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INTER-STATE REDISTRIBUTION THROUGH INSTITUTIONAL FINANCE

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Inter-State Redistribution through Institutional Finance

In our earlier paper dealing with the inter-State distribution of Central budgetary transfers (EPW March 18, 1978), it was stated clearly that (a) Central budget was only one of the media through which finances got canalised and (b) several other media of inter-regional flow of funds were known to flow rather regressively. We put forth the view that therefore, Central budgetary transfers should seriously attempt to take on an important, corrective redistributive role.

Our purpose in attempting this exercise is to study the inter-State flow of institutional finance not only to show how regressive they have tended to be but also to underline the relatively quantitative and distributive significance of this flow when compared to that of Central budgetary transfers.[1]

Limitations of the Exercise

Unfortunately, our present study suffers from a number of limitations, which ought to be stated at the very outset. Firstly, unlike our earlier study dealing with budgetary transfers which covered a period of 21 years, 1956-57 to 1976-77, the present study covers a period of only 7 years, 1969-70 to 1975-76. This is because it has been absolutely impossible to disentangle data for earlier years in a consistent manner. We do not, however, consider this as a very serious limitation of our study for the following reasons: (1) The commercial banks which account for over two-thirds of the flow of institutional funds came under direct Central Government control with the nationalisation of the scheduled banks in 1969. So, one would have drawn, in any case, a line between the period before and after the bank nationalisation to study the differences; if any, in the pattern of inter-State flow of bank funds. (2) It is also during the period beginning with 1969-70, the first year of the Fourth Plan, that not only were some new institutions like Industrial Reconstruction Corporation and Rural Electrification Corporation, with substantial funds to dispose of, were established but also the activities of existing bank as well as non-bank, financing institutions expanded considerably. Table 1 attempts to bring out the scale of expansion in the financial activities of the various categories of institutions. Although, therefore, the shortness of our chosen period is quite a limitation of our study, for the reasons just stated the study of even this short period should be quite interesting.

Secondly, our coverage of institutional flow of funds is not quite complete. While some exclusions have been made deliberately with a view to avoiding double counting, others were unavoidably resorted to for want of sufficient information. For instance, the ways and means advances and overdrafts allowed by the Reserve Bank of India to the States have not been included because they eventually get reflected in the Central budgetary flows. Also, refinance granted by the Reserve Bank to commercial banks has been excluded to avoid double counting. Advances by the Reserve Bank to cooperative sector have not been included for a somewhat different reason, namely that since these are short term in nature their repayments within the period under review add up to, more or less, the figure of advances. So, while gross amounts are sizeable, net figures do not add up to much. What we have done, in the circumstances, is to show in our relevant tables the gross and net figures of advances to cooperative sector without, however, including them in the total institutional finance. Our major exclusion on the ground of lack of sufficient information is of such funds as are disposed of by organisations like the University Grants Commission, Central Social Welfare Board, Housing and Urban Development Corporation, National Cooperative Development Corporation and various commodity boards. These are organisations whose principal objective is not to dispose of funds but which, according to the Study Team on Centre-State Relationships appointed by the Administrative Reforms Commission, may be set up or financed by Central Ministries "for a massive encroachment on State subjects" through the funds kept at their disposal.[2/]

Thirdly, our exercise suffers from the limitations stemming from aggregations of (a) net with gross flows, (b) repayable with non-repayable flows of funds and (c) disbursements in one year with those in the other years. While we have tried our best to work out the State-wise position of the institutional flow of funds on a net basis (i.e after allowing for loan repayments and disinvestments made during the period under review) it was just not possible to get at the net position with respect to all types of flows covered by us. Thus, while with respect to 81% of the institutional flows, accounted for by commercial banks and life insurance, the position given is net of re-payments and disinvestments, for the remaining 19% the position indicated is gross of repayments and disinvestments. The saving grace, however, is that in the case of the latter 19% repayments etc. are unlikely to account for more than a small fraction because the banking activities of the concerned institutions picked up momentum largely during the period under review so that relatively small repayments could have fallen due within this short period.

So the problem posed by aggregating net with gross flows cannot be considered very serious. Nor do we consider serious the problem of aggregating re-payable with non-repayable flows of funds to get a total picture. There is already an aggregation under budgetary transfers of repayable and non-repayable funds. Much more importantly, however, if it is the current availability of funds we are trying to get at, only the aggregation of non-repayable funds with repayable funds net of repayments on past loans should give us the appropriate measure. and, as explained above, this is precisely what we have attempted to do.

We are quite aware also that by aggregating figures for the entire seven-year period without making any correction for year to year price increases and for differences between States in price-increases, during a period when the total price-increase has been quite substantial, being of the order of 82%, we expose ourselves to a serious objection. We do not believe however that the correction for price-increases would have led to a basically different picture of inter-State distribution of institutional finance than the one drawn by us on the basis of unadjusted figures. This certainly is an area of work where further research could be useful, however.

The observations that follow are subject to the limitations listed above.

Relative Significance

Table 2, gives a total picture of inter-State flows, through both the budgets and financial institutions. Here it is important to recall that, as far as possible, we have tried to work out the net flow of funds for each stream of institutional finance that has been identified separately in the above table, just as with respect to the budgetary transfers we have included only the net amounts (i.e. after allowing for repayments against past loans extended by the Centre to the States).

It can be seen that institutional finance accounted for 44% of the total finance comprising of budgetary transfers and funds flowing into the States through the institutions. This, by itself, is quite substantial. Some, however, might be inclined to consider institutional funds to be far more important, in the context of this study, than is indicated by the above ratio. The argument could be that while, a high proportion, if not at all, of budgetary transfers goes to cover the States' current consumption expenditure, almost all of institutional funds go to finance production and investment. So, from the point of correcting, or exacerbating, the imbalances in inter-State development, the importance of the institutional funds is far greater than their ratio in total finance indicates. Whether or not one fully accepts the above line of argument - and let us not overlook that there can be several opinions on it, particularly on the ground that a large part of Government's current consumption expenditure like that incurred on education, health, and provision of economic services is development oriented - it is enough to accept for the purposes of this paper that a study of the inter-State distribution of institutional funds is important both because it comprises a substantial proportion of total finance flowing to the States and also because these funds go to finance development oriented outlays.

It can be seen also that the ratio of institutional finance to total financial flow is the lowest for special category States (i.e. Group D), it being only 9%. As between the rest of the States, the corresponding ratio is the highest for Group A, high income, States, at 59%, next higher at 45% for Group B, middle income, States and 32% per Group C, low income, States. Thus, broadly speaking, the lower the per capita income ranking of a State, the relatively less important is the role of institutional finance in the flow of funds taking place to such a State. Of course, the are deviations from the average within each group and the most significant of these deviationa occur in Group B. Thus while for Tamilnadu and Karnataka, the ratio of institutional to total finance is significantly above the group ratio, for Orissa and Assam it is significantly below the group ratio. The ratios for Kerala and Andhra Pradesh are also somewhat below the group as well as all-India ratios. That the deviations are mos significant for Group B is reflected also in the range of the ratio, of 17.5% for Assam to 62.8% for Tamil Nadu. For Groups A and C, on the othe hand, the range is narrower. It extends from 45.7% for West Bengal to 68.2% for Punjab in Group A and from 27.8% for Bihar to 33.7% for Uttar Pradesh as well as Madhya Pradesh in Group C.

To recall our earlier finding with respect to the inter-State distri bution of budgetary transfers, while the low income States received below average per capita transfers, the high income States received near average transfers and the middle income states received distinctly above average transfers. Now, with the inter-group position of the relative ratio of institutional to total financial flows being so distinctly in favour of t high income States, it should be of no surprise if these states, taken as a group, do the best with respect to total financial flows among the three groups into which we have divided the States other than special category States. Indeed they do, as we shall note presently.

During 1969-76, taking the average for Groups A, B and C States together as the norm, while with respect to budgetary transfers Group A States were just 2% above the norm, they did 69% better than the norm with respect to institutional funds, so that for total financial transfers they did 32% better. In this manner, Group A States left far behind not only the low income, Group C, States but also the middle income, Group B, States. This can be seen clearly from Table 3.

As for individual states, while the top per capita income State, Punjab, did the best with respect to institutional finance, taken by itself, followed by Maharashtra, Haryana, Gujarat, Tamil Nadu, Karnataka and West Bengal, the ranking is somewhat different when we aggregate both budgetary and institutional finance. Then Maharashtra takes the top position, followed by Punjab, Haryana, Gujarat, Assam, Tamil Nadu, Karnataka, Kerala, Rajasthan and West Bengal. Assam, Kerala and Rajasthan come into the ranking because their budgetary receipts from the Centre had been significantly above averages. Orissa parts company with the last mentioned three States because of its institutional receipts being significantly below the average.

Principal Streams

In the comparative picture presented above, the fact of a very pronounced regressiveness in the inter-State distribution of the total institutional finance comes out very clearly.

Let us now look into the inter-State distribution of the different streams of institutional finance. Of the total institutional finance, the commercial banks accounted for 71%, life insurance corporation for 10%, term lending institutions ~~for~~ catering to industry for 12%, agricultural refinance institutions for 4% and rural electrification finance for 3%. We shall now examine each of these streams separately.

(a) Commercial Banks

Though for all the States, including Group D States, taken together, the net contribution of the commercial banks to the total institutional finance works out to 71%, the proportion ranges from 64% for Group C States to 74% for Group A States. In the circumstances, it should cause no surprise when one finds that the per capita bank finance of Group C States was almost one-fourth of the corresponding figures for Group A States (Rs.70 as against Rs.270), and less than one-half of the corresponding figure for Group B States (Rs.70 as against Rs.160).

Bank finance has been subdivided into: (1) credit and (2) investment. The latter represents investment by the commercial banks in the securities of the State Governments and other State-associated bodies like land mortgage banks, electricity boards, road transport corporations and State financial corporations and includes bank investments in the shares and debentures of joint stock companies in different States.

It can be seen from Tables 2 and 3 that the distribution of investments is much less skewed than that of credit. While bank credit per capita extended to Group A States was four and a half times more than that to Group C States, the investments per capita made in Group A States were only a little over twice as large as those in Group C States.

Let us take note, at this stage, of a question which might well be raised namely whether it is right on anyone's part to apply the yardstock of inter-State distribution to bank finance. At least as far as bank credit is concerned, it can be given only in the States and regions where there is demand for it. How can the banks pour in more credit in a region or State, it is argued, than it can absorb?[3] But how will a region or State absorb more credit unless the banks themselves take steps to create conditions for that? Without going into this debate further, let us state our position in this regard quite bluntly, namely that bank finance, including credit, emanating as it does largely from the public sector, could, and should, be as much amenable to use as an instrument of regional redistribution as tax finance.[4] Except for those who would obstinately hold on to the absorptive capacity argument, the others should find it quite revolting to find that, at present, bank finances is serving as an instrument of re-distribution in favour of <u>not</u> the poorer of the States but the better of States.[5] This can be seen from Table 4 giving the State-wise ratio of bank credit, bank investment and bank credit plus bank investment to bank deposits. It is the middle-income States which, as a group, come out best with regard to bank finance, followed by the high-income States.

True, that as far as the ratio of bank investments to bank deposits is concerned, low-income, Group C, States do better than high-income, Group A States. But shouldn't one have expected better from at least bank investments? Shouldn't the banks have, consciously, striven, through the distribution of their investment, to ensure that, at least, the ratio of credit <u>plus</u> investments to bank deposits in the low-income States did not fall below the all-States' average?[6] If the banks had done at least this much, the low-income, Group C, States would have had at their disposal additional funds to the tune of Rs.341 crores over a period of seven years covered by our study. This amount is, of course, small beer when one calculates what these same States should have got, additionally, by way of net bank credit if it were distributed equally among all the States, each taking its share on the basis of its population. According to our calculation the additional entitlement of Group C States would have worked out to Rs.1742 crores.

(b) Life Insruance Corporation

LIC finance, which too takes the form of loans as well as investments (but we have given the combined figure only), is also regressively distributed among the States, with Group C States getting one-half of the per capita finance which Group A States secure from this source. The only consolation can be that it is a much less regressive source of finance than bank credit.

But why should the poorer States be content with a consolation like this? Whether it is the commercial banks or life insurance corporation, the minimum they can, justifiably, insist upon is a pattern of investment that endeavours to make up for the regressive inter-State distribution of their lending operations.

(c) Term lending to industry

The institutions included by us in this stream are: (1) Industrial Development Bank of India, (2) Industrial Finance Corporation of India, (3) Industrial Credit and Investment Corporation of India, (4) Industrial Reconstruction Corporation of India and (5) Unit Trust of India. Some of these institutions provide refinance to commercial banks which should, strictly speaking, be excluded since it would have appeared as bank credit, already. However, in the absence of State-Wise data on such refinancing activity by these institutions, exclusion there of was not possible for us to effect. So, there is a certain element of double counting in these figures.

Distribution of finance to industry by these term lending institutions was, it is sad to observe, almost as strongly regressive as by bank credit.

Group C States secured less than one-fourth of the per capita finance, which Group A States got during the period under review. Inter-State deviation from the average was also quite wide with Maharashtra's index number being 272 and Meghalaya's 24. (Two States, Tripura and Manipur got no finance from these institutions during the period). It is worthwhile adding that Group D States taken together were worse of than Group C States in regard to this source of finance.

Again, a stream of finance that was supposed to have played a major role in correcting regional imbalances actually followed an opposite course. In view of the leverage that the term lending institutions have come to enjoy in recent years with respect to financing of industry, there can be no two opinions that they could have played an important role in securing balance in regional development if the professions about directing concessionary finance to backward areas[7] had been effectively implemented.

(d) Agricultural Finance

This stream consisting of only the Agricultural Refinance and Development Corporation is again quite regressive. Group A States secured about twice as much per capita finance from this source as Group C States and Group D States are significantly worse of than Group C States.

It is somewhat intriguing that West Bengal, a Group A State, received negligible finance from this stream. But for that, the per capita figure for the group as a whole would have been much higher than Rs.133. In Group B again, while Assam shared the fate of West Bengal, Orissa secured per capita finance of only Rs.11. As a result, the range over which per capita agricultural finance was spread is the widest.

(e) Rural Electrification Finance

This is the one stream which can be said to flow most equitably in that , while Group D States did 167% better than the national average, Group C States received as much per capita finance from this source as Group A States. Group B States received 17% less than the average. However when one considers States individually, Punjab and Haryana, the two top income States, are also among the States which did best in benefitting from even this stream.

(f) Advances to Cooperative Sector

As has been explained above, while there were difficulties in adding gross flow of this stream with the rest of institutional finance, the inclusion therein of the net flpw would have been neither here nor there. So we decided in showing them separately without however incorporation in the total figures. It can be seen from Tables 2 and 3 (last two columns of each), that with respect to gross advances the position is grossly regressive. Compared to the per capita receipts on this score, of Group D States, the correspondin receipts of Group A States are 18 times higher; compared to Group C States the relative position of Group A State is about five times better. Group B States do only a little better than the average. Interestingly, as for agricultural refinance West Bengal did intriguingly, badly with respect to the gross advances of the RBI to the cooperative sector. The other four Group A States did better than the all-States' average with Gujarat leading them and Maharashtra following closely behind. In Group B, though Tamilnadu and Karnataka did exceedingly well the other four States did very poorly with Assam's position being the worst of all the States.

Judging by the net figures while Group C States did badly, Group

D States did twice as well as the States as a whole or Group A States taken together. The Group that comes out best with respect to net figures is Group B. Individually, while Gujarat followed by Tamilnadu did the best (their ranking with respect to gross figures is also very high), Puhjab did the worst, followed by Maharshtra, both having negative receipts. However, we doubt that any conclusion can usefully be drawn on the basis of the net figures.

Total Picture

What is the total picture that can be said to emerge from the foregoing analysis of the individual streams comprising institutional finance flowing to the States? The salient features of the total picture are that: (a) inter-State distribution of institutional finance had a very pronounced regressive bias against low income States; (b) this bias operated in favour of high income States; (c) the regressiveness was contributed very largely by bank finance and term lending to industry; (d) because of this, the bias in the inter-State distribution of budgetary transfers in favour of the middle income States, as a group, is wiped out so that the overall inter-State distribution of total finance can be seen to have operated clearly to the benefit of high income States.

Role of Budgetary Transfers

In the circumstances, what sort of distributive role do we envisage for Central budgetary transfers? Before we attempt to answer this question, it is appropriate that we reiterate our position with respect to the distributive role of institutional finance. We do not subscribe to the view that institutional finance cannot, for any weighty reasons, be used as an instrument to effect re-allocation of resources between rich and poor

States or between less poor and poor States. Indeed, institutional finance draws basically on the same pool of the community's resources as budgetary finance, including ~~both~~ taxation and public borrowing. Therefore, the grossly regressive pattern of inter-State distribution of institutional finance revealed by our present study should be regarded a sad evidence of the failure of this channel of finance to subserve a major objective of planning.

To the extent, however, that the institutional finance fails to deliver the goods, the onus on Central budgetary transfers for reallocation of resources between States becomes, in our view, much greater. Of course, the prevailing position is that even Central budgetary transfers are themselves somewhat regressive in their pattern of inter-State distribution. To make up for the regressiveness of institutional finance, which our study shows to be very pronounced, will call for the introduction of a very high degree of progressiveness in the inter-State distribution of Central budgetary transfers.

According to our computations, Group C States should have received Rs.425 crores, over and above Rs.1302 crores actually received by them during the 7-year period studied by us, if Central budgetary transfers had been distributed among Group A, B and C States equally to ensure for each the same per capita receipt. The amount would go up to Rs.890 crores, if Group D States are not excluded from the equalisation process. Group C States should have received a further Rs.2,250 crores if institutional finance were also distributed among all the States, including Group D States, on the same equalising basis. If however, the Central budgetary transfers were also assigned the role of making up for the inequitous inter-State allocations of institutional finance, Group C States could have claimed a total additional allocation of Rs.3,140 crores. While the total share of Group C States in the

Central budgetary transfers would have gone up, as a result, from the present 8.6% to 29.6%, their actual receipts from this source would have been about three and a half time larger. Lest these computations appear too staggering to be realistic, let it be added that all they seek to do is distribute Central budgetary transfers as well as institutional finance among the States on the same per capita basis. The introduction of any bias in favour of low-income States would call for much larger correction in the present pattern. The important point we wish to drive home is that in the correction of the present inequitous pattern of inter-State distribution, the greater the freedom with which the institutional finance is allowed to follow its present course, the larger will have to be corrective role to be played by Central budgetary transfers.

Concluding Observations

The larger is the role of Central budgetary transfers to bring about an equitable inter-State distribution of resources, the greater will have to be the role of the Finance Commission. Under the Constitution, the Commission carries a major responsibility for deciding upon not only the division of Central funds between the Centre and the States but also the inter-State allocations of the States' shares. Of course, if the Finance Commission chooses to abdicate its redistributive role, as most Commissions so far, unfortunately, have,[8] other ways and means will have to be devised. But the present state of gross inequity cannot continue for long.

Notes and References

1. G. Swaminathan, in his Minute to the Report of the Finance Commission, 1969, referred to the "utilisation of credit resources flowing through money markets" as one of the factors which, according to several State Governments, operated in favour of the advanced States to enable them "to make more rapid progress in raising their <u>per capita</u> income level". The Sixth Finance Commission went further in that it identified "lending policies and procedures of financial institutions" as among the policies which "have probably more important and pervasive influence in correcting or accentuating regional imbalances" than the devolutions made through the Finance Commission. (Report, 1973, Para 18, P.9).

2. "The role of autonomous Central organisations in State subjects created or largely financed by a ministry must not be allowed to exceed that of the ministry. The possibility of the use of such organisations for a massive encroachment on State Subjects cannot be discounted. The National Cooperative Development Corporation and the Central Social Welfare Board provide ready examples. Uless restraints are placed on these, similar to those recommended for the Ministries, the latter may tend to circumvent these by creating autonomous organisations and channelising funds through them." Report of the Study Team on Centre-State Relationships, Administrative Reforms Commission, Vol.I. P.163, See also Vol.III for Case Studies of Seven Central Agencies already in existence.

3. The Central Government's Department of Banking, more or less, condoned the failure of the banking system to improve the credit deposit ratio in those States where they have traditionally been low in precisely these terms: "In this task, however, banks have come across serious difficulties as the scale of utilisation of bank credit depends to a large extent on the level of the economic development of a given State", <u>New Trends in Banking</u> (1972).

4. A major argument advanced in favour of nationalisation of all except small commercial banks in the country was to redeploy bank finance in a manner suited to a policy of balanced regional development. One of the major complaints taken note of at the time of bank nationalisation was that, as things stood,"banks mobilise(d) resources in the form of deposits in certain areas and utilise(d) them elsewhere thus aggravating regional imbalances." It was argued therefore at that time that "these trends can be corrected and the policy of balanced regional development which has frequently been emphasised can be implemented when banks are under public control." (Prime Minister's statement in Parliament on July 29, 1969). Even otherwise, it would not be unreasonable to expect that in a professedly planned economy, with balanced regional development as a major objective, bank finance should be employed as a major instrument to correct regional imbalances.

5. Though our study is confined to distribution of funds between States, it is worthwhile noting that even within a State, be it a low or high per capita income state, the matter of inter-district distribution of funds is extremely important. As things stand, the tendency is for funds to flow from backward to developed districts. G.K. Kolanjiyil, Deployment of Bank Funds, Economic Times, September 5, 1975.

6. G.K. Kolanjiyil, Investment Port folio of Commercial Banks :Regional Pattern, Business Standard, September 1976, makes a case for funnelling more bank investments to less developed States instead of directing towards the developed States both high per capita bank credit as well as investment.

7. The Industrial Development Bank of India, which is now "the principal financial institution to act and coordinate in conformity with national priorities the working of institutions engaged in financing, promoting or developing industry", explicitly considers it important to follow an "appropriate location policy while assisting projects" so as to "help determine the geographical dispersal of industries and facilitate reduction in regional imbalances by creation of incomes and employment

in the relatively backward regions of the country". Development Banking in India. (1976)

8. An appraisal in this regard of the roles of the first five Finance Commissions was attempted in a series of six articles titled, Centre-State Financial Relations, EPW, May 12, June 23, July 21, August 25, September 22 and October 20, 1975. The sixth Commission's award was appraised by I.S. Gulati in his article published in EPW, Annual Number, 1977.

Table 1: Scale of Financing by Various Categories of Institutions ending 1969 and 1976

(Rs. Crores)

Institutions	At the end of March/June 1969 (1)	At the end of March/June 1976 (1)	Increases (4)	
1. Commercial Banks				
a) Credit	3213.66	9755.84	6542.18	(203.6)
b) Investments (2)	501.44	2223.90	1722.46	(343.5)
c) Total	3715.10	11979.74	8264.64	(222.5)
2. Life Insurance Corporation	860.49	2072.82	1212.33	(140.9)
3. Term Lending Institutions to Industry (3)	519.41	2058.80	1539.39	(296.4)
4. Agricultural Refinance & Development Corporation	30.40	549.39	518,99	(1707.2)
5. Rural Electrification Corporation	--	314.82	314.82	

Notes: (1) Figures for I.C.I.C.I. included herein relate to the end of 1968 and 1975.

(2) Relates only to investment in securities of State Governments and State associated bodies.

(3) Relates to actual estimates from the inception of these institutions upto March/June 1969 and March/June 1976.

(4) Figures in brackets in the last column are of percentage increases between 1969 and 1976.

Table 2: Per Capita Centre-State Financial Flows, 1969-76, Budgetary and Institutional

(in rupees)

States (1)	Net budgetary transfers (2)	Commercial Banks: Credit (3)	Commercial Banks: Investment (4)	Commercial Banks: Total (5)	L I C (6)	Term lending to industry (7)	ARDC (8)	REC (9)	Total institutional (10)	Grand total (11)	% share of institutional finance to total (12)	RBI advances to cooperatives: Gross (13)	RBI advances to cooperatives: Net (14)
Punjab	225	346	47	393	32	18	28	11	482	707	68.2	237.7	-17.7
Haryana	233	186	56	242	55	43	39	8	387	620	62.4	153.9	3.9
Maharashtra	263	308	41	349	26	68	11	6	460	723	63.5	290.8	- 3.13
Gujarat	254	164	51	215	52	59	18	4	348	602	57.8	304.2	13.2
West Bengal	278	146	38	184	17	27	neg	6	234	512	45.7	13.0	- 3.5
Group A	259	227	43	270	31	47	12	6	366	625	58.6	193.9	1.0
Tamil Nadu	199	203	46	249	31	39	14	3	336	535	62.8	218.4	7.5
Kerala	312	117	40	157	33	18	2	3	213	525	40.7	69.1	0.4
Orissa	355	24	31	55	23	11	1	9	99	454	22.3	29.1	2.2
Assam	294	40	25	65	16	20	-	5	106	600	17.5	1.5	0.04
Karnataka	220	195	38	233	22	37	16	5	313	533	58.7	123.7	3.0
Andhra Pradesh	243	82	28	110	16	12	12	6	156	399	39.4	70.1	2.2
Group B	273	124	36	160	23	34	10	5	222	495	44.8	103.6	3.2

contd.....

(Table 2 continued)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Uttar Pradesh	226	62	20	82	15	10	7	4	118	344	33.7	36.9	- 1.7
Rajasthan	370	56	32	88	29	15	4	10	146	516	28.3	63.2	3.4
Madhya Pradesh	187	39	18	57	13	9	7	7	93	280	33.7	85.7	- 0.9
Bihar	231	38	18	56	14	11	4	6	91	322	27.8	14.9	- 1.4
Group C	235	50	20	70	16	11	6	6	109	344	31.5	43.8	- 0.9
Himachal Pradesh	869	33	26	59	14	13	neg	21	107	976	11.0	5.7	0.7
Jammu & Kashmir	1205	73	35	108	15	9	2	18	152	1357	11.5	15.9	4.6
Tripura	1038	19	16	35	5	neg	-	3	43	1081	4.1	16.1	- 0.96
Manipur	1541	18	49	67	20	neg	-	-	87	1628	5.5	7.7	2.1
Nagaland	4452	25	145	170	60	21	2	7	260	4712	5.6	6,4	2.9
Meghalaya	1409	37	64	101	66	6	-	13	186	1595	11.7	4.5	0.3
Group D	1271	45	38	83	20	8	1	16	128	1399	9.4	11.0	2.1
Grand Total	277	121	32	153	22	25	9	6	215	492	43.7	102.2	1.0
Groups A+B+C	255	123	32	155	22	25	9	6	217	472	46.0	104.4	0.9

Abbreviations: LIC : Life Insurance Corporation; ARDC: Agricultural Refinance and Development Corporation
REC : Rural Electrification Corporation; RBI : Reserve Bank of India.

contd.....

(Table 2 continued)

Notes:

1. Net budgetary transfers = States' share of Central taxes + Grants + Fresh Loans minus Repayment of old loans and interest charges.

2. a) Figures given for commercial bank credit represent difference between the outstanding credit at the end of June 1976 and that at the end of June 1969. While credit figures for June 1976 are available according to the district of utilisation of credit (i.e. where the unit utilising the credit is located), the figures for June 1969 are available on the basis of the district of sanction only. We have estimated the figures for June 1969 according to utilisation by applying the proportion between figures as per utilisation and as per sanction as at the end of December, 1972, the earliest point of time for which data on end use basis are available. The underlying assumption made by us is that the ratio has not undergone substantial changes between June 1969 and December 1972.

Sources of Data: (1) Basic Statistical Returns, June 1976, RBI (unpublished)

(2) Basic Statistical Returns, December 1972; and

(3) Report on Currency and Finance, 1974-75 p.108-109

b) Figures for commercial bank investments represent difference between the outstanding investments of commercial banks in the securities of State Governments, and other State associated bodies as at the end of March, 1976 and March 1969.

Sources of Data: (1) Statistical Tables Relating to Banks in India (1969) and (2) Trends in Investments of Scheduled Commercial Banks 1974-1976, Reserve Bank of India Bulletin, February 1977, p.156.

3. Figures with respect to LIC represent the difference between the loans and investments outstanding as at the end of March 1976, and March 1969. LIC makes investments not only in State associated bodies but also in the shares and debentures of industrial units. These have been allocated according to the State of utilisation (i.e. where the factories are located).

Source: Annual Reports of LIC, for various years

4. The figures are of gross disbursements, made during the seven-year period, by the term lending institutions catering to industry, ARDC and REC. The State-wise disbursements net of repayments were not ascertainable either from the annual reports of these institutions or through correspondence.

(contd.......)

5. Reserve Bank of India (RBI) grants credit to co-operatives in three ways: (1) refinance to State-Co-operative Banks; (2) subscription to debentures of Co-operative Land Mortgage Banks; and (3) advances to State governments to enable them to subscribe to the share capital of Cooperatives in the States. Refinance to Cooperatives is the most important means of RBI Credit and is mostly of short term nature to cover short term credit to finance seasonal agricultural operations including marketing. Generally they are liquidated by the end of the production cum marketing cycle. The gross figures are of advances made between July 1969 and June 1976 and the net figures are the outstandings at the end of June 1976 minus outstandings at the end of June 1969.

Deposits of State Cooperative banks with the RBI are not deducted in arriving at the net RBI credit in the absence of data. But these are likely to be only of small magnitudes.

Sources of Data: (1) "Review of the Cooperative Movement in India", and (2) The Statistical Statements relating to the Co-operative Movement in India, Reserve Bank of India (various years).

6. All States except Group D States have been ranked in descending order according to their per capita State domestic product (1967-70). Group D States have been shown separately in view of the special considerations which usually have gone into the determination of budgetary transfers in their favour.

Table 9. Centre-State ...

States	Net Budgetary transfers	Commercial Banks			L I C	Term lending to industry	ARDC	R E C	Total institutional	Institutional & budgetary	RBI advances to cooperatives (Gross)
		Credit	Investments	Total							
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Gujarat	81	286	147	257	145	72	311	183	224	144	233
Haryana	84	154	175	158	250	172	433	133	180	126	151
Maharashtra	95	255	128	228	118	272	122	100	214	147	285
Gujarat	93	136	159	141	236	236	200	67	162	122	298
West Bengal	100	121	119	120	77	108	-	100	109	104	13
Group A	94	188	134	176	141	188	133	100	170	127	190
Tamil Nadu	72	168	144	163	141	156	156	50	156	109	214
Kerala	113	97	125	103	150	72	22	50	99	107	68
Orissa	128	20	97	36	105	44	11	150	46	92	28
Assam	178	33	78	42	73	80	-	83	49	122	1
Karnataka	79	161	119	152	100	148	178	83	146	108	121
Andhra Pradesh	88	68	88	72	73	48	133	100	73	81	69
Group B	99	102	113	105	105	96	111	83	103	101	104
Uttar Pradesh	82	51	63	54	68	40	78	67	55	70	36
Rajasthan	134	46	100	58	132	60	44	167	68	105	62
Madhya Pradesh	68	32	56	37	59	36	78	117	43	57	84
Bihar	84	31	56	37	64	44	44	100	42	65	15
Group C	85	41	63	46	73	44	67	100	51	70	43

Contd......

(Table 3 contd.)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Himachal Pradesh	314	27	81	39	64	52	-	350	50	198	6
Jammu & Kashmir	435	60	109	71	68	36	22	300	71	276	16
Tripura	375	16	50	23	23	-	-	50	20	220	16
Manipur	556	15	153	44	91	-	-	-	40	331	8
Nagaland	1607	21	453	111	273	84	22	117	121	958	6
Meghalaya	509	31	200	66	300	24	-	217	87	324	4
Group D	459	37	119	54	91	32	11	267	60	284	11
Grand Total	100	100	100	100	100	100	100	100	100	100	100
A + B + C	92	102	100	101	100	100	100	100	101	96	102

See Table 2 for Abbreviations and Notes

Table 4: Credit, Investment, Deposit Ratios of Commercial Banks, 1969-1976

States	Credit-Deposit Ratio	Investment-Deposit Ratio	Credit + Investment-Deposit Ratio
Punjab	78	11	89
Haryana	103	31	134
Maharashtra	73	10	83
Gujarat	62	19	81
West Bengal	50	13	63
Group A	67	13	80
Tamil Nadu	114	26	140
Kerala	75	25	100
Orissa	51	65	116
Assam	58	36	94
Karnataka	114	22	136
Andhra Pradesh	65	23	88
Group B	92	26	118
Uttar Pradesh	52	16	68
Rajasthan	66	38	104
Madhya Pradesh	48	22	70
Bihar	41	19	60
Group C	50	20	70
Himachal Pradesh	18	14	32
Jammu & Kashmir	42	20	62
Tripura	24	20	44
Manipur	32	90	122
Nagaland	30	172	202
Meghalaya	19	33	52
Group D	29	25	54
Grand Total	68	18	86