

An Assessment of Branch Expansion of Scheduled Commercial Banks in India

S. M. Jawed Akhtar

Associate Professor
Department of Economics
Aligarh Muslim University
Aligarh, 202002, U.P
India

Saba Parveen

Junior Research Fellow
Department of Economics
Aligarh Muslim University
Aligarh, 202002, U.P
India

Abstract

Since Independence, the successive governments of India have emphasized the relation between the easy and equitable access to finance and poverty alleviation. The need to improve the financial access for India's poor and to materialize the relation between accesses to finance and poverty reduction, nationalization of commercial banks in 1969 and branch licensing policies have been undertaken to expand the rural banking in India. This significantly had improved the branch network of the banks and the public sector banks in particular moved into the interiors and previously unbanked locations, but the banking reforms of 1991 reversed the growth of rural banking outreach. In light of this background, this paper makes an attempt to analyze the growth rate of branch expansion of scheduled commercial banks (SCBs) in India during the period of 1980 to 2013 in which the whole time period is divided into two phases i.e. pre-reform phase and post-reform phase. The study finds that there has been a considerable difference in the growth rate of branch expansion of SCBs in the pre and post-reform periods.

Keywords: Rural Finance; Scheduled Commercial Banks; Branch Licensing Policy; Banking Reform; Regions.

1. Introduction

It has been a celebrated argument that there lies a high welfare cost of exclusion of under privileged of the society from financial access. This leads to the proposition that reach of banking services in rural areas be considered as a precursor for growth of an economy (Pal & Sapre, 2010). Rural credit markets have been at the center of policy intervention in developing countries (Hoff & Stiglitz, 1990; Besley, 1994). The belief that governments can use public policy to alleviate financing constraints, and thereby engender development and reduce poverty, led to the widespread implementation of state-led rural credit and savings schemes in low-income countries in the postcolonial period (Burgess & Pande, 2005). It has been argued that without subsidized interest rates, adoption of technical innovation would be delayed and there would be under-usage of costly inputs like fertilizer. Such effects slow the growth of output and the development of the agricultural sector. It has also been claimed that since rural credit markets are notoriously imperfect, access to credit by farmers, particularly small ones, is severely limited, and that without government intervention a high price of capital would prevail (Braverman & Guasch, 1989). But on the other hand, many of the development economists believed that these policies lead to financial repression, misallocation of credit and the capture of the subsidized credit market by few large and powerful elites.

Credible evidence on whether state-led expansion of the banking sector can reduce poverty, however, remains limited. The central reason for this is the nonrandom nature of these programs. Specifically, banks favor opening branches in richer areas, while state-led bank branch expansion programs tend to target poorer areas. This makes identification of the causal impact of branch expansion on poverty outcomes problematic (*ibid*, 2005). For over a hundred years, India has followed a deliberate policy to build and strengthen formal credit institutions.

Initially, under British colonial rule, the civil courts strengthened the position of moneylenders. However, in the late 1800s moneylenders appeared to widely abuse their position, taking advantage of farmer debts to take over farmer's lands (Walker & Ryan, 1990). The 1961 Census showed that nearly 50 per cent of India's towns and almost none of its villages had bank branches. In 1969, the National Credit Council set up to guide the branch expansion programme, found that not even 1 per cent of India's villages were served by commercial banks. It also noted that while industry accounted for a mere 15 per cent of national income, its share in commercial bank credit was nearly 67 per cent. On the other hand, agriculture that contributed to 50 per cent of GDP virtually got nothing from banks. Nationalization was aimed at redressing these inequities. The idea was to reduce the average population served by a bank branch and to reduce disparities in this across states. (Shah, *et. al.*, 2007). At that time, the banking system was neither tapping rural savings nor providing credit to agriculture.

A large body of literature seems to indicate that rural institutional credit in India is presently locked in a vicious cycle of stagnation. While borrowers are facing increasing transaction cost to access banking services, institutional credit agencies are complaining about obstacles in servicing and monitoring large number of small borrowers accounts besides poor recovery, which seems to be further limiting the rural credit delivery mechanism. Informal credit, on the other hand, even after a century of systematic effort of making institutional credit inclusive and to relieve the rural households from dependence on informal sector, seems to be strengthening its presence (Pal, 2012). After bank nationalization in 1969, the Indian government launched an ambitious social banking program which sought to improve the access of the rural poor to formal credit and saving opportunities. The program ended in 1990. Between 1969 and 1990, bank branches were opened in roughly 30,000 rural locations with no prior formal credit and savings institutions (unbanked locations) (*ibid*, 2005).

The two major policy shifts, which have had far reaching implications and transformed the banks in the country, were the Nationalisation of Banks in 1969 and the Financial Sector Reforms initiated since 1991-92. While nationalization ensured that banking services reached the unbanked areas through rapid expansion of the branch network, the latter reforms ensured that public sector banks developed a market orientation and became financially strong and healthy through adoption of sound banking norms and practices (Rangarajan, 2009). Since 2005, the Reserve Bank of India has been promoting the financial inclusion by providing "unbanked" households with a bank account. (Jan Dhan Yojna) According to Bill Gates, it is good that more people have bank accounts, but quality of those accounts also needs to improve (TOI, 2014).

Against this background, this paper tries to analyze the trends and growth performances of Scheduled Commercial Banks (SCBs) in the area of rural banking in India during the period of 1980-81 to 2013-14. The main objective of the study is to analyze the overall as well as the region/state level changes in the SCBs banking penetration. Then attempt to compare the growth trends in the pre-reform and post-reform periods and relate it with the policy perspectives.

This paper is broadly divided into two parts as the first part reviews the government's effort towards expansion of bank branches of SCBs in India and the second part analyzes the growth in the branches of SCBs in India.

2. Review of Literature

Burgess & Pande (2005) have analyzed the branch licensing policy of the Reserve Bank of India in 1977 and found that between 1977 and 1990, rural branch expansion was relatively higher in financially less developed states but the reverse was true before 1977 and after 1990. The timing and nature of these trend reversals were caused by the introduction and removal of the 1:4 branch licensing policy as between 1961 and 2000, the number of branches opened in rural unbanked locations increased from 105 to 29,109 and eighty percent of this expansion occurred between 1977 and 1990 but after 1990, there was no further expansion into unbanked rural locations. They focused that the branch expansion into rural unbanked locations significantly reduced the rural poverty in India. Kochar (2005) has criticized the findings of Burgess and Pande and explained that the policy is flawed because the expansion of the banking network between 1977 and 1990 went hand-in-hand with the government's broader anti-poverty programs, including the IRDP, making it impossible to distinguish the effect of the expansion of the banking network from that of the subsidies and other IRDP input. He also found a close correlation between the real total expenditures on the IRDP and the expansion of the banking infrastructure between 1980 and 1990.

Panagariya (2006) has criticized the 1:4 rule of branch licensing policy and explained that it was actually a 1:2 rule and more specifically observed a more demanding rule in terms of rural branch expansion that had existed between February 1970 and September 1971 and a slightly less demanding one continued until January 1977 when the 1:2 rule was adopted. He also found that the bank branch expansion far exceeded the prescribed ratio of (1+1):4 during 1977-90. Pal *et. al.* (2010) have attempted to explain the trends and growth phases of outstanding credit of rural branches of SCBs and found that the year 1981, 1989 and 1999 are the three time periods in which the trends of rural credit showed changes in a significant way. These three break dates have great policy relevance as in the post years (1990s) of withdrawal of the 1:4 branch licensing policy, there has been a visible decline in the off-take of rural credit whereas after 2000, branch licensing shows a near stagnation and even a minor decline in some of the years.

3. Objectives of the Study

The study entitled “An Assessment of Branch Expansion of Scheduled Commercial Banks in India” has following objectives:

- i. To analyze the trends and growth of the branch expansion of the scheduled commercial banks in India ; and
- ii. To analyze the region/state-wise branch expansion of scheduled commercial banks in India.

4. Sources of Data and Methodology

The study is exclusively based on the secondary data collected from various issues of Report on Trends and Progress in Banking in India and Report on Basic Statistical Returns of RBI. As far as methodology is concerned, in order to study the trends and growth of bank branches of SCBs at all India level in general and region/state level in particular, compound annual growth rates (CAGR), percentage change, co-efficient of variation and incremental ratio have been calculated over the period of 1980 to 2013. The whole time period is divided into two phases i.e. pre-reform period and post-reform period. The region/state wise disparity in the SCBs branches are analyzed across six regions in India namely, Central, Eastern, Northern, North-East, Southern and Western region including thirty six states.

The incremental ratio is defined as $[\Delta R + \Delta SU] / [\Delta U + \Delta M]$ where (R) is number of Rural branches, (SU) is Semi Urban, (U) is Urban, (M) is Metropolitan, and Δ is change between two successive time periods ($P_t - P_{t-1}$) for all variables from $t=1980$ to 2013 and the coefficient of variation (CV) is calculated by dividing the standard deviation by the mean of the variable. It has been used to find out inequality in the expansion of bank branches across regions in India.

5. Scheduled Commercial Banks (SCBs) and the Policies of Branch Expansion in India

During the period of the Second World War, India witnessed indiscriminate growth of branch banking. To restrict branch expansion, a restrictive policy was followed initially during the years 1947 to 1954. Thereafter, till 1962, a liberal Branch Licensing Policy was pursued by RBI. In 1962, banks were compelled to open branches in unbanked/banked centres in a ratio of 1:2. For a coordinated branch expansion, banks were advised to submit a plan for 3 years i.e., 1962 to 1965. In 1968, social control measures were introduced. Commercial banks were urged to make a continuous study of banking needs and business potential of various regions and step up the pace of branch expansion by 30% of their performance in the preceding two years. All-India and large regional banks were required to open at least 25% of their new branches in unbanked centres. The earlier norm of two banked centres for every unbanked centre was modified to the ratio of 1:1 between banked and unbanked centres (RBI, 2009). In July 1969, fourteen largest commercial banks were nationalized with a main motive to expand rural bank network especially for the expansion of bank credit for agricultural sector all over the country, particularly in rural and semi-urban areas as well as in the unbanked underdeveloped regions so as to equalize the per capita access to bank across Indian states. At the time of nationalization, there were only 6955 branches of public sector banks in the country and the Average Population per Branch Office (APPBO) for the country as a whole was 64,000.

Public sector banks were expected to co-ordinate amongst themselves and thereby avoid duplication of efforts in the spread of banking facilities in underbanked areas.

Accordingly, in February 1970, RBI decided to issue licences and when the banks become eligible for opening offices at urban centres, on the basis of ratio of one office in an urban centre for every two offices opened after December 1969 in rural and semi-urban centres (in the case of banks which had more than 60 percent of their offices in rural and semi-urban centres) and in the case of other banks, the ratio was one office in an urban centre for every three offices in rural and semi-urban centres. In September 1971, the requirement of banks to open the requisite number of offices in rural/semi-urban areas to get an entitlement for opening urban offices including those at metropolitan and port towns was relaxed so that more offices in metropolitan/port towns might be opened (*ibid*, 2009). To further encourage rural branch expansion, the Indian Central Bank announced a new branch licensing policy in 1977. It mandated that to obtain a license for a branch opening in a location with one or more branches (a banked location) a bank must open branches in four eligible unbanked locations. This policy remained in place until 1990 (Burgess & Pande, 2005). Finally, to ensure that banks did not concentrate their lending in urban areas, the Central Bank required that every bank branch maintain a credit-deposit ratio of 60 percent within its geographical area of operation. During the years 1969 to 1980, there was a phenomenal increase of 19855 branches and the total number of public sector bank branches increased from 6955 to 26810. It may however be mentioned that during the period 1979-81, under Branch Expansion, States and districts with a higher Average Population Per Branch Office (APPBO) than the national APPBO of 20,000 were identified and District-wise branch expansion programmes were drawn up in consultation with State Governments and banks were advised to open branches at the identified centres. During the period 1980 to 1990, there was a tremendous growth of bank branches and the number of branches of public sector banks increased from 26,810 to 42,079. Towards the end of the 1985-90 plan period, the country, had an impressive network of about 60,000 branches which were considered as adequate to meet the banking requirements (GOI, 2009).

Until banking reforms began in the early 1990s, the Reserve Bank of India (RBI), as a policy, enforced slowdown in branch expansion in metropolitan areas; on the other hand, steady increases particularly in the number of rural branches were encouraged on the consideration that the scheduled commercial banks had a role to play in branch banking in the process of institutionalization of rural savings. The number of rural branches rose from 25,541 in December 1984 to 35,396 in March 1994 - about 985 per year. Subsequent to the mid-1990s when banking reforms began to be implemented based on the recommendations of the Narasimham Committee (Report - I), the above policy perspective underwent a change. After the expiry of the five-year branch expansion programme of 1990-95, the subject of opening rural branches was left to the commercial judgments of banks. Banks were allowed to convert their nonviable rural branches into satellite offices or even closure of bank branches at rural centres served by two commercial banks. There has been still scope for expanding the rural branch network, however gently, but the scheduled commercial banks have chosen the easy option of stopping any such rural expansion. The 1990s have also seen a more rapid expansion of high-street banking promoted by new private sector banks and foreign banks. As a result, even as the rural branches have stagnated or declined in number, the number of urban and metropolitan branches has galloped, from 17,744 in March 1996 to 19,597 in September 2003 - about 265 per year (EPWRF, 2004). In a circular dated September 8, 2005, RBI conveyed a new liberalized "Branch Authorisation Policy" to banks in which they are encouraged to open branches in underbanked districts and rural centres and to facilitate them to identify centres in underbanked districts, a list of such districts was also forwarded to banks.

6. Branch Expansion of Scheduled Commercial Banks in India

The post nationalization phase significantly improved the branch network of the banks and the public sector banks in particular moved into the interiors significantly increasing the branch network. Between 1969 and 1990 bank branches were opened in around 30,000 locations that were unbanked (Datta & Sriram, 2012). In December, 1969, there were only 1,443 rural and 3,337 semi-urban branches out of 8,187 total number of bank branches in India which was 17.6 percent and 40.8 percent of the total number of bank branches in India. It shows that at the time of bank nationalization in India, the number of rural banks was very meager.

Table-1: Branch Expansion of Scheduled Commercial Banks (1980-2013)

Year	Rural	% Change	Semi-Urban	% Change	Urban	% Change	Metropolitan	% Change	Total	% Change	Incremental Ratio
1980	15105	-	8122	-	5178	-	4014	-	32419	-	7.5
1981	17656	16.89	8471	4.30	5454	5.33	4126	2.79	35707	10.14	8.0
1982	20401	15.55	8809	3.99	5693	4.38	4274	3.59	39177	9.72	7.4
1983	22686	11.20	9081	3.09	5917	3.93	4395	2.8	42079	7.41	9.4
1984	25380	11.88	9326	2.70	6116	3.36	4510	2.62	45332	7.7	7.0
1985	30185	18.93	9816	5.25	6578	7.55	4806	6.56	51385	13.4	0.18
1986	29703	-1.6	10585	7.83	7209	9.59	5790	20.4	53287	3.7	39.9
1987	30209	1.70	10637	0.49	7218	0.12	5795	0.08	53859	1.07	9.3
1988	31114	2.99	11132	4.65	7322	1.44	5842	0.81	55410	2.88	5.4
1989	33014	6.11	11166	0.31	7524	2.76	5995	2.62	57699	4.13	16.4
1990	34791	5.38	11324	1.42	8042	6.88	5595	-6.67	59752	3.56	13.2
1991	35206	1.19	11344	0.18	8046	0.05	5624	0.51	60220	0.78	0.27
1992	35269	0.18	11356	0.11	8279	2.90	5666	0.74	60570	0.59	0.62
1993	35389	0.34	11465	0.96	8562	3.42	5753	1.54	61169	0.99	1.4
1994	35329	-0.17	11890	3.71	8745	2.14	5839	1.49	61803	1.04	-0.6
1995	33004	-6.58	13341	12.20	8868	1.41	7154	22.5	62367	0.91	0.5
1996	32995	-0.03	13561	1.65	9086	2.46	7384	3.21	63026	1.06	0.3
1997	32915	-0.24	13766	1.51	9340	2.80	7529	1.96	63550	0.83	0.4
1998	32878	-0.11	13980	1.55	9597	2.76	7763	3.10	64218	1.05	0.3
1999	32857	-0.06	14168	1.34	9898	3.14	8016	3.26	64939	1.12	0.3
2000	32734	-0.37	14407	1.67	10052	1.56	8219	2.53	65412	0.73	0.04
2001	32562	-0.52	14597	1.32	10293	2.40	8467	3.02	65919	0.78	-0.11
2002	32380	-0.56	14747	1.03	10477	1.79	8586	1.4	66190	0.41	0.11
2003	32303	-0.23	14859	0.76	10693	2.06	8680	1.09	66535	0.52	0.08
2004	32121	-0.56	15091	1.56	11000	2.87	8976	3.41	67188	0.98	0.31
2005	32082	-0.12	15403	2.07	11500	4.55	9370	4.39	68355	1.74	-0.55
2006	30579	-4.68	15556	0.99	12032	4.63	11304	20.6	69471	1.63	0.49
2007	30551	-0.09	16361	5.17	12970	7.80	11957	5.78	71839	3.41	0.76
2008	31076	1.72	17724	8.33	14397	11.00	13019	8.88	76216	6.09	0.7
2009	31667	1.90	18969	7.03	15733	9.28	14178	8.90	80547	5.69	1.3
2010	32624	3.02	20740	9.34	17003	8.07	15026	5.98	85393	6.02	1.85
2011	33683	3.25	22843	10.1	17490	2.86	16247	8.13	90263	5.70	2.31
2012	36356	7.94	25797	12.93	18781	7.38	17396	7.07	98330	8.94	1.05
2013	39,233	7.91	28,529	10.59	21,618	15.11	19,899	14.4	109279	11.13	0.99
CAGR	2.93		3.88		4.42		4.97		3.75		

Source: Basic Statistical Returns of Scheduled Commercial Banks, RBI.

Table 1 shows the population group-wise expansion of bank branches of scheduled commercial banks (SCBs) in India. It also shows the compound annual growth rate (CAGR) and yearly changes in the bank branch expansion. The table clearly reveals that the expansion of rural bank branches has increased from 16.89 percent to 19 percent during 1980 to 1985 but it declined by 1.6 percent in 1986. It further increased to 6.11 percent in 1989 but after that it showed a continuous declining trend and reached at 0.34 percent in 1993. The rural branches have started to decline sharply from 1994 till 2007 but after 2007, it showed some improvements and increased by 7.91 percent in 2013. On the whole, rural branches have increased from 15105 in number to 39,233 with a CAGR of 2.93 percent.

The semi-urban branches have increased from 8122 to 28529 with a CAGR of 3.88 percent during 1980 to 2013.

The yearly changes in the growth of semi-urban branches have showed expansion of branches all over the period, but a higher and more stable growth rate was found in the post reform period as it showed 12.20 percent of growth in 1995 and after that increases sharply from 2007 onwards i.e. from 5.17 percent in 2007 to 12.93 percent in 2012 and 10.59 percent in 2013. As far as urban and metropolitan branches are concerned, their number has increased from 5178 and 4014 to 21618 and 19899 with a CAGR of 4.42 and 3.75 percent. The annual growth in the expansion of urban and metropolitan branches were 5.33 and 2.79 percent which has increased to 9.59 and 20.4 percent in 1986 but after that they have declined to 0.12 percent and 0.08 percent in the next year, that is, in 1987 and 0.05 and 0.51 percent in 1991 but after the reform, the percentage changes have increased to 1 percent and 8.9 percent in 2008 and 15.11 and 14.4 percent in 2013 respectively.

The annual growth of urban and metropolitan bank branches is higher than that of rural and semi-urban branches. The table shows that after the reforms in the banking sector, the rural branch expansion didn't showed any increase, but the expansion of semi-urban bank branches was better than the rural branches. The incremental ratio of rural plus semi-urban branches to urban plus metropolitan branches is also calculated from 1980 to 2013 which reveals that the incremental ratio was increased from 7.5 to 39.9 during 1980 to 1986 with an exception in the year 1985 where it was declined to 0.18. It has declined to 5.4 in 1988 and further increased to 13.2 in 1990 but after that i.e. in the post-reform period, it declined continuously and reached at -0.11 in 2001 and -0.55 in 2005 respectively. Later on, it started to improve from 2007 onwards and increased from 0.8 to 1.05 in 2012.

From 1977 to 1991, with the exception in very few years, the incremental ratio of rural plus semi-urban branches to urban plus metropolitan branches stayed at around or, even above the prescribed limit of 1:4 (EPWRF, 2004).

Table-2: Period-wise Compound Annual Growth Rate of SCBs in India

Area	Pre-reform phase		Post-reform phase	
	(1980-1991)	(1992-2002)	(2003-2013)	
Rural Branches	8.00	-0.85	1.96	
Semi-urban Branches	3.08	2.65	6.74	
Urban Branches	4.08	2.38	7.29	
Metropolitan Branches	3.11	4.24	8.65	
Total Branches	5.79	0.89	5.09	

Source: Calculated from Table-1.

Table 2 shows the period-wise and population group-wise CAGR of SCBs branches in India. The rural branches have shown a declining trend in the post-reform period as compared to the pre-reform period. The CAGR of rural branches during 1980 to 1991 was 8 percent, which has declined to -0.85 percent during 1992 to 2002 but later on improved to 1.96 percent during 2003 to 2013. As far as semi-urban and urban branches are considered, both have shown a slight decline in CAGR in the first decade (1992-2002) of post-reform period but have increased sharply from 2.75 percent and 2.38 percent to 6.74 percent and 7.29 percent in the second decade (2003-13) of post-reform period. The CAGR of metropolitan branches has increased in the post-reform period as it increased from 3.1 percent during 1980-91 to 4.24 percent during 1992-2002 and further increased sharply to 8.65 percent during 2003 to 2013.

On the whole, the CAGR of the total branches has substantially declined from 5.79 percent in the pre-reform period to 0.89 percent during 1992-2002 and 5.09 percent during the period of 2003-13. Thus, after the banking reforms, it is clear that the benefits to rural areas in terms of rural bank branch expansion have deteriorated in the post-reform period and vice-versa for the metropolitan, semi-urban and urban branches of SCBs in India.

Table-3: Growth of Rural Banking in India by Scheduled Commercial Banks in India (1980-2013)

(Amount in Rupees Crores & Percent)

Year	Number of Bank Offices		Credit Outstanding		Deposits		Credit-Deposit ratio	
	Rural	Percent of total	Rural	Percent of total	Rural	Percent of total	Rural	All Areas
1980	15105	46.59	2165.34	9.67	3975.27	11.93	54.47	67.17
1981	17656	49.44	3061.7	11.4	5261.58	13.02	58.19	66.46
1982	20401	52.07	3749.02	12.13	6313.43	13.78	59.38	67.44
1983	22686	53.91	4551.96	12.35	7671.98	14.09	59.33	67.7
1984	25380	55.98	6740.95	14.83	9243.16	14.37	72.93	70.7
1985	30185	58.74	7277.94	13.77	10411.47	13.39	69.9	67.94
1986	29703	55.74	8403.77	14.66	12808.81	13.89	65.61	62.15
1987	30209	56.08	9745.17	15.11	15521.63	14.33	62.78	59.51
1988	31114	56.15	11356.8	15.84	19215.26	15.06	59.1	56.19
1989	33014	57.21	14552.5	16.29	22046.49	14.99	66.01	60.78
1990	34791	58.22	16067.85	15.4	26233.64	15.26	61.25	60.68
1991	35206	58.46	18598.97	14.97	31009.8	15.46	59.98	61.93
1992	35269	58.22	20692.26	15.14	35749.71	15.08	57.88	57.66
1993	35389	57.85	22906.4	14.1	41409.73	15.01	55.32	58.9
1994	35329	57.16	24670.35	14.03	49331.14	15.23	50.01	54.29
1995	33004	52.91	25174.31	11.93	51819.62	13.67	48.58	55.63
1996	32995	52.35	29012.37	11.39	61313.17	14.39	47.32	59.77
1997	32915	51.79	32525.22	11.44	73769.7	14.74	44.09	56.81
1998	32878	51.19	37598.08	11.4	86706.41	14.54	43.36	55.32
1999	32857	50.59	42090.81	11.01	102697.07	14.71	40.99	54.78
2000	32734	50.04	48753.39	10.6	120539.19	14.67	40.45	56.01
2001	32562	49.39	54431.25	10.11	139431.36	14.69	39.04	56.71
2002	32380	48.91	66681.9	10.17	159423.46	14.19	41.83	58.39
2003	32303	48.55	77153.35	10.21	176502.39	13.83	43.71	59.24
2004	32121	47.8	85020.95	9.66	195081.71	12.91	43.58	58.25
2005	32082	46.93	109975.62	9.54	213104.11	12.2	51.61	65.98
2006	30579	44.01	126078.34	8.33	226061.18	10.81	55.77	72.39
2007	30551	42.52	154897.97	7.96	253013.69	9.74	61.22	74.97
2008	31076	39.8	183106.81	7.58	303423.04	9.34	60.35	74.37
2009	31667	38.6	207926.13	7.3	363910.19	9.28	57.14	72.61
2010	32624	37.2	249276.96	7.5	420337.72	9.2	59.30	73.3
2011	33683	36.2	2958145.4	7.3	493265.52	9.2	599.71	75.6
2012	36356	35	380517.65	7.9	573185.85	9.4	66.39	79
2013	39,233	35.9	456190.81	8.3	669888.68	9.6	68.10	78.8
CAGR	2.93		17.60		16.81		0.68	

Source: Basic Statistical Returns of Scheduled Commercial Banks, RBI.

Table 3 shows the CAGR of the selected indicators of rural banking of the SCBs in India from 1980 to 2013. The indicators analyzed are rural bank branches, rural deposits, rural credit outstanding and credit-deposit ratio of SCBs. The number of rural branches has increased from 15105 in 1980 to 39,233 in 2013 with a CAGR of 2.93 percent. The percentage share of the rural branches in the total bank branches has increased from 46.9 percent in 1980 to 58.46 percent in 1991 but after the 1991 reforms, it showed a continuous declining trend and reached at 35.9 percent in 2013.

The compound annual growth rate of outstanding credit of rural branches of SCBs in India had shown a deceleration from 33 percent during the regime of 1969-81 to 19 percent during 1982-89.

It further decelerated to nearly 11 percent during 1990-99 while it has shown improvement to about 18 percent in the last regime (Pal, *et al*, 2010). The rural credit outstanding of SCBs has increased from Rs.2165.34 crores to Rs.456190.81 crores with a CAGR of 17.60 percent. The percentage share of the rural credit outstanding in the total credit lending of SCBs had increased from 9.67 percent in 1980 to 15.14 percent in 1992 but after that the share of it has continuously declined in the post-reform period and reached 8.3 percent in 2013. As far as rural deposit mobilization of SCBs has considered, it has increased from Rs.3975.27 crores to Rs.669888.68 crores with a CAGR of 16.18 percent. The percentage share of rural deposits in the aggregate deposits have increased from 11.93 percent to 15.23 percent in 1994 but after that it has declined to 9.6 percent in 2013.

In order to ensure that the rural deposits were not used to just increase urban credit, the RBI directed that each rural and semi-urban bank branch has to maintain a credit-deposit (C-D) ratio of 60 percent (Shah, 2007). The C-D ratio has increased from 54.47 percent in 1980 to 72.93 percent 1984 but declined to 61.25 percent in 1990 but still maintained the 60 percent prescribed limit until the reform period. In the post-reform period, it steadily slipped from 50.01 percent in 1994 to 39.04 percent in 2001 which is contrary to the 60 percent prescribed by the policy, but again getting started to enlarge and reached again at 60.22 percent in 2007 and 68.10 percent in 2013 respectively. On the whole, it is clear that there was a stagnation in all the above given indicators of rural banking in the post-reform period.

Table-4: Period-wise Compound Annual Growth Rate of SCBs Rural Banking Indicators of SCBs in India

Area	Pre-reform phase	Post-reform phase	
	(1980-1991)	(1992-2002)	(2003-2013)
Number of Rural Bank Offices	8.0	-0.85	1.96
Rural Credit Outstanding	21.59	12.41	19.45
Rural Deposits	20.53	16.13	14.27
Rural Credit-Deposit ratio	0.88	-3.20	4.53

Source: Calculated from Table-3.

Table 4 shows the period-wise CAGR of the selected indicators of rural banking of SCBs in India. The CAGR of rural branches has declined in the post-reform period as during the period of 1992-02, it showed a negative growth with a CAGR of -0.85 percent but showed improvements during the period of 2003-13 with a CAGR of 1.96 percent. As far as rural credit and deposits are concerned, their CAGR has declined from 21.59 percent and 20.53 percent during 1980-91 to 12.41 percent and 16.13 percent during 1992-02 whereas the rural credit has shown improvement during the period of 2003-13 and increases with a CAGR of 19.45 percent. The CAGR of C-D ratio has declined with a negative growth of -3.20 during the period of 1992-02 but increased sharply during 2003-13 with a CAGR of 4.53 percent.

7. Region/State-wise Branch Expansion of Scheduled Commercial Banks in India

There are considerable regional variations existed in the banking coverage by SCBs in India in 1969 and the best-served region by a bank branch was southern region followed by western region, northern region, central region and eastern region. Table 5 shows the region/state-wise growth of SCBs in India.

Three historically underbanked regions, also underdeveloped economically, namely, north-eastern, eastern, and central regions, had received special attention in the branch expansion programme of scheduled commercial banks until the 1990s. These three regions accounting for about 50 per cent of the country's population had about 25 per cent of bank branches in 1969. By March 1992, their proportion of bank branches had shot up to 42.6 per cent, that is, from a total of 2,068 branches to 26,439. But after the 1990s, the proportion of bank branches opened in these regions has steadily declined, and by March 2007, it has declined to 40.6 per cent of the total. No doubt, the branch expansion programme in totality had received a setback after the 1990s, but interestingly, even out of the reduced rate of expansion, the proportions obtained by the underdeveloped regions have receded more. Even if the same share as obtained in March 1992 had remained in March 2007, the number of bank branches in these three underdeveloped regions should have been 29,001 as against the actual number of 27,624, or a loss of 1,377 branches. The loss should be much more if it is measured against the branch expansion momentum that was envisaged under the supply-leading role assigned to the banking system after bank nationalization (EPWRF, 2007).

The magnitude of the coefficient of variation (CV) for the inter-regional variations in the number of SCBs offices was 55.23 percent in 1980 which have declined to 49.6 percent in 1990 and further continuously declined till 2005 and after which it increases by 1.29 percent from 48.53 percent in 2005 to 49.82 percent in 2013. Thus after 1990, there was a decline in the CV which shows that during the post-liberalization period, the inter-regional disparities has decreased across regions and states. As far as states are considered, Maharashtra, Uttar Pradesh, Bihar, West Bengal, Madhya Pradesh, Gujarat, Rajasthan, Punjab, Karnataka, Kerala, Andhra Pradesh etc. showed a continuous and higher growth rate in the post-reform period.

Table 6 shows that there is a decline in the CAGR of all the regions in the post-reform period. But the major decline was accounted by the north-eastern, eastern and central regions from 9.01 percent, 7.51 percent and 7.88 percent during 1980-90 to 0.87 percent, 0.92 percent and 0.67 percent during the period of 1990-2000. They have shown an improvement during 2002-13 as their CAGR increased to 2.8 percent, 2.98 percent and 3.60 percent. As far as northern, western and southern regions are concerned, their CAGR declined from 5.13 percent, 4.56 percent and 4.33 percent during 1980-1990 to 1.38 percent, 1.11 percent and 1.16 percent during the period of 1990-2000 but later on, increased to 4.82 percent, 3.77 percent and 4.04 percent respectively during 2000-13. These figures show that the decline was more prominent in the unbanked north-eastern, eastern and central region during 1990-2000 whereas the improvements during the period of 2000-13 are more prominent in well banked regions of northern, western and southern region.

Table 7 shows that there was a slow growth in bank branches of SCBs if we measure the banking penetration in terms of population per bank offices. While in the southern region, the population covered by each bank office in 2009 was sustained at the 1991 level and in the northern and western regions, there was a marginal increase in the population per branch offices. The three underdeveloped regions have faced significant deteriorations, with the population per bank office moving up from 17,000 to 21,000 for the north-eastern region and from 16,000 to 20,000 for both eastern and central region respectively. Hence, inspite of the fact that the bank branch expansion is fundamental to the improvement of the financial infrastructure and reductions in exploitive non-institutional access to finance, there is a deterioration in the region/state-wise population coverage by banks, but more importantly, the loss of population coverage per branch has occurred in underdeveloped regions which required the support of banking spread.

Table-5: Region/State wise Bank Branch Expansion of SCBs in India

Regions	Number of Offices						
	1980	1985	1990	1995	2000	2005	2013
Northern Region	5,645	8239	9312	9846	10676	11,564	19681
Haryana	778	1103	1273	1365	1508	1692	3412
Himachal Pradesh	366	535	709	769	787	807	1264
Jammu & Kashmir	426	723	769	806	827	875	1364
Punjab	1563	2020	2170	2285	2548	2764	4854
Rajasthan	1571	2644	3071	3219	3365	3481	5359
Chandigarh	81	128	137	150	197	233	383
Delhi	860	1086	1183	1252	1444	1712	3045
North Eastern Region	748	1344	1772	1933	1933	1942	2769
Arunachal Pradesh	19	49	69	69	69	68	106
Assam	491	873	1180	1260	1263	1272	1749
Manipur	35	62	72	88	88	78	111
Meghalaya	38	126	151	180	181	185	256
Mizoram	12	45	71	79	79	80	122
Nagaland	38	65	71	72	70	73	124
Tripura	96	124	162	185	183	186	301
Eastern Region	5272	9006	10879	11627	11927	12211	17469
Bihar	2216	4005	4708	4985	5078	3646	4990
Jharkhand	-	-	-	-	-	1511	2368
Orissa	902	1701	2046	2179	2247	2305	3558
Sikkim	1	19	29	42	46	55	98
West Bengal	2143	3268	4075	4391	4525	4661	6402
Andaman & Nicobar islands	12	13	21	30	31	33	53
Central Region	5971	10935	12747	13283	13625	13996	21581
Chattisgarh	-	-	-	-	-	1063	1818
Madhya Pradesh	2060	3678	4353	4491	4562	3560	5085
Uttar Pradesh	3911	7257	8394	8792	9063	8475	13092
Uttaranchal	-	-	-	-	-	898	1586
Western Region	6028	8259	9417	9833	10515	10894	17013
Goa	-	263	262	278	323	351	570
Gujrat	2277	3076	3449	3585	3732	3807	6084
Maharashtra	3505	4914	5689	5951	6434	6708	10272
Dadra & Nagar Haveti	5	6	7	7	11	12	47
Daman & Diu	241	-	10	12	15	10	40
Southern Region	10721	14551	16388	17295	18385	19362	30766
Andhra Pradesh	2294	4149	4651	4918	5226	5519	9095
Karnatka	2750	3918	4349	4523	4840	5114	7797
Kerela	2294	2741	2906	3119	3318	3609	5430
Tamil Nadu	2958	3978	4404	4653	4906	5021	8245
Lakshadeep	5	5	8	8	9	9	12
Pondicherry	50	64	71	74	86	90	187
All-India	34385	52633	60919	63817	67061	69969	109279
Coefficient of Variation	55.23	49.67	48.08	47.82	48.12	48.53	49.82

Source: Basic Statistical Returns of Scheduled Commercial Banks, RBI.

Table-6: Period-wise and Region-wise Compound Annual Growth Rate of SCBs Offices in India

Area	Number of Offices		
	Pre-reform phase	Post-reform phase	
	(1980-1990)	(1990-2000)	(2000-2013)
Northern Region	5.13	1.38	4.82
North-Eastern Region	9.01	0.87	2.80
Eastern Region	7.51	0.92	2.98
Central Region	7.88	0.67	3.60
Western Region	4.56	1.11	3.77
Southern Region	4.33	1.16	4.04
All India	5.89	0.97	3.83

Source: Calculated from Table-5.

Table-7: Region/State wise Per Capita Bank Branch Expansion of SCBs in India

Regions	Population Per Office('000s)		
	Dec-1981	Mar-1991	Mar-2009
Northern Region	13	11	12
Haryana	15	13	11
Himachal Pradesh	11	7	7
Jammu & Kashmir	11	10	13
Punjab	10	9	8
Rajasthan	20	14	16
Chandigarh	5	5	3
Delhi	7	8	8
North Eastern Region	30	17	21
Arunachal Pradesh	29	13	16
Assam	33	18	21
Manipur	36	22	10
Meghalaya	21	11	12
Mizoram	41	9	10
Nagaland	18	17	25
Tripura	20	15	16
Eastern Region	24	16	20
Bihar	26	18	24
Jharkhand		-	17
Orissa	24	15	15
Sikkim	63	14	8
West Bengal	23	16	17
Andaman & Nicobar islands	16	13	11
Central Region	24	16	20
Chattisgarh	-	-	19
Madhya Pradesh	22	15	17
Uttar Pradesh	25	16	20
Uttaranchal	-	-	9
Western Region	15	13	14
Goa	4	4	4
Gujrat	14	12	13
Maharashtra	17	14	14
Dadra & Nagar Haveli	21	20	11
Daman & Diu	-	10	11
Southern Region	14	12	12
Andhra Pradesh	18	14	12
Karnatka	13	10	10
Kerela	11	10	8
Tamil Nadu	15	13	11
Lakshadweep	8	6	6
Pondicherry	11	11	8
All-India	18	14	14

Sources: Basic Statistical Returns, RBI.

8. Conclusion

The essence behind bank nationalization was to expand the rural banking in India, which made the tremendous expansion of scheduled commercial banks outreach. It is found that the post-nationalization growth rate of the rural branches, rural deposits, rural credit and rural credit deposit ratio of SCBs was very impressive, but in the post-reform period these growth rates turned in the reverse direction. The incremental ratio of rural plus semi-urban branches to urban plus metropolitan branches shows that it almost stayed at around or, even above the prescribed limit of 1:4 between the period of 1980 to 1991 but thereafter it starts declining. As far as regions are considered, there is a decline in the growth rate of all the regions in the post-reform period, but the major decline was accounted by the north-eastern, eastern and central regions than the southern, western and northern region. Hence, inspite of the fact that the branch expansion is fundamental to the improvement of the financial infrastructure, there has been a continuous deterioration in the growth of these very supporting indicators of the rural banking in India.

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