the State's average was around 20 per cent lower than the national average during this period. However, from 1976, there was a significant acceleration in the growth of deposits, and Kerala's share in the total bank deposits in the country rose to around 4 per cent before the decade ended, and since then, tended to stagnate at this level. In 1994, the total deposits increased to Rs. 15990 crores, ie 5 per cent of total deposits in India. It is too early to comment if it indicates yet another spurt in the deposit growth in the country. On the whole, they have been growing at the rate of 17.65 per cent per year. The per capita deposits also rapidly increased in the second phase, from Rs. 208 in 1975 to Rs. 4951 in 1994. On an average, we see that Kerala's per capita deposit during this period was higher than the national average.

Table 3.2 : A Comparison of Banking Indicators

	Offices per lakh		Deposits per office		Advances per office		Per capita deposit		Per capita credit	
	Kerala	India	Kerala	India	Kerala	India	Kerala	India	Kerala	India
1956	1.28	0.74	20.14	37.18	10.26	26.42	25.80	27.48	13.10	19.53
1957	1.38	0.80	19.61	41.72	12.29	26.25	27.10	33.55	17.00	21.11
1958	1.68	0.87	19.11	43.61	11.63	24.11	32.20	38.03	19.60	21.02
1959	1.68	0.93	22.96	46.75	12.79	24.48	38.70	43.45	21.50	22.75
1960	1.70	0.97	18.74	44.88	12.38	28.02	31.80	43.32	21.00	27.05
1961	1.43	1.00	21.44	44.42	12.79	29.14	30.60	44.64	18.20	29.28
1962	1.53	1.03	21.44	45.13	12.57	30.96	32.70	46.37	19.20	31.81
1963	1.69	1.09	22.71	45.61	12.28	31.62	38.40	49.93	20.80	34.61
1964	2.08	1.17	21.23	49.35	13.02	33.94	44.50	57.87	27.30	39.81
1965	2.08	1.23	24.36	51.65	14.79	35.85	51.10	63.63	31.00	44.17
1966	2.08	1.35	27.87	54.87	16.57	37.25	57.80	73.89	34.30	50.16
1967	2.04	1.40	29.22	56.72	17.50	39.33	59.90	79.16	35.90	54.89
1968	2.08	1.46	30.61	59.77	20.27	42.24	64.30	87.01	42.60	61.50
1969	2.44	1.69	29.60	58.29	20.38	42.08	73.40	98.48	50.50	71.10
1970	3.23	2.06	26.69	54.77	19.03	41.60	86.00	112.83	61.30	85.70
1971	4.00	2.36	26.06	56.03	17.97	39.07	102.30	132.33	70.50	92.28
1972	4.35	2.60	26.26	57.31	18.56	38.49	115.90	149.22	81.90	100.21
1973	4.44	2.66	28.93	60.07	20.39	41.82	128.44	159.97	90.49	111.36
1974	4.74	2.87	31.76	63.96	22.97	47.96	150.60	183.81	108.94	137.83
1975	5.17	3.11	34.32	68.03	23.58	49.09	177.38	211.32	121.90	152.48
1976	5.76	3.43	36.14	72.85	25.73	56.26	208.12	249.60	148.15	192.77
1977	6.76	3.92	41.75	77.48	26.72	56.17	282.41	303.92	180.71	220.33
1978	8.17	4.38	45.06	83.44	27.98	58.21	367.98	365.72	228.45	255.15
1979	8.37	4.63	54.32	94.97	35.76	65.63	454.48	439.66	299.21	303.84
1980	8.59	4.86	59.84	102.81	40.41	69.05	513.79	499.76	346.98	335.68
1981	9.30	5.27	66.50	112.14	49.45	75.33	618.28	590.55	459.82	396.69
1982	9.60	5.75	73.58	114.05	48.71	76.92	706.73	655.86	467.79	442.34
1983	9.76	6.06	84.56	126.01	57.74	85.31	825.31	763.24	563.56	516.71
1984	9.84	6.28	101.38	140.59	73.87	99.39	997.18	883.03	726.64	624.27
1985	10.16	7.08	128.00	147.74	80.23	100.38	1300.41	1045.76	815.11	710.53
1986	10.04	7.17	132.33	169.46	87.14	105.32	1327.97	1214.77	874.48	754.97
1987	9.91	7.11	152.64	196.45	101.72	116.91	1511.95	1397.60	1007.52	831.74
1988	9.83	7.16	174.01	225.23	112.70	126.55	1711.36	1612.06	1108.37	905.80
1989	9.86	7.30	202.31	249.24	132.14	151.48	1995.19	1819.44	1303.13	1105.79
1990	9.86	7.21	234.01	293.24	145.57	192.81	2307.21	2114.55	1435.25	1390.35
1991	9.79	7.20	276.78	332.77	163.37	220.43	2710.76	2395.64	1600.09	1586.95
1992	9.71	7.12	338.97	384.06	175.36	234.32	3291.90	2735.75	1702.96	1669.13
1993	9.69	7.03	419.84	460.71	201.66	261.19	4067.92	3238.31	1953.98	1835.90
1994	9.77	7.00	506.82	514.00	218.51	291.04	4951.14	3596.35	2134.59	2036.39

Source: Same as in Table 3.1

Table 3.3 Deposit & Credit Indicators of Kerala and India

	Deposit Quotient		Credit Quotient		C D Ratio	
	Kerala	India	Kerala	India	Kerala	India
1961	11.95	13.70	7.13	8.98	59.67	65.59
1962	11.84	13.84	6.94	9.49	58.60	68.59
1963	13.93	14.27	7.53	9.89	54.06	69.33
1964	15.51	14.77	9.51	10.16	61.32	68.79
1965	15.42	14.17	9.36	9.84	60.71	69.41
1966	15.69	16.15	9.32	10.96	59.44	67.89
1967	15.51	15.57	9.29	10.80	59.91	69.33
1968	14.18	14.83	9.39	10.48	66.22	70.68
1969	15.36	16.31	10.58	11.77	68.84	72.19
1970	16.53	17.38	11.78	13.20	71.28	75.96
1971	17.41	19.72	12.00	13.75	68.94	69.74
1972	19.38	21.43	13.70	14.39	70.70	67.15
1973	19.50	21.39	13.74	14.89	70.46	69.61
1974	18.61	20.41	13.46	15.31	72.34	74.99
1975	19.50	20.52	13.40	14.81	68.72	72.16
1976	21.80	23.51	15.52	18.16	71.18	77.23
1977	27.98	27.21	17.90	19.73	63.99	72.50
1978	35.31	29.19	21.92	20.36	62.08	69.77
1979	40.64	31.12	26.76	21.51	65.84	69.11
1980	40.81	30.20	27.56	20.28	67.53	67.17
1981	41.00	31.39	30.49	21.08	74.37	67.17
1982	44.84	32.16	29.68	21.69	66.19	67.44
1983	45.62	32.51	31.15	22.01	68.29	67.70
1984	47.67	34.49	34.73	24.38	72.87	70.70
1985	56.65	37.47	35.51	25.46	62.68	67.94
1986	55.37	40.07	36.46	24.90	65.85	62.15
1987	56.50	41.43	37.65	24.66	66.64	59.51
1988	58.27	40.56	37.74	22.79	64.77	56.19
1989	61.72	40.81	40.31	24.80	65.31	60.78
1990	62.06	47.95	38.60	31.53	62.21	65.75
1991	64.55	47.54	38.10	31.49	59.03	66.24
1992	64.04	47.64	33.13	29.07	51.73	61.01
1993	71.21	50.52	34.20	28.64	48.03	56.69
1994	82.40	49.96	35.52	28.29	43.11	56.62

Source: Chandok 1990., GOK, Economic survey, Various Issues

The deposit quotient given in Table 3.3 reveals broadly the same trends as above. The deposits which were only 11.95 per cent of the state income in 1961 had increased to nearly 82.4 per cent in March 1994. It can also be seen that in 1961, the deposit quotient for the country was greater than Kerala's deposit quotient. After 1977, the deposit quotient of Kerala exceeds that of the country.

Thus it would appear that mid seventies was an important turning point in the deposit mobilisation performance of banks in Kerala. The deposits increased by 17.6 per cent per annum since the formation of the state in 1956 to 1994. During the pre 1975 period, deposits in Kerala grew at 14 per cent, around the same rate as the national average. In the second period, the 21.1 per cent rate of growth of deposits achieved by banks in Kerala is higher than not only Kerala's own performance in the first phase, but also national banking performance.

Overall, the advances have also been growing at around the same rate as the deposits, 17.07 per cent per annum. It increased from Rs. 11 crores in 1956 to Rs. 6015 crores in 1994. Kerala's share in the total advances has always been lower than its share in deposits and fluctuated between 2 to 3 per cent during the first phase. From mid-seventies, the advance dispersal accelerated and Kerala's share in the total advances disbursed in India rose to 4.4 per cent in 1988. Since then, there has been a sharp deceleration in credit disbursal and Kerala's share in national total has declined to 3.3 per cent by 1994. Broadly similar trends are seen if one examines per capita credit also. Till mid seventies, per capita credit in Kerala was lower than the national average. The gap narrowed in the later half of the seventies and during the 'eighties has been more than the national average.

The credit quotient, given in Table 3.3, has also been lower than the all India average until late seventies, since when it rose significantly above the national average. During the sixties, the credit quotient for Kerala averaged 8.78 against the Indian average of 10.26, and, in the seventies, both had identical averages (around 16). In contrast, during the 'eighties, the average ratios were 34.72 and 25.40 respectively for Kerala and India. The credit quotient of Kerala reached a peak of 40.31 per cent in 1989 and has since then tended to decline. It was only 32.92 per cent in 1994.

Even though the overall increase in the credit disbursal have been at the same pace as deposit mobilisation, its periodisation brings out certain contrasting trends. During the first phase, the credit disbursal has tended to rise at a faster rate than deposits mobilised. In the second phase though the rate of growth of advances improved from 15.9 per cent in the first phase to 18.3 per cent, the latter was significantly lower than the rate of growth of deposits.

The CD ratio, as we have already seen, brings out the disparity between deposits mobilised and deposits utilised. It is only natural, that the differential rate of growth of deposit mobilisation and credit disbursal gets reflected in the CD ratio. Table 3.3 presents the trends in CD ratio of Kerala and the average for India. First point to be noted is that the CD ratio for Kerala has been generally below the all India average[1]. Secondly, the CD ratio in Kerala exhibits a negative rate of growth of -0.76 per cent during the entire period. However, it can be seen that during the first phase, the CD ratio has tended to improve, particularly in the latter half of the sixties. Since then, the CD ratio has tended to fluctuate around below 70 per cent. From 1984, it declined, falling below 50 per cent in 1993 and is today reportedly below 40 per cent.

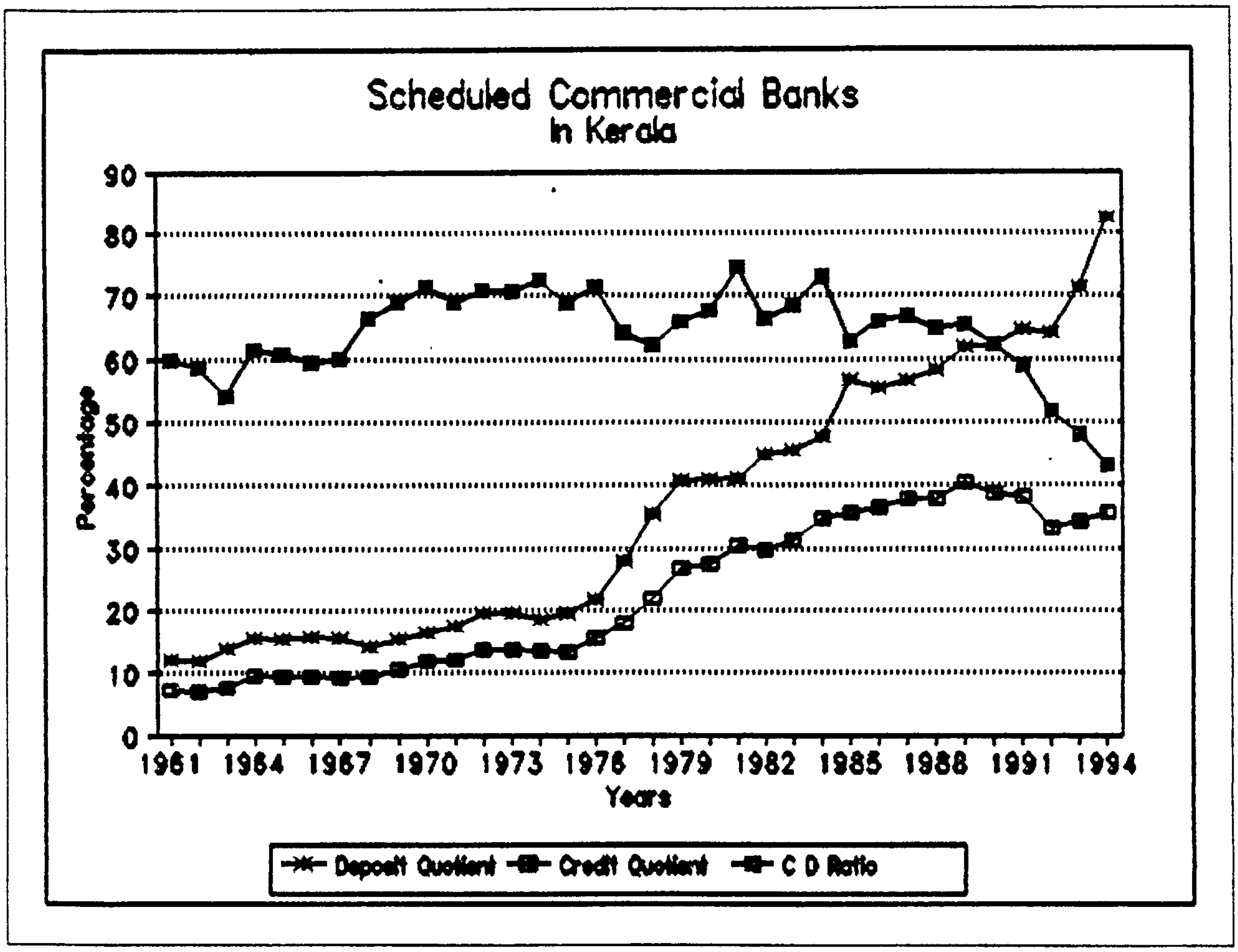

Fig.3a

In the following section, we attempt at explaining these differed trends in the deposits mobilised and credit disbursed.

Section II

Expansion of the financial intermediation is indispensable in the process of economic development. In the case of Kerala, however, we found that from the mid seventies, the growth of deposits has been at a much higher rate than the national average and Kerala's own past performance. We shall now attempt to analyse the factors that would explain the relatively higher acceleration of deposit mobilisation in Kerala from the mid-seventies.

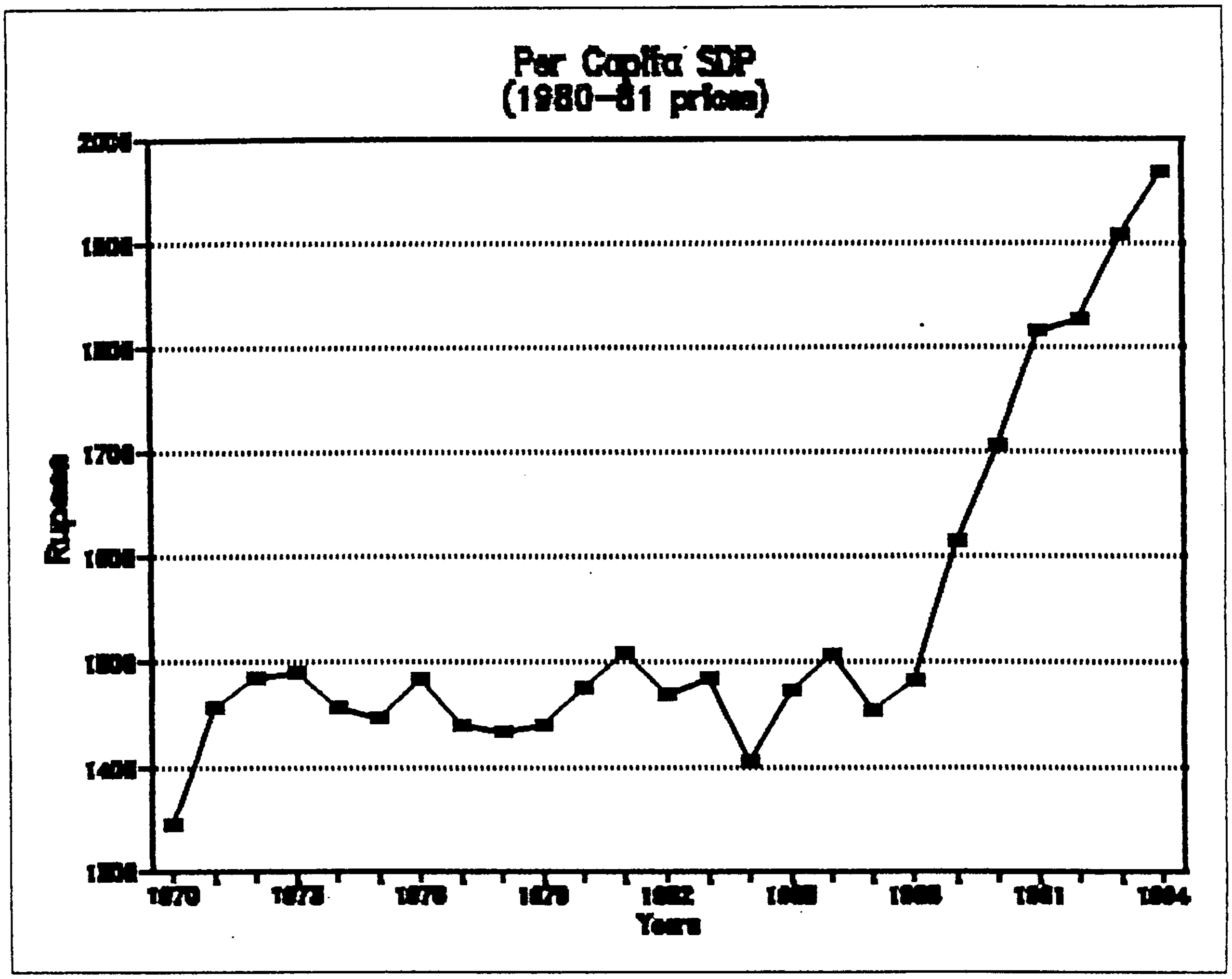

Fig.3b

Surprisingly, this new phase of banking development in Kerala coincided with onset of economic stagnation in the regional economy. As can be seen from Figure 2, per capita income in the state has stagnated at less than Rs. 1500 per annum between 1973 and 1989. As we noted in the last chapter, the relationship between the states domestic product growth and the changes in banking development quotients have been relatively weaker in case of Kerala. What exogenous factors could have triggered off the acceleration of deposit growth in Kerala despite stagnant per capita domestic product.

A clue regarding the processes at work may be had from the following Table 3.4, where we have attempted to break up the bank deposits in Kerala into deposits originating from within the state (domestic deposits) and deposits originating from the Non Resident Indians abroad (NRE deposits).

Table 3.4 NRE and Domestic Deposits in Kerala (Rs. lakhs)

Years	NRE	Deposits As a % of Total	SDP	Domestic Deposits
1976	1428	2.94	0.64	47145
1977	4928	7.34	2.05	62170
1978	9342	10.50	3.71	79658
1979	12974	11.59	4.71	98926
1980	17094	13.27	5.42	111692
1981	21800	13.91	5.70	134931
1982	28114	15.48	6.94	153490
1983	38612	17.96	8.20	176337
1984	57382	21.80	10.39	205892
1985	84400	24.26	13.74	263513
1986	89400	24.83	13.75	270680
1987	119300	28.71	16.22	296199
1988	136924	28.46	16.58	344208
1989	158375	27.95	17.25	408300
1990	201221	30.40	18.86	460787
1991	230435	29.33	18.93	555332
1992	303888	31.42	20.12	663205
1993	449891	37.14	26.45	761333
1994	601463	40.26	33.17	892643

Note: Figures for 1973 to 1984 are estimated, assuming that NRE deposits from Kerala had a share of 20 per cent in the total NRE deposits in the country.

Source: Figures for 1985 to 1994, GOK, Economic Review, Various Issues

The NRE deposits accounted for as much as 40 per cent of the total deposits in Kerala in 1994. Its share in 1976 was less than 3 per cent. Evidently, the NRE deposits have been growing at a faster rate than domestic deposits during the period under consideration. While the NRE deposits have been growing at the rate of 33.80 per cent per year, the domestic deposits have been growing only at the rate of 17.13 per cent - a marginally higher rate than that of total deposits in the pre 1976 phase. Further, it can be seen that as a proportion of its total deposits, the NRE deposits in Kerala was higher than the same in all India.

Table 3.5 Domestic deposits in Kerala and India

	Per Capita deposits		Percentage of SDP	
	Kerala	India	Kerala	India
1976	202.07	249.60	21.16	23.51
1977	261.70	303.92	25.92	27.21
1978	329.22	365.72	31.60	29.19
1979	401.90	439.66	35.93	33.57
1980	445.60	499.75	35.40	36.15
1981	532.28	590.54	35.30	36.63
1982	597.32	655.86	37.90	35.59
1983	677.05	763.24	37.43	38.21
1984	779.84	883.03	37.28	38.40
1985	984.95	1045.75	42.91	41.70
1986	998.27	1214.77	41.62	44.44
1987	1077.83	1397.60	40.28	47.06
1988	1224.33	1612.05	41.68	48.79
1989	1437.57	1819.44	44.47	46.74
1990	1605.92	1835.58	43.19	42.03
1991	1915.80	2040.17	45.62	41.03
1992	2257.49	2294.49	43.92	40.52
1993	2556.95	2600.63	44.76	41.24
1994	2958.02	3081.88	49.23	42.81

The per capita domestic deposits in Kerala over the period 1976 to 1994, as seen in Table 3.6 has been consistently below the national average. In 1973, Kerala had a per capita domestic deposit of Rs..202, while India had Rs.249. By 1994, Kerala had Rs.958, while India had a per capita deposit figure of Rs.3082.

The ratio of deposits to SDP of Kerala was lower than India till 1989. NRE deposits have been growing at a faster rate than the domestic deposits at the all India level too. While the domestic deposits grew at 17.8 per cent, the NRE deposits grew at 43.52 per cent per year. The NRE deposits in Kerala grew at a marginally higher rate than that of the all India level. Therefore, it is the higher weightage of NRE deposits in the deposit composition in Kerala that has ben responsible for relatively much higher overall deposit mobilisation performance (see Table 3.4). It is the growth of NRE deposits that has imparted their dynamism to banking development in Kerala during the recent period.

Impact of international migration to the Gulf countries:

The above expansion of NRE deposits in Kerala is linked to the high incidence of foreign migration from the state. Surprisingly, despite the long history of foreign trade contacts dating to the ancient times, international migration from the state is a relatively new phenomena. International migration, to begin with, was to Ceylon, Malaysia and Burma (Myanmar), mostly by members of lower castes and communities along the coastal belt and pockets of South Central Kerala. The migration to Ceylon and Malaysia was short lived, but Kerala was a vigorous participant in the new phase of migration of skilled and professional personnel to the developed countries (in the west), in the post-Independence period, in terms of numbers. However, the migration to the west was not very substantial. In contrast, the latest phase of international migration from Kerala to the Gulf countries, since the mid seventies has involved a significant proportion of the work force.

Oil exploration and development in the Gulf region, which was accompanied by an increase in revenues and boom in construction and commercial activities was responsible for this sudden spurt in migration from Kerala. Lack of adequate pool of skilled manpower and the general cultural aversion to unskilled work meant that these countries had to rely on expatriate labour. It was here that the close ties the coastal pockets of the region have always had with the Arab countries, stood it in good stead. The total out-migrants from Kerala in November 1977 stood at 4.32 lakhs, out of which 1.35 lakhs were working outside India. The number increased to 6.82 lakhs in early 1987, of which 48 per cent have gone overseas. Of these, the Gulf emigrants constituted over 91 per cent of the foreign migrants. According to a survey conducted by the Department of Economics and Statistics, Government of Kerala, the total out-migrants from Kerala as at the beginning of 1987 were estimated at 6.82 lakhs, of which, 3.01 lakhs (44.1 per cent) had migrated to the Gulf countries itself. Between 1980 and early 1987, the total number of migrants increased by 34 per cent, whereas the number of migrants to Gulf countries increased by 60 per cent.

This large scale migration because of its temporary nature, ensured that there was a good inflow of remittances. The remittance potential is determined by the stock of migrants and their savings from the earnings abroad. How much of these savings, would flow into the country as legal remittances is determined by three sets of crucial decisions made by the migrants. First, the decision as to how much of the saving is to be kept abroad, kept as repatriable deposits within India, or remitted home. Secondly, the mode of remittance- whether in terms of consumer durables, or money. And finally, the decision regarding the channel of money remittance- cash carried personally, the banking system or by illegal means.

It is the monetary remittances that are relevant for our discussion. The money brought through `cash in hand' is relatively insignificant and mostly used up at the customs. The illegal remittances transmitted through 'havala' market (popularly known as tube money channel) has been very significant in the case of Kerala (Isaac and Nata, 1995). Incidence of illegal remittances is relatively lower in Southern Kerala. The volume of such remittances is also seen to be very sensitive to the exchange rate margins[2]. Therefore, its relative importance has fluctuated over time. For these and other reasons, it is hazardous to guess the volume of such inflows into Kerala. Being illegally transmitted, it is unlikely that such remittances would enter the bank network, at least in the initial rounds of expenditure.

Thus, we are left with two modes of external financial inflows that can significantly influence the deposit mobilisation performance of banks in Kerala, namely savings remitted through regular banking channels in the form of bank drafts etc. to spouses/relatives at home, and savings directly deposited by the migrants in the special repatriable accounts for non resident Indians. The former, unrequited transfers of migrants' savings appear as an item in the current account of the Balance of Payments, while the latter, which is essentially in the nature of short term external loan, appear as an item in the capital account. The latter would have a direct impact on the bank deposits, while the impact of the former would depend upon whether the money remitted would be kept as a saving by the migrant household in the banks or withdrawn for current expenditure.

Migrants' current account transfers:

The remittance inflows through the current account cannot be identified separately for each state. Inspite of the overwhelming importance of remittance incomes to the economy of the state, data on the actual inflows of remittances are virtually non existent.

Table 3.6 Estimated remittances

Years	Per Capita Remittances	Remittances As per cent of SDP
1970-71	2.69	0.5
1071-72	3.80	0.6
1972-73	3.30	0.5
1973-74	4.65	0.6
1974-75	9.89	1.1
1975-76	34.42	3.6
1976-77	64.31	6.4
1977-78	109.63	10.5
1978-79	107.39	9.6
1979-80	172.91	13.6
1980-81	258.88	18.7
1981-82	232.64	16.2
1982-83	282.22	17.4
1983-84	302.95	16.1
1984-85	339.01	16.1
1985-86	285.83	13.4
1986-87	299.95	12.7
1987-88	351.33	12.4
1988-89	397.46	12.6

Source: Isaac, 1993

Kerala does not have reliable information on an ongoing basis on the various magnitudes concerned - of labour outflows and return flows, accrual and disposition of remittances, cost of migration etc. There have been some attempts to estimate the quantum of flows for some years, but these are highly speculative and not based on any analytical model. These indirect estimates are derived from the total flows of private remittances in the balance of payments accounts, by assigning a prejudged proportion of remittances as emanating from Kerala[3].

Table 3.7 Utilisation pattern of Savings out of Gulf remittances

Item	Nair	GOK	Isaac
Purchase and investment of land, construction, improvement and purchase of building	41.9	57.5	23.1
Purchase of vehicles, consumer durables, ornaments and jewellery	14.9	11.2	4.6
Education	2.2	6.4	-
Marraige and other events	-	-	9.4
Repayment of loan	4.7	7.6	4.4
Financial assistance to relatives	2.6	1.9	-
Investment in business	6.0	2.3	-
Financial investments	1.6	8.2	25.3
Household expenditure	-	-	24.4
Others	3.3	4.9	8.9

Nair : Nair, Gopinathan P R (1994)
GOK, : Government of Kerala, Survey on the utilization of Gulf Remittances in Kerala, Department of Economics and Statistics, Trivandrum 1988
Isaac: Isaac and Nata 1995

There are a large number of micro studies which have attempted at studying the saving/expenditure patterns of the migrant households. As can be seen from Table 3.7, the study by PRG and GOK show that the emigrants' households have spent relatively large proportions of their remittances income on construction and renovation of house, buildings, repayment of loans, conduct of marriages, purchase of consumer durables, gifts and donations,purchase and improvement of landed property, purchase of ornaments, education and medical treatment, financing emigration of other members of the households etc. Very little proportion of the remittances are spent on investment in financial assets.

The other noteworthy micro studies of Prakash (1978), Kurien (1978), Joseph K V (1988), Mathew & Nair (1978) and Ibrahim and Radhakrishnan (1981) also report similar findings, although they do not report the individual break ups. On the other hand, Isaac and Nata (1995) shows that the financial assets account for more than

25 per cent of investments made out of remittances. One point of similarity between all these studies is that, the bank deposits have a very little share in these financial assets. One reason could be the proliferation of private financial companies during the early eighties. Since the beginning of the eighties, there has been a phenomenal growth in private financing institutions viz., partnership firms, companies and unregistered individual financiers in Kerala. The number of such institutions in the state was about 12000 in the early eighties (Prakash 1984). It is pointed out that the people prefer to deposit their money in firms rather than in investments, since they are assured of a higher rate of return.

This unorganised banking sector gave a stiff competition to the organised banking sector in the state in mobilising resources. It was an ideal avenue for stashing black money. A survey by Prakash (1984), reveals that the average deposit per firm in 1983, in Trichur, was Rs. 6.25 lakhs. On the basis of this, the total amount deposited for 1500 firms in Kerala was Rs. 93.75 crores[4].

The expansion of deposits in the cooperative sector has been equally impressive (Sunanda 1991). Further, according to the Planning Board survey (GOK,1981), the household savings in the State Chit funds was 19.5 per cent of the total household savings in financial assets. At the end of 1984-85, there were estimated to be 10847 functioning chitties/kuries with a capital of about Rs. 16.37 crores.

Therefore, as can be seen, a very little proportion of the migrants current account transfers could find their way into banks. A more important role could be played by the NRE deposits.

NRE deposit scheme:

The NRE deposits scheme has been the most important policy initiative of the Government of India to tap the idle savings of the migrants. It was started in 1970, when the government introduced a facility which allowed Non-Resident Indians and persons of Indian origin abroad to open and maintain external rupee accounts. The deposits could be held only in rupees and were called Non-Resident (External) Rupee Accounts [NRER]. In 1975, the scope of the scheme was widened with the introduction of Foreign Currency Non-Resident Accounts [FCNR], according to which, the non residents could maintain term deposits in designated foreign currencies, initially in dollars and pound sterling. Since 1988, Deutsche Mark and Japanese Yen have also been added to the designated currencies. Full exchange rate risk of the FCNR deposits was borne by the RBI. However, unlike remittance inflows that represent unrequited transfers in the current account, capital inflows which originate from Indian migrants overseas take the form of deposits that are repatriable.

Since then, various other schemes have also come into existence- an approach at providing the NRI's with a wider choice with differing features such as repatriability, exchange risk, interest rates, fiscal concessions etc. As seen in Table 3.8 the Foreign Currency (Banks & Others) Deposits Scheme [FC(B&O)D], the Foreign Currency (Ordinary Non-Repatriable) Scheme [FCON], Non-Resident Non-

Repatriable Rupee Deposits [NR(NR)RD], and Foreign Currency Non-Resident (Bank) Account [FCNR(B)], were started in the early nineties[5].As a result of which, the NRE deposits have grown at a faster pace.

Table 3.8 Various Banking Schemes for NRIs

Schemes	Date of Starting	Date of Closing
NR(E)RA	February 1970	Continuing
FCNR	November 1975	August 1994
FC(B&O)D	December 1990	July 1992
FCON	June 1991	August 1994
NR(NR)RD	June 1992	Continuing
FCNR(B)	May 1993	Continuing

Source: GOI, Economic survey, 1995

However, the factors under lying the trends in the capital flows associated with repatriable deposits are somewhat difficult to discern. The distinctive feature of these schemes were that certain fiscal concessions were offered. The principle incentive at the time was that the deposits were exempt from income tax. This facilitated the inflow of capital from migrants who were willing to remit their savings to India as an investment provided there was an assurance of repatriation, should the need arise. These were not the only reasons for the growth of NRE deposits.

In March 1982, the government introduced an incentive, whereby, term deposits of one year or more in external accounts were entitled to interests at rates which were 2 per cent above those for comparable domestic deposits, and much higher than those for comparable deposits in the capital markets of countries where NRI's or migrants of Indian origin lived. Interest rates on term deposits in India became more attractive as interest rates fell substantially in the International capital markets and it has been argued that the interest rate differentials were the principle underlying cause of the massive inflows into the country (Nayyar 1994).

The NRE deposit holders can be divided into three categories. The first and perhaps the most important is the relatively better off stratum of permanent non residents, primarily from the developed countries, who have been attracted to the scheme due to its better returns and guarantee of repatriation. The second component is the speculators, who have utilised these schemes as a perking lot for their hot money, to take advantage of the interest rate differentials. The third and relatively more stable component is the temporary migrant workers. Most of the capital account transfers in India have been of the first two types, which explains the reverse flow of funds in 1990. However, the nonresident inflows into Kerala are not speculative in nature and are mainly those of workers who just need a safe channel for transfer of funds. It is for this reason, that, at the height of India's balance of payments crisis, the NRE deposits in Kerala actually registered an Increase (Isaac & Nata 1995).

It has been conclusively seen that the main influence upon the bank deposits has been the exogenous factors, namely the NRE deposits. In the next section, we will try to analyse the factors influencing the utilisation of these deposits, that is the credit disbursal by the banks.

Section II

In this section, we shall attempt to understand the factors that have constrained the better absorption and/or restrained the supply of bank credit in the state. This does not purport to arrive at definite conclusions, however, a broad idea of the factors affecting credit growth can definitely be identified.

Sector-wise disbursal in India and other Southern states:
A sector wise distribution of bank credit in the four southern states shows that, over the years from 1973 to 1993, the share of the primary sector advances in total bank advances of all the states has been higher than the all India average. Among these states, Kerala had amongst the lowest share of primary sector in total bank credit. Noticeably, all the states show a decline in the primary share after 1988. The secondary sector shares in the same period show that only Tamil Nadu was higher than all India. Kerala's share was the lowest and has been declining at an even faster rate. The advances to small scale industries (SSIs) in Kerala, which was the highest in 1973 too has shown a rapid decline.

The share of personal loans (consumer durables, housing etc.), in Kerala on the other hand has been the highest among all the southern states and was also higher than the all India average. The other tertiary sector loans like transport operators, personal and professional services and trade too, followed a similar pattern. In Kerala a large proportion of the loans were made to these sectors.

Table 3.9 Sectoral distribution of outstanding bank credit

	Primary Sector	Secondary Sector	SSI	Personal Loans	Others
Andhra Pradesh					
1973	14.69	60.55	16.03	4.48	20.28
1978	26.93	44.38	13.06	5.13	23.55
1983	32.20	38.60	12.33	6.10	23.10
1988	29.44	36.94	12.09	5.44	28.17
1992	23.94	40.28	10.65	8.15	24.88
Karnataka					
1973	13.51	49.81	12.82	5.09	31.59
1978	18.48	50.71	12.97	4.56	26.26
1983	21.51	45.32	11.08	5.73	27.45
1988	24.92	41.49	12.87	6.23	27.13
1992	20.51	41.01	12.62	9.73	28.74
Kerala					
1973	9.80	44.44	20.20	7.44	36.26
1978	15.25	43.57	19.94	5.71	35.46
1983	16.36	38.15	11.87	7.21	38.26
1988	19.24	31.61	11.20	9.17	39.80
1992	16.98	34.63	12.29	12.69	35.64
Tamil Nadu					
1973	9.64	62.42	14.26	4.86	23.07
1978	12.40	58.64	14.18	4.29	24.67
1983	16.59	51.51	13.70	5.81	26.09
1988	17.60	49.49	13.97	5.69	27.21
1992	15.59	48.39	13.41	8.42	27.39
All India					
1973	9.03	57.38	11.98	3.22	30.37
1978	7.99	53.26	12.60	1.85	36.90
1983	16.52	47.50	11.01	4.01	31.97
1988	17.56	46.63	13.32	5.19	30.61
1992	14.80	47.70	12.69	8.18	29.31

Note: The primary sector includes finance for agriculture and allied activities. Secondary sector includes, credit to industry, electricity generation and construction, SSI is the advances to small scale industries. While, others includes credit to Transport operators, professional services, trade and miscellaneous activities

Source: RBI, BSR, Various Issues.

It can be seen that when compared to the other southern states and the all India share, while the primary sector and secondary sector loan shares (including SSIs) have been going down in Kerala, the tertiary sector shares are higher and increasing over time. This more or less follows the same pattern as the sectoral shares in income of the state. In Kerala over the years 1973 to 1993, the shares of agriculture and allied activities (primary sector) in the SDP of Kerala has been showing a general decline.

The secondary sector and tertiary sector shares have shown a marginal increase. One feature that distinguishes Kerala from the rest of the states is the rate of growth of the tertiary sector. Bank loans outstanding to this sector are also the only component which seems to be growing.

Given these trends in the sectoral shares in bank credit and domestic product, it would be interesting to make a detailed sector wise analysis of the bank advances and identify the constraints if any.

Primary sector:

Regional disparities in agricultural credit can be analysed in two ways - one, by assessing the share of agricultural credit in the total credit, and two by measuring the agricultural credit in relation to the agricultural activities in the state in terms of per hectare credit or in terms of value added.

Comparison on the ground of percentage share of agricultural credit in absolute terms (as we have done earlier) may not be fully justifiable because agricultural credit requirements may vary from state to state. A comparison is meaningful and justifiable if and only if we can standardise the agricultural credit in terms of the agricultural activities. In terms of the area of land cultivated, we have used Gross Cropped Area (GCA). The standard unit to measure agricultural activities, taken here for comparison is then the agricultural credit per hectare of GCA. Now we are in a position to compare the states position vis-a-vis the country average in terms of this standard norm.

Thanks to the increased supply of agricultural credit by SCBs, agricultural credit per hectare of GCA (henceforth PHC) has grown considerably over these years. As seen from Table 3.10, PCH at all India level in 1973 was just Rs.35. Within 10 years it reached Rs.334 and again in 1991 it came upto Rs.1018.

A comparison of the PHC figures of Kerala and India reveals that Kerala had more per hectare credit than the all India average. In fact, it has the highest levels of credit per hectare of GCA in the country after Punjab. We also look at the ratio of the agriculture credit by SCB's to the value added in Agriculture (Agricultural Credit Quotient) in Kerala and India. In 1973, the quotient for Kerala was lower than that for all India, but thereafter, the quotient has been consistently above the all India quotient. This speaks of the relative importance that agricultural credit was getting in Kerala. After 1987, there has been a general decline in the ACQ. From a peak of 28.02 per cent in 1987, it declined to 14.33 per cent in 1992. It was precisely after this year that the CD ratio (as seen in Figure 1 of this chapter) has been worsening.

Table 3.10 Commercial Banks' Agricultural credit

At the end of June	Credit Per Hectare GCA Kerala (Rs)	Credit Per Hectare GCA India (Rs)	Credit Quotient Kerala (%)	Credit Quotient India (%)
1973	70.47	35.2	3.07	3.12
1974	90.06	41.7	2.92	2.90
1975	117.89	38.0	3.53	2.37
1976	172.40	42.2	5.06	2.82
1977	202.92	46.7	5.50	3.01
1978	277.29	113.8	7.43	6.43
1979	395.04	144.2	9.43	8.14
1980	506.68	185.7	10.66	10.03
1981	709.56	240.3	13.65	9.99
1982	823.91	288.4	16.38	10.91
1983	813.04	333.7	13.16	11.70
1984	1127.32	424.8	14.86	12.74
1985	1272.13	505.0	15.67	13.85
1986	1470.97	546.4	18.72	14.33
1987	2515.59	623.6	28.02	15.25
1988	2230.30	723.9	23.04	15.42
1989	2276.60	842.9	21.69	15.11
1990	2398.15	912.5	20.74	14.83
1991	2651.49	1017.7	19.99	13.86
1992	2817.11	-	14.33	12.47

Source : Computed from RBI, Report on Currency & Finance, Various Issues., GOI, Agricultural Statistics, Various Years.

At this stage it would be appropriate to examine the various components of agricultural credit that is disbursed in the state by way of direct/indirect finance[6] and short term/long term credit[7]. The trends in direct and indirect credit composition of agricultural credit do not show any major change in the mid eighties[8]. However, the share of long term loans in total agricultural credit (Table 3.11) shows that in the eighties there has been a decline in the share of term loans. It is surprising that short term loans still dominates the agricultural loans. Surprising because, since the mid-seventies there has been a rapid commercialisation of agriculture in Kerala.

Table 3.11 Share of Short Term and Term Loans in Total Bank Credit

	Kerala		India	
	ST Loans	Term Loan	ST Loans	Term Loan
1973-74	72.34	27.66	41.50	58.50
1974-75	68.33	31.67	53.26	46.74
1975-76	68.48	31.52	52.49	47.51
1976-77	73.75	26.25	50.00	50.00
1977-78	74.18	25.82	50.60	49.40
1978-79	71.94	28.06	45.63	54.37
1979-80	69.98	30.02	46.64	53.36
1980-81	63.85	36.15	41.39	58.61
1981-82	62.08	37.92	41.74	58.26
1982-83	72.71	27.29	45.80	54.20
1983-84	70.59	29.41	46.78	53.22
1984-85	71.46	28.54	42.10	57.90
1985-86	82.72	17.28	55.84	44.16
1986-87	81.81	18.19	53.99	46.01
1987-88	85.24	14.76	56.77	43.23
1988-89	86.23	13.77	55.39	44.61
1989-90	83.53	16.47	53.77	46.23
1990-91	91.23	8.77	62.52	37.48

Note: After 1985-86 the figures relate to only direct agricultural finance
Source: Rath (1989a 1989b)., RBI, BSR Various Issues

In fact, the main feature of the primary sector in Kerala in the past decade and half has been the large scale commercialisation, which is vividly represented by the area under the different crops. From a share of 35.49 per cent in 1960-61, the area under foodgrains has gone down steadily to 20.54 per cent in 1989-90, largely due to land conversion for non-food grains, in particular plantation crops. Rice, the principal food crop of Kerala has been subjected to persistent pressure for replacement by other more remunerative crops during the last one and a half decades. The rice crop had a coverage of around 8.75 lakh hectares in the mid seventies. It suffered a severe set back in area resulting in a total loss of more than 3 lakh hectares over a period of fifteen years. As a result of this shift in cropping pattern, commercial crops like Rubber and Coconut have witnessed substantial increase in area coverage.

Table 3.12 Index of Area under Crops in Kerala

	Average of 3 years (1976-77 to 1978-79)	1985-86	1991-92
Food grains	102.55	83.50	67.22
Cereals	102.59	83.68	67.36
Pulses	101.53	79.48	64.15
Nonfood grains	101.00	106.56	120.96
Oilseeds	101.66	104.84	127.26
Plantation	95.04	140.83	175.30
Cond.spices	100.65	109.52	127.65
Drugs.narc	82.29	103.73	77.83
Frts.veg	103.20	88.69	81.40
Miscellaneous	193.59	106.43	140.26

Source : GOK, Economic Review, Various Issues

The share of the plantation crops has shown a steady increase from 10.09 per cent in 1970-71 to 17.95 per cent in 1989-90. Oil seeds, condiments & spices, drugs and narcotics, fruits & vegetables and other miscellaneous nonfood crops also showed an increase in the share of gross cropped area. Kerala is the only state in the country which has substantial area under all the four important plantation crops namely Tea, Coffee, Rubber and Cardamom. The state accounts for around 45 per cent of the total area under these crops in the country and they together account for more than 25 per cent of the net cropped area in Kerala. The increase in area under rubber during the last one and a half decades has been nearly 2 lakh hectares, and the trend is continuing. The annual average expansion recorded in the past has been 12000 hectares.[9] Area expansion under coconut, on the other hand gathered momentum only in the second half of eighties. It is possible that this would have positively led to an increase in the demand for Term credit. However, the opposite has been the case in Kerala. Such low investment credit disbursal has been recorded in Kerala in the midst of large scale shift of area in favour of capital intensive crops like coconut and rubber. Therefore, either the new plantings through conversions from seasonal crops to perennial are undertaken without providing for the basic infrastructure, or alternatively, the farmers might be resorting to other means of finance.

A micro level study by the Kerala Planning Board (GOK, 1994) shows that more than half of the finance requirements were met by the farmers on their own (self finance). The cooperative societies were next with 20.91 per cent followed by help from relatives and only then commercial banks. This was the case for all types of farmers, small marginal and large. A class wise comparison of credit share shows that the large farmers (above 200 cents) resorted the most to bank credit (14.92 per cent).

Table 3.13 Distribution of source of finance (% to total)

Size of Land (cnts)	Self	Other source	Rela- tives	Coops	Banks	Money lenders
Below 25	62.15	0.00	7.74	23.81	3.89	4.34
25 to 100	54.73	0.00	8.43	28.50	2.21	5.80
100to 200	51.66	3.63	7.98	20.30	6.04	12.33
Above 200	49.67	4.29	11.48	16.56	14.92	2.51
Total	52.54	2.63	9.73	20.91	9.04	5.25

Source: GOK, 1994

The above Table 3.13 also shows that among that 30 per cent of the total finance requirements was met by the institutional agencies (cooperatives and banks). The large farmers were relatively more dependent on these sources of credit. Among the institutions, the cooperatives cornered more share than the commercial banks. The Cooperatives agriculture credit structure comprises of the State

Cooperative Bank (KSCB) at the apex level, District Cooperative Banks (DCB) at the middle level and Primary Agricultural Credit Societies (PACS) at the base level. The long term credit structure consists of the Kerala State Cooperative Agricultural and Rural Development Bank (KSCARDB) at the apex level and Primary Agricultural Development Banks (PADB) at the base level.

Table 3.14 Distribution of Institution Credit to Agriculture

Years	PACSs	PADBs	Total Coops	Commercial
1972-73	58.38	15.01	73.39	26.61
1977-78	43.10	16.21	59.32	40.68
1983-84	44.03	14.42	58.45	41.55
1988-89	46.66	5.65	52.31	47.69
1991-92	56.76	7.45	64.22	35.78

Source: State Level Bankers Committee, Yearly Reports

Table 3.14 shows the institution wise share of agriculture credit in Kerala. The cooperatives[10], accounted for nearly 73.39 per cent of the credit to agriculture in 1972-73. Its share declined gradually to 52.31 per cent in 1988-89. Thereafter however, it has again shown a rising trend and by 1991-92 accounted for 64.22 per cent.

One reason for this increasing share of the cooperatives, could be the inherent advantages the cooperatives have over the SCB's[11]. The spread of the cooperative bank branches lends ample scope to penetrate into remote areas which are often neglected by other banks. The widespread remote network often renders the branches unviable, but fulfils a social responsibility. The trade off between commercial viability and social responsibility is revealed in the operations of these cooperatives.

In the state as a whole, the share of the short-term agricultural loans (of cooperatives) is showing a declining trend. From nearly 72 per cent in 1969-70 it has come down to less than 30 per cent[12]. On the other hand, the term loans of commercial banks have been showing a declining trend. This could be because, the SCB's do not bestow adequate attention in assessing the demand for credit on a regular basis[13]. There seems to be a credit gap between the actual credit requirements and the credit advanced by the banks. It is beyond the scope of this study to estimate the exact nature of this credit gap and is best left to micro level studies.

There is also a preference of banks to extend credit for non-agricultural purposes in lieu of reduced risk of recovery. The efficiency of credit institutions to a large extent depends upon their recovery performance, as this enables them to recycle funds and function more effectively. The recovery performance of credit given for agriculture and allied activities by institutional agencies in Kerala was far better than the other states[14]. However, here too the recovery performance of the PACS's and PADB's is relatively better than that of the commercial banks. This is mainly because, in the cooperatives, they employ staff for collection of dues, which is absent in the commercial banks. The cooperatives are in a sense better off in terms of recovery of loans.

While the cooperative societies are more attuned to the needs of the state, the commercial banks crop oriented development approach and credit policies which are quite often tailored to suit an organised system of farming may not be relevant to Kerala. The banks should therefore reorient their policies to suit the needs of the state.

Secondary sector:

On the industrial map of India, the position of Kerala is almost insignificant. It accounts for only 3.16 per cent of the number of factories, 2.14 per cent of the fixed capital, .89 per cent of employment, 2.56 per cent of gross output and 3.29 per cent of net value added in the factory sector of the country in 1989-90[15]. Even, the share of the secondary sector in Kerala's net domestic product is the least of the three sectors and less than the national average.

In recent years, particularly since the early seventies, there has been taking place a deceleration of manufacturing industries in Kerala. Subramanian and Pillai (1986) have shown that in terms of industrial development as reflected in per capita value added, Kerala remained below the national average in the sixties as also today. It ranks only tenth among Indian states in terms of gross output. In terms of value added and industrial employment also it occupies the same low position. Kerala's factory sector recorded significantly higher aggregate growth rate during mid sixties and early seventies when the country as a whole was in a period of industrial recession. On the contrary, when industrial growth in the country recovered (after 1975) Kerala recorded a growth rate of much below the national average. The steady decline in growth rates in successive periods implies that Kerala has been suffering from industrial stagnation since 1970's.

Table 3.15 Growth rates of value added in Secondary sector

Period	Regd.Manf	UnRegd.Manf	Total
1961 to 1971	8.28	3.32	6.10
1971 to 1981	4.21	1.43	2.82
1981 to 1988	0.75	0.46	0.23

Source: Nanda Mohan (1994)

The growth pattern of the registered manufacturing during different periods given in Table 3.15, make clear that there has been a significant slow down in the growth of manufacturing in the state- the growth rates went down from 6.10 in the sixties to 2.82 in the seventies and further down to a discouraging rate of 0.23 per cent in 1988.

Table 3.16 shows the capital invested and employment generated in the large and medium industries in the state as on March 1988. These large and medium industries, include Central government companies, State government companies, Joint sector companies, Companies in the cooperative sector and private sector companies.

Table 3.16 Capital invested (Rs lakhs) and employment under different categories of companies.

Category of company	Number of units	Capital invested	Persons employed	Capital invested per employment
Central Govt.	18	78245	26143	2.99
State Govt.	67	59860	67190	0.89
Joint Sector	28	6744	3388	1.99
Cooperative st	14	2614	3925	0.67
Private co's	109	45278	41589	1.09
Total	236	192741	142235	1.36

Source: GOK, Background paper on Large and Medium Industries, 1988 State Planning Board

It is noted that even as the private sector comprises 46 per cent of the large and medium manufacturing industries in the state, it accounts for only 23 per cent of capital investment and 30 per cent of employment in 1988. The Central government companies constitute only 7 per cent industrial units and account for 40 per cent of the capital investment in Kerala. The gross block as in 1993 of the Central Public Sector units in Kerala was only 1.30 per cent of total in India compared to 3.06 per cent in 1970. Like the central investment in the state industrial investment, the limited state investment in large and medium industries is concentrated in select industries like chemicals and electronics.

The above analysis clearly shows that investment in the private sector is at a relatively lower level in the state. This brings into focus the role of the banks in providing industrial credit. Studies have attributed the industrial backwardness in the state to the lack of adequate public investment, political instability, labour militancy, lopsided industrial structure, high wage cost, lack of entrepreneurs and natural resource endowments etc, But, no one has really looked at the role of industrial credit flowing into the state. One point of debate is that since industrial credit by the banks is not easily available, private entrepreneurs are handicapped in investing in the state.

Industrial credit:

As we had seen in the earlier part of this section, the commercial banks advances to industry was among the lowest in the country (Table 3.9). By 1992, only 35 per cent of the advances was made to this sector, whereas for the whole country the average was nearly half of the total outstanding bank credit. Of the total credit, only 12.29 per cent of the bank advances were to the Small Scale Industries. A time trend analysis shows that, the share of both the aggregate industry and the small scale industry has shown a consistent decline over the years.

In Table 3.17 are presented a set of quotients of the industry. The first relates to the total bank credit to industry as a proportion of the domestic product from the secondary sector (IDQ). The next quotient is the ratio of the bank credit to industry and the investment in this sector (IDVQ). The trends of IDQ show that this ratio has increased till 1987 but then has declined. On the other hand the IDVQ shows an increasing trend ie, the credit outstanding as a proportion to the invested capital is on the increase.

Table 3.17 Industry Quotients

Year	IDQ	IDVQ
1973	35.75	18.15
1977	46.83	25.60
1983	46.52	32.05
1987	56.00	40.09
1990	49.80	42.68

Source: CSO., RBI, BSR Various Issues

However, the fact remains that there is low investment in Kerala. In terms of financing units by All Financial institutions (AFI), the per capita assistance disbursed by the AFI's namely IDBI, IFCI, ICICI, UTI, GIC, SFCs and SIDBs in Kerala has been consistently lower than the all India average. Over the years the gap seems to be widening (as seen in Table 3.18).

Table 3.18 Per capita assistance of AFI's (Rs)

Years	Amount (Rs lakhs)	Per capita (Rs) Kerala	India
1979-80	3316	13.00	18.61
1983-84	6605	24.00	39.22
1987-88	13140	45.46	82.86
1991-92	28110	93.00	236.00

Source: GOK Economic Review, Various Issues

In its traditional role as provider of working capital, the banks can lend only if the necessary production capacities exist either on the basis of public sector investments by the government of India and government of Kerala, or on the basis of lending by the All Financial Institutions. But, as we have already seen, lending by All Financial Institutions and Central investment has been low in Kerala. All these factors in turn account for the low level of industrial credit by banks.

The role of metros/ high industrial growth centres in influencing the economy cannot be ignored in this context. It could be the absence of such centres that inhibits investments in these states, which in turn adversely affect the credit quotient. In 1973, the cities of Bombay, Calcutta and Madras each accounted for advances much larger than Kerala. The same situation prevailed in 1981 and 1992. This was so even though Kerala had more bank branches than all the three metros put together in 1981 and 1992. It is the big urban cities which account for the bulk of the advances in the state. It no surprise therefore that in the previous chapter, we saw Maharashtra, Tamil Nadu and West Bengal leading in banking development. On the other hand in Kerala apart from Cochin, Calicut and Trivandrum, which are small cities, we do not have any big metros to speak of. As a result, credit disbursed for these activities is also low[16].

Small Scale Industries:

The industrial structure in Kerala is characterised by very low representation of large and medium industrial units and significant concentration of small scale industrial units and traditional industries. The traditional industries (coir, cashew and handlooms) still play a vital role in the economy of Kerala, both in the factory sector and the small scale sector. They produce relatively low value-added items and occupy a prime place particularly in terms of employment.

Table 3.19 Growth of Small scale industries in Kerala

	1972	1986	1990
No. of Regd. units	6205	35365	63698
Sick units	--	1805	1527
Closed down	--	1805	6861
Employment (lakhs)	1.27	2.32	3.82
Investment (Rs lakhs)	4408	46460	85358

Source: National census of Small Scale Industries, 1972; Economic Review 1993

The small scale industries received due priority in our successive five year plans because of their paramount role in the generation of employment and reduction of poverty and unemployment. Data on this for the period from 1972 to 1990 are given in Table 3.20. Accordingly, there was a spectacular growth in the number of registered units from 6205 in 1972 to 63698 in 1990. These units provided employment to 1.27 lakh people in 1972 and 3.82 lakhs in 1990. The investment amounted to Rs 4408 lakhs in 1972 which increased to Rs. 85358 lakhs in 1990. Despite the above impressive picture of growth, there are several distressing developments in this sector. The small scale industries share in the total outstanding bank credit has declined from 20.20 per cent in 1973 to 16.20 per cent in 1981 and further to 12.29 per cent in 1992. The alarming rate of sickness in this sector could be one of the reasons for this. This high causality of small scale industries points towards the ineffectiveness and deficiencies in the implementation of this programme. Apart from raw material and marketing problems, a prime factor contributing to this abnormal sickness is the inordinate delay with the banks and promotional agencies in extending timely service, particularly disbursement of subsidies and loans due to these units.

Clearly as we have seen, there is a lack of adequate investment in the industries in Kerala. Who is to blame for this? Is it the policies of the state government and its lack of initiative or is it the procedures of the banks leading to enormous delays which discourage investors. Both are responsible. However as we have seen, for the small scale industries it is the alarming rate of sickness coupled with inadequate and ineffective banking support that has influenced the declining trend.

Tertiary sector:

The tertiary sector occupies a prominent position in the economy of the state and its contribution to the SDP has been increasing over the years. Being a sector with a good employment potential, its development is quite important for the state. It offers good scope for many credit linked schemes, thereby offering vast opportunities for institutional investment of resources. Among the service sectors the more important ones from the point of view of investment potential are infrastructure, in particular transport and power. There are also other areas such as education, health, tourism, export trade, consumer durables, trade etc.

Table 3.20 above shows that, domestic trade (retail plus wholesale) accounted for the most share of the tertiary sector. Personal loans were next, followed by the transport operators, professional services (Proff), transport operators and lastly power. The last few years have seen a decline in share of the transport operators and professional services while there has been an increase in the share of personal loans. A glaring result is the very low share of power in total bank credit.

Table 3.20 Tertiary Sector Advances as a % of Total Credit

	Infrastructure		Other Tertiary Credit		
	Transport Op.	Power	Proff.	Trade	Personal
1973	2.16	2.06	2.46	15.87	7.44
1974	2.17	0.66	2.29	18.62	7.94
1975	2.77	0.33	2.31	14.69	7.21
1976	3.19	0.61	2.32	14.98	6.79
1977	2.95	0.16	2.48	15.58	6.44
1978	3.57	0.01	3.46	16.56	5.71
1979	4.06	0.08	3.63	17.45	5.73
1980	3.89	0.01	3.77	17.56	5.89
1981	4.00	0.02	4.10	14.25	5.88
1982	4.67	0.12	4.21	12.22	11.04
1983	6.12	0.03	4.75	15.49	7.21
1984	6.17	0.12	5.81	15.35	5.22
1985	6.64	0.19	6.26	15.48	5.39
1986	6.54	0.16	6.04	14.24	5.45
1987	6.84	0.17	5.71	14.03	7.70
1988	6.27	0.17	6.13	13.82	9.17
1989	4.35	0.18	7.07	14.73	8.40
1990	3.80	0.25	4.89	15.11	10.53
1991	3.65	0.20	4.65	15.77	11.61
1992	3.67	0.07	4.61	16.34	12.69

Source: RBI, BSR Various Issues

Infrastructure

The share of transport operators in total outstanding bank credit increased from 2.16 per cent in 1973 to 6.64 in 1985. Thereafter, it has been declining and it touched a low of 3.67 by 1992. This low share has been attribute to the rigorous terms and conditions of loans given by the commercial banks. On the other hand, due to the speedy loan disbursements by the private financiers, although at higher cost, the transport operators prefer to approach them for credit. Further, banks have reservations in large scale financing to this sector on account of heavy overdues[17]. Although figures for overdues from this section are not available, bankers quote very high estimates.

Power development is highly capital intensive and involves huge investments beyond the capacity of the state government and the state electricity board, but, bank credit to this sector has been quite low. In fact its share in total bank outstanding has declined from 2.06 per cent in 1973 to a very low share of .07 per cent. This inspite of the fact that the state is deficient in power supply, with the gap between demand and supply widening with the passage of time[18].

The progress of this vital infrastructure for the development of the state has been rather inadequate forcing industrial units to shy away from making investment in the state[19]. The total generation of power in the state is far below the requirement for industrial and domestic purposes. This is where the infusion of institutional resources has a great scope[20]. However as we saw, bank credit share for power generation has been declining.

Professional services, Trade, Housing & Personal loans:

The share of credit for professional services in the total credit outstanding has been increasing since 1978 to the mid eighties. After that it has declined. Credit for trade has however shown a consistency, while personal loans has been increasing over the years.

An examination of the trends in trade reveal that the dependence of the regional economy on foreign exports has relatively declined[21]. Even though the incidence of foreign exports is higher on Kerala's regional economy when compared to the rest of India, its importance to the regional economy has been declining and inter state trade gaining greater importance[22]. But the pickup of credit by the wholesale and the retail trade has not been commensurate with the extent of trade activities within the state. While there is scope for increasing banking activity in this sector, while the figures show a decline in the share.

Personal loans in Kerala, in particular the loans for consumer durables form a good proportion of the total outstanding bank credit, however housing loans have been very nominal. The amount advanced by banks is far below the RBI guidelines which stipulate a minimum allocation of 1.5 per cent of incremental deposit of the bank to housing. One of the reasons for the low credit flow to this sector could be the lack of awareness among the public regarding the various housing schemes financed by banks. There could also be the inadequate banking infrastructure to go in for large scale financing of this sector.

Among the other tertiary sector activities, from the employment perspective, tourism has an important role to play in the socio economic development of the state. The tourism industry has many segments such as accommodation, transport, travel agents, tour operators and many other different trades. Of these, accommodation and transport are capital intensive in nature and could offer good scope for institutional investments. Breakup details of bank finance to these sectors are however lacking.

To sum up it is evident from the above analysis that banks played a limited role in financing infrastructure, whereas lending on account of personal loans (including purchase of consumer durables) had been increasing. This broadly indicates lack of bank finance made for productive activities.

Conclusion:

While in terms of the density of bank branches, we see a rise till 1985 and thereafter a fall, the deposits on the other hand have shown a sharp increase since the mid seventies. The mid seventies was an important turning point in the deposit mobilisation performance of banks in Kerala. It was examined in greater detail and our analysis revealed that the rate of growth of bank deposits has increased due to exogenous factors namely the NRE deposits. The NRE deposits are non speculative in nature and as a result there has not been much outflow during the period of fiscal crisis in the economy. These are different from the remittance inflows through the current account of the balance of payments. Very little of the remittance inflows, it was seen made their way into bank accounts.

The level of financial investments in blade companies and `pipe money' dominated.

The credit disbursal in the state was examined, amnd we found that in the primary sector the cooperatives supplied more long term loans to meet the demand of commercial farmers. In the secondary sector it was a combination of state policies and lack of initiative on the part of banks that resulted in low industrial investment. As a result, demand for industrial credit also suffered. Although the small scale industries showed more investment, it was constrained by the alarming rate of sickness in this sector. In the tertiary sector, it was noticed that there was not enough investment in crucial sectors like infrastructure. This low infrastructure loans can also be linked to the low industrial investment in the state. Most of the loans in this sector were for purchase of consumer durables and not for any really productive activities.

This faster growth of the deposits and constrained credit disbursal has been resulting in the decline in the CD ratio. Another important reason for the poor credit performance in Kerala could be the widespread inter-regional disparities in the state, in particular the low absorption capacity prevailing among certain regions/districts. In the next chapter we examine in detail these interregional banking disparities in the state.

End notes

1. *In fact it has been below the CD ratios of all the southern states during this period.*

2. *Although outmigration to the Gulf had started in 1973, it was only by 1976 that a noticeable change in the bank deposits is seen. This was mainly due to the change in the proportion of legal and illegal remittances which can only be explained by shifts in demand for foreign exchange and informal/havala rate. Higher the differential, greater is the incentive to utilise the remittance channel (Nayyar, 1994)*

3. *Gulati and Mody (1983), made the first such estimates, which have been periodically updated by subsequent studies. They assumed that fifty per cent of remittances from Gulf countries and five per cent of that from non-Gulf countries are destined to go to Kerala.*

4. *The information supplied by the firms regarding their deposits are probably far below the actual amounts and if we make a provision for that, we can place the total deposits around Rs 100 crores.*

5. *The FC(B&O)D scheme had terms and conditions similar to FCNR, but open to not only NRI's, but also foreign citizens/banks and other institutions. The withdrawals before maturity from this account were also strictly prohibited. In the FCON and NR(NR)RD schemes, the dealers are free to fix the maturity period as well as the rate of interest. The depositors are offered income tax and gift tax concessions. The FCNR(b) s more liberalised and allows the returning Indians to hold their foreign exchange balances in special accounts to be freely utilised by the holders for local disbursements, and for foreign disbursements other than for investment or purchase of immovable properties abroad. Balances in these accounts can be fully withdrawn when holders migrate abroad. The exporters and recipients of remittances are also permitted to give 15 percent of their receipts in special foreign accounts (Thomas & Nata, 1995)*

6. *Agricultural credit given by the credit institutions are of two types - Direct finance and Indirect finance. Direct finance is given directly to the farmers by the credit institutions whereas Indirect finance to agriculture is credit extended to farmers indirectly through agencies like Agro-Industries Corporation, or individuals engaged in the supply of production inputs, in the marketing of agricultural commodities and other service activities. It basically refers to credit given for distribution of fertilizers, loans to electricity boards, loans to state sponsored corporations for on- lending to weaker sections of the agricultural sector etc.*

7. *The agricultural loans are classified into short, medium and long term on the basis of the repayment period of the loan. Short term credit, also called production credit, is given for purchase of production inputs like seeds fertilizers etc. and for meeting the cost of cultivation like labour charges irrigation charges etc. They are normally repayable within a period of 12 months and in certain cases within 15 to 18 months depending on the harvesting and marketing of the particular crop.*

Term loans, also called Investment loans, consists of medium and long term loans. They are granted for development purposes like purchase of tractors, pump sets, plough animals, and other agricultural implements, for improving land, for development of irrigation potentials etc. Repayment period extends from 3 to 10 years and some times even longer.

8. *Table below sheds light on the trends in the share of direct and indirect finance in Kerala. Although on the whole the share of the indirect finance in Kerala's agricultural finance is very small compared to direct finance, the supply of direct and indirect finance to agriculture shows some periods of change as we move from 1973 to 1992. For example, in 1978, the share of indirect finance increased tremendously from 5.32 percent to 16.15 percent. Thereafter it again fell and by 1982 was below 10 percent. There have been fluctuations in the share components but clearly, from 1989 there is a secular increase in the share of indirect credit again. By 1992, it formed nearly 10 percent of total agricultural credit.*

Years	*Direct*	*Indirect*
1973	90.28	9.72
1974	94.25	5.75
1975	94.10	5.90
1976	92.30	7.70
1977	94.68	5.32
1978	83.85	16.15
1979	84.57	15.43
1980	87.85	12.15
1981	89.68	10.32
1982	93.24	6.76
1983	93.11	6.89
1984	90.27	9.73
1985	88.55	11.45
1986	89.51	10.49
1987	97.20	2.80
1988	83.03	19.97
1989	94.56	4.44
1990	93.64	6.36
1991	91.37	8.63
1992	90.17	9.93

Source : Calculated from BSR

9. *GOK 1993*

10. *As represented by the Primary agricultural credit societies and the Primary Agriculture Development Boards*

11. *This inspite of the RRBs, which were set up to provide easier similar conditions as the cooperatives.*

12. *Sunanda.S, 1991*

13. *There has been an increase in conversion of paddy fields, but a decline in long term credit.*

14. *Sunanda.S. 1991*

15. CSO, Annual Survey of Industries, Factory Sector, 1989-90

16. *Against this view the Govt. of Kerala has argued that there are sufficient applications for industrial credit, but it is because of the manner in which the banks screen applications that credit offtake is not high enough in Kerala. It is argued that the banks take a very restrictive view of industries, often denying applications on ground of low collateral or inadequacy of promoters contribution. Consequently there are elongated delays in sanctioning of loans.*

17. *As per the existing rules, it is possible to transfer the vehicles hypothecated to the banks by the borrowers without obtaining permission from the financing banks and without their knowledge either. Such transfers without clearing the dues of the banks have resulted in heavy overdues in the transport advances.*

18. *See GOK, 1993*

19. *Since kerala power system is so far purely hydro, the generation of power is heavily dependent on the annual rainfall and this will continue as long as the system remains purely hydro, even with additional generation capacity. It is in this context the need for supporting the hydro system with thermal or other sources of energy is highly felt and the states demand for such generating stations assume importance.*

20. *It has been estimated that a need based power development plan during the eight plan would require a minimum investment of Rs 3000 crores against which the state plan could provide only Rs 1300 crore.*

21. *The ratio of foreign exports to SDP has been coming down from 16.30 percent in 1960-61 to 10.80 in 1990-91 and then increased to 13.68 in 1993-94. The share of the state in the country exports also has shown a drastic decline from 10.97 percent in 1960-61 to 3.57 percent in 1993-94.*

22. *Refer Isaac, 1994*

Chapter IV

REGIONAL BANKING DISPARITIES IN KERALA

The focus of the present chapter is on the interregional disparities in banking development within Kerala. It would not be an exaggeration to state that, the broad patterns of development, not only economic but also social, in the various regions of Kerala continues to be significantly influenced by mould set during the colonial period. The roots of inter regional differences in banking development, may also be traced to the pattern of development during the pre independence period. We shall first, briefly survey the historical development of banking in Kerala during the colonial period (Section I). In the next section, an attempt is made to statistically analyse the inter district disparities in credit and deposit performance in the recent period (section II).

Section I

During the colonial period, the present state of Kerala was broadly divided into three administrative regions; the princely states of Travancore and Cochin in the south and the Malabar district of Madras Presidency in the north. Travancore broadly consisted of the present day districts of Trivandrum, Quilon, Pathanamthitta, Idikki, Kottayam, and Alleppey[1]. Cochin, broadly consisted of the present day districts of Ernakulam and Trichur. The erstwhile Malabar district of Madras Presidency, is today divided into the districts of Palghat, Malappuram, Calicut, Wyanad, and Cannanore[2].

Literature on Kerala economic history pointedly refers to the fact that unlike some other parts of India, all these three units were devoid of a class of professional money lenders. There was no indigenous commercial caste, which specialised in usury, such as the Chettiars and Banias operating in other parts of the country[3]. The available data on indebtedness for the period suggest that, money lending was carried out predominantly by a strata of landlords and rich peasants. In Travancore- Cochin, money lending was carried out mainly by these agrarian classes, while in Malabar, some amount of money lending was also done by Mappilla traders. The small merchants and dalals were quite accustomed to lend money to ryots for cultivation and to artisans to produce his wares[4].

The earliest form of crude banking that established itself in Kerala was in the form of Kuries or Chitties [5]. Although the institution of Kurie or Chitty was started only as a device for provision of consumption credit, it catered to the credit needs of not only salaried people but also agriculturists and traders (GOI, 1956). The antiquity of this credit institution in Malabar is referred to by Logan, who called it `a mutual loan society'(Logan, 1901).

Initially, the Kuries were started on a small scale, and as such, could not provide large sums to finance productive activity. Since the demand from the productive sector for money and credit was larger than what could be met from these Kuries and Chitties, other forms of banking activities were started by the fag end of the nineteenth century. Most of the banks that have emerged in the Travancore-Cochin state, have grown out of the womb of chit and

Kurie funds (GOI,1956). Modern commercial banking as such, is a product of the twentieth century.

The first commercial bank in Kerala is recorded to have been started in Calicut in 1899. Started by T.M.Appu, the Nedungadi Bank Limited is one of the five banking institutions set up in India during the last decade of the nineteenth century[6], but was registered as a Joint Stock Company only in 1918. The first bank to be registered in Malabar was Chalapuram Bank Ltd, in 1906, followed by Calicut Bank Ltd, in 1908[7]. The Travancore Bank Ltd at Thiruvalla in 1900 (GOI,1956) was the first bank to be registered in Travancore.

In the early years of the twentieth century there was a rapid expansion of banking. However, these fledgling banking institutions were engaged in all manner of fanciful enterprises. The average size of the bank then was very small. Inevitably, most of them did not survive. The pace of banking development picked up momentum through the period following the termination of the First World War. Some of the traditional financial institutions like chit funds and kuries and to a lesser extent indigenous banks assumed modern traditional forms like joint stock firms. The business conducted by the banks was not limited only to the twin functions of acceptance of deposits and dispensing credit; the business of kuries or chitties formed a substantial portion of their total business.[8]

The growth of banking in Malabar was much slower than in Travancore-Cochin. As can be seen from Table 4.1, the number of bank offices in Travancore-Cochin had increased to 36 by 1931 while in Malabar, there were only 9 bank offices. The Travancore Banking enquiry commission (1930) noticed that by 1929-30, about one-fifth of the total number of banks in British India were found the state of Travancore. The absence of any regulatory law in respect of banks till 1938, made the starting of a bank a relatively easy proposition in the Princely state. There was a spurt in the number of bank offices in the first half of the 'thirties in both the regions. The unregulated growth of banking in Travancore, resulted in a major crises and collapse in the latter half of the 'thirties. In response the Banking Regulation Act was enacted in 1938. As a result the total number of bank offices in TC had declined from 153 in 1936 to 95 in 1941. Although the number of banks in TC declined, during the forties there took place a rapid branch expansion of the surviving banks (GOI,1956). By 1952, the number of offices in TC had increased to 523, while in Malabar their number was 68.

Table 4.1 Commercial Bank offices in Kerala

Years	Travancore-Cochin	Malabar
1911	6	2
1916	4	4
1921	12	6
1926	18	5
1931	36	9
1936	150	42
1941	95	52
1946	377	82
1952	523	68

Source: Calculated from RBI, 1954b

A look at the number of offices per lakh population in both the regions also shows wide disparity[9]. In 1916, the banking density in TC was lower than that of Malabar. But by 1951, while TC had

5.64 branches per lakh people, Malabar had only 1.43 offices per lakh people. Data on deposits and advances are not available. However the differences in the coverage of banking services as indicated by the number of bank offices may be taken as an indication of significant disparity in banking development that existed between North and South Kerala during the pre Independence period.

Another important feature that may be noted is that the branch expansion in Northern Kerala was largely confined to urban areas, while in TC it was more evenly spread (see Table 4.2). In 1936, while Malabar had only 7 percent of the offices in the rural areas, Travancore-Cochin had as much as 30 percent of its total offices in the rural areas. Most of the banks were located in the midland taluks or semiurban centres close to the midland regions- Changanacherry, Kottayam, Pathanamthitta, Mavelikara etc (in central Kerala). The share of semi urban centers in the bank offices in TC has also tended to rise over time.

Table 4.2 Number of Offices of Commercial Banks (as % of total):

	Malabar			Travancore-Cochin		
	Rur	Semi-urb	Urban	Rur	Semi-urb	Urban
1936	7	50	43	30	27	43
1941	8	60	33	14	36	51
1946	4	49	48	23	37	40
1952	6	53	41	27	37	36

Note: Urban area is defined as an area having a population of greater than 50000, Semi-Urban area has a population below 50000 but above 10000, and Rural areas have a population below 10000.

Source: Calculated from RBI,1954b

An explanation of these differences in banking development has to be sought in terms of operation of long term factors such as commercialisation of agriculture, agrarian institutions, infrastructural facilities and urbanisation in the various regions of Kerala. They have had significant influence on the demand for credit and the service of banking institutions. We begin our analysis with a discussion of the regional variations in the commercialisation of agriculture.

Growth of commercial agriculture in Kerala:

A crucial index of the degree of commercialisation in agriculture could be the area under cash crops. Table 4.3 relates to Total Cropped Area, the acreage under cash-crops and food crops in Travancore, Cochin and Malabar, for the decennial years from 1910-11 to 1940-41 and for 1946-47[10]. All the three regions had a large proportion of area under cash crops by the turn of the century. However, the percentage of area under cash crop in Travancore has always been higher than Cochin and Malabar. In 1946-47, it was 46 percent in Travancore as against 40 percent for Malabar and 25 percent in Cochin. As we shall see later the dominant factor that seems to have influenced the development of banking in Cochin was the growth of port related commerce and trade.

In the early phase of expanding commercial cultivation, chitties were most popularly used for mobilising savings and they even served as a "compulsory insurance agency" for the rural people. People who joined chitties could obtain long term credit against security of their own property and pay up the dues in instalments[11]. The modern banking institutions sprang up in the early decades of the present century in order to cater to the rising requirements of cultivators in the mid land regions (Jose,A

V, 1980). It is of interest to note that the new banking institutions were concentrated mainly in the region in which agricultural development and expansion was most prominent. Most of the banks in Travancore-Cochin state were initially started in what were mere hamlets such as Thiruvalla, Kottayam, Chenganoor, Kozencherry, Thalavadi, Palai etc., which were then not even municipal towns. With the exception of Thalavadi, all these were situated in the predominantly agricultural midland region of Travancore. It was only later that these banks opened up branches in larger towns. The per capita rural indebtedness in Travancore was estimated to be the highest in the country next to Punjab. However, the high debt burden was not an index of pauperisation, but an indicator of the large scale investments being undertaken by commercial cultivators.

Table 4.3 Total Cropped Area (T C A) and Area under Cash Crops (A C C) (area in thousand acres)

Years	Travancore		Cochin		Malabar	
	T C A	A C C	T C C	A C C	T C C	A C C
1910-11	1527	478 (39)	478	86 (18)	1387	444 (32)
1920-21	1952	899 (46)	522	103 (20)	1678	572 (34)
1930-31	2108	948 (45)	550	143 (26)	1758	606 (34)
1940-41	2374	1004 (42)	559	158 (28)	1816	667 (37)
1946-47	2346	1073 (46)	601	152 (25)	1817	718 (40)

Note: Figures in brackets are percentages to total cropped area
Source: Indian Agricultural statistics, GOI various issues

Another important aspect that has to be borne in mind while comparing the commercialisation process in Travancore and Malabar is the difference in the composition of the cash crops. Coconut was the dominant cash crop in both the regions..As seen from Table 4.4, it occupied nearly identical proportion of the cropped area in both the regions. This was followed by Rubber in TC, while in Malabar the next dominant crop was pepper. The area under tea was higher in TC than in Malabar. In the early years the area under coffee was smaller in TC, but by 1950-51, it expanded and accounted for a sizable proportion of the land.

Table 4.4 Percentage of Area under Different Commercial Crops

	Travancore-Cochin		Malabar	
	1920-21	1950-51	1920-21	1950-51
Coconut	18.43	20.86	19.36	20.26
Coffee	0.09	3.36	0.96	0.90
Tea	1.90	3.05	0.01	0.62
Pepper	0.001	2.64	4.02	4.63
Rubber	2.06	4.33	0.65	1.13

Note: Figures for area under coffee and pepper in TC relate to 1930-31

Source: Agricultural Statistics of India, Vol I & II
Season and Crop Report, Madras Presidency, GOI

The opening of the plantations made possible rapid expansion of extensive frontier of cultivation into the highland regions. The influx of foreign capital into plantations opened up new opportunities which were effectively utilised by the enterprising communities[12]. From a mere three plantation companies incorporated in Travancore in 1905, the number rose to 89 in 1945[13]. Side by side with this expansion, there was an increase in the cultivation of other crops suited to the soil like pepper, ginger,lemon grass, tapioca. A special mention must be made of rubber in which there was significant presence of small landholders. Rubber was relatively less affected by the Depression than the traditional cash crops like pepper and coconut that dominated the cropping pattern of Malabar.

While capitalistic entrepreneurs were organising plantations in the high lands of Travancore, tendencies of a similar capitalistic nature were working in the lowland areas as well. More and more lands were cleared and marshy lands were reclaimed for cultivation of food crops together. When the reclaimable lands was exhausted in this area, they went eastward to open up forests for cultivation. The need for these credit institutions was also felt in the land reclamation process. Large scale monetary transactions were made for different operations like bunding, dewatering etc.

It has been argued that the commercialisation process in Kerala was prompted by increasing population pressure on the limited land and possibility of unrestricted import of food grains under favourable terms of trade[14]. State intervention to foster the development of land, credit and commodity markets also favoured commercialisation (Devi, Uma 1984). These markets have been relatively more developed in Southern Kerala compared to Northern region.

An important facilitating factor in the above process had been the agrarian structure of Travancore. The process of State formation in Travancore was accompanied by major tenurial changes so that its agrarian structure came to be characterised by predominance of land owning cultivators. Further the social and agrarian changes facilitated the intermediate castes and communities like Ezhavas and Christians to acquire land. On the other hand the British intervention in Malabar during the 18 the century had resulted in the creation of a narrow stratum of landlords with absolute private property rights on land and a mass of landless cultivators who had to lease in land on highly unfavourable terms. The contrast between the agrarian structure of the two regions is reflected in the following table that gives the occupational distribution of the agrarian population.

Table 4.5 Composition of Agricultural Population

	Travancore		Cochin		Malabar	
	1911	1951	1911	1951	1911	1951
Cultivating Land Owners	75.3	53.3	15.7	19.0	7.7	12.7
Tenants	6.8	10.2	44.6	28.1	44.9	39.3
Labourers	12.6	34.6	36.0	48.9	41.6	44.0
Rent Receivers	5.3	1.9	3.7	4.0	5.5	4.0

Source: CDS, 1975

At the beginning of the present century nearly 3/4 th of the agrarian population in Travancore were cultivating land owners, unlike in Malabar where they constituted less than 1/10 th of the population. As result of the capitalist development, the proportion of landless labourers sharply increased in Travancore during the subsequent decades, but, incidence of tenancy remained relatively insignificant. The agrarian structure in Malabar remained more or less the same throughout the period. The rack-renting left little surplus in the hands of the cultivators severely curtailing their capability to accumulate. In contrast the agrarian structure of Travancore encouraged the development of a stratum of prosperous farmers. The state of Cochin, sandwiched between Travancore and Malabar assumed an intermediate position.

The break down of the matrilineal joint family system was much faster in southern Kerala, partly due to the strength of the social reform movements. Further, the social legislation regarding inheritance in family were introduced in Southern Kerala earlier than the North. The partitioning of the joint family property was shot in thew arms of the developing land market. The Syrian Christian community who traditionally followed patrilineal inheritance system and had a early start in the commercial agriculture played an important role in the transformation of Travancore agriculture. They were also the pioneers in development of banking. The commercial banks provided credit for new ventures mainly on the basis of security offered by land. On the other hand Muslims the major non Hindu community in Malabar were mostly pauperised landless tenants and the mercantile elite among them had little inclination towards banking activities for religious reasons.

The differences in economic development are also explained by the differing infrastructural facilities available in the regions, in particular transportation. Transport and communications were better developed in Travancore than in any other part of Kerala. The development of transport in Travancore-Cochin closely followed the requirements of trade and socio economic development (Ibrahim, P 1978). In Malabar on the other hand transport facilities expanded more for military than for economic and social reasons. Table 4.5 gives us composite indices of transport development in the three regions of Kerala[15].

Table 4.6 Composite Index of Transport Development

	Travancore	Cochin	Malabar
1900-01	100	100	100
1905-06	137	103	103
1910-11	116.4	106	106.6
1915-16	119	114.8	--
1925-26	143.2	117.9	104.2
1930-31	152.2	117.9	107.7

Source: Ibrahim (1978)

It can be seen that Malabar had the least growth in the transport infrastructure as compared to Travancore and Cochin. This inhibited the economic growth and in turn the banking development in the region.

Urbanisation:

The modern banks were mostly an urban institution in Malabar and Cochin.The percentage of urban population in each of the regions shows that Cochin was most urbanised throughout the period. As we had hinted the relatively higher development of banking in Cochin was more a port centred. From 1920's onwards, urbanisation in Travancore- Cochin has been taking place at a rapid pace while in Malabar it has remained more or less stagnant. Normally urbanisation is also accompanied by expansion of modern nonagricultural sectors of the economy. Cochin had a relatively higher share of population dependent on nonagricultural commodity production sectors and commerce and transport.

Table 4.7 Shares of Urban Population in Total (%)

	Travancore	Cochin	Malabar
1901	6.2	10.8	7.8
1911	6.2	12.0	8.0
1921	10.0	13.0	7.6
1931	10.8	17.1	7.7
1941	11.4	18.2	na

Source: Census of India, various issues

To sum up our discussion, we have shown that Southern Kerala had much higher degree of banking development during the colonial period. Though no statistical analysis was possible, we attempted to link it with the higher degree of commercialisation, infrastructural development and urbanisation in Southern Kerala.

The relative difference between the two regions in terms of banking development are continued to persist during the post independence period also. However we shall pursue the inter regional disparities in the post independence period at a more disaggregate level of the districts.

The state of Kerala is today divided into fourteen districts. However, an analysis of interdistrict disparities over a long duration of time is rendered difficult due to the reorganisation of districts. As many as five of the present fourteen districts were formed between 1956-57 and 1984-85[16]. The analysis of interdistrict disparities in Section II, is therefore confined to the period 1985 to 1993.

Section II

Inter district disparities in Banking development

The most striking feature of the data presented in Table 4.7 and 4.8 is the wide inter district variations in key indices of banking development. Ernakulam district with the port city of Cochin had the highest banking density with 14.63 offices per lakh population while Malappuram, the lowest, had only 6.34 offices per lakh population. The range widened in the subsequent years. In 1993, the ratio for Pathanamthitta was slightly above Ernakulam at 16.97 while that of Malappuram, still the lowest declined to 5.47. But for minor changes, the rank order of districts in terms of banking density remained the same. It can be seen that the Northern districts of Palghat, Malappuram, Calicut, Wyanad, Cannanore and Kasargode have relatively lower banking density. Quilon and Idikki districts in the south also have relatively low banking density.

The North-South divide comes out sharply if we consider per capita deposits. If Iddiki is excluded all the first seven ranks in per capita deposits would be in the Southern seven districts. The two hill districts of Idikki and Wyanad have the lowest per capita deposits. Pathanamthitta tops the list followed by Ernakulam and Trivandrum. There is a remarkable stability in the rank order of the districts between 1985 and 1993. But certain interesting differences maybe noted. While Pathanamthitta slips down to rank 9 the industrially advanced districts of Ernakulam and Quilon move upward to claim ranks 1 and 2. The plantation district of Wyanad, the lowest in per capita deposits is middle order district in terms of credit. Malappuram is at the bottom of the hierarchy. Per capita advances also reaffirms the above pattern.

Table 4.8 District wise Banking Development Indicators

	Offices per lakh		Per capita dep		Per capita credit	
	1985	1993	1985	1993	1985	1993
Trivandrum	10.10	9.91	1862	5768	1131	2323
Quilon	7.19	7.42	987	3477	890	2591
Allepey	9.52	8.27	1224	4419	654	1729
Pathanamthitta	14.60	16.97	3150	10316	519	1413
Kottayam	12.98	12.43	1493	4943	867	2044
Iddiki	8.33	8.78	307	1170	367	988
Ernakulam	14.63	14.52	2207	6887	1987	5667
Trichur	11.57	11.11	1652	5362	694	1633
Palghat	9.74	9.19	918	2372	475	862
Malappuram	6.34	5.47	522	1634	330	626
Calicut	8.90	8.43	789	2410	638	1533
Wyanad	9.03	9.20	351	862	736	1566
Cannanore	9.03	8.69	982	2870	508	1051
Kasargode	9.92	9.15	623	1793	507	924

Table 4.9 reaffirms the above findings. Pathanamthitta had the highest deposit quotient while Idikki and Wyanad had very low deposit quotients. The coefficient of variation between the deposit quotient of districts which was 60.25 percent in 1985 declined to

55.89 percent by 1993. All the districts without exception have shown an improvement in their performance.

Table 4.9 Deposits and Advances as a Per cent of District Incomes

	Deposits		Advances	
	1985	1993	1985	1993
Trivandrum	83.97	110.75	51.02	44.61
Quilon	46.81	65.91	42.22	49.12
Allepey	56.45	80.77	30.16	31.60
Pathanamthitta	144.40	180.71	23.80	24.75
Kottayam	65.65	95.07	38.13	39.31
Idikki	10.48	18.32	12.51	15.46
Ernakulam	71.69	92.75	64.53	76.33
Trichur	79.50	103.73	33.43	31.59
Palghat	49.56	55.39	25.65	20.13
Malappuram	37.63	54.35	23.83	20.83
Calicut	33.38	48.82	26.99	31.06
Wyanad	13.63	16.57	28.57	30.10
Cannanore	46.80	62.10	24.22	22.74
Kasargode	26.81	41.13	21.82	21.18

Source: State Level Bankers Committee and Kerala Economic Review various issues

Ernakulam and Quilon accounted for the highest credit quotient while Malappuram and Idikki had the lowest. The coefficient of variation of the credit quotient between the districts which was quite low at 40.35 percent increased to 46.57 percent by 1993, showing that disparities in credit had further increased. The priority sector advances too show similar variations[17].

The above quotients were also measured against the state average for the years 1985 to 1993. On an average, it was found that the deposit quotient in Pathanamthitta, Trivandrum, Trichur, Ernakulam Kottayam and Alleppey were found to be above the state average. For the credit quotient, the districts of Ernakulam, Quilon, Trivandrum and Kottayam were above the state average. All the Northern districts and Idikki (of central Kerala) were below the state average.

Credit-Deposit ratios:

The credit-deposit ratios of the districts also show wide variations. It can be seen from Table 4.11 that from 1985 and 1993, Wyanad, Idikki and Quilon had the highest CD ratios. But, as we have just noticed, both the deposit and the credit quotient of Wyanad and Idikki are extremely low. All the districts have exhibited a decline in their CD ratios. The coefficient of variation among all the districts shows an increase from 57.78 percent in 1985 to 68.02 percent in 1993, proving that there has been an increase in disparity in terms of the absorptive capacity of the districts. Obviously these increasing disparities lead to a cumulative worsening of the banking performance in the state.

Table 4.1D Credit/Deposit ratio (percent)

	1985	1986	1987	1988	1989	1990	1991	1992	1993
Trivandrum	60.75	56.18	59.43	63.72	52.87	54.14	45.17	43.44	40.28
Quilon	90.18	102.60	117.30	111.71	126.53	101.66	81.72	75.29	74.53
Allepey	53.42	53.52	53.40	52.58	52.43	46.20	42.62	43.17	39.12
Pathanamthitta	16.48	17.91	18.67	19.93	19.51	18.11	16.69	13.29	13.70
Kottayam	58.08	55.84	59.83	61.63	56.78	52.67	43.72	42.84	41.35
Iddiki	119.35	89.74	121.74	121.57	117.74	112.99	91.35	83.04	84.38
Ernakulam	90.02	77.12	65.47	67.72	82.75	86.45	82.34	85.34	82.29
Trichur	42.04	41.54	42.95	41.68	39.47	38.63	31.13	31.64	30.45
Palghat	51.76	54.11	56.98	61.07	58.90	54.01	46.98	45.16	36.33
Malappuram	63.31	64.71	69.15	65.28	61.13	55.41	41.23	41.70	38.32
Calicut	80.85	81.36	83.98	85.57	85.76	84.62	66.95	70.02	63.62
Wyanad	209.52	185.71	206.45	225.00	232.35	241.03	215.22	187.04	181.67
Cannanore	51.74	51.68	55.26	58.50	57.52	54.96	41.92	40.76	36.61
Kasargode	81.36	88.41	105.63	98.85	91.84	83.05	61.84	60.25	51.50

Source: State level Bankers Committee, Yearly Reports

while the disparities between districts, in deposit mobilisation have been declining, in terms of credit disbursal they have been increasing. This in turn has also led to an increase in disparities between the districts for the CD ratio.

Factors explaining the regional differences

What factors could possibly explain the inter-district variation in the deposit and credit ?

In order to establish the reasons for the wide disparities in per capita deposits and per capita advances between districts, it would be appropriate to first analyse the correlation matrix of the banking variables with some of the other variables that we had identified in the previous sections.

The most obvious variable which could influence the disparities in both deposit mobilisation and credit disbursal in the districts is the density of bank branches (Number of offices per lakh population: OFFPL). The districts with a greater density of bank branches will also have a greater level of banking activity. As we had noticed in the previous section, there were wide spread interdistrict disparities in Kerala in terms of banking density.

The district domestic product is a comprehensive index of the aggregate level of economic development. Income, Investment and savings are inter related and therefore one should expect a significant relationship between differences in district income and the level of banking development.

Apart from the level of district income, its composition could also influence the development of banking. Financial intermediation would generally be higher in the secondary and tertiary sectors. For the secondary sector, we have taken the number of registered factories per thousand people (RITH) and the number of registered

SSIs per thousand people (RSITH). The tertiary sector is represented by the percentage of service sector workers in the total worker population (SVWK). The percentage of urban population is another variable that has been considered.

An important charecterestic of the Kerala economy has been the high level of commercialisation of agriculture (in particular, the area under commercial crops). As we have already noted there exists significant inter regional variations in the degree of commercialisation. We have taken the share of cash crops in the cultivated area (NFC), as an index of the degree of commercialisation. Tenancy has been abolished in the state. Therefore, the differences in the agrarian structure is largely confined to differences in the size holdings. Average size of the agricultural land holdings (AGSZ) has also been considered as an explanatory variable.

Remittances have been the most important variable that has affected deposit mobilisation in Kerala. We have to also consider the influence of inter regional disparities in remittance flows. Regional breakup of the NRE deposits or remittances are not available. Therefore to gauge the extent of remittance inflows in these three regions, we have taken the planning board estimates of districtwise migration to the Gulf, as a proxy for the remittance inflows in each district. For our analysis we have taken the number of migrants per thousand population (MGTH) as a proxy for the same[18].

Finally, the importance of banking may be affected by alternative agencies for deposit collection and credit. An important feature of Kerala's financial sector is the existence of a efficient cooperative credit system. The development of cooperative credit may reduce reliance on commercial banks by agriculturists. The number of cooperative societies per thousand (COTH) and the per capita credit outstanding of the cooperative sector (PCOC) to see whether they have an inverse relationship with the advances of the commercial banks.

For our analysis we have therefore undertaken to test the relationship of the OFFPL, PCDDP, NFC, PNFC, AGSZ, RITH, RSITH, SVWK, URB, MGTH, COTH and PCOC with PCDEP and PCADV of the commercial banks.

The correlation matrix given below shows that on the deposit side; the per capita deposits had a significant relationship with the per capita advances, banking density, and the density of registered small scale factories in the districts. It had the expected positive signs with regard to per capita DDP, percentage share of area under cash crops, density of registered factories, percentage of service workers, urbanisation and migration but were insignificant. The correlation coefficient between per capita deposits and size of agricultural holdings was also of the expected negative sign, though insignificant.

There is a positive correlation between the per capita DDP and Banking density and density of SSI units, clearly suggesting that banking density was greater in the economically more developed districts.

Table 4.11 Correlation Matrix

	PCDEP	PCADV	OFFPL	PCDDP	NFC	PNFC	AGSZ	RITH	RSITH	SVWK	URB	MGTH	COTH	PCOC
PCDEP	1.00													
PCADV	0.77*	1.00												
OFFPL	0.77*	0.72*	1.00											
PCDDP	0.51	0.74*	0.70*	1.00										
NFC	0.20	0.28	0.26	0.20	1.00									
PNFC	-0.27	-0.10	0.20	0.26	0.50	1.00								
AGSZ	-0.58	-0.41	-0.03	0.07	-0.10	0.74*	1.00							
RITH	0.44	0.48	0.62	0.32	-0.01	-0.09	-0.16	1.00						
RSITH	0.81*	0.69*	0.75*	0.62	0.30	0.11	-0.30	0.52	1.00					
SVWK	0.55	0.44	0.34	0.03	0.46	-0.39	-0.69*	0.47	0.34	1.00				
URB	0.52	0.50	0.41	0.32	0.15	-0.35	-0.40	0.48	0.41	0.74*	1.00			
MGTH	0.01	-0.34	-0.42	-0.55	-0.23	-0.64	-0.47	-0.04	-0.24	0.32	0.19	1.00		
COTH	0.46	0.31	0.46	0.60	0.28	0.44	0.13	-0.02	0.73*	-0.11	0.16	-0.30	1.00	
PCOC	-0.13	-0.14	0.27	0.23	0.28	0.84**	0.74*	0.06	0.23	-0.34	-0.06	-0.39	0.59	1.00

1-tailed Significance: * - .01 ** - .001

As we had identified in chapter 3, the remittances form a major influencing factor on the deposits in the region. However, there is no significant relationship between the per capita deposits in the districts and the migration from the districts. This could be because, in the Northern districts, relatively greater proportion of the remittance inflows are through non banking channels.

The disparity in the per capita advances in the districts showed a significant relationship with the banking density and the per capita domestic product of the districts. It also showed a significant relationship with the density of small scale industries in the districts. The greater the density, the more was the Per capita advances. The correlation coefficients in the matrix show the expected positive signs for it relation with Area under nonfood crops, density of registered factories, share of service workers, and the degree of urbanisation. It also shows the expected negative relationship with size of agricultural holdings, migration and the per capita credit of cooperatives in the district. They however were not significant.

The correlation coefficients tell us the extent of the relationship between two variables under cetirus paribus conditions. But in real life the extent of influence of other variables also plays an important role. Therefore in order to examine the factors responsible for the disparities in the deposit mobilisation and credit disbursal by banks, it would be more appropriate to use the OLS method of regression, keeping the above results in the background. The functional form we have chosen is the Double-Log function.

The regression of PCDEP (a cross sectional analysis for the year 1993) with the PCDDP, OFFPL, MIGRTH, AGSZHD, URB RSSITH and NFC, the analysis showed that although 97.5 percent of the variation in districts was explained, all the variables except banking density and average size of land holdings were insignificant. The per capita district domestic product and the banking density are significantly related, therefore the problem of multicollinearity distorts the results. PCDDP by itself was related to the PCDEP, but taken with other variables, it was seen to be insignificant.

The regression equation reads:

$$\ln \text{PCDEP} = \alpha_0 + \alpha_1 \ln \text{OFFPL} + \alpha_2 \ln \text{MIGTH} + \alpha_3 \ln \text{AGSZ} + \alpha_4 \ln \text{RSITH} + \alpha_5 \ln \text{NFC} + \alpha_6 \ln \text{URB}$$

$$\underset{(3.81)}{\text{PCDEP} = 2.55} \; \underset{(3.46)}{+ 1.38\ \text{OFFPL}} \; \underset{(2.33)}{+ 0.18\ \text{MGTH}} \; \underset{(-2.91)}{- 0.49\ \text{AGSZ}} \; \underset{(1.80)}{+ 0.45\ \text{RSITH}} \; \underset{(-.13)}{-0.03\ \text{NFC}} \; \underset{(-.75)}{- 0.09\ \text{URB}}$$

$R^2 = 0.97$ Adj.$R^2 = 0.92$ F statistic = 19.81 DW = 2.85
Figures in brackets represent t statistics

Except for the area under cash crops and degree of urbanisation, the rest of the variables significantly explained the disparities in per capita deposits among districts. To estimate the exact level of influence, we proceed with a step wise backward regression, wherein the insignificant variables are dropped one after the other till only the significant variables remain.

Our final results showed that the disparities in PCDEP are influenced by the banking density, migration to the gulf, the size of the agricultural holdings (negatively) and the density of registered SSI's. All the variables were significant at 1 % level of significance and were able to explain nearly 96 percent of the variation in per capita deposit. The other statistical properties too were satisfied showing that all these variables in the equation explained the variation among districts in PCDEP[19].

The regression equation reads:

$$\ln PCDEP = \alpha_0 + \alpha_1 \ln OFFPL + \alpha_2 \ln MGTH + \alpha_3 \ln AGSZ + \alpha_4 \ln RSITH$$

$$PCDEP = \underset{(5.71)}{2.26} + \underset{(4.01)}{1.24}\ OFFPL + \underset{(2.83)}{0.15}\ MGTH - \underset{(-3.26)}{0.47}\ AGSZ + \underset{(1.95)}{0.43}\ RSITH$$

$R^2 = 0.96$ Adj.$R^2 = 0.94$ F statistic = 38.47 DW = 2.60

Figures in brackets represent t statistics

The variable which influences the rising disparity in PCDEP the most is the differences in the banking density, followed by differences in the density of SSI's and the incidence of migration. The differences in the Agricultural size holdings is inversely related to the disparity in PCDEP between districts.

The variables that were significantly correlated with the per capita advances (PCADV) were PCDEP, OFFPL, PCDDP and RSITH. However our previous analysis shows that NFC, AGSZ, SVWK, and PCOC could also play a influential role in the matter. Since the correlation matrix showed that they were of the expected sign, we also took them into consideration for our analysis. However, the correlation matrix also shows that AGSZ and PCOC are related therefore we have to drop one variable. Since, an important finding of our previous analysis was that PCOC significantly affects PCADV, it was retained against the AGSZ.

The equation that was estimated was as follows:

$$\ln PCADV = \tau_0 + \tau_1 \ln PCDDP + \tau_2 \ln RSITH + \tau_3 \ln NFC + \tau_4 \ln SVWK + \tau_5 \ln PCOC$$

$$\underset{}{PCADV} = \underset{(2.73)}{-\,5.71} + \underset{(0.67)}{1.70}\ PCDDP + \underset{(0.35)}{0.37}\ RSITH + \underset{(0.56)}{0.49}\ NFC + \underset{(0.56)}{.32}\ SVWK - \underset{(0.33)}{0.34}\ PCOC$$

$R^2 = 0.81$ Adj.$R^2 = 0.69$ F statistic = 6.82   DW = 2.78

Figures in brackets represent standard errors

Although 81 percent of the variation in the PCADV was explained by the differences in these variables, but except for PCDDP, all the rest were insignificant. In other words, only the differences in the economic growth of the districts explained the differences in the PCADV. A Step wise regression followed, where the insignificant variables were deleted one by one. We ended up with only two significant variables, PCDDP and RSITH[20]. The estimated equation was

$$\ln PCADV = \tau_0 + \tau_1 \ln PCDDP + \tau_2 \ln RSITH$$

$$PCADV = \underset{(2.10)}{-\,3.93} + \underset{(0.59)}{1.30}\ PCDDP + \underset{(0.27)}{0.62}\ RSITH$$

$R^2 = 0.69$ Adj.$R^2 = 0.64$ F statistic = 12.63   DW = 2.53

Figures in brackets represent standard errors

The reasons for the wide regional variations in per capita advances have been identified as the differences in the economic growth of the regions and the density of small scale industries.

Conclusion:

In this chapter we had seen that the broad patterns of banking development, in the various regions of Kerala continues to be significantly influenced by mould set during the colonial period. During the pre independence period, it was seen that in Kerala unlike in other parts of the country, there were no special class of money lenders like chettiars or banias. The earliest form of crude banking that established itself in Kerala was in the form of Kuries or Chitties . Most of the banks that have emerged in the Travancore-Cochin state have grown out of the womb of chit and Kurie funds. Although the first bank started in Malabar, the growth of banking in Travancore-Cochin was more rapid. If we look at the total number of commercial banks we can notice that in TC, the banks grew very rapidly till the mid thirties, suffered a sudden slump and then picked up once again. In terms of banking density, it was seen that the south was way ahead of the North. Moreover, while the bank offices in TC were more in the rural areas, while in the North it was more in the semi-urban and urban areas. Since statistics of the working of commercial banks are not available, we tried to link up the their growth to various socio economic factors. The differences in banking development closely followed the experience in the Commercialisation of agriculture, pattern of land tenure, infrastructural development and urbanisation in the regions.

Since the Northern region was more backward than the South in these aspects, banking development also suffered a set back. This superiority of the South continues even to this day. In Section II, an analysis of the inter district variations in banking development for a more recent time period (1985-1993) was taken up and it showed that. The South except for the district of Iddiki, all the districts were ahead of the Northern regions in terms of banking density, deposit mobilisation and credit disbursal. However the Credit Deposit ratios of these poor performing districts were better ie. resources were not being transferred on a large scale to the more developed districts. The disparities between districts in terms of deposit mobilisation and reduced, but for credit disbursal, they had increased. This led to a consequent widening of the disparities in the CD ratio of the districts.

These wide spread disparities between the districts were sought to be explained statistically. The correlation coefficient matrix showed that the disparities in deposit mobilised were influenced by the differences in banking density and density of SSIs, while in credit mobilised were influenced by the PCDEP, PCDDP,and density of SSI's. However taking into consideration, the previous analysis, the other important variables were also taken into consideration. The regression results showed that the variable which influences the rising disparity in PCDEP the most is the differences in the banking density, followed by differences in the density of SSI's and the incidence of migration. The differences in the Agricultural size holdings is inversely related to the disparity in PCDEP between districts. The reasons for the wide regional variations in per capita advances have been identified as the differences in the economic growth of the regions and the density of small scale industries.

End notes

1. *Some of the southern taluks of Travancore viz. the present day district of Kanyakumari was integrated with Tamil Nadu at the time of reorganisation of the states.*

2. *The northern most district of Kasargode is largely formed out of taluks that have been integrated with Kerala from the erstwhile South Canara district of Madras Presidency.*

3. *This inspite of the fact that rural indebtedness was relatively high in the region. The Travancore Banking Enquiry Committee Report of 1930 put the estimate of rural indebtedness in Travancore at Rs 25 crores. Therefore, the per capita debt works out to Rs 55 in Travancore.*

Per capita debt in 1931 (Rs)

India : 21	*Assam: 26*	*Bengal: 21*	*Bihar & Orissa: 43*
Bombay: 49	*Burma: 45*	*Punjab: 66*	*Travancore : 55*

Source: Varghese T C, 1970

The per capita debt in Travancore, as can be seen from the above table, was higher than that for the nation as a whole, and was the next highest in the country after Punjab.

4. *Some of these facts had emerged in a survey of three villages conducted in 1936 in Malabar for the Report of Agricultural Indebtedness in Madras Province. As per the report, there were no professional money lenders in the villages, only `78 agriculturists' who also lent money. For a large portion of the total debt incurred (Rs 156604 out of Rs 162986) was advanced by "agriculturists". This phenomenon was not new but was recorded by Logan (1901). The various census statistics also confirm this feature.*

5. *The <u>Kuries</u> and <u>Chitties</u> were the initial mobilisers of savings and purveyors of credit. A few persons would organise themselves under the leadership of a promoter to form such a credit organisation. The members had to remit a fixed amount periodically as their subscription. These chitties were of two types: the auction chitties and the lot chitties. In the auction chitties the subscriber who was to be provide with the prize money (or the credit) was decided by auction, and the lowest bidder who thereby gave the highest discount on his subscription was selected. In the lot chitties, the subscriber who was to get the prize was chosen by lot. The arrangement was such that all members would get a chance to bid or to obtain the lot. The person who drew the prize money had to pledge some security for the credit he obtained. The promoter was also entitled to handsome remuneration (Varghese,T C, 1970:111).*

6. *The other four were Oudh Commercial bank, Bank of Ayodhya, Allahabad Bank and Punjab National Bank.*

7. The number of joint stock banks as registered in Malabar is given in the Table below

Year of Regn.	*Name of Bank*
1906	*Chalapuram Bank Limited*
1908	*Calicut Bank Limited*
1913	*Nedungadi Bank Limited*
1914	*Tellichery Bank Limited*
1915	*Valapad Bank Limited*
1917	*Nayar bank Limited*
1918	*Cannanore Bank Limited*
1919	*Tiruvannore Bank Limited*
1919	*Kerala Bank Limited*
1920	*Bharat Bank Limited*
1920	*Chirakkal Ravivarma Elayaraja Bank Limited*
1920	*Nambudiri Bank Limited*
1921	*Variar Bank Limited*
1922	*Enamavu Catholic Syrian Bank Limited*
1923	*Kalpathi Patasala Bank Limited*
1923	*Ramanatkar Bank Limited*
1923	*Taiparamba Bank Limited*
1924	*Thoyakkavu Bank Limited*
1924	*Union Bank, Malabar Limited*
1925	*Kumarachalam Brothers Limited*
1925	*Palghat Town Bank Limited*
1927	*Edathurithi Bank Limited*
1928	*Chowghat Christian Bank Limited*
1928	*Kalpatta Bank Limited*
1928	*Kavalappara Bank Limited*
1929	*Popular Bank Limited*

Source: GOI, Travancore Banking Enquiry Committee Report, 1930

8. *This is evident from the fact that as many as 166 banks were conducting kuries in Travancore-Cochin during the thirties. Since these indigenous institutions were run on a small scale, working mainly as agencies making credit available for consumption purposes, they did not perform to any significant extent, the function of providing credit for the expansion of economic activity. However, when the commercial banking developed in the region, and began to cater to credit requirements of the people, one of the main activities of many banks continued to be running of kuries and chitties for purposes of mobilising savings and attracting deposits.*

9. *Number of offices per lakh population*

Year	*Travancore Cochin*	*Malabar*	*Year*	*Travancore Cochin*	*Malabar*
1916	*.0855*	*.1308*	*1936*	*2.1832*	*1.0820*
1921	*.2407*	*.1936*	*1941*	*1.2838*	*1.3235*
1926	*.3170*	*.1435*	*1946*	*4.4936*	*1.8801*
1931	*.5713*	*.2347*	*1951*	*5.6358*	*1.4292*

Source: Calculated from RBI,1954b

10. *Data showing the crop-wise distribution of cultivated area in Travancore and Cochin are available only from 1908-09, even though for Malabar, they are available from 1880's onwards. However, there are some inconsistencies in the classification of crops as adopted till 1920. The classification of crops adopted till 1920 treated garden and orchard cultivation under a single head, without distinguishing between the areas under food crops and cash crops. On account of this we are unable to compute the proportions of area under food crops and nonfood crops for the period upto 1920.*

11. *There can be no doubt that a considerable portion of loans was invested on the purchase and investment of land (Agricultural Debt Redemption Committee of Travancore, 1935). The percentage distribution of investment on various items in rural areas of Travancore in 1930 showed that around 67 percent was spent on land, 13 percent on chitties, 8 percent on houses, 5.3 percent on money lending, 3.1 percent on gold ornaments, 1.2 percent in banks and the rest on livestock, utensils etc.*

12. *The Syrian Christian community on the whole benefitted considerably from the new situation. They started opening up plantations with their own capital.*

13. *As noted by Varghese,T C 1970*

14. *As noted in Panniker, P G K et al 1977*

15. *Weights assigned are based on the relative share of aggregate expenditure on different modes of transport by the transport users in Kerala in 1965 (Ibrahim,P 1978)*

16. *Since the state was formed in 1956, there have been reorganisation of districts, right upto 1984-85. Malappuram district came into existence on June 16, 1969 by carving out Ernad taluk and portions of Tirur taluk of Kozhikode district and portions of Perintalmanna and Ponnani taluks of Palghat district. Idduki was formed on January 26 1972 by carving out Devikulam, Peerumade and Udambanchola taluks from Kottayam district and Thodupuzha taluk from Ernakulam district. Kozhikode was bifurcated and certain taluks were handed over to Malappuram and Wyanad districts. Wyanad district was formed in November 1 1980, combining taluks from Kozhikode and Cannanore. When the state of Kerala came into being in 1956, Wyanad was a part of Cannanore district. Later South Wyanad was added to Kozhikode district. In order to fulfill the aspirations of the people of Wyanad for development, North Wyanad and South Wyanad were joined once again to form the present district of Wyanad. The district of Pathanamthitta came into existence on November 1,1982. The district includes portions of the erstwhile Quilon, Alleppey and a few villages of Idduki district. Pathanamthitta, Adoor, Ranny and Kozhencherry are some of the important areas taken from Quilon district. Whereas Tiruvalla and Mallappally are the major places taken from Alleppey district. Lastly, Kasargode was formed from Cannanore in May 24, 1984.*

17. *A district-wise analysis of the per capita priority sector advances also shows variation. The northern district of Wyanad had the highest per capita advances in both the time periods. It was*

followed by the districts of Ernakulam, Pathanamthitta and Quilon. In fact all the South-Central districts except Alleppey and Iddiki have a relatively high per capita priority sector advances, while except for Wyanad, the rest of the northern districts have amongst the lowest per capita figures (presented in Appendix 4a).

18. *The 1980 survey on housing and Employment by the Planning Board revealed that 93.87 percent of the total foreign migrants from North Kerala were to the Gulf (the highest of all regions). Of the total migrants from Kerala, this part of Kerala accounted for the highest percentage (nearly 45 percent) going to the Gulf. The South followed next and last was the Central region with 25 percent.*

19. *The equation shows that for every one percent difference between the districts in the banking density, there was a difference of 1.24 percent in the PCDEP. Similarly a one percent difference in number of migrants per thousand, would result in a .15 percent difference in the PCDEP, and a one percent difference in the size of the agricultural holdings would have a negative impact on the per capita deposits to the tune of .47 percent. The density of registered SSI's in the districts also shows that for every one percent difference the difference in PCDEP was affected by .43 percent.*

20. *In other words, a one percent difference in the PCDDP resulted in a 1.30 percent difference in PCADV. Clearly, the economic growth of the district determines the level of credit that is disbursed in the district. Banking development in the districts is supply meeting rather than demand inducing. A 1 percent difference in th RSITH leads to a .62 difference in PCADV of the districts ie. the density of small scale industries is also an important factor in determining the PCADV of the districts.*

Appendix

Appendix 4a Districtwise Distribution of Priority Sector Advances

Districts	Per capita Advances			
	1985		1993	
Trivandrum	433.35	(6)	924.59	(5)
Quilon	462.86	(4)	1334.77	(2)
Alleppey	172.61	(14)	433.48	(13)
Pathanamthitta	545.47	(3)	1170.42	(3)
Kottayam	453.55	(5)	871.94	(6)
Idikki	277.54	(11)	594.36	(10)
Ernakulam	592.71	(2)	1170.14	(4)
Trichur	392.36	(8)	816.32	(7)
Palghat	258.37	(12)	500.60	(12)
Malappuram	255.26	(13)	390.99	(14)
Calicut	398.85	(7)	734.79	(8)
Wyanad	669.14	(1)	1364.91	(1)
Cannanore	317.42	(10)	568.87	(11)
Kasargode	390.60	(9)	654.56	(9)

Note: Figures in brackets are rank orders
Source: State level Bankers Committee, Yearly Reports

Chapter V

SUMMING UP

Considering the size and diversity of a country like India, the issue of uneven development has emerged as a formidable challenge to the federal political structure. Given that the regional imbalances certainly had its roots in the colonial past, state intervention in the form of national planning has been pursued in India with the pronounced objective of reducing disparities between regions. The deliberate efforts by the Government, to promote and nurture institutions and investments was a part of this process of development. However, as established by numerous studies, over forty years of "planned" development has failed in containing the imbalances growth. While in many states the economic growth has been slow and tardy, a few have grown at a relatively fast rate. As a result, the inter state variation in per capita SDP has tended to widen since the mid 'sixties.

Most of the regional studies have concentrated on the historically determined intra-regional factors such as regional class structure, structure of production, infrastructural development, social sector advancement and so on. Very little attention has been paid to inter regional relations, but for the fiscal studies on budgetary transfers, in order to explain the uneven development. In this context, an enquiry into interregional disparities in the development of commercial banking becomes significant, as it is an important channel of interstate financial flows.

Banks mobilise deposits from the savers and lend credit to the investors. The efficiency of this financial intermediation is vital for rapid economic growth. Therefore, an important issue to be probed is the relationship between interstate disparities in level of economic development and the regional distribution of banking facilities. A widening of interstate differences in banking development can accelerate the process of uneven development.

Another related issue is the interstate differences in the ratio of credit to deposit. How much of the deposits mobilised from a state is lent within the state itself? A low CD ratio implies outflows of financial savings to outside the state through banking channels. Our study has been partly prompted by the low and declining CD ratio for Kerala. The low CD ratio in the context of poor economic performance of the state has raised serious concern among policy makers in the state.

In Chapter II, we examined the growth of banking in India and the trends in interstate differences in banking development. In terms of branch expansion, deposit mobilisation and credit disbursal, the nationalisation of banks in 1969 proved to be a turning point. Not only was there a remarkable acceleration in the growth of banking, but also inter sectoral and interregional differences in the coverage of banking tended to decline. The strong urban bias that has been a hallmark of banking during the pre independence era has been scaled down in favour of the rural areas. The reduction in disparities has been aided by the `social control', which was accompanied by various policy measures of the RBI. Many innovative schemes have been developed by the banks like the Rural Bank scheme, the Lead Bank Scheme, the stipulation of Priority Sector advances, and more recently, the Service Area Scheme. However, it was noticed that the interstate disparities in banking development continued to persist.

Various indicators based on ratios of bank branches, deposits and credit to the population, or the SDP of the states were calculated. These indictors show that in terms of overall banking development, Maharshtra, Gujarat, Tamil Nadu, West Bengal and Kerala were the relatively well advanced states. Though the interstate disparities, as measured by the coefficient of variation for all the indicators show a sharp decline, the ranking of the various states has not changed much. One notable exception was Kerala, which has shown a remarkable improvement in its deposit performance.

Our analysis reveals a strong positive relationship between the level of economic development and banking development. The states which were well developed banking are also the economically well developed states, except for notable exceptions like Kerala. The correlation coefficients between the banking quotients and Income quotient show that *all the states except Kerala, exhibit a significant relationship between banking and economic growth.*

This unique feature of Kerala in terms of banking development is a clear invitation for a closer analysis of the banking scenario in the state. Our analysis of the trends in growth of deposits and advances since the formation of the state in 1956 reveals that from mid-seventies, there has been a significant acceleration in deposit growth and also advances disbursed. The rate of growth of banking quotients of Kerala for the latter period has been significantly higher than the all India average. However, the growth in advances failed to keep pace with the deposits, so that the CD ratio in the state has tended to decline. The decline in the CD ratio has been very sharp during the 1990's. It dropped from 65 per cent in 1989 to 43 per cent in 1994. In Chapter III an attempt was made to explain the banks' credit and deposit growth experience in Kerala.

Our analysis reveals that the rapid expansion of bank deposits from the mid seventies has been largely due to exogenous factors, namely, large scale migration to the Gulf countries. More than the remittances inflows (through the current account of the balance of payments), the rise in bank deposits was more due to the NRE deposits (through the capital account of the balance of payments). The NRE deposits have been growing at a faster pace than the domestic deposits. It is widely believed that a good part of the remittances by workers abroad come through the non-banking channels. Perhaps the growth of bank deposits in Kerala would have been even higher had the banks been more dynamic in attracting them.

Why did the credit fail to keep pace with the growth in deposits? To answer this question, we did a disaggregate sectoral analysis of bank advances in Kerala. In the primary sector, the post mid seventies period has been one of very rapid shift in the cropping pattern to cash crops. This required considerable investment credit in addition to production credit. It was however seen that production credit dominated the agricultural loans of commercial banks. Agricultural credit as a ratio to the value added which has been steadily rising and reached 28 percent has since then sharply come down and in 1992 was only 14 per cent, at the same level as in rest of India. According to State Planning Board estimate banks are currently meeting 10 per cent of financial requirements of agriculture in Kerala. There is certainly a case for better performance of banking credit to agriculture.

In the secondary sector, our analysis shows that Kerala's industrial growth performance has been quite poor. The decade of the 'eighties has seen stagnation in this sector. As a proportion of value added, industrial credit by banks was seen to increase till the mid eighties, and then gradually declined. On the other hand, as a proportion to invested capital, industrial credit has been showing a rising trend. However, industrial credit in Kerala is still among the lowest in the country. In our analysis, we emphasised the need to distinguish between the advances to small scale sector and the organised sector. The small scale industries have been relatively more dynamic, of the industrial sector. But, surprisingly the share of advances to this sector have been declining rapidly. This is attributed to the alarming rate of sickness among Small Scale Industries. Apart from raw material and marketing problems, a prime factor contributing to this abnormal sickness is the inordinate delay with the banks & promotional agencies in extending timely service, particularly disbursement of subsidies and loans due to these units.

However, in the case of large scale industrial sector, sufficient investment has not been forthcoming, neither from the central public sector, nor from the monopoly houses. In this context it should be mentioned that the per capita advances of All India

Financial Institutions in Kerala were also seen to be lower than the Indian average, and one of the lowest in the country. The poor performance of financial institutions in long term loans would dampen the demand for the working capital requirements provided by the banks.

In the tertiary sector, it was a different scenario altogether. Although credit to this sector was the highest, and has been increasing, it was noticed that there has not been enough investment in crucial sectors like infrastructure. Advances to Power and Transport Operators have shown a very low and declining share in total credit. Most of the loans in this sector were found to be as Personal loans which includes the purchase of consumer durables. Advances for *productive activities* was seen to be lacking in this sector. Unless the banks encourage advances for productive activities in this sector, the improvement in the share of the tertiary sector advances will have no impact on the economy.

The net impact of the above trends has been sharp decline in the CD ratio, implying significant outflow of savings from Kerala, through banking channels. This leakage has also contributed, among others, to the phenomenon of stagnation in the domestic product of the state despite phenomenal inflows of remittances.

In Chapter IV, we examined the interregional disparities in banking development in Kerala in the context of regional variations in economic development. The banking development in Kerala from the beginning of the present century has been characterised by a widening of the differences between Northern and Southern Kerala.

In the density of banking, South Kerala, comprising of the princely states of Travancore and Cochin was way ahead of the North (Malabar district of Madras Presidency). One more important difference between the two regions was that, while banking facilities spread to rural areas also in Travancore-Cochin, it remained an urban phenomenon in Malabar.

In our analysis we have explored the link of the above disparities in banking development north and south Kerala to the differences in level of economic development and structural features. In terms of commercialisation of agriculture, land tenure systems, infrastructure development and urbanisation, the South was more advanced than North. Not only in terms of the area under cash crops, but also the composition of cash crops, the South was more commercialised than the North. A crucial factor behind the relatively faster commercialisation of agriculture in southern Kerala was its agrarian structure, which was dominated by proprietary peasants. In contrast, the agrarian structure of Malabar was characterised by existence of landless tenants. The absence of rentier class enabled the cultivators in southern Kerala to accumulate the surpluses from commercial agriculture and expand their investments. The links between the development of banking in southern Kerala and the process of commercialisation is very evident. Infrastructure development in the South was linked to its socio economic growth, while in the North, it was guided by military purposes. The greater degree of urbanisation in the South also meant a relatively higher level of secondary and tertiary activities. All these factors contributed to a greater degree of banking development in southern Kerala.

The above historically determined pattern of banking development has continued to exert its influence even after independence. Surprisingly, the differences between North and South have tended to widen in the recent decades. To understand the factors responsible, we undertook an interdistrict analysis of banking performance in the state for the period 1985 to 1993. While Ernakulam, Quilon, Trivandrum and Kottayam came out as the most advanced in terms of banking development, Idikki (in South Kerala) and the Northern districts show a relatively poor performance.

On the basis of the correlation matrix, variables that were related to inter-district differences in deposits and advances were identified. The impact of these factors on the inter-district variations in per capita deposits and per capita advances was statistically tested by the OLS methods of regression.

The per capita district income and density of banking were very strongly related to the per capita deposits. However both these two variables are also significantly correlated. Therefore, separate exercises were done involving the two variables. Inter district disparity of per capita deposit is most influenced by differences in banking density, followed by density of small scale industries and the incidence of migration. The size of agricultural holding is inversely related to the per capita deposits. Similarly, the per capita SDP and density of small scale industries were significantly related to the per capita advances. The cross sectional analysis of inter district disparities in banking development in Kerala underlines the vital relationship that exists between economic growth and banking development.

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