

# Spectrum of Financial Agencies in Himachal Pradesh

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## Abstract

*Financial agencies have been playing a crucial role in enriching the economic and social life of a nation. In the modern economy bankers are to be considered not merely as dealers in money but more realistically the leaders in development. However, the financial agencies i.e. banks are not just the store-house of the country's wealth but are the reservoirs of resources necessary for economic development. Since Independence, a number of developments have taken place in the banking in India. One of the major developments has been banking policy enunciated after Independence was to expand the reach of banking facilities both geographically and functionally. Although institutional credit entered the rural areas long in the form of cooperatives but these institutions were not able to meet the credit needs of rural India. Hence, the present paper endeavors to gauge the spectrum of financial agencies in Himachal Pradesh.*

Keywords: Spectrum, PSBs, Sectoral Imbalances, Credit, RRBs

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## Introduction

Even after two decades of Independence, commercial banking by and large was urban facility. With the nationalization of Reserve Bank of India in 1948 and establishment of State Bank of India in 1955 and subsequently nationalization of 14 and 6 commercial banks in 1969 and 1980 respectively, the government controlled 91 per cent of the banking business in India.

The various committees / study groups recommended to enlarge the flow of credit to the select sectors such as agriculture and small scale industries and also exports by launching various schemes like Lead Bank Scheme, Service Area Approach and Priority Sector Lending have increased the flow of credit to the hitherto neglected sectors of the economy to some extent. However, the desired institutional flow of credit could not be extended even after more than two decades of Independence. A need was felt to establish Regional Rural Banks and NABARD to cater to the credit needs of agricultural sector, small cottage industries, artisans and weaker sections in rural areas.

The government and Reserve Banks of India from time to time issued guidelines and instructions to lending institutions in directed lending to

hitherto neglected sectors of the economy. Banks were directed to prepare credit plans at the district level to finance the priority sector.

Financial and banking sector reforms initiated in 1991 & 1998 recommended reduction of targets of priority sector from 40 per cent to 10 per cent which the government did not accept keeping in view the contribution of these sectors in the economy i.e. poverty alleviation and employment generation. The Reserve Bank of India issued master circular for priority sector lending in July, 2011 superseding all the earlier circulations to remove any confusion on the part of lending institutions lending to these sectors.

In the review of literature, it has been found that the institutional viability of commercial banks in the process of economic development through credit was neglected, risk management measures were missing or inadequate, credit was provided at concessional interest rates mostly to big farmers, loans were wrongly and unprofitably allocated or misused; standard credit packages advocated were not suited to the heterogeneous needs of small borrowers, etc.

The social objective of poverty alleviation programme through subsidized credit has not been achieved as reported by many studies. In other words, the lessons learned from nationalization of banks to pre-reform era were: the viability and sustainability of financial institutions by and large was not part of earlier policy framework. Keeping the social objectives of the nation in view, it was imperative to transform the 'class banking into the mass banking'. Since then this drive has shown its impact on urban India in general and rural India in particular.

### **Evolution of Himachal Pradesh**

With the merger of thirty princely States, Himachal Pradesh came into existence on April 15, 1948 as a Union Territory. With the reorganization of Punjab on November 1, 1966, certain areas were included in Himachal Pradesh. On January 25, 1971, Himachal Pradesh was accorded the status of a full-fledged state. The State is bordered on the north by Jammu and Kashmir, Punjab on West and South-West, Haryana on South, Uttarakhand on South-East and China on the East. It is a small mountainous State in the western Himalayas. The geographical area of the State is 55,673 sq. km with an altitude ranging from 350 metres to 6975 metres above the mean sea level. Nature has bestowed Himachal Pradesh with unique beauty and splendor with its lush green valley, snow clad

Himalayan ranges, a serene, peaceful, hospitable and comfortable environment. The State has rich cultural heritage.

### **Economy of Himachal Pradesh**

The economy of Himachal Pradesh is predominantly agrarian in nature wherein horticulture dominates. The terrain of the State being hilly, tourism also plays a significant role in its economy. The economy of the state is expected to achieve a growth rate of 6.2 percent in the current financial year which will be comparatively better than the national growth. The State has been adjudged the best State among the big States in the field of Health and Investment. The climate of the State is very conducive for growing high value fruits and vegetables. The State has a potential of about 20,000 MW hydroelectric power out of which only 8432 MW has been harnessed so far till March 2014. Himachal Pradesh, despite having unique topography and associated constraints has been an equal partner in the growth process at the national level.

### **Geographical Features**

Himachal Pradesh is a small mountainous State in the western Himalayas. The geographical area of the State is 55,673 sq. km with an altitude ranging from 350 metres to 6975 metres above the mean sea level. Around one-tenth of the total geographical area of the State is available for cultivation, out of which only 20 per cent is irrigated. The small and marginal land holdings (less than 2 hectares), account for about 86.4 per cent of the total landholdings with an average size of 1.16 hectares.

Administratively the State has been divided into 12 districts. Hamirpur is the smallest and Lahaul-Spiti is the largest district. The State is divided into four zones, namely, Submountain Low Hills Zone (Zone-I) below 650 meters above the mean sea level, Mid-hills High Humid Zone (Zone-II) between 650-1800 metres, High Hills Temperate Wet Zone (Zone-III) between 1800-2200 metres and High Hills Temperate Dry Zone (Zone-IV) above 2200 metres above the mean sea level. The State has its capital at Shimla. There are 56 sub-divisions, 123 tehsils and sub-tehsils in the State. Himachal Pradesh is divided into 75 development blocks. The smallest unit for development-cum-administration is Panchayat. There are 3243 Panchayats and 20690 villages in the State.

### **Human Development Indicators**

Himachal Pradesh, with a total geographical area of 55,673 square kilometres and population of 68.56 lac; accounts for 1.7 per cent and 0.57

per cent of country's area and population respectively. Population density of Himachal Pradesh at 123 per sq. km. is much less than the national average of 363. Literacy rate of Himachal Pradesh at 83.78 per cent is significantly higher than that of the national Literacy rate of 74.0 per cent in the year 2011.

**Table No. 1: Human Development Indicators 2014**

Item	Unit	Himachal Pradesh	All - India
Population	Lakh	68.56	12101.93
Of which			
Rural	Lakh	61.67	8330.87
Urban	Lakh	6.88	3771.05
Density of Population	Per Sq. Km.	123	368
Decennial Growth Rate of Population (2001-2011)	Per cent	12.81	17.6
Sex Ratio	Females Per thousand of males	974	940
Literacy Rate	Per cent	83.78	74.0
Per Capita Income	Rupees	58,493	54,835

Source: (i) Economic Survey, GOI 2010-11 and State Economic Survey  
(ii) Census of India 2001 & 2011.

### Banking Profile of Himachal Pradesh

The State has a good network of Commercial, Co-operative, Private and Regional Rural Banks. To expand banking services at door steps in remotest of remote areas the bank envisages to open new place of business correspondents, wherever the potential is available. The Bank is taking proactive steps towards Financial Inclusion and has adopted a BC Model in two villages with the help of PACS. Recently Govt. of Himachal Pradesh has authorised the Bank to disburse pension to the retired Govt. employees all across the State. As on March 30, 2014 the State had a network of 1809 bank branches as per details given in Table No. 2.

**Table No. 2: Network of Bank Branch**

Financial Agency	No. of Banks	No. of Branches
Public Sector Banks	22	1074
Regional Rural Banks	1	188
Cooperative Banks	4	457
Private Sector Banks	7	90
Total	34	1809

Source: State Level Bankers Committee (SLBC).

UCO Bank is the convener of State Level Bankers' Committee (SLBC) and has lead bank responsibility in four districts, while Punjab

National Bank and State Bank of India, the other major banks of the State have lead bank responsibilities in six and two districts respectively. As could be observed from the Table No. 3 the total number of branches of scheduled commercial banks (including RRBs) stood at 1809 with rural branches accounting for the major share (80.2 per cent), which is much higher than 38.5 per cent at the national level. The outreach of bank services has further increased by installation of 1,056 ATMs by various banks.1 (3.4 Economic Survey of Himachal Pradesh 2013-14)

**Table No. 3: Branch Network and Population Coverage in the State (As on end-March 2014)**

Population Group	No. of Branches		Population Per Branch	
	H. P.	All India	H. P.	All India
Rural	1450 (80.2)	45177 (38.5)	—	—
Urban	359 (19.8)	72103 (61.5)	—	—
Total	1809 (100.0)	117280 (100.0)	5178	10800

Source: Banking Statistical Returns of Scheduled Commercial Banks in India, 2011.

Note: Figures in brackets indicate percentage.

Further from Table No.3, it could be observed that the average population served per branch in Himachal Pradesh at 5178 persons compared very well to the national level of 10800 persons thereby indicating well spread branch network in the State.

#### **Scheduled Commercial Banks (Excluding RRBs)**

The role and responsibility of banks has well recognized as a partner for accelerating the socio economic growth wheel of the State. The flow of credit in all priority areas has been enhanced. The Banks are actively involved for implementation of various financial Inclusion initiative recently announced by GOI. The State had already attained the status of 100% Financial Inclusion in the year 2007 and marching ahead to achieve 100% credit inclusion. For banks the Financial Inclusion is not an option but a compulsion to enlarge its future business plan to cover all vulnerable section of society deprived the benefit from the banking sector. The Credit Deposit ratio of the State compared to All India figures for the Scheduled Commercial Banks excluding Regional Rural Banks alone is given in Table No. 4.

**Table No. 4: Deposits, Credit & Credit Deposit ratio of SCBs (Excluding RRBs)**

(As at end-March 2014)

(Amount in Rs. million and Credit Deposit ratio in per cent)

Population Group	Himachal Pradesh			All India		
	Deposits	Credit	CD Ratio	Deposits	Credit	CD Ratio
Rural	299083 (55.6)	101576 (52.9)	34.0	7871511 (9.9)	5246134 (8.4)	66.6
Semi-urban	135393 (25.2)	61755 (32.1)	45.6	11410772 (14.3)	6640959 (10.6)	58.2
Urban	103358 (19.2)	28849 (15.0)	27.9	60274929 (75.8)	50933731 (81.1)	84.5
Total	537834	192180	35.7	79557212	62820824	79.0

Note: Figures in brackets are percentages to total.

Source: Quarterly Statistics on Deposits and Credit of Scheduled Commercial Bank.

As it could be observed from the above, there is a need for improvement in respect of Credit Deposit ratio of the State compared to All India figures.

#### Regional Rural Banks (RRBs)

There is one Regional Rural Bank operating in the State, viz., Himachal Pradesh Gramin Bank (HPGB) (as Parvatiya Gramin Bank has been merged into HPGB) with Head Office at Mandi. It is sponsored by Punjab National Bank As on 31st March, 2014; HPGB had 188 branches spread across the entire State. At the end of March 2014, total deposits mobilised by RRBs was broadly in alignment with the All-India growth. However, the Credit Deposit ratio of RRBs in Himachal Pradesh was lower than the all-India level (Table No.5.) which is the area of concern.

**Table No. 5: Regional Rural Banks (RRBs) in Himachal Pradesh**

(Amount in Rs. million and Credit Deposit ratio in per cent)

State	March 2013			March 2014		
	Deposit	Credit	CD Ratio	Deposit	Credit	CD Ratio
H.P.	20729 (1.0)	8980 (0.7)	43.3	24652.7 (1.1)	9330 (0.6)	39.5
All India	2064610	1366901	66.2	2332723.4	1588819	68.1

Note: Figures in brackets indicate proportion to All-India basis.

Source: Quarterly Statistics on Deposits and Credits of Scheduled Commercial Bank

#### Rural Co-operative Credit Institutions

The Himachal Pradesh State Co-operative Bank Ltd. (HPSCB) is the apex bank with a network of 190 branches operating in 6 districts, viz. Shimla, Kinnaur, Bilaspur, Mandi, Sirmour and Chamba where it extends

direct finance to co-operative credit societies under the two-tier structure. There are two central co-operative banks in the state, Kangra Central Cooperative Bank Ltd. (KCCB) with 182 branches covering 5 districts (Kangra, Hamirpur, Kullu, Una and Lahaul and Spiti) and Jogindra Central Co-operative Bank Ltd. (JCCB) operating with 22 branches in Solan district. As on 31st March, 2014 the total deposits of cooperative banks aggregated Rs. 13335.99 crore as against Rs. 12344 crore on 31st March, 2013. The advances outstanding aggregated Rs.6608.31 crore as on 31st March, 2014 as against Rs. 5964 crore on 31st March, 2013. The village level short term credit needs are being met through a network of 2137 Primary Agriculture Credit Societies.

### **Conclusion**

The banks are the lifelines of the economy and play a catalytic role in activating and sustaining economic growth, especially, in developing countries and India is no exception. Our banking system, at the present juncture is, however, facing significant challenges from several quarters. These challenges, if not addressed quickly and adequately, may result in loss of opportunities as and when the economic growth starts picking up momentum. In a sense, it has implications for both- the banks as well as for the economy as a whole, because a strong banking system is one of the essential pre-requisites in the quest for growth.

Given the focus on inclusive growth, banks are expected to renew efforts to broaden the scope of financial inclusion and use viable business models to achieve their targets in Himachal Pradesh. Though branch network is well spread the performance of branches pertaining to banking services would improve with pick-up in economic activities, especially the services sector in the State. The increase in credit is lower than the increase in deposit that is why the C-D Ratio is not up to the mark. Meanwhile, credits get eroded to the other states which are the main cause of declining C-D Ratio and it is needed to be worked out as soon as possible. Finally, sustained pursuit of forward looking strategies aimed at mitigating risks, diversifying revenue sources and improving customer relationships should strengthen the overall growth of the banking sector in the State.

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