CHAPTER - VII

SUMMARY AND CONCLUSIONS

In this Chapter, summary of the analysis and conclusions are given.

The present study has a number of objectives. The first objective is 'to study branch expansion, deposit mobilisation and credit deployment in the rural, semi-urban and urban areas under the Lead Bank Scheme'.

The First Phase of the Lead Bank Scheme deals with branch expansion (Chapter IV). The Lead Bank of the district had taken satisfactory steps to increase its rural and semi-urban branches. The growth rate of the branch expansion of the Lead Bank was found to be greater than that of Non-Lead Banks in both rural and semi-urban centres. However, in urban centres the Non-Lead Banks were found leading in branch expansion. During the Second Phase in all centres the Lead Bank was in the forefront in branch expansion excepting the semi-urban centres.

The Lead Bank had a higher growth rate in rural centres with regard to deposit mobilisation as well as credit deployment throughout the period of analysis. Non-Lead Banks during the First Phase were found leading in semi-urban and urban centres with regard to deposit mobilisation and credit deployment. During the Second Phase however, the Lead Bank had higher rate of growth of deposit mobilisation in all centres. Lead Bank in the Second Phase had higher rate of credit deployment in semi-urban and urban centres than Non-Lead Banks.

Thus, the performance of the Lead Bank in terms of branch expansion, deposit mobilisation and credit deployment was satisfactory.

The second objective is 'to analyse the credit-deposit ratio of the Lead and Non-Lead Banks in Coimbatore District'. This has been analysed under the First and Second Phase of the Lead Bank Scheme in Chapter IV.
The credit-deposit ratio of the rural, semi-urban and urban branches in the First Phase had shown a declining trend over the years.

In rural centres it was less than one, both for the Lead and Non-Lead Banks. In semi-urban centres, the average credit-deposit ratio was less than one for the Lead Bank whereas, in the case of Non-Lead Banks it was greater than one. However, the credit-deposit ratio in the urban centres was found to be greater than one for both the Lead and Non-Lead Banks. This phenomenon explains how funds mobilised in other areas were deployed in the urban centres of the district.

In the Second Phase credit deposit ratio for the rural, semi-urban and urban centres for both the Lead and Non-Lead Banks showed a declining trend.

For all years credit-deposit ratios of the Lead Bank were lower than that of the Non-Lead Banks, indicating greater deposit mobilisation by the Lead Bank in rural, semi-urban and urban areas.

The credit deposit ratio of the Non-Lead Banks in urban centres was greater than one in all years, whereas it was less than one in the case of the Lead Bank.

Thus, the Lead Bank concentrated more on deposit mobilisation whereas Non-Lead Banks on deployment of credit in the District.

The third objective is 'to study the sectoral flow of credit under the Lead Bank Scheme'. This has been analysed in detail in the Fifth Chapter.

Sector-wise flow of credit is analysed with the help of performance ratios. The actual flow of credit has been taken in the numerator and target in the denominator and the resulting rational number will indicate the performance ratio. When it is equal to one it implies that the target has been realised cent percent and when it is less than one it implies that the target has not been fully realised.
Agriculture continued to be the single dominant sector in terms of target allocation. However, the relative share of Agriculture had declined over the years whereas a substantial increase was witnessed in Small Scale Industrial Sector and Other Sectors.

There was no consistency in the annual credit sanctioned to priority sectors. The flow of credit into various sectors exhibited erratic variations with no relationship whatsoever to the targets set for these sectors.

The performance ratio of Agriculture was low compared to Small Scale Industrial Sector and Other Sectors. This may be due to the adoption of the orthodox approach of security orientation on the one hand and insistence on recovery criterion on the other. This may also be due to the non-availability of adequate trained personnel in the banks concerned to cater to the credit requirements of Agriculture and to realise the target set for that sector.

Thus, the wide gap evident between target allocation and actual performance indicates that the District Credit Plans have not been properly drawn up and faithfully implemented.

Scheme-wise flow of credit to Agriculture was analysed using performance ratios. Crop loans were dominant in terms of target-setting both in relative and absolute terms. But, the flow of credit to this scheme had registered a negative growth rate and the percentage share of bank credit sanctioned showed a consistently declining trend.

On the other hand, Other Agricultural Activities and Allied Agricultural Activities had experienced a positive growth rate and the performance exceeded the target.

The performance ratio for Agriculture had registered a fall due to a decline in the performance ratio of crop loans.
Thus, the Credit to Agriculture still remains security oriented, despite claims made for development oriented bank credit. Lack of trained manpower to process credit requirement of Agriculture, to supervise the utilisation of loan etc., may also be attributed to this state of affairs.

Scheme-wise flow of credit in Small Scale Industrial Sector has been analysed. The Small Scale Industry occupies a pride of place in terms of annual flow of credit.

Small Scale Industry was predominant in terms of target and attainment both in relative and absolute terms. The flow of credit to this Industry showed that the performance had exceeded the target. However, the percentage share of actual credit allocation had shown a declining trend over the period.

In terms of target setting the weightage given to Handloom and Cottage Industry had been declining. The actual flow of credit to Handloom and Cottage Industry also fell short of the target.

Thus, Handlooms and Cottage Industry seemed to have been neglected by Commercial Banks during the period of analysis.

The flow of credit to various schemes under this sector also had recorded irregular variations without proper relations to the targets set.

Thus, lack of consistency is noticeable in the implementation of credit plan with regard to Small Scale Industrial Sector.

Flow of Credit to Other Sectors was analysed. Among the Schemes, Retail Trade and Small Business was predominant in terms of annual flow of credit.

Scheme-wise analysis under Other Sector points out that Road Transport Operators had done extremely well in terms of higher growth rate of actual flow of credit and better performance ratio. However in comparing ex-ante and ex-post
share of credit to Road Transport in percentage terms one may find little relevance between the target and achievement.

Commercial Banks seemed to have favoured only Transport Operators because of security considerations as vehicle ownership and insurance coverage produced sufficient capital base, that would cover the risk in lending.

The flow of credit to Rural Housing, Education and Consumption had registered a negative growth rate.

Performance ratio of Other sectors exceeded unity, in all segments during the First Credit Plan period. In the Second Credit Plan period Road Transport improved its performance index. The other segments, Rural Housing, Education and Consumption had performed very badly during this period. The overall performance ratio had also registered a steep decline during the Second Credit Plan period.

The lower growth rate and fall in performance ratio during the Second Credit Plan period (1980-82) indicated that commercial banks were neglecting Other Sectors.

The fourth objective is 'to analyse the role of various institutions in deployment of credit to priority sectors in Coimbatore District. This is also analysed in Chapter V.'

An analysis of institution-wise flow of credit to Agriculture is taken up. Among the institutions Co-operative sector was dominant in terms of planned flow of credit.

However, the performance of Co-operative sector in the matter of provision of credit to Agriculture was highly unimpressive. It is evident from an inter-institutional comparison that the co-operative sector which had taken lion's share in target allocation under both the credit plans had registered the lowest performance ratio among all institutions in the district. The flow of credit to Agriculture from co-operative
sector had registered a negative growth rate.

The State Bank and Nationalised Banks were assigned crucial role in the provision of credit to Agriculture.

Performance ratio of the State Bank of India and its subsidiaries indicated that Agricultural Credit over the period had negative growth rate.

The Nationalised Banks had done extremely well in the provision of credit to Agriculture.

The performance of the Lead Bank was quite impressive. Every year the performance exceeded the target, and the actual amount sanctioned registered a positive growth rate.

An analysis of Institution-wise flow of credit to Small Scale Industrial Sector points out that Nationalised Banks occupied a pride of place among the group of institutions in terms of annual flow of credit to Small Scale Sector in Coimbatore district. In both absolute and relative terms the planned flow of credit increased.

An analysis of actual flow of credit to Small Scale Industrial Sector indicates that the Nationalised Banks had advanced more credit to Small Scale Industrial Sector than other Institutions in the district. However, the flow of credit to Small Scale Industrial Sector from the Nationalised Banks had registered a negative growth rate.

The State Bank of India and Non-Nationalised Banks had experienced a positive growth rate in the provision of credit to Small Scale Industrial Sector. The trend was more or less similar in the case of the Lead Bank.

An analysis of flow of credit to Other Sectors shows that Nationalised Banks were predominant among the different groups of institutions in terms of planned annual flow of credit to Other Sectors.
An inter-institutional comparison indicates that among the group of institutions, the Nationalised Banks had advanced greater volume of credit to Other Sectors than any other institution.

For State Bank of India and its subsidiaries the annual flow of credit had increased both absolutely and relatively. However, for Non-Lead Banks it had registered a rise in absolute terms only.

The Co-operative sector had a minimum share in target allocation compared to other institutions.

The performance index was more than unity for all Nationalised Banks and the Lead Bank.

Besides, Nationalised Banks, Non-Nationalised Banks had sanctioned substantial credit to Other Sectors.

The last objective is to critically analyse the significance of factors influencing deposit mobilisation as well as credit deployment during the period 1969-82.

An attempt has been made in the Seventh Chapter to explore the possibility of identifying determinants of deposits as well as advances with the help of multiple-regression analysis. In the first instance, Deposit was taken as a dependent variable with Number of Branches ($X_1$) Advances ($X_2$) and Income ($X_3$) as explanatory variables. Regression equations have been computed for rural, semi-urban and urban centres as well as for the District as a whole. For the entire period (1969-82) irrespective of population groups, the multiple co-efficient of determination had been highly significant, implying that the equations consisting of the three explanatory variables are able to explain the variations in the dependent variable, namely Deposit, satisfactorily.

Branches ($X_1$) are normally considered an important explanatory variable influencing the determination of Deposits. The regression co-efficient $b_1$ was having
negative sign for the whole district and for semi-urban and urban centres in respect of Lead, Non-Lead and All Banks. In the case of rural centres, the Lead Bank had a positive sign. However, $b_1$ was not significant in all these cases. Further the negative sign before the regression coefficient was something unusual. Normally a positive sign is anticipated. This may be explained in the following way. New branches were opened as a matter of policy compulsion. It would take some years for banks to consolidate the newly opened branches and make them viable in terms of deposit mobilisation. The period of study represented an unusual situation and therefore it was associated with unusual signs.

The next important explanatory variable is Advance ($X_2$). The regression coefficient $b_2$ was not only positive but also significant for the entire district and for all population groups irrespective of Lead and Non-Lead Banks. Thus Advances made by the bank influenced significantly deposit mobilisation.

The third explanatory variable is District Income ($X_3$). The regression coefficient $b_3$ is normally expected to have a positive sign indicating that Bank deposit is a positive function of Income. This hypothesis holds good for the district as a whole as well as in semi-urban and urban centres for both the Lead and Non-Lead Banks. However, in rural centres the regression coefficient had a negative sign. The result of the regression analysis cannot be dismissed as unacceptable because of the negative sign. It may be interpreted that the rural rich had been accustomed to keep their Bank Accounts in semi-urban and urban centres long before the establishment of rural branches, and such a tendency could not be reversed immediately or in a short span of time.

Even in the case of semi-urban and urban centres, the regression coefficient for District income was not found to be significant in the case of Non-Lead Banks, whereas it was significant for the Lead Bank.
As the variable District Income did not have significant influence over deposit mobilisation, the variable District income was replaced by another variant of income, namely District Agricultural Income for rural centres. The sign of regression co-efficient was not altered on account of the substitution of Agricultural income for rural areas.

For analysing deposit mobilisation in the Urban Centres District income was replaced by District Non-Agricultural Income and the signs of the regression co-efficient $b_3$ were not in any way different from the earlier analysis.

The regression constant $b_0$ had a positive sign only in respect of semi-urban centres (but not significant) for Non-Lead Banks and it is negative in the case of other centres.

**Advances:**

Advances are considered a function of Branches, Deposits and Net District Product. Regression equation had been computed for rural, semi-urban, and urban and for the entire district. For the entire period (1969-82) irrespective of different population groups the multiple of co-efficient of determination had been highly significant implying that the equation consisting of the three explanatory variables were able to explain the variations in the dependent variable, namely Advances, satisfactorily.

Branches ($X_1$) were taken as an important explanatory variable for determining Advances. For the entire district and for the semi-urban centres it has positive but insignificant value for $b_1$. However, it had negative value of the rural and urban centres of the Lead Bank for the period of analysis. Therefore, no emphasis could be laid on the influence of Branches on credit expansion in the absence of significant 't' values for the regression co-efficients.

Next important explanatory variable was Deposit. The regression analysis conclusively and emphatically pointed out that Deposits did influence Advances, and
regression co-efficient $b_2$ was found to be significant at 1 percent level for both the Lead and Non-Lead Banks not only for the entire district but also for the rural, semi-urban and urban centres.

Net District product was taken as a third explanatory variable ($X_3$) and its regression co-efficient was not significant (at 5 percent level) wherever it was positive and it had a negative sign in the case of the Lead Bank in respect of semi-urban centres as well as entire district and in the case of Non-Lead Banks for rural centres. In other words the impact of Net District Product on Bank Advances was marginal and in certain cases inconclusive. Therefore, no precise conclusion could be drawn.

As Net District product had little perceptible influence on Advances in different centres, it had been replaced by Agricultural Net District product. This substitution of Agricultural Net District Product brings neither any significant change in the parameters estimated in general nor any change in the sign of parameters in rural centres.

The substitution of Non-Agricultural Net District product in the analysis of urban centres also did not alter the nature and significance of the results of parameter estimation.

The regression constant $b_0$ was positive in the case of the Lead Bank of the semi-urban and urban centres as well as for the entire district and negative for the rural centres. The positive sign implied the possibility of transfer of funds from other centres and other districts to meet the credit requirements. In the case of Non-Lead Banks the regression constant was positive (but not significant) in respect of rural and urban centres and negative in respect of semi-urban centres and for the entire district. One cannot be emphatic in drawing a definite conclusion because the 't' values were not significant at conventional levels.
The existence of serial correlation was sought to be identified by means of Durbin-Watson Statistics. Wherever serial correlation was suspected, 15 first difference equations had been estimated. The results obtained by the difference equations did not in any way alter the basic conclusions drawn from the level equation. The lagged variable seemed to have significant influence in the determination of dependent variable.