

### State Bank and Rural Credit

WHILE recommending a public majority holding in the Imperial Bank, the authors of the Rural Credit Survey had contemplated the creation of a strong, integrated, State-sponsored commercial banking institution with branches spread over the whole country to take over cash work from non-banking treasuries, to provide extended remittance facilities to co-operative and other banks—and to funnel urban funds into rural development. These expectations have been broadly fulfilled by the State Bank since its inception in July 1955, though the last objective is hardly mentioned now.

From July 1955 till 1964 the Bank opened 651 new offices, bringing the total number of its offices to 1,147. Of these, as many as 217 offices are at places with a population of less than 10,000. In 1964 itself, 30 branches were opened under the second branch expansion programme, as compared with 20 in the previous year. Out of 145 branches proposed to be opened during the period July 1960 to June 1965 under this programme, 100 have already been opened. To extend further banking facilities to rural and semi-urban areas, the Bank has embarked on its third programme of opening 319 branches at non-banking treasury and sub-treasury centres over five years beginning January 1964.

The Bank's progress in 1964 has, indeed, been phenomenal. Total advances increased from Rs 290 crores to Rs 393 crores in 1964 and the credit deposit ratio rose steeply from 49 to 60 per cent. Deposits expanded by Rs 64 crores to Rs 659 crores. Its operations have been especially prominent during the current busy season; it has accounted for 45 per cent of the total bank credit expansion and two-thirds of outstanding borrowings from the Reserve Bank.

Commercial operations of the State Bank have no doubt been spectacular during all these years but developmental assistance, especially to co-operatives, agriculture and smallscale industries, is still relatively insignificant. The amount outstanding from co-operative institutions was only 2.5 per cent of total advances at the end of September 1964, in absolute terms Rs 10 crores against Rs 5 crores in 1960. For small industries, the amount outstanding was Rs 31 crores. The

limits for rural and small industry finance are, of course, much higher: at the end of 1964 Rs 62 crores to co-operative institutions and Rs 130 crores to small industries. Whereas the Bank has been able to mobilise savings in rural and semi-urban areas by its intensive programme of branch expansion, the credit extended in these areas has thus not been commensurate. On the other hand, the State Bank has been lending very heavily to industries in the private and public sector, supplementing and competing with other commercial banks. Ruling 1964 the Bank's advances to industry increased from Rs 211 crores to Rs 286 crores and their proportion to total advances rose to 76 per cent.

This represents to some extent a diversion of funds from the rural to the urban sector, contrary to one of the objectives laid down in 1955. However, realising that the bottleneck lies in the cooperative movement itself, the Bank has decided to go directly into rural credit with Pilot Centres, which will be set up in areas where existing rural credit institutions are weak or lagging behind. Together with the Bank's decentralisation programme, this measure should help to step up the flow of institutional credit to less developed areas.

### Nagaland: First Gains

THIS is a suitable time to reflect on the progress that has so far been achieved in the Nagaland peace talks. The ceasefire is in force until March 6, and will most probably be extended. A parliamentary delegation has visited Nagaland—to assure the Nagas that New Delhi is interested in them and their State. The Peace Mission has come out in favour of Nagaland remaining within the Indian

Union, thus scotching the accusation that it is nothing but a meddlesome, anti-Indian, and trouble-seeking body. Most important of all, the reply by the Naga leaders to the Peace Mission's proposal has been encouraging. The phrase "the Nagas are prepared to enter into any kind of relationship with India" suggests that the Naga leaders are willing to consider something less than independence for Nagaland.

None of these factors can give hope that the problem will be solved immediately, without further protracted negotiations. But things are moving, if not as rapidly as could be desired, at least slowly end steadily in the right direction. The most tangible asset so far is the continuance of the ceasefire. Peace in Nagaland gives the Government the opportunity to carry out much-needed development, which the years of warfare have completely prevented. Roads can be built, schools and hospitals provided, and freedom of travel for Nagas and other Indians can open Nagaland's windows onto the world, instead of isolating it from all outside influence. Once the population and this includes members of the guerilla force too, has felt the benefits of peace, it is likely to view with disfavour any further efforts at warfare.

The efforts of the Peace Mission have brought Naga affairs to the talking point, instead of the righting point. It is vital that nothing should occur to disrupt this state of affairs and negative the progress of the last few months. In this context, the concern of some MPs over the handling of Naga affairs by the External Affairs Ministry is somewhat misplaced. At this juncture, the situation is very delicate, and the government should do nothing which might anta-

### NOTICE

WITH effect from March 1, 1965 the price of *The Economic Weekly* will be raised to 75 paise. Correspondingly the annual subscription will be Rs 36 in India, Pakistan and Ceylon, and the half-yearly subscription Rs 20. Foreign annual subscription rates will be £ 3 10s or \$ 10.

For the last 16 years, the price of *The Economic Weekly* has been maintained unchanged in spite of heavy increases in costs. Circumstances beyond our control now force us to take this step and we hope readers will continue to extend to us the same patronage as in the past.

A FERNANDES  
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gonise the Nagas again. Those who hold that India should take a 'strong line' have apparently learnt nothing from the years of frustrating; warfare. Another important point that has received relatively little notice is the tentative attempts being made at unity among the Nagas themselves. The December meeting between the rebels and other Nagas did not end in complete agreement — no one expected it to — but it indicated their concern to end their quarrels.

The outlook for the future is hopeful, as long as the talking continues. Talks should go on, likewise the cease-fire. Each side has been ready to enter the talks without reservations so far. No pressure should be put on the Government of India to try and force the pace of progress, or worse still to try and issue any ultimatums. India's best hope of achieving what she wants is by showing the Nagas the real benefits of association with India. As this is only possible while the cease fire lasts, it should be a matter of concern to all that it does last indefinitely, thus enabling the Nagas and India to arrive at the best solution of a complex, but by no means insoluble problem.

### Story of a Railway Project

IN 1956 the Railway Board decided to set up a Loco Component Works at Vara nasi to manufacture components for steam locomotives. The following history of this project is taken from the Comptroller and Auditor General's latest report on the Railways, released this week:

April 1956: Engineer-in-Chief appointed and the nucleus of the organisation set up.

March 1957: Project reviewed by the Railway Board in the background of the policy of progressive dieselisation and decision taken to go ahead with the project on grounds of operational necessity although the Ministry of Finance did not regard it as of sufficiently high priority for release of foreign exchange.

September 1957: Work relating to construction of building commenced.

April 1958: Project estimate for Rs 4.79 crores approved fixing March 31, 1961 'as the date for the completion of the project,

Work temporarily suspended from

February 1959 to June 1960 due to difficulties in arranging adequate power supply.

Work suspended again from May 1961 to February 1962 due to difficulties in settling the design of some shops.

Meanwhile, an expenditure of Rs 28.01 lakhs was incurred on the pay and allowances of the staff employed between April 1956 and March 1962 and Rs 14.54 lakhs on other general charges against the provision of Rs 37.94 lakhs and Rs 23.56 lakhs respectively on this account in the project estimate. The expenditure on the construction of workshops and stores buildings and procurement of workshop equipment was, however, only Rs 28.19 lakhs and Rs 29.14 lakhs respectively against the provision of Rs 133.22 lakhs and Rs 168.11 lakhs in the project estimate.

### Letter to Editor

## Foreign Private Investment

ANANT NEGANDHI, presumably an Indian, has attempted to present his findings on the Government's decision-making apparatus as seen "through the foreign investor's eyes" (*The Economic Weekly*, January 23, 1965) after a fruitful stay abroad at the University of Michigan. May 1, a foreigner who has spent a few years in India, attempt to present some aspects of foreign investment as seen "through the eyes of government officials"?

Negandhi argues that red tape, hureaucracy and the lack of a clear-cut foreign investment policy are the factors inhibiting the flow of private foreign capital into India. In a planned economy, however, the foreign investment policy is incidental to and an outcome of plan priorities and since these priorities evolve over time, the sectors in which foreign investment is welcome also change *pari passu*. Thus, a sector in which foreign investment would be welcome a decade ago would not warrant the same facilities today. As Negandhi would have it, the Indian government should specify the sectors in which foreign investment would be welcome and then adhere to this policy, at least for a few years.

Again, the costs of servicing foreign equity investment are known to be

No loco components were actually produced upto the end of March. 1962. An attempt in May 1960 to undertake manufacture of 10,000 super heater elements for Chittaranjan Locomotive Works proved abortive, resulting in an expenditure of Rs 12,630 on freight and handling charges for collecting and returning raw materials, etc. In another attempt at production, 52 axle box bodies were machined for a private company at a cost of Rs 20,847 in 1961, but a payment of Rs 2,775 only was received as the private company did not agree to the actual cost incurred.

By the end of 1961-62, a total expenditure of Rs 1.95 crores, or slightly over 40 per cent of the project estimates, had been incurred on the works. Then it was decided to abandon the project and the project accounts were finally closed on March 31, 1962!

extremely high in many sectors of Indian industry and one cannot but have sympathy for the "bureaucrats" and their "red tape". The fact that foreign private capital and technical know-how comes into India notwithstanding the hurdles mentioned by Negandhi is an indication not of the samaritan spirit of the foreign companies as much as the highly lucrative Indian market. In this context regular readers of *The Economic Weekly* (and one hopes that Negandhi is one) will recall Michael Kidron's 'Behaviour of Foreign Capital' (*The Economic Weekly*, Special Number, July 1964). A reading of Kidron's exhaustive study should convince Negandhi that what is required is perhaps an even less certain foreign investment policy, more red tape and more bureaucracy—if this could ward off the foreign investor! Foreign investment in India hardly needs to be encouraged; it has to be suffered as a *quid pro quo* for Government aid. While public pronouncements discouraging foreign investment cannot be made for reasons only too well known, at least intelligent young Indian economists should know better,

MARIA LUTRICIA

Bombay,  
February 14.