Table No. 2.3

Saving Deposits With Commercial Banks

(Rupees Crores)

<table>
<thead>
<tr>
<th>Last Reporting Friday</th>
<th>Scheduled Commercial Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970-71</td>
<td>1408</td>
</tr>
<tr>
<td>1980-81</td>
<td>10667</td>
</tr>
<tr>
<td>1990-91</td>
<td>49542</td>
</tr>
<tr>
<td>1991-92</td>
<td>55554</td>
</tr>
<tr>
<td>1992-93</td>
<td>57256</td>
</tr>
<tr>
<td>1993-94</td>
<td>69434</td>
</tr>
<tr>
<td>1994-95</td>
<td>89019</td>
</tr>
<tr>
<td>1995-96</td>
<td>99347</td>
</tr>
<tr>
<td>1996-97</td>
<td>112570</td>
</tr>
<tr>
<td>1997-98</td>
<td>136770</td>
</tr>
<tr>
<td>1998-99</td>
<td>160889</td>
</tr>
<tr>
<td>1999-2000</td>
<td>187173</td>
</tr>
<tr>
<td>2000-2001</td>
<td>217452</td>
</tr>
<tr>
<td>2001-2002</td>
<td>272119</td>
</tr>
</tbody>
</table>

banking, we have come down to retail social developmental banking. From large cities banks have moved to towns, villages and to unheard of hamlets, from large and medium industry to small scale units and to tiny one; from big agency houses to small business, from qualified professionals to barbers and washerman, to the tribals and to the physically handicapped; from the privileged to the altogether unprivileged. In fact, this is unprecedented in the history of banking anywhere in the world.

Geographical expansion and functional diversifications in newer and complex areas encompassing millions of clientele in dispersed and far flung areas have been the hallmark of this phenomenal growth. The total number of commercial bank offices has increased from 8,321 at the time of nationalisation to 68,000 bank offices at the end of March, 2000. In 1991 gross domestic saving was 23.8 percent which increased to 25.8. percent in 1995-1996, but it was slow down to 22.3 percent in the year 1999-2000. Gross Domestic Capital formation rate was estimated higher at 26.5 percent in 1995-96 while it was recorded lowest at 21.2 percent in 1998-99.

The following Table 2.4 indicates sectoral and industry wise deployment of gross bank credit of scheduled commercial banks (fiscal year variation).
Table No. 2.4

Sectoral and Industry wise Deployment of Gross Bank Credit of Scheduled Commercial Banks (Fiscal Year Variation)

(Rupees Crores)

<table>
<thead>
<tr>
<th>Sector/Industry</th>
<th>2000-01 upto (September)</th>
<th>2001-02 (September)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Absolute</td>
<td>Percent</td>
</tr>
<tr>
<td>Priority sector*</td>
<td>7173</td>
<td>5.4</td>
</tr>
<tr>
<td>Industry (medium &amp; large)</td>
<td>11214</td>
<td>7.6</td>
</tr>
<tr>
<td>Wholesale trade (other than food procurement)</td>
<td>721</td>
<td>4.3</td>
</tr>
<tr>
<td>other sectors</td>
<td>2771</td>
<td>3.5</td>
</tr>
<tr>
<td>Export credit</td>
<td>891</td>
<td>2.3</td>
</tr>
<tr>
<td>Petroleum</td>
<td>2916</td>
<td>32.5</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>1561</td>
<td>21.6</td>
</tr>
<tr>
<td>Chemical Group</td>
<td>1870</td>
<td>8.0</td>
</tr>
<tr>
<td>Electricity</td>
<td>1560</td>
<td>21.0</td>
</tr>
</tbody>
</table>

*Excluding investment in eligible securities.

Note: Data are provisional and relate to fifty scheduled commercial banks.


A sectoral analysis show that the slow down of credit off take in medium and large scale industry had been the principal source of the overall credit take during the year so far (Table 2.1).
The industrywise deployment of gross bank credit shows that most of the industries have exhibited deceleration/decline in terms of credit off take during the financial year so far. Amongst the principal industries, credit off take improved only in case of iron and steel can increase of 1.1 percent as against decline of 0.9 percent last year) and other textile (5.0 percent as against 4.2 percent) industries. On the other hand, for industries like infrastructure (3.2 percent growth as against 21.6 percent), cotton textiles (a decline of 10 percent against a growth of 2.5 percent) credit demand slow down significantly which is depicted in diagram 2.3.

During financial year 2000-2001 SCBs recorded a 7.9 percent increase in operating profits which went upto Rs. 19,747 crore as on March 31, 2001. Net profit, however declined by 11.3 percent to Rs. 6,424 crore as on March 31, 2001 driven by the increase in provisions partly offset by higher operating profit. The ratio of net profit to total assets of ScBs declined from 0.66 percent in 1999-2000 to 0.50 percent in 2000-01. As at end March 2001, gross NPAs as a percentage of total assets for scheduled Commercial banks declined to 4.9 percent from 5.5 percent as at end March 2000. As a share of gross advances, gross NPAs of ScBs declined to 11.4 percent as at end March 2001, from 12.7 percent in the previous year.

The ratios of net NPAs to total assets and net advances declined to 2.5 percent and 6.2 percent, respectively, as at end March 2001 from 2.7 percent and 6.8 percent respectively, as at end March 2000. As at end March 2001, 84 out of 100 scheduled commercial Banks recorded CRAR in excess of 10 percent Eleven banks had CRAR between 9 percent
and 10 percent while 5 banks have CRAR below the 9 percent marks.

No doubt the spectacular expansion of banking infrastructure has given tremendous boost in spreading banking habits among the people and has accelerated growth of banking business but this has not been without strains. Profitability of the banks has been under a constant strain. Overdues in agriculture and blockage of funds in sick industrial units have increased. Housekeeping has suffered and incidence of frauds and robberies have been on the rise. While there has been an explosion in the number of transactions, the work technology in banks has not changed. Whereas aspirations and expectations of the people from the banking system have increased customer service, which has affected adversely.

2.7 SOCIAL OBJECTIVES OF THE NATIONALISED COMMERCIAL BANKS

Failures of banks was a regular feature in the pre-independence period and, though to lesser extent, even in the post independence period. The banking industry then was in the hands of private entrepreneurs. As a result customers were always cheated and their hard earned money was forfeited whenever banks failed. So nationalisation of bank was a long run demand. The demand finally was satisfied when, 14 major commercial banks operating in the private sector were nationalised in 1969 at the first instance and subsequently, again in 1980 another six commercial banks were also nationalised, in in terms of Banking Companies Act, 1970 (Acquisition & Transfer of Undertaking) with the aim "to control the heights of the economy and to meet progressively and serve better
the needs of development of the economy in conformity with national policy and objectives. The main objectives of bank nationalisation were to help the weaker section of the society in agriculture and allied sectors, small scale and cottage industries.

This was made possible because bank nationalisation enabled the commercial bank and Government as well to venture in this direction and direct a small portion of bank's funds for welfare of the above mentioned sector. It was a major step in social welfare. All commercial banks after nationalisation, have accepted social obligations as a part of their functioning. The old concepts, attitudes and methods in banking have yielded place to new techniques of viability, need based finance and marketing. Instead of the banks merely moving with the slope into immediately profitable ventures, they are required to participate in the nation building activities and help in bringing about socio-economic changes. Thus banks are termed as social organisations and they have to go out to the people and assists weaker section in achieving their aspirations. Rethinking on the actual functioning of banks in post nationalisation era, termed banks as catalytic agents for the development of the country, mobilising resources, wherever found and channelising them towards productive purposes. Thus the concept of priority sector lending developed. The traditional nature of short term lending concept of banks has changed. At the same time functional area of banks have been extended to semi urban and rural area as well, which was earlier restricted to urban area only.

In 1969, the slogan was introduction of mass-banking. Infact, prior
to this period, private banks mostly operated in the urban and semi-urban areas. Banking facilities were out of reach of rural people. This in turn, hampered our savings habits and hence investment. So spread of bank branches to remote areas was also need of the hour. After nationalisation, the government decided to extend banking facilities to rural areas. The 1969 reform of banking sector got tremendous success in the sense that there was a phenomenal growth in the number of banks branches to reach every nook and corner of the country. However, in other senses, it was a total failure. The average population served by per bank office was 65000 in June, 1969. After opening of the new branches the figure was reduced in June, 1994 to 10,000 of population served by a branch.

Agriculture and small scale industries are considered as important priority sectors. The balanced economic growth of our country, to a large extent, depends upon the development of these two priority sectors. The Reserve Bank of India does not provide agriculture finance directly to farmers but through the institutions like Co-operative Banks'. The commercial banks and the NABARD grant credit facilities to these sectors at comparatively lower rate of interest. Total amount invested in 1968 was just Rs. 67 crore, while it increases to Rs. 20,000 crore in the year 1994.

Today, we are in a world of IT. Due to liberalisation, globalisation and privatisation of various sectors of the economy, opening up of multinational in every sphere of economic activity, IT has become more and more powerful as a tool to achieve many of the corporate and social
goal as well. Banking industry is no exception to this. Computerisation in the banking industry started looking up in mid eighties after the visionary report of Dr. C. Rangarajan who can truly be called as father of computerisation in banking industry. Information technology in banking industry is being used to provide better services to customer. For instance home banking, boutique, cluster banking concept, ATM cards, SMART CARD, ELECTRONIC PURSE, PIN, SWIFT etc. are being used by banks to help socio-economic change. In a liberalising economy banking and financial sector reforms assume high priority. It needs no stressing that entire structure developed and developing society has banks at their very base. More the development spread of corporate, technical, industrial section more and more is the need of banking and finance issuing from them. The development in banking and their proper operation in the social perspective of the society is a sound guarantee of progress and prosperity and its spread all the world over. The globalisation requires adhering to standards and yardsticks that are universally applicable. Indian banking industry is being affected by the dynamic and highly competitive global banking environment. The banking has now become global concept and entity. They are not only need to reduce operating costs but also design innovative strategies to attract and retain customers and react quickly and flexible to market changes.

Public sector bank were created as instrument of social banking. A New Policy “Social banking is sought to be replaced by profit banking. Adoption of rigid and alien banking accounting norms has made the position difficulties for the number of public sector banks. Social lending
purpose cannot affect the profitability of the banks. In the era of liberalisation, no industry can do away with profit. From this point of view Reserve Bank of India should follow the recommendation of Narsimham committee to reduce advance priority sector from 40 percent to 10 percent resulting in reduction in NPA. Another course has given positive result to adopt VRS scheme by public sector banks, the profitability of banks have increased in half yearly results. Profit is essential for the source of finance. Profit motive has made the whole of the economic system natural in its operation. A natural operation of the economic system is the most desirable thing in the world and it alone can add permanence to an organised human society. Even the concept of social responsibility is not opposed to the concept of profit maximization. It simply insists on purity of means to be adopted for profit maximisation which should never be exploitative and anti-social.
NOTES & REFERENCES


3. The word 'banking' and 'banks' relates to commercial banking and commercial banks respectively unless otherwise stated in the text.


CHAPTER - III
ECONOMIC FEATURES AND MONETARY TRENDS OF
THE BANDA ECONOMY

3.1 Origin of The Name of District
3.2 Tahsils
3.3 Development Blocks
3.4 Economic Classification of Banda District
3.5 Lead Bank and Agriculture
3.6 The Area Approach Concept in Agriculture
   3.6.1 The Main Crops of Banda District
3.7 Important Trends / Indicators of Allahabad Bank
CHAPTER-III
ECONOMIC FEATURES AND MONETARY TRENDS OF THE BANDA ECONOMY

3.1 ORIGIN OF THE NAME OF DISTRICT:

The district is named after the headquarters towns, Banda, which is said to have derived its name from Bamdev, a sage mentioned in Hindu mythology as a contemporary of Ram. Bamdeo is said to have his hermitage at the foot of a hill called Khutla Banda, the name by which a locality of the town is still known.

Location and Boundaries: The district is located in the Jhansi Division of Uttar Pradesh. It is bounded in the north by the district of Fatehpur, in the east by the district of Allahabad, in the west by district of Hamirpur and in the south by Rewa, Satna, Panna and Chhatarpur, the district of Madhyapradesh\(^1\). The district of Banda has been bifurcated into two districts viz. Chitrakoot and Banda, in May 1997. The district after bifurcation, consists of 4 Tahsils having 8 development blocks, viz. Barokhar Khurd, Tindwari, Jaspura, Bisanda, Mahua, Naraini, Baberu and Kamasin. The name of 4 Tahsils are Banda, Baberu, Naraini and Atarra\(^2\).

Area: According to the central statistical organisation the district covered 4,114.2 sq. km.

Population: According to 1991 census the district had a population 1237.96 hectare. The percentage of male and female population is 54.59 (675.87 hectare) and 45.40 (562.10 hectare) respectively.
3.2 TAHSILS:

The district is divided into four tahsilis namely Banda, Naraini, Baberu, and Atarra. Tahsil Banda, comprising the north-western part of the district is bounded by the Yamuna on the north, tahsil Baberu on the east, tahsil Naraini and the state of Madhya Pradesh on the south and district Hamirpur on the west. It has 236 villages Banda comprises 3 blocks viz. Jaspura, Tindwari and Barokhar Khurd. Jaspura has 85 villages, 88 in Tindwari and 63 in Barokhar Khurd.

To the east of tahsil Banda lies tahsil Baberu which is bounded on the north by the Yamuna river, which separates in from district Fatehpur. The important villages of the district are Jaspura, Rampur, Khaptiha, Tindwari, Mataundh and Jauharpur etc.

Tahsil Naraini comprising the south western part of the district is bounded by tahsils Banda and Baberu on the north, by tahsil Karwi\(^1\) on the east and the state of Madhya Pradesh on the south and west, the western boundary being formed for the most part by river Ken. To the east of tahsil Naraini lies tahsil Atarra and district Chitrakoot. This Tahsil comprises two development blocks viz. Naraini and Mahua. The main villages of this Tahsil are Kalinjar, Sinhura, Kartal and Girwan. The total number of villages in this Tahsil are 263 (147 villages in Naraini and 116 in Mahua).

Tahsil Baberu is the second largest tahsil of the district is bounded by the Yamuna on the north, which separates it from district Fatehpur and Allahabad. On its east the tahsil Mau\(^2\) and the state of Madhya Pradesh, the latter also forming the southern and south-western bound-
aries. Its western boundary is formed by tahsil Baberu and Naraini. There are 208 villages in Baberu consists of 76 in Baberu Block, 57 in Bisanda and 75 in Kamasin. The main villages of this tahsil are Kamasin, Augasi, Pindaran, Milathu, Murwal, Bhabhua and Pallhari etc.

Tahsil Atarra is bounded on the north by the Yamuna river which separates it from district Allahabad. On the east lie the district of Chitrakoot and the state of Madhya Pradesh on south. Mahua and Bisanda are the two development blocks of this Tahsil. The main villages of this Tashil are Oran, Pauhar, Badausa and Turra etc.

3.3 DEVELOPMENT BLOCKS:

The district is divided into 8 blocks from the administrative point of view. Village remains the smallest unit of the district. It is very expensive to establish development block in each village. Therefore development block has been taken as the smallest unit from the administrative point of view. Banda is divided into 8 blocks. The headquarter of Development blocks is in Banda. The development blocks of Banda district is enumerated below:


1. **Kamasin**:

This block comes in Tahsil Baberu. This is 20 kilometre away from Tahsil Baberu established on Rajapur Road. Seventy five villages make it block.

2. **Bisanda**:

This block is on the road of Singhpur, 40 Km. away from
headquarter Banda. This consists of 57 villages.

3. **Naraini** :
   This is tahsil as well as block. This block is on the road of Satna which is 40 Km away from the headquarter Banda. This block comprises 147 villages.

4. **Baberu** :
   This block is 48 Km. away from the headquarter Banda. All told are 76 villages in this block.

5. **Mahua** :
   This block comes under tahsil Atarra. This is on Allahabad road which is 40 Km away from the headquarter.

6. **Tindwari** :
   This is on Fatehpur road which is 25 Km. away from Banda. This comprises 88 villages.

7. **Jaspura** :
   This block is on Hamirpur road which is 58 Km. away from the headquarter. Eighty five villages formed this block.

8. **Barokhar Khurd** :
   This block is on Atarra road which is 5 Km away from the headquarter. This consists of 63 villages.

3.4 **ECONOMIC CLASSIFICATION OF BANDA DISTRICT:**

   The economy of Banda district can be classified into A. Farm Sector, B. Non Farm Sector and C. Other Priority Sector.
A. Farm Sector:

Agriculture continues to be the mainstay of the economy of the district with around 90 percent of the people dependent on it for livelihood. The land available for cultivation is only 364290 hectare. While gross cropped area is 430891 hectare giving a cropping intensity of 11.8 percent. Only 67510 hectare of cultivable area is under double cropping. In the kharif season only 128381 hectare was cultivated while in Rabi it was 302260 hectare. The major crops in Rabi season were wheat, gram and masoor while in Kharif, the major crops were jowar, Paddy, Arhar and Bajara. In Rabi 97-98 the total production was 312.73 thousand metric tones.

Out of total cultivable area of 364290 hectare the total irrigated area is 112400 hectare i.e. 32.4 percent.

The preponderance of small land holdings (which are reported to be the tune of over 2 lakh) in the district, lead to use of animal power to undertake farming operations including its post harvesting marketing operations and transportation of inputs as well as farm produce. Fisheries can also be another source of income as the district have ample scope as three rivers viz. Yamuna, Ken and Baghen flow.

The activities of rearing sheep, goat, pig, poultry farming, dairy development serve as sole or subsidiary source of subsenses for the rural poor, specifically landless, small farmers and SC/ST communities.

The horticulture crops, inspite of having long gestation period, is of importance because it provides good income to farmers due to its perennial demand on account of its nutritious value. The processed
products out of these also have good demand.

There is immense need for land development work like levelling, bunding, terracing, construction of peripheral dams and water harvesting, storage structures. Mechanisation of agricultural operations is one of the important factors which results in increasing the productivity and production of agricultural commodities. The activities generally considered for financing through banks are tractors, power-tillers, threshers and other implements.

B. **Non Farm Sector:**

(i) As per the data of 1991 census, 28 percent of total workers in the district are engaged in non farm activities. In respect of industrial activities (including rural artisans) only 2.8 percent of the total work force. The tertiary sector engages 25.2 percent of work force of which 30 percent are in trade and business, 0.8 percent in transport and communication, 0.6 percent in construction and 20.8 percent in other activities.

(ii) The area under forest in the undivided district is 77-78 sq.kms. mainly in Naraini block of the present Banda district. The forest produce available relate to Bamboo, fruits, honey, wax etc.

(iii) In the present district the mineral deposits relate to granite stone in Naraini area, sand and laterite (near Yamuna and Ken rivers) The Saja Pathar, a special stone available in Ken river is abundantly available in Barokhar Khurd.
(iv) The plantation, horticulture, vegetable crops relate to Aonla, Guava, Tomato which allow some scope for units to undertake their preservation.

(v) The district is one of the most industrially backward districts of U.P. As the status of basic infrastructure is not satisfactory as there are no direct rail links to eastern and southern states of the country, no national highway, most of the telephone lines are in urban areas. Out of total of 133 villages only 778 are electrified with supply all the more erratic. The industrial estate also is not fully occupied and operational.

The district is having one industrial training centre, 40 primary industrial cooperative societies, and primary weavers co-operative societies and 4 marketing co-operative societies.

C. **Other Priority Sector:**

Under this sector different activities relating to services and business are generally covered and broadly refer to transport, retail business, self employment, housing etc. These activities are very important from the point of view of overall development of the district through employment generation.

3.5 **LEAD BANK AND AGRICULTURE:**

The Indian Economy presents a scene predominantly of a rural sector where in agriculture play a prominent role in it. It dominates all other activities and as such constitutes the base of India’s developing economy. The agriculture sector generates more than 50 percent of
national income, which accounts for 55 percent of export earnings and provides employment to about 70 percent of population in the country. The economic development of the Indian economy, therefore has to be associated with wide ranging growth in the rural or agriculture sector.

Agriculture is one of the main pillars of the Indian economy, but difficulties arise when we try to measures its performance as no single criterion is correct and perfect in itself. Numerous statistics can be presented which suggest the importance of agriculture. But there is no one measure of the importance of agriculture’s contribution to the total economy.

It was found in many parts of India as in most European countries, that inspite of rapid growth of the commerce and improvements in communications, the economic condition of the peasants had not been progressing as it should have done, that indebtedness instead of decreasing had tended to increase, that agricultural methods had not improved and that the old unsatisfactory features of a backward rural economy seemed destined persistently to remain.

The agricultural financing by commercial banks can be traced as far back as 1968, when social control of banks was introduced. On nationalization of 14 major banks in 1969, the commercial banks were made to augment the agricultural credit efforts of co-operative banks. Each bank adopted its own style in implementing the agricultural credit policy of the government. There was no uniform system among the banks. In an attempt to meet the government’s expectations, every bank entertained every request for from every farmer approaching for credit.
The banks, however, discriminated against the small farmers. They preferred loan applications for large amounts from medium and large farmers. With little or no consideration for viable schemes, loans were granted far and wide. The problem of bankable schemes like recovery, acute shortage of manpower, and even of untrained hands started coming in. Then it was realised that the system of ‘Scattered’ lending was not convenient.

It was felt, therefore, that operational area should be restricted to efficiency and targeted result. Hence, the service area approach concept was accepted as an alternative to scattered lendings. The service area approach involves four major aspects which are as follows.

1. Identification and Allocation of Service Area.
2. Survey of villages.
3. Preparation of credit plan.

3.6 THE AREA APPROACH CONCEPT IN AGRICULTURE:

Agriculture is the basic canvas of rural economy. Land use pattern in various villages, already collected in the profile data, gives us an idea of utilisation of this resource. Existence of cultivable waste may provide an opportunity for intervention in terms of horticulture, social forestry etc. for which these are schemes under Waste Land Development. Turning to cultivated land, the crucial factor which differentiates the productivity of land is availability of water. The extent and the sources, regularity, efficiency etc. of irrigation in the various villages are the main aspects.
The cropping pattern and intensity differs between the irrigated and unirrigated tracts. The adequacy and regularity of supply of irrigation facilities will also influence the pattern, production and productivity. The next step is to know the yield under various crops during different season and compare them with standard yields in the surrounding area. After the profile of agriculture the Branch Manager will have to consider the strategy for financing agriculture in areas. Development of agriculture should be along the following directives:

a) extensive agriculture: bringing more land into production through crop husbandry, horticulture etc.;

b) increase the area under irrigation and commensurate change in the cropping pattern;

c) changing over to more remunerative cropping pattern in irrigated and unirrigated areas.

d) increase in yields through optimum dosage of inputs, more applicable in assured rainfall or irrigated areas.

e) improving the yields through better cultural practices and moisture preservation strategy in dry lands.

f) providing storage facilities to take advantage of remunerative prices.

The rural Branch Manager should have a thorough grasp of the operation of agricultural sector in his service area. There may be certain areas such as extending crop loans where the bank can act on its own. In this, efforts should be made to have close cooperation with cooperative societies extending such loans. In certain other areas such as new cropping
pattern, waste land development or dry land agriculture which require sustained extension efforts, increasing irrigation facilities, improving the regularity and adequacy of supply of existing irrigation facilities, water management for optimising the use of existing facilities etc., collaboration with government agencies and NABARD would be necessary.

The government agencies have a number of schemes for development of agriculture. With his enlightened understanding of agriculture of the area, the Manager should contact various functionaries at the local level to elicit their information on schemes which are under operation in the villages covered by his service area. The important aspect is to know the major efforts in agricultural development which are on going and likely to continue. Identifying these spheres where credit can play a role, the manager can evolve an action programme for the year.

In preparing the credit plan, the Branch Manager should also give due consideration to the resource position. An estimate of the financial resources will include the likely growth in deposits, refinance likely to be available from NABARD, IDBI etc. and recovery performance.

3.6.1 THE MAIN CROPS OF BANDA DISTRICT:

The Main crops of the district can be classified into kharif crops and Rabi crops. Kharif sesamum, urad and sugarcane and they are cultivated in monsoon while Rabi crops are wheat, barley, gram, mustard and tara-mira and they are cultivated in winter.

The growing of foodgrains is not prominent among the farmers. This is perhaps due to poor irrigation facilities and small fragmented
holdings which compel the farmers to give preference to cultivation of food grains for self use.

Among the food grains, the extensively sown is paddy, which is the staple food of a sizeable part of the population especially the poor class.

Statement showing the irrigated area in different years:

**TABLE 3.1**

**Irrigated area in Banda District**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Irrigated Area</td>
<td>127199</td>
<td>-</td>
<td>163216</td>
<td>163216</td>
</tr>
<tr>
<td>Net Irrigated Area</td>
<td>84050</td>
<td>104269</td>
<td>111940</td>
<td>111940</td>
</tr>
</tbody>
</table>

Source : District Credit Plan, Allahabad Bank.

The table indicated that irrigated area had been on the increase as in 1993-94 net irrigated area were only 84050, which had been increased to 104,269 in 1997-98. There had been increased of 19.39 percent in irrigated area.

Table 3.2 showing advances to total agriculture bank wise from 1990-91 to 2002-03. Total agriculture loan includes loan given to Minor Irrigation. From mechanisation, plant and horticulture, Agriculture and others (Bullocks, Bullock carts, Bio gas plants) and crop loans.

It is clear from the table that the loan advance by Allahabad Bank to total agriculture had been on the increase i.e. in 1993-94 amounted to Rs. 49250000.00 and it had been increased to Rs. 52615000.00 in
## Table 3.2

**District Credit Plan Advances to Agriculture Bank Wise**

(Amount in Rs. ‘000)

<table>
<thead>
<tr>
<th></th>
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<td>1700</td>
<td>1820</td>
<td>1840</td>
<td>3550</td>
<td>2210</td>
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<tr>
<td>Punjab National Bank</td>
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<td>892</td>
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<td>1270</td>
<td>810</td>
<td>1000</td>
<td>1215</td>
<td>3355</td>
<td>4450</td>
</tr>
<tr>
<td>Gramin</td>
<td></td>
<td>13828</td>
<td>2870</td>
<td>31895</td>
<td>28536</td>
<td>72390</td>
<td>50607</td>
<td>81300</td>
<td>100000</td>
</tr>
<tr>
<td>Bank of Baroda</td>
<td></td>
<td>NA</td>
<td>1125</td>
<td>1500</td>
<td>840</td>
<td>875</td>
<td>1540</td>
<td>1910</td>
<td>1860</td>
</tr>
</tbody>
</table>

**Source**: Annual District Credit Plan, Lead Bank Allahabad Bank.

**Note**: NA means not available.
2002-03. Comparatively Gramin Bank had sanctioned huge loan for total agriculture in 1993-94 loan amounted to Rs. 13828000.00 and it increased to Rs. 100000000.00 in 2002-03. Bank of Baroda’s contribution in 1993-94 was nil. In 1994-95 it was amounted to Rs. 1125000.00 and it had been increased to Rs. 1860000.00 in 2002-03.

Table 3.3 showing advance to total agriculture block wise from 1993-94 to 2002-03. In 1993-94 to 2002-2003 Naraini block had been sanctioned highest loan from agriculture while the lower amount sanctioned for total agriculture was Manikpur, Kamasin, Jaspura. Jaspura, Kamasin in 1993-94, 94-95, 95-96, 96-97 and 1997-98 respectively, whereas in 1999-2000 to 2002-03 no loan had been sanctioned to Chitrakoot, Manikpur, Mau, Pahari and Ramnagar.

Table 3.4 shows that Allahabad bank had achieved cent percent target except in the year 1992-93 and 1996-97. State Bank of India had also achieved its target cent percent except in the year 1992-93, 2000-01 and 2001-02 respectively. It is Central Bank of India which had never achieved its target while Punjab National Bank had achieved target in 1999-2000 only. Unlike Land Development Bank, District Co-operative Bank and Bank of Baroda had achieved its target in 1992-93 and 1996-97 respectively. Tulsi Gramin Bank had achieved its target to 183.10 in 2000-01 which is the highest achievement even performed by bank in Banda District. There exist credit gap in providing loan by bank credit gap can be explained with the help of diagram given below.

In this diagram target is assumed to be demand and achievement is assumed to be supply:
Table 3.3
District Credit Plan Advances to Agriculture Block Wise

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Block</th>
<th>Period/Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Baberu</td>
<td>10567</td>
</tr>
<tr>
<td>2.</td>
<td>Barokhar Khurd</td>
<td>15299</td>
</tr>
<tr>
<td>3.</td>
<td>Bisanda</td>
<td>11706</td>
</tr>
<tr>
<td>4.</td>
<td>Jaspura</td>
<td>5851</td>
</tr>
<tr>
<td>5.</td>
<td>Kamasin</td>
<td>7391</td>
</tr>
<tr>
<td>6.</td>
<td>Mahua</td>
<td>9574</td>
</tr>
<tr>
<td>7.</td>
<td>Naraini</td>
<td>30411</td>
</tr>
<tr>
<td>8.</td>
<td>Tindwari</td>
<td>13222</td>
</tr>
</tbody>
</table>

(Amount in Rs. '000)

Source: Annual District Plan, Lead Bank, Allahabad Bank

Note: N.A. means Not Available.
Table 3.4

Achievement Under National Objectives in Agriculture Sector

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>T*</td>
<td>A$</td>
<td>T*</td>
<td>A$</td>
<td>T*</td>
</tr>
<tr>
<td>1. Allahabad Bank</td>
<td>(100.03%)</td>
<td>(102.31%)</td>
<td>(42.08%)</td>
<td>(86.59%)</td>
<td>(135.06%)</td>
</tr>
<tr>
<td></td>
<td>496.81</td>
<td>496.98</td>
<td>485.02</td>
<td>496.27</td>
<td>560.30</td>
</tr>
<tr>
<td>2. Central Bank of India</td>
<td>(60.38%)</td>
<td>(74.75%)</td>
<td>(71.52%)</td>
<td>(4.01%)</td>
<td>(40.90%)</td>
</tr>
<tr>
<td></td>
<td>31.93</td>
<td>19.28</td>
<td>35.28</td>
<td>26.39</td>
<td>39.68</td>
</tr>
<tr>
<td>3. Punjab National Bank</td>
<td>(51.40%)</td>
<td>(60.93%)</td>
<td>(18.36%)</td>
<td>(51.28%)</td>
<td>(70%)</td>
</tr>
<tr>
<td></td>
<td>5.33</td>
<td>2.74</td>
<td>7.45</td>
<td>4.54</td>
<td>8.55</td>
</tr>
<tr>
<td>4. Union Bank of India</td>
<td>(19.26%)</td>
<td>(77.35%)</td>
<td>(99.34%)</td>
<td>(81.61%)</td>
<td>(16.78%)</td>
</tr>
<tr>
<td></td>
<td>3.53</td>
<td>0.68</td>
<td>5.83</td>
<td>4.51</td>
<td>7.68</td>
</tr>
<tr>
<td>5. Bank of Baroda</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>6. Tulsi Gramin Bank</td>
<td>(51.76%)</td>
<td>(73.65%)</td>
<td>(63.35%)</td>
<td>(139.82%)</td>
<td>(66.48%)</td>
</tr>
<tr>
<td></td>
<td>214.64</td>
<td>111.11</td>
<td>174.93</td>
<td>128.85</td>
<td>223.99</td>
</tr>
</tbody>
</table>

Cont..........
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>T*</td>
<td>A$</td>
<td>T*</td>
<td>A$</td>
</tr>
<tr>
<td>1. Allahabad Bank</td>
<td>(105.30%)</td>
<td>(111.52%)</td>
<td>(135.46%)</td>
<td>(137.75%)</td>
</tr>
<tr>
<td></td>
<td>282.83</td>
<td>297.84</td>
<td>399.81</td>
<td>445.87</td>
</tr>
<tr>
<td>2. Central Bank of India</td>
<td>(58.82%)</td>
<td>(15.89%)</td>
<td>(27.17%)</td>
<td>(20.71%)</td>
</tr>
<tr>
<td></td>
<td>46.92</td>
<td>27.60</td>
<td>73.82</td>
<td>11.73</td>
</tr>
<tr>
<td>3. Punjab National Bank</td>
<td>(40%)</td>
<td>(124.43%)</td>
<td>(46.05%)</td>
<td>(112.60%)</td>
</tr>
<tr>
<td></td>
<td>14.10</td>
<td>5.64</td>
<td>17.15</td>
<td>21.34</td>
</tr>
<tr>
<td>4. Union Bank of India</td>
<td>(5.57%)</td>
<td>(3.66%)</td>
<td>(42.87%)</td>
<td>(52.07%)</td>
</tr>
<tr>
<td></td>
<td>26.20</td>
<td>1.46</td>
<td>29.50</td>
<td>1.08</td>
</tr>
<tr>
<td>5. Bank of Baroda</td>
<td>(22.72%)</td>
<td>(29.50%)</td>
<td>(71.74%)</td>
<td>(63.77%)</td>
</tr>
<tr>
<td></td>
<td>15.40</td>
<td>3.50</td>
<td>18.30</td>
<td>5.40</td>
</tr>
<tr>
<td>6. Tulsi Gramin Bank</td>
<td>(79.97%)</td>
<td>(105.71%)</td>
<td>(183.10%)</td>
<td>(115.10%)</td>
</tr>
<tr>
<td></td>
<td>269.06</td>
<td>215.19</td>
<td>600.00</td>
<td>634.28</td>
</tr>
</tbody>
</table>

T* = Target
A$ = Achieved
NA = Not available
Source = Annual District Credit Plan, Allahabad Bank.
Credit Gap = Credit deficiency
CD = CS
CD > CS
CD - CD = +Ve
CS - CS = -Ve
Whereas
CD = Credit demand and
CS = Credit supply.

Diagram 3.1
Credit Gap
AD = Aggregate Demand
AS = Aggregate Supply

In a diagram 3.1 E is equilibrium point credit gap exist because there is excess demand which banks fails to meet there excess demand.

Credit gap can also be explained with the help of Ratchet Effect. Ratchet Effect\textsuperscript{8} is noting but a scissors effect in which credit demand curves move upwards while credit supply curve goes downward. The point where both curves intersect each other is the Ratchet Effect. The diagram
of a Ratchet Effect is given below.

Diagram 3.2
Ratchet Effect

In the above diagram CD is credit demanded whereas CS is credit supply.

**Dynamic Process of Credit Gap:**

The dynamic process of Credit Gap is that process in which credit gap is being increased as it moves from point vertin toward Z point which is false point. The dynamic process is given below:

Diagram 3.3
Dynamic Process of Credit Gap
When credit gap is being increased through process of time i.e. credit gap is increasing as we moves from point vertex to the false point Z i.e. a to b to c to d towards e. This process is known as dynamic process of time.

3.7 IMPORTANT TRENDS/INDICATORS OF ALLAHABAD BANK:

# Deposits and Loan Distribution:

The deposits of commercialised banks in Banda economy in 1991-92 was Rs. 1289253000. In the year 1999-2000 was Rs. 3355418 and the deposit has increased to Rs. 4126280000 in 2001-02. Total loan distribution in 1991-92, 1999-2000 and 2001-02 was Rs. 582685000, Rs. 1184377 and Rs. 356063 respectively. This indicates that the economy of Banda district is being monetised. It is clear from the table no. 3.5.

# Comparative Position of Branch Expansion:

Branches of Allahabad Bank has been increased during F.Y. 1990 to 2002. In 1990 it was 1766 and it has been increased to 1914 in 2002. It is clear from the table 3.6.

# Deposit, Advance and Investment:

Table 3.7 explicitly indicates that the trend of deposits, advances and investment during 1994-95, 1995-96, 1996-97, 1997-98, 1998-99, 2000-01 & 02 is moving upward direction.
Table 3.5

Deposits & Loan Distribution of Commercialised Banks

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Deposits</td>
<td>1289253</td>
<td>1608700</td>
<td>1660899</td>
<td>3357418</td>
<td>3694900</td>
<td>4126280</td>
</tr>
<tr>
<td>2.</td>
<td>Total Loan distribution</td>
<td>582685</td>
<td>778159</td>
<td>782565</td>
<td>1184377</td>
<td>373738</td>
<td>356063</td>
</tr>
<tr>
<td>3.</td>
<td>Percentage of loan on deposits</td>
<td>45</td>
<td>48</td>
<td>59</td>
<td>35</td>
<td>10</td>
<td>9</td>
</tr>
<tr>
<td>4.</td>
<td>Loan distribution in Priority area</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.1</td>
<td>Agriculture and allied</td>
<td>216537</td>
<td>283582</td>
<td>398134</td>
<td>555400</td>
<td>298226</td>
<td>294542</td>
</tr>
<tr>
<td></td>
<td>agriculture</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.2</td>
<td>Small Scale Industry</td>
<td>78347</td>
<td>104550</td>
<td>107814</td>
<td>102193</td>
<td>16486</td>
<td>10882</td>
</tr>
<tr>
<td>4.3</td>
<td>Others</td>
<td>215627</td>
<td>267236</td>
<td>176149</td>
<td>372181</td>
<td>59026</td>
<td>50639</td>
</tr>
<tr>
<td></td>
<td>Total 4.1 - 4.3</td>
<td>510511</td>
<td>655368</td>
<td>682097</td>
<td>1029774</td>
<td>373738</td>
<td>356063</td>
</tr>
</tbody>
</table>

### Table 3.6
Comparative Position of Branch Expansion During the Period of Last 10 years of Allahabad Bank

<table>
<thead>
<tr>
<th>Date</th>
<th>Urban</th>
<th>Metropolitan</th>
<th>Total</th>
<th>Urban Metropolitan Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>31-03-1990</td>
<td>998</td>
<td>298</td>
<td>277</td>
<td>193</td>
</tr>
<tr>
<td>31-03-1991</td>
<td>1008</td>
<td>299</td>
<td>277</td>
<td>193</td>
</tr>
<tr>
<td>31-03-1992</td>
<td>1010</td>
<td>299</td>
<td>298</td>
<td>196</td>
</tr>
<tr>
<td>31-03-1993</td>
<td>1004</td>
<td>303</td>
<td>323</td>
<td>201</td>
</tr>
<tr>
<td>31-03-1994</td>
<td>1013</td>
<td>302</td>
<td>326</td>
<td>204</td>
</tr>
<tr>
<td>31-03-1995</td>
<td>1007</td>
<td>306</td>
<td>335</td>
<td>207</td>
</tr>
<tr>
<td>31-03-1996</td>
<td>1007</td>
<td>305</td>
<td>337</td>
<td>212</td>
</tr>
<tr>
<td>31-03-1997</td>
<td>1008</td>
<td>305</td>
<td>338</td>
<td>212</td>
</tr>
<tr>
<td>31-03-1998</td>
<td>958</td>
<td>309</td>
<td>351</td>
<td>257</td>
</tr>
<tr>
<td>31-03-1999</td>
<td>958</td>
<td>312</td>
<td>355</td>
<td>259</td>
</tr>
<tr>
<td>31-03-2002</td>
<td>959</td>
<td>321</td>
<td>367</td>
<td>267</td>
</tr>
</tbody>
</table>

### Table 3.7

**Deposits, Advances & Investments of Allahabad Bank**

(Rs. in crore)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposits</td>
<td>9231</td>
<td>10149</td>
<td>11541</td>
<td>13541</td>
<td>15510</td>
<td>20106</td>
<td>22665</td>
</tr>
<tr>
<td>Advances</td>
<td>4237</td>
<td>4816</td>
<td>4938</td>
<td>5724</td>
<td>6985</td>
<td>9582</td>
<td>10992</td>
</tr>
<tr>
<td>Investments</td>
<td>3798</td>
<td>4271</td>
<td>5268</td>
<td>6462</td>
<td>7161</td>
<td>8719</td>
<td>10358</td>
</tr>
</tbody>
</table>

NOTES & REFERENCES

1. U.P. Gazetteer, p. 01.
3. Tahsil Karwi becomes the part of Chitrakoot after bifurcation of Banda district into two parts viz. Banda and Chitrakoot in May, 1997.
4. Mau becomes the part of Chitrakoot.
8. Ratchet Effect: The Relative Income Hypothesis was first propounded by Dorothy Brady and Rose Friedman. The Relative Income Theory tells us that the level of consumption spending is determined by the household level of current income earned previously. People are then reluctant to revert to the previous low level of consumption. This is the Ratchet Effect. (G.K. Puri & M.R. Parida, Economics, IIMS Publication 2003, p. 15).
CHAPTER - IV
NATIONALISED COMMERCIAL BANKING STRUCTURE IN BANDA ECONOMY

4.1 The Origin of Lead Bank Scheme
4.2 The Concept and Area of Lead Bank Scheme
4.3 Allocation of Lead Banks in India
4.4 Banking Structure
   4.4.1 Scheduled Commercial Banks
   4.4.2 Foreign Banks
   4.4.3 New Private Sector Banks
4.5 Organisation and Management of Allahabad Bank
   4.5.1 Risk Management
   4.5.2 Non Financial Risk
4.6 Organisation and Management of Lead Bank Scheme in Banda District
   4.6.1 Lead Bank Officer and Management
   4.6.2 District Level Consultative Committee
   4.6.3 Functions of District Level Consultative Committee
   4.6.4 District Level Review Meeting
4.7 District Rural Development Agency
4.8 Lead Bank Scheme and Reserve Bank of India
4.9 Financial Institution in the Implementation of Lead Bank Scheme
CHAPTER - IV
NATIONALISED COMMERCIAL BANKING STRUCTURE IN
BANDA ECONOMY

4.1 THE ORIGIN OF LEAD BANK SCHEME:

In India, economic planning had hitherto been undertaken both at
the national level and to some extent at the state level and despite the
allocation of funds to the priority sectors, the desired goal of optimum
production, employment and per capita income has not been achieved
so far. The planning at the grassroot level on block level has been attaining
much importance in these days in the history of Indian Planning with
the hope that a more systematic planning with smaller coverage would
accelerate the economic development, specially of the backward regions,
being more responsive to the needs of the weaker sections of the society.

Lead Bank did not spring up all of a sudden. They came to establish
as an array of efforts put forth by the government in the direction of
making available financial resources to the rural and agricultural masses.
Only 617 out of 2700 towns and 5000 out of 560000 villages in the
country were served by commercial banks in 1969. Regional descriptive
were so glaring that in 63 districts, per capita credit was less than rupees
as compared to the national average of Rs. 96, 31 districts in the country
had credit deposit ratio of less than five whereas credit deposit ratio
for the nation as a whole was 69. Out of 336 districts in the Union
of India, offices of the commercial banks did not exist in in 13 (thirteen)
districts till the end of 1969. Average population served by an office
was about 2 lakhs in 88 districts as against the ratio average of about 70000.

There were sectoral imbalances also in granting advances besides regional imbalances. Whereas priority sector advances accounted for 13.9 percent of the total bank finances, the share of agriculture, excluding plantation and advances was less than one percent retail traders got less than two percent of the total bank credit. The share of large scale industry, whole trade and commerce in the total bank finances was as high as 80 percent. Similarly, it was observed that the private creditors i.e. the professional money lender and the traders still reign supreme in the field of rural credit, supplying 70 percent or more of the total requirements. The Government supplied as little as 3.3 percent out of this the larger part goes to the bigger agriculturist and only the minor fraction percolates to the small cultivator. The remaining 27 percent was from the commercial bank and co-operatives. Nationalisation of bank was supposed to change the whole perspective.

The lead banks were assigned the liability of undertaking massive movements for deposit mobilisation, expansion of banking services and credit facilities in their lead districts with co-operation of scheduled and non-scheduled commercial banks, Regional Rural Bank, Co-operative banks and other agencies. The lead bank scheme was evolved by Reserve Bank of India soon after the nationalisation of commercial banks with a view to enabling the nationalised banks to work effectively as catalytic agents in economic development. Soon after the commercial banks in India started operating in the field of direct agricultural lending, it was recognised by
then that one of the most important strategies to tackle the problems in the new field would be to follow the ‘Area Approach’. The idea of ‘Area Approach’ was first put forward by the study group of the National Credit Council on organisation framework for the implementation of social objectives, headed by the late Prof. D.R. Gadgil. The group suggested the adoption of an ‘Area Approach’ to evolves plans and programmes for the extension of banking and credit in the country. The quintessence of the recommendation was that the commercial banks should be assigned a particular duties in which they should work as consortium leader and pace-setter in providing integrated banking and credit facilities. The group suggested that the administrative unit or ‘District’ be taken as nucleus of this approach, especially, since most statistical data in India were collected on district basis. Subsequently a committee of bankers headed by F.K.F. Nariman was appointed by the R.B.I. to evolve a co-ordinated programmes for branch expansion. It also felt that for ensuring sufficient spread of banking facilities throughout the length and breadth of the country, each bank should concentrate on the selected districts.

4.2 THE CONCEPT AND AREA OF LEAD BANK SCHEME:

# Concept:

The Reserve Bank of India introduced the Lead Bank Scheme in Dec. 1969. The paramount aim of the Lead Bank Scheme is to fill up the credit gap in particular district by allocating the responsibility to a particular lead bank. The lead bank scheme, therefore, have been assigned the responsibilities of the development of the districts. In other words,
the concept of lead bank is three dimensional.

i) a commercial credit institution for mobilising resources and advancing loans.

ii) a planning agency for finding out the needs and problems and solving them by setting up targets, and

iii) development bank for working as a catalytic agent for initiating and accelerating the development of the backward and the underdevelopment areas of the districts.

The lead bank is entrusted with the task of identifying the credit gaps in the district by continuous survey of finding facts. It is also incharge of banking development, branch expansion and setting up of action plans for deposit mobilisation. It solicit the co-operation of other financial institution in the districts, and share experience with them. It identifies and implements bankable schemes in the districts. On the basis of the survey, the lead bank is expected to estimate the deposit potentials and the credit gaps that could be taken up to tap the deposit potential and fill the credit gaps.

The lead bank is to act not as a monopolist in the district but as a consortium leader for involving cooperation from the financial institutions funding in the area and sharing responsibilities with them. It acts more or less as the ‘Central bank’ of the district. The success of the lead bank will be judged not so much by the banking business or even the development work by its own offices in the districts, but by the overall improvement it is able to bring about through the banking
system. The implementation of lead bank scheme together with phased programmes of branch expansion will, no doubt contribute in a major way to the spread of banking habit and thereby speeding up the process of monetization of the economy.

# Area:

The area of the lead bank is wide and concentric in nature. In the absence of any other banking obligations, its operations are within the bound of the district. It is regarded as the central bank of the district and a defender of it economic well-being. It formulates the plans in consultation with other (FIs) and government agencies in the district and monitor the progress in the implementation of the annual credit plans. The lead bank sets an example for other banks to emulate particularly in regard to financing of priority sectors and weaker section of the society as well as providing adequate support to the government sponsored poverty alleviation programmes. It is a catalyst in mobilising co-operation from other banks and government departments in the successful implementation of the objectives. A bank’s responsibilities under the lead bank scheme in terms of efforts to accelerate economic development of other districts are equally the same as its own lead district. It is only through collaborative effort that development of an area, as is the underlying spirit of the scheme, can be achieved.

The Lead Bank Scheme provides an organisational framework for ensuring participation in a co-ordination manner by the various FIs along with concerned government agencies in assisting development efforts undertaken on an area basis with the district as the unit needing credit.
support.

On the whole the lead bank is a commercial institution for mobilising resources and advancing loans, a planning agency for finding out the needs and problems and solving them by settling up targets, and development bank for working as a catalytic agent for initiating and accelerating the development of the district. As such, conducting surveys for finding facts in a quick and impressionistic way is the prime function of lead bank.

4.3 ALLOCATION OF LEAD BANK IN INDIA:

With the nationalisation of 14 commercial banks the government of India took the initiative of extending the banking system to rural areas and was looking for a scheme of rapid branch expansion, accordingly districts were allotted to nationalised banks after the implementation of lead bank scheme. The lead bank scheme under which in each district one of the commercial banks functions as a lead bank for deployment of a credit under various activities of priority sectors, covered 408 districts in the country upto the end of June 1990. During the period July 1989 to June 1990, lead bank responsibility in respect of 14 new districts formed as a result of renaming of some of the districts in various states in the country was allotted to public sector banks¹. While allocating lead district to each bank, there was common thinking that the role of leadership should be assigned to each bank which had relatively a good foot hold in the district.
All district except metropolitan cities and the union territories in the country were allocated among lead banks on the basis of certain criteria for allotting the districts to the lead banks:

i) The size of the banks and the adequacy of its resources for handling the volume of the work.

ii) Contiguity of districts so that 'clusters of lead districts could emerge with regional orientation of banks; and

iii) the desirability for each state to have more than one lead bank operating in its territory and, to the extent possible, for each bank do operate in more than one state. Although as far as possible, the role of leadership was assigned to the banks with relatively good hold in the district, in several cases the lead banks own branch network was not adequate for its function. The primary task therefore, was to ensure a swift and wide branch expansion of reaching commercial banking to rural area unexposed or relatively less exposed to banking.

The basic aim of the lead bank schemes is that individual banks should adopt particular district for intensive development. Under the scheme the lead banks were expected to act as consortium leaders to bring about a coordination of cooperative banks, central bank and other FIs in their respective districts in the interest of district development. To fulfil the purpose, branch expansion in the district is essential.
4.4 BANKING STRUCTURE:

The Indian banking system consists of the Reserve Bank of India, the State Bank of India, the Indian Commercial Banks, the Industrial Banks, the Indigenous Bankers, the exchange banks, the co-operative banks and the land development banks. The structure of Indian Banking Industry is given in diagram 4.1. The Reserve Bank of India was set up in 1935, and was nationalised in Jan 1, 1949. The Reserve Bank of India occupies a pivotal position in the monetary and banking structure of the country. The Reserve Bank of India is the Central Bank of India, enjoying the highest monetary institution in the country charged with the duty and responsibility of carrying out the monetary policy formulated by the government.

The commercial banking institutions of the country can be divided into two groups:

A) Scheduled Banks:

Those banks are scheduled banks which had been included in the second scheduled of Reserve Bank Act, 1934. The banks included in this scheduled list should fulfil two conditions: -

i) The paid up capital and collected funds of bank should not be less than Rs. 5 lakh.

ii) Any activity of the bank will not adversely affect the interest of depositors.

Every scheduled bank enjoy following facilities: -

i) Such bank becomes eligible for obtaining debt/loans on bank rate from RBI.
Diagram 4.1
Structure of Indian Banking Industry

Source: Allahabad Bank Offer Document, 2002-03
ii) Such bank automatically acquired the membership of clearing house.

iii) Such banks also get the facility of rediscout of first class exchange bills from RBI. This facility is provided by RBI only if the scheduled bank deposit on average daily cash funds with RBI which is decided by RBI itself and present the recurring statements under the provisions of RBI Act, 1934 and Banking Regulation Act, 1949.

B) Non-Scheduled Banks:

The banks which are not included in the list of scheduled banks are called non-scheduled banks. The number of non-scheduled banks is decreasing such non-scheduled banks also have to follow CRR conditions. But such banks can have these fund with themselves as no compulsion has been made on non-scheduled banks to deposit CRR with RBI. These non-Scheduled banks are not eligible for having loans from RBI for meeting their day to day general activities but under emergency conditions these banks can be granted loans by RBI.

These formal banking system in India comprises the Reserve Bank of India, commercial banks, regional rural banks and the co-operative banks. In the recent past, private non-banking finance companies also have been active in the financial system, and are being regulated by the RBI. The structure of the Indian Banking Industry\(^3\) are given (Figure 4.1):

4.4.1 SCHEDULED COMMERCIAL BANKS:

The SCBs comprises:
Public Sector Banks:

The banking sector in India has been characterised by the predominance of PSBs. The PSBs had 47579 branches (SBI and associates: 13619, nationalised banks: 33960) at the end of FY 2001 (and at the end of March 2001) and their assets of Rs. 10,298 billion at end March 2001) accounted for 79.5 percent of assets of all SCBs in India. The PSBs large network of branches enables them to fund themselves out of low cost deposits PSBs account for 81 percent of deposits, 79 percent of advances, 78 percent of income, and 90 percent of branches of all commercial banks at end FY 2001, thus clearly demonstrating their dominance of the Indian banking sector. However, PSBs have suffered a gradual loss of market share, mainly to new private sector banks. PSBs accounted for 75.2 percent of incremental assets of SCBs during FY 2001, compared with 75.5 percent during FY 2000, and 78.2 percent FY 1999.

4.4.2 FOREIGN BANKS:

The Reserve Bank of India had adopted relative policy for allowing entry to foreign banks in the country. At the end of June 2000, 186 branch offices of 44 foreign banks were working in India. At end FY 2001, the total assets of foreign banks aggregated Rs. 1018 billion and accounted for 7.9 percent of the total assets of all SCBs. The primary activity of most foreign banks in India has been in the corporate segment. However, in recent years, some of the larger foreign banks have started making consumer financing a larger part of their portfolios based on the growth opportunities in this area in India. These banks also offer products
such as automobile finance, home loans, credit cards and household consumer finance.

4.4.3 NEW PRIVATE SECTOR BANKS:

In July 1993, as part of the banking sector reform process and as a measure to induce competition in the banking sector, the RBI permitted entry by the private sector into the banking system. This resulted in the introduction of 10 private sector banks. These banks are collectively known as the “New” Private Sector and operated through 803 branches at end FY 2001 with the merger of Times Bank Ltd. into HDFC Bank Ltd. in Feb 2000, there are only eight “New” private sector banks. At end March 2001, the total assets of private sector banks aggregated Rs. 1634 billion and accounted for 12.6 percent of the total assets of all SCBs. Although the share of private sector banks in total assets has increased from 8.8 percent at end FY 2001 new private sector banks have accounted for most of the gain. The new private sector banks share of assets of all private sector banks increased from 27.5 percent at end FY 1997 (2.4 percent of assets of SCBs) to 48.2 percent at end FY 2001 (6.1 percent of assets of SCBs). By contrast, although the share of old private sector banks (in total assets of SCBs) has increased marginally from 6.4 percent at end FY 1997 to 6.5 percent at end FY 2001, their share of assets of private sector banks has declined from 72.5 percent at end FY 1997 to 51.8 percent at end FY 2001.
4.5 ORGANISATION AND MANAGEMENT OF ALLAHABAD BANK:

The word "Management" is defined as a process to manage the affairs of an organisation on the path of accomplishing the envisaged objectives. Management is, in effect an art or act of managing and manner of directing towards a common consensus. On the other hand, some other authorities have expressed the meaning of management in their own style. Henry Fayol states that management is to forecast to plan, to organise to command, to coordinate and to control, whereas Taylor states that management is the art of knowing what you want to do and then, see that it is done in the best way. R.C. Davis admits, that management is the function of exclusive leadership anywhere. It is to be noted that Lowerence Appley says that management is personnel administration; it is the development of people and the direction of things.

G.R. Terry is perhaps the first erudite to give a comprehensive definition of management; "Management is a distinct process consisting of planning, organising activities and controlling, utilising in each both sciences and art and followed in order to accomplish predetermined objectives." A comprehensive definition of management thus emerges which indicates that management is an art as well as a science. It is a process, a coordinating process devoted to the group efforts. It is advanced to achieve the predetermined objectives. It has a distinct entity because the managers are 'not to do' but to see as to how to get the work done. According to F.W. Taylor who is best known for defining the techniques of scientific management, the systematic study of relationship between people and tasks for the purpose of redesigning the work process
to increase efficiency. In turn, management is a system of authority which is needed at all levels.

When the Lead Bank Scheme was first introduced, no specific organisational setup was envisaged for the lead bank on other banks either at the district level or at other level. With the increasing importance of lead bank scheme, it was found necessary to have a certain minimum organisational setup for the lead bank at the district level. The Reserve Bank of India accordingly advised Lead Bank to maintain at the headquarter of each lead district, one officer designated as a Lead Bank Officer (LBO) who would exclusively look after the work relating to the responsibilities, and one associated Lead Bank Officer who would give necessary support to this officer.

The Allahabad Bank is the Lead Bank in Banda district. Allahabad Bank was set up in the historic town of Allahabad on April 24, 1865 by a group of Europeans. Subsequently, it has been consolidated as a corresponding New Bank, under the Banking companies (Acquisition and Transfer of Undertakings) Act 1970. The Head office is situated in Calcutta. The chairman is assigned by the managing directors, Chief General Managers, General Managers etc. There are two General Managers one is General Manager (Operational) who looks after the banking operation functions and other General Manager (Planning & Development). He looks after the growth of business and further prospects etc.

The training part of employees and officers is supervised by Manager (HRD) Human Resources Development and the training in the bank is a continuous process.
The Zonal Office is a controlling office over all regional offices under its jurisdiction. It consists of approximately three/four regional offices, the number being determined by the geographical coverage and volumes of business.

Regional office exercises administrative and organisational control over the branches under its jurisdiction. The branch office are under the branch manager. LBO is placed in thee grade of Middle Management III and should normally be senior most among branch managers of the district.

The bank function under the supervision of the board of Directors consisting of the Chairman and Managing Director, the Executive Director and other directors as nominated by the Government of India. The bank has a management structure comprising head office, the Regional Office and the branches, covering major geographical areas. Within the structure there are also Field General Manager at regional offices at Delhi, Kolkata and Mumbai.

**Board of Directors:**

The bank has taken initiatives in furthering corporate governance practices leading to greater transparency and better coordination between the Board and Management and members of the organisation. The Bank has constituted various committees of the Directors in keeping with the existing guidance of the government of India and RBI as follows.

**Managing Committee of the Board of Directors:**

The committee exercised delegated authority for sanction of credit proposals loan compromise/write off proposals, major capital and revenue
expenses and reviews exercise of delegated authority by the CMD and the Executive Director. The committee also reviews the performance of key areas like investment portfolio, non-performing assets and other important management decision referred to the committee by the board.

Audit committees of the Board of Directors:

The audit Committee comprises:

1. Director and Chairman.
2. Executive Director of the Bank.
3. Director, Government nominee.
4. Director, RBI nominee.
5. Director.

Meetings of the audit committee are chaired by any one of the non-executive directors. The Audit Committee provides direction and also oversees the operations of total audit function of the bank. This covered organisation operation and quality control of internal audit and inspection within the bank and follow-up on statutory and external audit of the Bank and inspection of RBI. The committee reviews inspection reports of extra large branches, specialised branches and branches rated unsatisfactory in the rating system of the Bank. On house keeping, the committee reviews the positions and steps taken on inter branch adjustments, major outstanding entries in impersonal accounts and control on frauds.

Management of the Bank:

The overall supervision and control of the Banks functions rests with the Board of Directors which consists of the Chairman and Managing Director and Executive Director, both appointed by the Government of
India, other directors representing the government: Reserve Bank of India, Employees and Officers of the Bank. The day to day affairs of the Bank are managed by the CBD, the ED the Bank’s General Manager. Deputy General Managers who are assisted by a team of competent professionals.

**Key Managerial Personnel:**

The Key Managerial Personnel are on the roll of the Bank as permanent employees. They are entitled to the compensation and benefits as applicable to all the permanent employees of the Bank. They are of the General Manager and higher grade and hence that compensation falls in the scale of 19340-21300 per month. The other benefits include the festival loan, housing loan, reimbursement of certain expenses etc. as per employees service rules.

**Human Resource:**

The total manpower of the Bank as in March 31st 2002 was 19860 comprising 6789 officers, 8893 clerks and 4178 substaff. While in March 31st 1997 it was 22831. It is clear from the table that human resource is being decreased. The decreasing level of staff is higher as compared to officer in 31st March 2002, which is explicitly clear from the table 4.1.
Table 4.1

Manpower Position of Allahabad Bank

<table>
<thead>
<tr>
<th>As on</th>
<th>Officers</th>
<th>Staff</th>
<th>Sub staff</th>
<th>Total no. of staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>31.3.1997</td>
<td>6895</td>
<td>10822</td>
<td>5714</td>
<td>22831</td>
</tr>
<tr>
<td>31.3.1998</td>
<td>6904</td>
<td>10757</td>
<td>4945</td>
<td>22606</td>
</tr>
<tr>
<td>31.3.1999</td>
<td>6858</td>
<td>10620</td>
<td>4867</td>
<td>22345</td>
</tr>
<tr>
<td>31.3.2000</td>
<td>6813</td>
<td>10731</td>
<td>4581</td>
<td>22125</td>
</tr>
<tr>
<td>31.3.2001</td>
<td>6501</td>
<td>10202</td>
<td>4306</td>
<td>21009</td>
</tr>
<tr>
<td>31.3.2002</td>
<td>6789</td>
<td>8893</td>
<td>4178</td>
<td>19860</td>
</tr>
</tbody>
</table>

Source: Allahabad Bank Offer Document, 2002-03

The business per employees of the bank has been on the increasing trend. The position as on 31st March during the last five years is depicted in the table given below.

Table 4.2

Business Per Employee of Allahabad Bank

(Rs. crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business per Employee</td>
<td>76.73</td>
<td>90.21</td>
<td>105.68</td>
<td>126.48</td>
<td>154.54</td>
</tr>
</tbody>
</table>

Source: Allahabad Bank Offer Document, 2002-03

Voluntary Retirement Scheme:

In order to bring about right sizing the manpower the bank introduced Voluntary Retirement Scheme in the year 2000. In response to the scheme, altogether 1584 applications were received out of which
1499 were accepted by the bank. By reduction of these employees, the operation and performance of the Bank have not been affected.

4.5.1 RISK MANAGEMENT:

The Bank recognises that management of risk is fundamental to the business of banking. The Bank's approach to risk management is productive. The primary goal of risk management is not to avoid risks inherent in business but to steer them consciously and actively. The basic objective is to strike a balance between risk and returns. For promoting a balance between risk and returns, adoption of best practices in banking system, the bank has setup a separate department named 'Risk Management Department' to confront various types of financial and non-financial risks.

In consonance with RBI directives, the bank has classified the risk into two categories.
1. Financial Risk (Credit & Investment)
2. Non-Financial Risk (Market and operational)

Credit Risk Management Policy:

A high powered credit risk management committee headed by C & MD has been formed. The committee pronounces policy on standards for presentation of credit proposals, financial covenants, rating standards and benchmarks, delegation of credit approving powers, prudential limits on credit exposures assets concentrations, risk monitoring and evaluation, pricing of loan, provisioning and regulatory / legal compliance. Risk Management Policy has been framed duly approved by Board of Directors. The policy covers various key aspects like risk management structure, roles
and responsibility of Credit Risk Management Committee. Risk Management Development process of risk management, risk gradation system, risk management monitoring, portfolio management, MIS, risk based pricing etc. The risk based supervision of banks will start as per directives of RBI. In this direction, the bank has already installed a customised package to assess the credit risk comprising industry risk, business risk, financial Risk and management risk. This will help the bank to identify the risk associated with its assets profile and to segregate the entire portfolio into four broad risk heads.

1. Low Risk  2. Moderate Risk

**Credit Risk Supervision and its Preparedness:**

The Bank is strengthening its MIS to capture historical data for calculating PD and LGD and EAD towards implementation of Risk Based Supervision as Well as to assess the adequacy of provisions. The Bank has already introduced Risk Management Module for assessment of various risk factors in respect of all existing and new loan proposals for Rs. 5.00 crores and above.

This will reduce to Rs. 1.00 crores in phases. The bank is also planning to introduce the revisal inspection system based on degree of risk involved in the operation of branches and controlling offices. Knowledge and skills of Risk Management is being updated through in-house training system.
Loan Review Mechanism:

Towards implementation of Risk Based Supervision the Bank is in the process of introducing credit audit as a part of loan review mechanism. A separate policy and modus operandi on Credit audit is on anvil. More stress has been given on periodical review of loan assets.

4.5.2 NON FINANCIAL RISK:

Market Risk:

With on going globalisation and deregulation, the volatility of financial markets has increased substantially and it’s going to increase further in future. This will expose bank’s earnings as well as economic value to higher degree of risk. In order to cope with the challenge of free market economy, the bank has already formulated and implemented Assets-Liability Management System. ALCO looks after the structural liquidity mismatch within the risk parameters laid down by the bank. The committee also takes care of interest rate risk, liquidity risk, equity risk, maturity mismatch risks and other types of risks related to market variables i.e. foregoing exchange rate, equity pricing, commodity pricing etc.

Operational Risk:

Operational risk is a result of failure of operating system in a bank due to certain reasons like fraudulent activities, natural disaster human error or omission or sabotage. For mitigation and controlling the same, bank has strong and established internal control system. Apart from that, we also have a separate department, which formulates and monitors delegation of duties and responsibilities at different level. The department
also keeps on formulating rules and check points for improving system and procedure to suit the changing environment.

**Forex Risk:**

In terms of the guidelines of the Reserve Bank of India, open positions are permitted to be maintained within levels stipulated the management. The bank is maintaining such open positions with the limits so prescribed by the Bank’s Board of Directors. Further, the Board of Directors of the Bank has also prescribed limits for gaps or mismatches in maturities of Banks foreign currency assets and liabilities and forward transactions in foreign exchange. The Bank is operating within the limits so fixed, thus minimising the risks of mismatches in maturities and interest rates. The value of Risk model prescribed by the FEDAI has been adopted and is being monitored so as to minimise risks. Counter-party limits have also been fixed for dealing with the other banks with which the bank has day to day dealings so as to limit the risk on individual counter-party banks.

The RBI has announced its intention to switch over to Risk Based Supervision of Banks. Our bank has initiated necessary steps in this direction.

**Internal Inspection:**

Branches/Offices of the bank are subjected to regular inspection by internal inspecting officials at periodical intervals of 12/18 months. The inspection reports branches/offices under the jurisdiction of Regional Offices are scrutinised and the broad thrust areas are taken up with the R.O.S. concerned for speedy specification. In request of branches rated
'unsatisfactory', a brief summary is placed before the higher authorities, and the observations of the higher authorities are taken up with the branches for compliance. Similar is the case with special reports, which the inspecting officials submit from the spot itself in case of some serious type of irregularity observed during the course of inspection, for which urgent remedial steps are warranted to protect the interest of the bank. Moreover, the progress towards upgradation of 'unsatisfactory branches' is placed before the Audit Committee of executives and observations/suggestions are promptly taken up for implementation.

**System Audit:**

All branches are subjected to system audit as on 28th February every year by the Regional Office concerned, to ensure that bank's laid down systems and procedures in vital operational areas are duly followed. Internal Inspectors/Concurrent Auditors also point out if any deficiency is observed on this score during the course of their inspection of branches/offices, so that prompt remedial measures are taken.

**Concurrent Audit:**

Branches with business of Rs. 15 crores and above, including ELBs and VLBs, specialised Advanced Oriented Branches and other critical branches are further subjected to concurrent audit, that is, "simultaneous checking of transactions within a few days of its occurrence", by outside chartered Accountant Firms. It is ensured that the deficiencies/shortcoming, including revenue loss, if any, are promptly specified by the Branches concerned.

**Revenue Audit:**
Branches, which are not covered under concurrent Audit, are subjected to Reserve Audit, also by outside C.A. Firms, so as to plug any possible revenue loss.

**EDP Audit:**

At present, we are having 338 ALPM and 321 TBM branches of them, EDP audit of around 200 branches has since been completed to ensure safety, security and integrity of data, so as to achieve the organised goals effectively and efficiently.

**Dealing Room Inspection:**

The four dealing rooms of the bank are inspected every quarter by the Ex-dealers of Bank. The Bank has succeeded in drastically reducing the outstanding in Nostro Accounts and the Export Import Suspense Accounts over the last couple of years.

**Other Special Investigations:**

Whenever warranted, special investigation is also conducted at the Branch/Office concerned to unearth any fraud/forgery etc. and plug the loophole.

**Vigilance Mechanism:**

The Bank has a well organised vigilance setup to take care of the vigilance issues efficiently and effectively vigilance mechanism pursued by the bank to contain fraud/forgery and malpractices in the Bank has been quite effective. The guidelines emanated from central vigilance commission/Reserve Bank of India/Government of India in respect of vigilance matters are promptly implemented and adhered to special emphasis is given to expeditious completion of disciplinary cases. Special emphasis is also laid
on Preventive Vigilance and Educative Vigilance so as to ensure observance of the prescribed system and procedures at field level and augment awareness about the need and implication of preventive vigilance among the rank and file. Training programmes for the employees on internal control and preventive vigilance regularly held at the Bank’s training centre. Periodicals on vigilance are brought out apart from routine inspection/audit, surprise vigilance inspection of branches is conducted on an ongoing basis.

Housekeeping:

Housekeeping, which is included balancing of books, is constantly monitored and is generally satisfactory. Inter-branch reconciliation was given focused attention during the year and the lead time was maintained at less than three months. At present about one percent of the branches are carrying arrears in balancing of books for rectification measures are being taken. The bank has centralised system of data processing and reconciliation of inter-branch transaction. Now with the decentralised process, the data creation for inter branch transaction is done at regional level. Matching reconciliation is done on a monthly/quarterly basis through IBR software at its Head Office.

4.6 ORGANISATION AND MANAGEMENT OF LEAD BANK SCHEME IN BANDA DISTRICT:

The Lead Bank Scheme is not a homogeneous organisation in the sense that the organisational framework is not of a particular institution. It is a combination of horizontal and vertical institutions having divergent
interest in their respective areas of operations. Hence the Lead Bank Scheme is heterogenous. A workable system under the supreme authority of District Level Consultative Committee for mutual collaboration of its members has been worked out in the lead district. The members of the district level consultative committee, which is chaired by the district collector, are from the DRDA, Government department, RBI, NABARD and financial institutions. The convener of the Committee is the Lead Bank Officer.

4.6.1 LEAD BANK OFFICER AND MANAGEMENT:

For effective functioning, certain minimum organisational requirements are a must for the lead bank. Preferably the Lead Bank Officer should be middle management category III and, in any case, senior enough to ensure that the bank's branches in the district discharge their functions effectively under his guidance and supervision. He should have experience as a branch manager with particular reference to rural financing and also possessed the necessary aptitude for the work. He is responsible to the controlling authorities (Regional Manager) that supervise the branches in the district. He should have a supporting staff, at least one junior officer, one field officer, and other necessary clerical and other supports for Lead Bank Scheme. With respect to establishment, he should have a separate office or separate Lead Bank Cell should be provided if his office is situated in the district headquarters.

The Lead Bank Officer is the link between the various government departments and the agencies and the commercial banks engaged in the
poverty alleviation programmes in the district. He is the consortium coordinator of the various agencies and the bank.

In the formulation of the credit plans, the Lead Bank Officer functions as the area credit planner for the district. He carefully observes and studies the following:

i) The resource base and skill base of the various areas of the district.

ii) Programmes of development drawn up by the different Government departments and agencies.

iii) Socio-economic conditions of the area to access development consciousness of the local people in so far as it would affect the demand for credit.

iv) Extension support available with the government and the financial institutions; and

v) The cost-benefit profiles of various activities with a view to assessing their financial viability.

He is the convener of the standing committee of District Level Consultative Committee and District Level Review Meeting. He solicits for the cooperation of all those concerned.

From the foregoing it can be observed that the Role of Lead Bank Officer is quite different in terms of the nature of the responsibilities from those of the traditional bankers. He ensures that his Lead Bank sets an example for other banks to emulate, particularly in the area of financing sectors of weaker sections of the society and also in providing adequate support to Government sponsored poverty alleviation programmes.
The Lead Bank Officer is a catalyst in mobilising, cooperation and coordination from other banks and government departments in the successful implementation of the objectives.

4.6.2 DISTRICT LEVEL CONSULTATIVE COMMITTEE:

District Level Consultative Committee is the highest policy making body of the Lead Bank Scheme in the district. It has an expert body known as standing committee which advises it on the Annual Credit Plans of the district.

Membership of District Level Consultative Committee:

The Collector is the chairman of the District Level Consultative Committee in Banda district and he is assisted by Additional Collector (Development). This is in line with Institutional Credit for Agriculture and Rural Development recommendations to relieve the collector from this enormous and very important duty as he has very little time to attend District Level Consultative Committee meetings.

According to the report of the working group to review the working of the Lead Bank Scheme, “only banks and other financial institutions having sizeable shares in Annual Credit Plan and the district level officials of the Government department important from the point of view of Annual Credit Plan, should be represented only by one official of an approximate level at District Level Consultative Committee meetings.” In the same manner, the membership of District Level Consultative Committee in Banda District is made up of Lead Bank Officer (convener), Lead District Officer, representative of District Rural Development Agency, NABARD, DCCB,
SLDB, RRB, commercial banks having large allocation in Annual Credit Plan, DIC and important Government departments.

The other Government Departments and banks which are not permanent members may be invited to the meetings when the need arises on the basis of the agenda. The strength of the meeting is maintained at a compact level of 20 to 25 members so that discussions at the forum are meaningful result oriented.

**Frequency of Meeting of District Level Consultative Committee:**

In this regard, the Lead Bank Officer functions as a focal point of coordination by convening regular meetings with the coordinations of all non-lead banks and other financial institutions including those not permanently represented at District Level Consultative Committee. These meetings are held well in advance of District Level Consultative Committee meetings so that the problems thrown up could be taken up at the District Level Consultative Committee forum. The District Level Consultative Committee meeting in Banda District is held as per RBI guidelines. It is held quarterly in a year to review the progress of the work. The major district level review meeting meets twice a year at half yearly intervals.

**4.6.3 FUNCTIONS OF DISTRICT LEVEL CONSULTATIVE COMMITTEE:**

The functions of the District Level Consultative Committee are of great importance to the successful operation of Lead Bank Scheme in the development of the district. The Following are the functions of District Level Consultative Committee in Banda District.

1. Identification of potentials and formulation of banks scheme
for inclusion in Annual Credit Plan.

2. Finalisation of Annual Credit Plan.

3. Allocation of shares of Annual Credit Plan outlays.

4. Monitoring overall progress in physical and financial terms of the implementation of Annual Credit Plan.

5. Reviewing and monitoring of the support forthcoming from Government departments.

6. Identifying problems of credit and also of infrastructure, inputs etc. and taking steps to overcome the identifying problems.

7. Reviewing the progress in disposal of loan applications and ensuring that applications are sent in a phased manner and not bunched in last quarter of the financial year.

8. Reviewing bankwise position of credit disbursement under IRDP, SEEUY, SEPUP, SUME, POP etc.


10. Monitoring the recovery position of financial agencies and rendering necessary help for recovery of overdues.

11. Taking up with state government SLBC and SLCC items and issues which cannot be tackled at the district level and ensuring proper follow up thereof.

12. Consideration of securing arrangements and other infrastructural facilities for rural branches.

13. Identifying of unbanked centers for opening of branches and reviewing the process in the opening of branches.
14. Evaluation of the ground level implementation of various schemes and benefit accruing thereunder to the identified beneficiaries.

15. SEMFEX, National Housing bank Scheme is also monitored.

Standing Committee of District Level Consultative Committee:

The membership of the standing committee has since been enlarged to include representatives of RBI, ARDC, NABARD, DRDA, Cooperative etc. The district collector is also the chairman of the standing committee. No stipulation have been put forward regarding the size of the standing committee by RBI except that it should be a compact forum that could meet frequently for meaningful results.

The frequency of the meeting of the standing committee depends on the necessity and workload, preferably twice a quarter. But with enlarged programme of IRDP to all the blocks in the union. RBI issued further instructions for covering the meeting of the standing committee once every month.

4.6.4 DISTRICT LEVEL REVIEW MEETING:

The District Level Review Meeting has been entrusted to review the various schemes in Annual Credit Plan. There is a quarterly review of the scheme and apart from this, there is a major half yearly review of the Annual Credit Plan which takes place in the District Level Review Meeting. It is a one day special meeting of the District Level Consultative Committee which discusses in depth the Problems in the implementation of individual schemes with a view to evolving corrective action. This
meeting also approves the Annual Credit Plan for the next year, identifies problem areas and devises suitable remedial steps.

In the meeting, the suggestion arrived at are discussed by all the members and conclusions are arrived at for implementation. This meeting is often referred to as training forum because of its technical approach in finding and solving the problems. Problems beyond its apprehension are referred to the State Level Review Meeting.

In recent times, the government has been made to provide the necessary facilities needed for formulation and implementation of credit plans. In order that the government departments are effective in line prescribed by the RBI, it is mandatory for the departments to be accountable to the District Level Consultative Committee their failure to provide essential facilities. This accountability is an approach to make the departments more effective in the programmes of poverty alleviation.

Veterinary hospitals provide high breed animals and medical care for the animals. They maintain artificial insemination in some centres and also high breed animals for natural service. Their extension services are carried up to the door-steps of the beneficiaries.

Agriculture Department (Extension) provides high yield seeds to farmers, teaches the farmer the modern method of farming, use of fertilizers, insecticides, pesticides and holds demonstrations on the peasant's land.

4.7 **DISTRICT RURAL DEVELOPMENT AGENCY:**
The organisational set up on the part of the district administration for dealing with matters relating to Lead Bank Schemes is of similar importance as that of other agencies. The district administration extents all necessary support for the credit programmes. There is a separate section or cell created in the district for looking after all the aspects of Lead Bank Scheme and priority sector lending and this is known as Direct Rural Development Agency. The agency, which is headed by the Additional District Collector (Development), acts as the focal point for liaison with banks and it is responsible for coordinating the concerned Government functionaries in all matters relating to Annual Credit Plan.

4.8 LEAD BANK SCHEME AND RESERVE BANK OF INDIA:

The RBI has been associated at the field level with the District Level Consultative Committee apart from attending District Level Consultative Committee and standing committee meetings, Lead District Officers are required to function in close coordination with Lead Bank Officer appointed by the Lead Bank and oversee the preparation and implementation of Annual Credit Plan. The Lead District Officer are appointed by Reserve Bank of India from its Rural Planning And Credit Department.

The major responsibilities of The Lead District Officer include the following:

a) Effective participation in the meeting of District Level Consultative Committee and other forms and support to Lead Bank Officer.

b) Discussion with Lead Bank Officer, District Coordination and
concerned Government Development Agencies to identify problems areas and help in finding solutions.

c) Monitoring implementation of Annual Credit Plan by the various financial agencies and government department with special reference to IRDP.

d) Visits to bank branches in the district to ascertain progress and problems.

e) Monitoring ground level implementation of simplified procedure and other instructions of RBI.

f) Acting as a link between the district and state levels on various matters connected with the Lead Bank Scheme.

For effective discharge of his responsibilities, the Lead District Officer spends about a week in each of the allotted districts every month. He visits bank branches in the district and look into various aspects of priority sector lending in IRDP and compliance with the various instructions of Reserve Bank of India and Government of India on the subject. The visits are so phased that in a period of three years, he is able to cover all the rural and semi-urban branches under his jurisdiction. Not more than three districts are allotted to one Lead District Officer is general and they are restricted to two if the districts are geographically vast, inaccessible, hilly or backward. At present, where NABARD is working the post of Lead District Officer is abolished.

**High Power Committee on the Working of Lead Bank Scheme:**

At the national level, a High Power Committee was constituted by RBI in February, 1976 in accordance with the recommendation of the study
group on the working of Lead Bank Scheme in Gujrat and Maharashtra. High Power Committee consists of representatives of a few major Lead Banks, Government of India and NIBM and is prescribed over by a Deputy Governor of RBI. The first meeting of High Power Committee was held in March 1976 and till now the committee has met several times on an average of twice a year.

The High Power Committee provides necessary guidance in various matters and plays an important role in the progress of Lead Bank Scheme working group recommended enlarging its membership, rotation of its members and reviewing performance in different states.

**New Information System of Lead Bank Scheme:**

At its fifth meeting held on 12th Dec. 1978, the High Power Committee decided that an attempt might be made to evolve a simplified system of returns which could replace then existing formats. For this reason, the High Power Committee set-up a sub-committee made up of District Level Consultative Committee, state government, RBI and GOI to draw up a set of returns to serve the data needs at the various levels. The formats devised by this sub-committee have come to be known as New Information System with effect from March 1980.

The formats of New Information System covers the following:

a) Quarterly returns on priority sector advances.

b) Half yearly returns on agricultural advances.

c) Annual returns on recovery of agricultural advances.

d) Half yearly returns on implementation of Annual Credit Plan.

e) Quarterly returns on disposal of Loan applications.
f) Quarterly returns on Differential Rate of Interest Scheme.

For flow of data under New Information System, the working group made the following recommendation.

i) The lead bank has to actively monitor the implementation of AAP with relevant data as quickly as possible and RBI’s full weight is thrown behind the Lead Bank in this regard.

ii) Each Zonal or Regional Office of Banks should have a small statistical cell which could train, guide and supervise branch level staff in the early completion of various returns. At the branch as well as regional levels, submission of various returns should be made an integral part of the annual assessment of the performance of the concerned staff.

iii) The bank should constitute internal working groups to examine their management reporting system, weed out unnecessary or outdated returns and to bring others in line with RBI returns so that branches do not have to furnish the same information again and again.

iv) To facilitate compilation of the returns by the branches, bank should introduce back-up register.

4.9 **FINANCIAL INSTITUTION IN THE IMPLEMENTATION OF LEAD BANK SCHEME:**

As the major commercial banks are in the management and control of the government, they carry out the government policy to the letter with respect to priority sector lendings. In Banda district there are a number of financial institutions that participate in Lead Bank Scheme. They
include commercial Banks, cooperative Banks and infrastructure financial cooperation.

**Commercial Banks:**

There are six commercial banks working in Banda Districts and are having 28 branches with 17 in rural areas and 11 in semi urban area. Allahabad Bank being the lead bank has maximum number of branches at 18 and consequently have advanced the maximum loan and also had maximum amount of deposits.

Every commercial bank has branches in Banda District. The district coordinator is entrusted with the task of collection, consolidation and submission of Annual Credit Plan data regarding his bank in Banda district. He ensures effective participation of branches of his bank in the lead bank scheme and to liaison with the lead bank and the district administration. He reports directly to the Regional or Divisional Office which controls the branches of his bank in the district.

The Zonal Office controls several Regional or Divisional Offices. The organisational set up at the Zonal Office looks after the bank's role under Lead Bank Scheme. The senior executives review by periodical visits. The actual performance of the branches of his bank as well as returns in the whole area and reports to the Head Office.

Such visits go a long way in improving the performance of the bank by removing bottle necks and ensuring field level implementation of various instructions.

Banks review the organisational set up in their Head Office to deal with all aspects of Lead Bank Scheme. Review of the Bank's performance
and Annual Credit Plan is limited to performance of their lead districts.

The function is kept under the charge of a very senior executive preferably General Manager in order that due attention is paid to the role played by the bank under the scheme.

**Banda District Central Cooperative Bank:**

At the apex of Central Cooperative Bank is the state cooperative bank. It completes the pyramidal three tier cooperative agricultural credit structure which comprises the primary agricultural credit societies at the village level and the central cooperative bank at the district level.

The bank is having 10 branches in the district. With a view to carry out the functions of the bank on viability considerations, it enters into Memorandum of Understanding, annually with NABARD and UPCB, where in, due consideration is accounted to cost and returns and business development is undertaken accordingly. However, the bank is still registering losses.

**Land Development Bank:**

The Primary Land Development Bank borrows from the Central Land Development Bank which is at the state level and lends to its members for redemption of previous mortgages on agricultural lands, improvement of agricultural lands, purchase of equipment and discharge of previous debts. The bank encourages its members to cultivate the spirit and practice of thrift, mutual help and self help. The district is being served by 3 branches of U.P. Sahkari Vikas Bank Ltd.

Other Credit Institutions in the Implementation of the Lead Bank Scheme:
Mention has to be made of some credit institutions that compliment the efforts of the commercial banks in the implementation of credit plan of the district. These institutions are not concerned with credit in the agriculture sector but with small scale, rural and cottage industries as well as tertiary sector.

Some other financial institutions are also operating in the state besides banking institutions and the entrepreneur of the district can avail/receive assistance from them. The related institutions are PICUP, which provide financial assistance for industrial projects having outlays of more than 60 lakhs, UPFC, providing assistance to Small Scale Industry/Tiny units for blocks and working capital under single window system, KVIC/KVIB, have specific focus on Khadi and village industries and provide finance, interest, subsidy.
NOTES & REFERENCES

2. Jatna, Renu, “Lead Bank Scheme”.
CHAPTER - V
PERFORMANCE OF THE NATIONALISED COMMERCIAL BANKS IN
BANDA ECONOMY

5.1 Performance of Credit Agencies in Banda District

5.2 Performance of Banking Industries
   5.2.1 Recent Trends in Banking Industry

5.3 Assets Classification, Income Recognition and Provisioning
   5.3.1 Regulatory Provision
   5.3.2 General Data on Non-Performing Assets
   5.3.3 Non-Performing Assets Management Strategy

5.4 Profitability
   5.4.1 Ratio Analysis
CHAPTER - V
PERFORMANCE OF THE NATIONALISED COMMERCIAL BANKS IN BANDA ECONOMY

5.1 PERFORMANCE OF CREDIT AGENCIES IN BANDA DISTRICT:

The district of Banda is being served by a network of commercial banks, DCCB and RRB. In respect of achievement of financial targets under Annual Credit Plan of 1997-98, the banks put together have achieved 94 percent while it has been reduced to 74 percent in 1998-99 but some banks have very poor achievements ranging between 17 percent to 52 percent and 11 percent to 35 percent in 1997-98 and 1998-99 respectively. Concerted efforts are needed to be initiated by bank to avoid such huge gap in meeting the credit requirements of their respective areas. Further, these efforts are to be balanced up by Government by providing requisite infrastructure support to increase the credit absorption capacity and also aid the recovery of banks, specifically in respect of recovery of RC field cases, so that proper recycling of funds can take place and the banks are in a position to work profitably.

The Commercial Deposit ratio of the district as a whole in 1996, 1997, 1998 and 1999 comes to 39 percent, 36 percent, 37 percent and 37 percent respectively.

The Commercial Deposit ratio of the individual agencies is as under:
Table 5.1

Commercial Deposit Ratio

<table>
<thead>
<tr>
<th>S.N.</th>
<th>Agencies</th>
<th>CD Ratio (in percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>31.3.96</td>
</tr>
<tr>
<td>1.</td>
<td>Commercial banks</td>
<td>26</td>
</tr>
<tr>
<td>2.</td>
<td>RRB</td>
<td>39</td>
</tr>
<tr>
<td>3.</td>
<td>Co-operative Banks</td>
<td>45</td>
</tr>
</tbody>
</table>

Source: Potential Linked Plan.

The low achievement of some of the commercial banks under the Annual Credit Plan is reflected in the low Commercial Deposit ratio of the Commercial Bank.

To see that the Regional Rural Bank and District Credit Cooperative Bank of the district is able to function viably and effectively so that credit and banking needs of the district are met effectively, development action plans with a long term perspective are being prepared by them and the various performance indicators are being regularly monitored by NABARD and the sponsor bank of RRB. The health and performance of individual agencies is detailed here under.

**Commercial Banks:**

Six commercial banks are working in these district and are having 28 branches with 17 rural areas and 11 in semi-urban areas. Allahabad Bank being the lead bank has maximum no. of branches at 18 and consequently have advanced the maximum loan and also had maximum amount of deposits. All the banks taken together have shown a deposit
growth of 15.56 percent in 1998-99 over 1997 and an advance growth of 14 percent over the same period. The combined recovery performance as on March 1988 was 48 percent. Some one branch banks have slipped quite heavily in achieving the Annual Credit Plan targets. The recovery have shown an increasing trend in last 3 years viz. 48 percent in June 1996 to 48 percent on June 1998.

**Tulsi Gramin Bank:**

Tulsi Gramin Bank established on March 26, 1981, has its head office at Banda in Uttar Pradesh. The operational area of the bank covers Banda and Chitrakoot district in Uttar Pradesh. The bank has network of 54 branches in the district with a deposit of Rs. 7763.43 lakh and loans outstanding of 3146.23 lakh. The Commercial Deposit ratio at 40.52 has shown on improvement over last year’s achievement of 37 percent. The deposit of the bank has increased by Rs. 2036 lakh and the advances by Rs. 1113.59 lakh (these figures refer to bank as a whole as District was bifurcated into two in mid 97 and separate figures are available only March 1998). The recovery performance at 40.23 percent requires improvement.

The bank in order to tune up its operations with the aim of attaining viability have been entering into Memorandum of Understanding with its sponsor bank and for the first time during the year 1997-98 obtained an operating profit of Rs. 193.76 lakh. This has been made possible because of the fact that average return on funds have increased to 9.35 from 8.33 in last year. This miscellaneous income has jumped from 8.44 to 2.56 while transaction and Risk cost have decreased from 5.38 percent
and 7.72 percent to 4.10 and nil, respectively. The overall effect has been a phenomenal jump in net margin from (-) 10.81 to (+) 1.81 leading to operating profit. This clearly shows that the bank has strived to come out of the morass, and is on its way to attaining sustainable viability and this shall help in meeting the credit need of the district. In 1997-98 itself the bank has exceeded the loan issued target under Memorandum of Understanding.

**Banda District Central Co-operative Bank:**

The bank is having 18 branches in total and is presently being managed by an administrator. To see that the bank functions on viability consideration it sign Memorandum of Understanding with NABARD and SCB.

Major efforts shall be required on the part of the bank to improve its functioning to attain viability whereby it shall be in position to meet the credit needs of the area in a better way.

**Land Development Bank:**

The district is being served by 3 branches of UP Sahkari Gram Vikas Bank Ltd. The total loans outstanding as on 31.3.1998 stood at Rs. 685.19 lakh. In 1997 it grew @ 11.5 percent over 1996 and in 1998 the growth was 3.6 percent over 1997. The recovery performance could be termed as satisfactory. However the performance at 52 percent achievement against AAP target requires improvement, specifically under loans to agriculture and Allied activities which is its main operations. The performance was specifically poor in comparison to the achievement of Rs. 224.46 lakhs against AAP target of 279.55 lakhs in 1997 end. However,
this indicates that bank is capable of meeting the credit needs of the area.

**Other Financial Institutions:**

Some other financial institutions are also operating in the state in addition to the banking institutions and the entrepreneurs of the district can avail/receive assistance from them. The related institutions are PICUP, which provide financial assistance for industrial projects having outlays of more than 60 lakhs, Uttar Pradesh Financial Corporation providing assistance to SSI/Tiny units for block and working capital under single window system, KVIC/KVIB have specific focus on Khadi and village industries and provide finance, interest, subsidies, margin money and also training to entrepreneurs; UP Scheduled Castes Finance and Development Corporation, provide finance/training/subsidies/extension services to entrepreneurs from SC/ST communities and UP Minorities Finance and Development Corporation which provides term loans upto a maximum of Rs. 85000/- @ 6 percent P.A. for entrepreneurs from minorities communities.

### 5.2 PERFORMANCE OF BANKING INDUSTRIES:

On the functioning side, deposit growth of commercial banks has been lower during FY 2002. The aggregate deposits of SCBs increased to Rs. 11.234 billion on March 29, 2002, reflecting an increase of 13.6 percent (year on year) during FY 2002, as compared with 16.2 percent during FY 2001. Deposit mobilisation was higher during FY 2001 because of Rs. 257 billion raised through India Millennium Deposits.

On the asset side, bank credit to the commercial sector increased
at a slower rate than the growth in Bank Deposits. Bank credit increased to Rs. 6045 billion on March 29, 2002, reflecting an increase of 14.2 percent (YoY), compared with 16.6 percent (YoY) during FY 2001. The slower growth in bank credit was primarily because of the industrial slowdown. Non-food credit increased to Rs. 4895 billion on March 29, 2002 an increase of 12.4 percent (YoY) by contrast, food credit of Scheduled Commercial Banks increased 37.1 percent (YoY) to Rs. 545 billion on March 29, 2002 in response to the increase in the quantum as well the price of food grains procured. The investment made by Scheduled Commercial Banks government and approved security increased 19.5 percent (YoY) to Rs. 4389 billion on March 29, 2002, compared with a growth of 17.8 percent (YoY) on March 30, 2001. As of end March 2001, bank's holding of SLR securities amounted to Rs. 1060 billion over and above the SLR requirement and was substantially higher than the net annual borrowings of the central government.

Following the announcement of policy measures during FY 2002, these have been a decline in Scheduled Commercial Banks lending and deposits rates. The PLRs of five major PSBs declined between 11 percent per annum and 12 percent per annum on March 2002. The implicit yield on 91 day Treasury Bills declined from 8.50 percent p.a. on March 23, 2001 to 7.04 percent p.a. on July 4, 2001 and 6.05 percent on March 20, 2002. Deposits rates of major banks for more than one year maturity have also declined between 8.5 percent per annum and 10 percent p.a. on March 2002 to between 7.5 percent p.a. and 8.5 percent p.a. in March 2002. On balance, term deposits rates across all maturities, were lower
in March 2000 than the corresponding levels in March 2001.

5.2.1 RECENT TRENDS IN BANKING INDUSTRY:

In recent years, the banking industry has been undergoing rapid changes, reflecting number of underlying developments. The most significant has been advances in communication and information technology, which have accelerated and broadened dissemination of financial information while lowering the costs of many, financial activities. Second, key impetus for changes has been increasing competition among broad range of domestic and foreign institutions in providing banking and related financial services. Third, financial activities have become larger relative overall economic activities in most economies. This has meant that any disruption of financial markets or financial infrastructure has broaden economic ramifications than might have been the case previously.

These developments have manifold consequences for the institutional and systematic structure of the financial sector in general and banking in particular. The business profile of financial institutions is also undergoing change the service traditionally associated with banking is being offered by institutions not normally characterised as banks, while banks have gradually made for non banking activities. Merger and takeover of smaller institutions have led to the emergence of transactional conglomerates offering services ranging from traditional commercial banking to investment banking and insurance.

With increasing globalisation and blurring of distinction between different segments of financial intermediaries, there is a growing recognition
that safeguards the health of the financial system is of paramount importance for maintaining financial stability. Not surprisingly, the financial sector especially the banking sector in most emerging economies is passing through a process of change and India is no exception. With the banking sector being the mainstay of financial intermediation in emerging economies, developing a sound and healthy banking system through promotion of prudent financial practices is viewed as sine qua non for safe guarding financial stability. The banking sector accounts for over half of the assets of the financial sector and remains dominants in India.

**Branch Expansion:**

The geographical coverage of banking facilities has improved markedly, especially after the nationalisation of 14 major commercial banks in July 1969. Till 1956 the RBI was very cautious in giving licences for new branches. Its major effort was devoted to the consolidation and strengthening of the banking system and not to expansion. Consequently till 1954 there was a continuous decline in the total number of banking offices, mainly due to the amalgamation of smaller banks with the larger banks and closure of the offices of non-scheduled and smaller banks\(^3\). 1956-61 was a period of slow expansion of banking offices. The number of banking offices increased from 4067 to only 5012. From July 1962, the RBI followed a systematic programme of branch expansion, encouraging banks to open their offices in semi-urban, rural and other unbanked areas. Under the programme, upto Dec. 1970 the number of banking offices more than double from about 5000 to about 11000. The nationalisation of 14 major banks in July 1969 imparted a new sense of urgency and
major impetus to branch expansion in unbanked especially rural and semi-urban, areas expeditiously. One of the major objective of the bank nationalisation has been this kind of expansion of banking facilities in the country. For, the private sector banks all along had hesitated opening bank offices in small centres, as they did not expect such office to be remunerative for several years. Therefore, it was thought that the state must come forward in a big way (through the ownership of banks) to open up the counter side to banking and meet the initial costs involved in the interest of larger social goals of saving promotion and mobilisation and making available institutional credit and remittance facilities even in rural areas, for the growth of agriculture and rural industries. Even since their nationalisation, the SBI group of banks has played an important role in this direction. Since October 1975 the effort has been supplemented by setting up Regional Rural Banks.

Since nationalisation of banks, the number of bank offices has multiplied rapidly from 8300 in July 1969 to more than 62000 at end June 1995. This has improved substantially the availability of banking facilities in the country. Whereas in 1969 there was only one bank to serve 65000 population by the end of 1995, were five banks for the same number of persons.

The picture becomes much more impressive when we look at the striking increase in the number of bank offices in rural areas from mere 1860 in July 1969 to more than 47000 in June 1995. Taking rural and semi urban centres together, the number of bank offices increased from about 4200 in July 1969 to more than 47000 in June 1994, whereas
the number of bank offices in urban and metropolitan and port towns increased from 3100 in July 1969 to 8300 in June 1994.

Also, in recent years, there was greater emphasis on extending banking facilities in deficit districts and in unbanked areas. With the provision of adequate banking infrastructure through the country, particularly in rural area, the RBI has given up its old branch licensing policy and given greater freedom to banks to rationalise their existing branch network in non-rural areas.

A branch is termed as a good going one if inside it there is a good working atmosphere\(^3\). If customers are very much satisfied with the degree and quality of services rendered to them, the goodwill of the branches spreads in the operational areas and internal factors are solely responsible for rating of the branches as quite satisfactory. All these can only be possible if there is proper team spirit prevailing in the branch and all concerned are always watchful of the hindrance blocks which are mainly (i) misutilisation of manpower (ii) absence of proper work ethics (iii) employees attention (iv) lack of organised approach to face any situation (v) lack of discipline (vi) lack of appropriate communication (vii) absence of an effective participative culture (viii) lack of job satisfaction and motivation and (ix) lack of leadership. In order to make the goodwill of the branch, the manager, should overcome the hindrance blocks.

**Deposits:**

Total deposits of the bank grew by 12.7 percent to Rs. 22666 crores as on March 31, 2002 from Rs. 20106 as on March 31, 2001. The share
of low cost deposits (current Account and Saving bank Accounts) in total deposits improved from 42.0 percent as on March 31, 2001 to 42.3 percent as on March 31, 2002. Improvement customer services have resulted in increase in the share of low cost deposits in the overall deposit mix. Mobilisation of low cost resources remained at the focus of attention of the bank. Cost of deposits declined to 7.20 percent during 2001-02 from 7.44 percent during 2000-01.

The categorywise break-up of total deposits during last five years is presented below:

**Table 5.2**

**Total Deposit**

(Rs. in crores)

<table>
<thead>
<tr>
<th>Year ended March 31</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current deposit</td>
<td>1276.49</td>
<td>1503.42</td>
<td>1696.43</td>
<td>1845.60</td>
<td>1871.60</td>
</tr>
<tr>
<td>Saving bank deposits</td>
<td>4260.80</td>
<td>4970.71</td>
<td>5701.18</td>
<td>6603.73</td>
<td>7700.60</td>
</tr>
<tr>
<td>Term Deposits</td>
<td>8003.47</td>
<td>9036.92</td>
<td>10244.50</td>
<td>11656.69</td>
<td>13093.74</td>
</tr>
<tr>
<td>Total</td>
<td>13540.76</td>
<td>15511.05</td>
<td>17642.11</td>
<td>20106.02</td>
<td>22665.94</td>
</tr>
</tbody>
</table>

Source: Allahabad Bank Offer Document 2002-03

**Distribution of Deposits:**

**Deposits from Rural & Semi Urban Populace:**

The share of rural and semi-urban branches of Allahabad Bank is 66.89 percent. The bank is focusing in rural and semi urban areas for retail finance. The population group wise breakup of aggregate deposits for the last five years are as given in the table below.
Table 5.3

Distribution of Deposit

<table>
<thead>
<tr>
<th>As on March 31</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural</td>
<td>20.77</td>
<td>21.02</td>
<td>21.35</td>
<td>21.79</td>
<td>21.11</td>
</tr>
<tr>
<td>Semi Urban</td>
<td>19.53</td>
<td>19.35</td>
<td>19.81</td>
<td>20.10</td>
<td>20.01</td>
</tr>
<tr>
<td>Urban</td>
<td>29.21</td>
<td>30.03</td>
<td>30.68</td>
<td>30.85</td>
<td>30.83</td>
</tr>
<tr>
<td>Metropolitan</td>
<td>30.48</td>
<td>29.52</td>
<td>28.16</td>
<td>27.27</td>
<td>28.06</td>
</tr>
<tr>
<td>Total</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: Allahabad Bank Offer Document 2002-03.

Growth of Advances:

The growth of the Bank’s advances during the post five years is as follows:

Table 5.4

Growth of the Bank’s Advances (Rs. in Crores)

<table>
<thead>
<tr>
<th>Year ended March 31</th>
<th>Gross Credit</th>
<th>Annual Increase (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>6293.56</td>
<td>15</td>
</tr>
<tr>
<td>1999</td>
<td>7565.71</td>
<td>20</td>
</tr>
<tr>
<td>2000</td>
<td>8882.87</td>
<td>17</td>
</tr>
<tr>
<td>2001</td>
<td>10316.00</td>
<td>16</td>
</tr>
<tr>
<td>2002</td>
<td>11815.01</td>
<td>15</td>
</tr>
</tbody>
</table>

Source: Allahabad Bank Offer Document 2002-03
**Investment Portfolio of Allahabad Bank:**

The investment portfolio of the Bank stands at Rs. 10466.26 crores mark as on March 31, 2002. The investment portfolio of the bank as on March 31, 2002 is furnished below:

**Table 5.5**

**Investment Portfolio of Allahabad Bank** (Rs. in crores)

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government Securities</td>
<td>8029.96</td>
</tr>
<tr>
<td>Other Approved Securities</td>
<td>689.46</td>
</tr>
<tr>
<td>Shares</td>
<td>107.05</td>
</tr>
<tr>
<td>Debentures and Bonds</td>
<td>1427.24</td>
</tr>
<tr>
<td>Subsidiaries and joint ventures</td>
<td>87.62</td>
</tr>
<tr>
<td>Others</td>
<td></td>
</tr>
<tr>
<td>- Initial Capital/Units of UTI</td>
<td>85.42</td>
</tr>
<tr>
<td>- Mutual Funds</td>
<td>39.51</td>
</tr>
<tr>
<td></td>
<td>124.93</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>10466.26</strong></td>
</tr>
</tbody>
</table>

Source: Allahabad Bank Offer Document 2002-03.

With the introduction of prudential norms, deregulation of interest rates and capital adequacy measures, there has been a gradual shift of focus to investment activities. Accordingly, the investment portfolio of the Bank has increased steadily over the years. A large proportion (more than 83 percent) of the Bank's total investment is held in government and other approved securities.
Bank has been able to maintain a fairly consistent portfolio yield by changing portfolio mix by regular churning without changing the portfolio risk.

**Investment Strategy:**

Bank has formulated a comprehensive policy for dealing in rupees derivative products like Forward Rate Agreement and Interest Rate Swaps, in terms of RBI guidelines, in order to hedge interest rate risk arising on account of lending or borrowing made at fixed/variable interest rates.

The break-up of the bank's investment is given below. As per RBI guidelines investments are classified into three categories, viz. Held Till Maturity, Available For Sale and Held For Trading from FY 2000-2001. Recapitalisation bonds amounting to Rs. 777.53 crores and subsidiary and Joint Ventures amounting to Rs. 87.62 crores are not considered while calculating the percentage of Held Till Maturity Securities to total investments.
<table>
<thead>
<tr>
<th>As on March 31</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Investments</td>
<td>6483.57</td>
<td>7174.57</td>
<td>8269.38</td>
<td>8789.90</td>
<td>10466.26</td>
</tr>
<tr>
<td>SLR</td>
<td>4473.09</td>
<td>5141.24</td>
<td>6166.62</td>
<td>6692.26</td>
<td>7798.45</td>
</tr>
<tr>
<td>Investment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Held till</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2429.38</td>
<td>2756.59</td>
</tr>
<tr>
<td>maturity (HTM)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Available for sale</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>6318.38</td>
<td>7687.83</td>
</tr>
<tr>
<td>Held for Trading</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>42.14</td>
<td>26.76</td>
</tr>
<tr>
<td>Percent of HTM</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>17.80</td>
<td>18.07</td>
</tr>
<tr>
<td>to entire portfolio</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Allahabad Bank Offer Document 2002-03.

In order to cash in on the trading opportunities, the bank during the last two years has increased its activities in secondary market operations particularly in Government securities and in debenture and Bond portfolio. Secondary market turnover and profit have seen a quantum jump in recent months. During the Financial Year 2001-02, Bank earned a trading profit (excluding profit on redemption) of Rs. 198.66 crore as compared to Rs. 43.39 crore for the financial year 2000-2001. The aggregate book value of investment in shares was Rs. 107.05 crores as on March 31, 2002. The market value of such investment was Rs. 98.53 crores as per RBI guidelines. The bank has fully provided for the decline
in the value of such investments.

The Non performing investment have been identified as per RBI guidelines and the provision has been made for the entire amount for FY 2001-02.

Yield on Investments:

The yield on investments (percent) for the last five years are given below:

Table 5.7

<table>
<thead>
<tr>
<th>As on March 31</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>The yield on investment (percent)</td>
<td>10.99</td>
<td>11.19</td>
<td>11.11</td>
<td>11.04</td>
<td>10.59</td>
</tr>
</tbody>
</table>

Source : Allahabad Bank Offer Document 2002-03

5.3 ASSETS CLASSIFICATION, INCOME RECOGNITION

PROVISIONING:

5.3.1 REGULATORY POSITION:

In keeping with RBI guidelines on assets classification, income recognition and provisioning, the bank has adopted the system of classifying the advances under 4 categories.
### Table 5.8

**Segregation of Advances**

<table>
<thead>
<tr>
<th>Category</th>
<th>Classification</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Performing</td>
<td>An asset which has not posed any problem and which does not carry more than the normal business risk.</td>
</tr>
<tr>
<td>Standard Assets</td>
<td></td>
</tr>
<tr>
<td>2. Non-performing</td>
<td>An asset which has been non-performing for a period less than or equal to eighteen months.</td>
</tr>
<tr>
<td>a) Sub-standard assets</td>
<td></td>
</tr>
<tr>
<td>b) Doubtful Assets</td>
<td>An asset which has been non-performing for a period exceeding eighteen months.</td>
</tr>
<tr>
<td>c) Loan Assets</td>
<td>Asset where loss has been identified by the bank or auditors/RBI. The value of security is less than 10 percent.</td>
</tr>
</tbody>
</table>

Source: Allahabad Bank Offer Document 2002-03.

For this purpose, all advances are segregate into performing assets (standard assets) and non-performing assets. A borrowal account is classified as Non-performing Assets when interest and / or instalment is due for more than 180 days. Borrowal accounts treated as Non-performing Assets for not exceeding one and half year are classified as sub standard assets and borrowal accounts treated as NPA for more than one and half years are treated as doubtful assets. NPAs where securities are less than
10 percent and which are considered irrecoverable area treated as loss assets. When an account is classified as Non-performing Assets, interest already debited to the account but not realised, is derecognised and further interest accrued is collected on cash basis.

Provisions are arrived on all outstanding Non-performing Assets as under:

a) Sub standard assets at 10 percent of the outstanding.

b) Doubtful Assets at 20 percent or 30 percent or 50 percent of the secured position based on the number of years the account remained as “doubtful assets” (i.e. upto one year, one to three years and more than three years respectively) and at 100 percent of the unsecured portion of the outstanding after netting retainable on realisable amount of the guarantee claims already received/lodged with DICGC/ECGC, if any.

c) Loss Assets at 100 percent of the outstanding after netting retainable amount of the guarantee claims already received/lodged with DICGC/ECGC if any.

The assets quality of the bank has improved considerably during the last seven years. Between 1994-95 to 2001-02, Gross NPA to Gross Advances dropped from 26.91 percent to 16.94 percent while net NPA to Net Advances fall from 19.28 percent to 10.57 percent.

5.3.2 GENERAL DATA ON NON-PERFORMING ASSETS:

The details of Non-performing Assets of the Bank are furnished
in Various tables below:

**Table 5.9**

**Net Non-performing Assets**

(Rs. in crores)

<table>
<thead>
<tr>
<th>Particulars</th>
<th>As on March 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2000</td>
</tr>
<tr>
<td>Gross NPA at the beginning</td>
<td>1520.11</td>
</tr>
<tr>
<td>of the year</td>
<td></td>
</tr>
<tr>
<td>Addition during the year</td>
<td>434.35</td>
</tr>
<tr>
<td>Reduction during the year</td>
<td>260.30</td>
</tr>
<tr>
<td>a) Upgradation</td>
<td>35.90</td>
</tr>
<tr>
<td>b) Cash recovery</td>
<td>86.21</td>
</tr>
<tr>
<td>c) Compromise</td>
<td>42.63</td>
</tr>
<tr>
<td>d) Write off</td>
<td>95.56</td>
</tr>
<tr>
<td>Gross NPA at the end of the year</td>
<td>1694.16</td>
</tr>
<tr>
<td>Provision</td>
<td>642.81</td>
</tr>
<tr>
<td>Interest Suspense</td>
<td>14.35</td>
</tr>
<tr>
<td>DICGC / ECGC Balance</td>
<td>34.22</td>
</tr>
<tr>
<td>Net NPA at the end of the year</td>
<td>1002.78</td>
</tr>
</tbody>
</table>

Source: Allahabad Bank Offer Document 2002-03.
Table 5.10

Net Non-performing Assets to Net Advances

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Advances</td>
<td>6294.85</td>
<td>7565.71</td>
<td>8882.87</td>
<td>10315.76</td>
<td>11815.01</td>
</tr>
<tr>
<td>Gross NPAs</td>
<td>1458.93</td>
<td>1520.11</td>
<td>1694.16</td>
<td>1821.31</td>
<td>2001.85</td>
</tr>
<tr>
<td>Gross NPAs,</td>
<td>23.18</td>
<td>20.09</td>
<td>19.07</td>
<td>17.66</td>
<td>16.94</td>
</tr>
<tr>
<td>to Gross Advances (percent)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Advances</td>
<td>5695.28</td>
<td>6912.40</td>
<td>8191.49</td>
<td>9569.10</td>
<td>10973.32</td>
</tr>
<tr>
<td>Net NPAs</td>
<td>859.36</td>
<td>866.80</td>
<td>1002.78</td>
<td>1074.65</td>
<td>1160.21</td>
</tr>
<tr>
<td>Net NPA to Net Advances (percent)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Allahabad Bank Offer Document 2002-03

5.3.3 NON-PERFORMING ASSETS MANAGEMENT STRATEGY:

# The Bank has set up committees at Head Office and Regional Office to guide the NPA management efforts of the bank.

# The recovery and upgradation efforts are executed through a separate Recovery and Rehabilitation department.

# An elaborate strategy has been drawn up and implemented by the bank for reduction of NPAs.

# Credit monitoring system has been revamped.

# High value NAPs are reviewed individually.
High incidence NPAs areas are directly monitored by the General Managers at HO.

An incentive scheme has been launched to better the NPA recovery.

Best use of new ordinance to recover bank’s dues.

**Five point short term strategies:**

All potential NPA accounts must be critically reviewed and monitored so as to sustain them as performing assets.

All potential performing assets accounts where upgradation or cash recovery is possible should be followed up vigourously.

Emphatic stress should be given on all compromise settled cases for recovery of dues as per agreed terms.

Execution of decrees and recovery thereof should be ensured.

All recovery proceedings before Debt Recovery Tribunal should be followed up for recovery of dues expeditiously.

**Eleven Point Long Term Strategies:**

Tight Fencing of fresh addition.

Identify potential Non-performing Assets accounts (Special Mentioned Account)

Tackle sub-standard accounts top priority basis.

Meet each and every Non-performing Assets borrowers.

Settlement effort for each Non-performing Assets account.

Make full use of compromise committee at

i) Regional offices.

ii) ELBs/VLBs.

Full use of High Power Head Office Compromise Committee.
Separate Strategy for suit filed cases.

Strategy for decreed cases.

Strategy for rural branches - recovery camp, settlement camp, effective use of NPWD.

Strong monitoring by Regional Heads.

5.4 PROFITABILITY:

Profitability of banks was not given due importance till 1969. It was given due importance only after nationalisation of banks in 1969. After nationalisation of banks in 1969, the performance of the Public Sector Banks (PSBs) has been spectacular in the spheres of deposit mobilisation, branch expansion and providing credit to hitherto neglected sectors of the economy. The PSBs have also played pivotal role in advancing the national economy by creating employment opportunities and broadening the base of income distribution. Banks had to play development role till the financial sector reforms were put in place.

Profitability performance, therefore was at the back seat. However, after setting in motion the banking sector reforms, the profitability performance is now on the front seat. The emphasis has shifted from development or social banking to commercial viable banking. All banking operations gradually are being measured in terms of their ability to generate profits.

The profitability has now becomes the buzz word in the banking industry. It has to be recognised that the profitability of public sector banks cannot be judged entirely by the normal criteria. Banks in India
have to operate under several constraints dictated by wider socio-economic objectives. There is, firstly, the administered interest rate structure with relatively low interest rates for preferred sectors which account for an increasing proportion of bank lending. Superimposed on this are the statutory liquidity requirement which is at present 25 percent of total demand and time liabilities and a high cash reserve requirement which was 5 percent. In 2002-03 the cash reserve ratio has been reduced by 0.25 percentage point, that is, it has been reduced to 4.75 percent due to compulsion of monetary policy. Besides there are preemptions of use of credit like that for public procurement and distribution of food grains. As a result only nominal percent of the new resources raised by banks is available for lending on what may be termed as commercial rates of interest. Indian banks are also under capitalised. Operating costs are high on account of their speedy geographical spreads and the shift to retail, mass lending. The Reserve Bank and the Government are conscious of these constraints and have taken several measures to help improve bank profitability.

The Narsimham Committee on the FSR had observed that massive and very fast expansion of branches, particularly in rural areas eroded the profitability of banks, as many of these branches were unremunerative.

The question comes to the mind is whether profits assessed at the branch level are any way correct and let us first of all, try to find out answer to this question.

In USA and other developing countries where unit banking system is in vogue, branches (if any) of the bank function as an independent
unit while under branch banking system which exist in India each branch and corporate office are interdependent so far as the profitability performance of the branch/bank is concerned. Hence performance of the bank. It is therefore, necessary to have a mechanism for properly measuring the performance of a branch.

Banks need to made special efforts to improve their profitability. They must enhance cost consciousness at all levels and raise productivity substantially. The commonly adopted criterion of business in nominal terms per employee is evidently an inadequate way of looking at productivity as is does not take into account the impact of inflation on nominal increase in business and the cost per employee. Similarly TPM system in our country and in most of other countries world wide is being used for assessing profits at branch level.

It is observed that TPM as practiced now is not capable of assessing profit/loss at the branch level in transparent manner. Profits of the branch, arrived at through TPM system, includes subsidy at higher level.

More refined and stringent criteria need to be employed. The recently evolved Branch Licensing Policy should also help contain expenditure and improve productivity. The increasing incidence of non-performing assets is a serious drag and calls for effective remedies. Quality of bank assets, present and future must be upgraded. Banks could also, within reasonable limits, increase their non-fund business. Needless to say that they are entitled to levy appropriate charges on the service rendered by them. Improved cash management and safeguards against revenue leakage need greater attention. Banks could also examine the scope from
rationalisation of loss making branches consistent with the need for providing adequate services to the relevant localities.

5.4.1 RATIO ANALYSIS:

Ratio analysis may help the management in taking fair and quick decisions for planning, controlling and monitoring the branch working because through ratio analysis technique, operational efficiency, commercial viability and managerial competency of a branch may be judged. These are some ratios, which portray the picture about utilisation of human resources at the branch, and there are some other ratios, which reflect the position about prudent utilisation of funds. There are also many ratios through which overall profitability performance of a branch may be analysed but it is important to choose proper ratios. To start with, the following ratios are being recommended for measuring the profitability performance of a branch.

Hence it is pertinent to mention that banks may continue to assess profit/loss at the branch level through TPM system but for measuring the profitability performance, ratio analysis model may be introduced because ratio analysis may prove to be very useful tool in the hands of the management for measuring the profitability performance of a branch.

1) **Gross Profit as Percentage of Average Working Funds**:

This ratio may be worked out as under:

\[
\text{Gross Profit} \times 100 \\
\text{Average Working Funds}
\]
This ratio indicates profit of a branch in relation to the average working funds. Even though the gross profit of a branch in absolute terms may be increasing but in terms of percentage to average working funds it may be decreasing. This ratio will indicate whether the funds of the branch are being used with prudence and whether the branch is able to maintain the profitability in relation to growth in average working funds. Otherwise, it gives a clear indication that profit margin in the branch, is on decline and suitable measures are required to be taken to arrest the downward trend in the profitability performance of the branch.

**Operating Expenses as percentage of Average Business:**

This ratio may be worked out as under:

\[
\frac{\text{Operating Expenses}}{\text{Average Weekly business}} \times 100
\]

(Deposits + Advances)

This ratio used for finding out whether the operating expenses of the branch are increasing/decreasing in proportion to the growth in the average business. If the ratio indicates increasing trend, efforts must be made to increase average business. Detailed analysis of this ratio will enable the branch to find out reasons for higher increase in operating expenses as compared to increase in average business.

**Non-Interest Income as Percentage of Average Business:**

This ratio may be worked out as under:
Non interest income
\[ \frac{\text{Average weekly business}}{(\text{Deposit} + \text{advances})} \times 100 \]

This ratio will indicate the extent of income from non-fund based business of the Branch. When advances in a branch are showing increasing trend, non-interest income at the branch should also increase. If this is not happening it means the borrower is diverting its miscellaneous business to some other bank. This trend must be arrested. A low ratio will indicate that the branch is mainly depending on interest income for its profitability performance. This ratio should show increasing trend.

4. **Yield on Advances:**

This ratio may be worked out as under:

\[ \frac{\text{Interest on advances}}{\text{Average weekly advances}} \times 100 \]

The ratio can be used to find out the quality of assets at the branch level. If NPA level is high, yield on advances would be very low. Awareness at the branch level may prompt branches (i) to sanction high yielding advances and (ii) to initiate suitable action for improving the quality of advances.

5. **Cost of Deposits:**

This ratio may be worked out as under:

\[ \frac{\text{Interest on deposits}}{\text{Average weekly deposits}} \times 100 \]

Branches should mobilise low cost deposits. Staff members at the
branch level should know about the cost of deposits at their branch, this will create awareness among them and will encourage them to mobilise low cost deposits. Lower cost of deposits will help in improving the bottom line of the bank.

6. **Non performing Advances as Percentage of Total Advances:**

This ratio may be worked out as under:

\[
\frac{\text{Average non-performing advances}}{\text{Average weekly advances}} \times 100
\]

Recently, this ratio has gained much importance as NPAs one affecting the bottomline of most of the banks. As at the end of March 2001, there were NPAs of Rs. 63883 crore. All out efforts must be made to reduce the level of NPAs at the branch.

7. **Interest Spread:**

Interest spread = Interest income - interest expenses.

Interest spread is calculated by deducting interest expenses from interest income. Higher interest spread is good sign for a branch. Mobilisation of low-cost deposits, sanction of high yielding advances with adequate security and reduction in non-performing advances may result in improvement in the interest spread. Higher interest spread indicates prudent deployment of funds at the branch level.

8. **Burden Ratio:**

Burden Ratio = Non interest expenses - non interest income.

Burden ratio is calculated by deducting non-interest income from non-interest expenses. Income from non-fund based business is very low in our country. Most of the branches, therefore, have very heavy
burden ratio. Increase in non-interest income, reduction in non-interest expenses, introduction of new technology for improving operational efficiency and observing strict cost control at the branch level will result in improved burden ratio. Reasons for movements in burden ratio should be analysed carefully.

9. **Per Employee Establishment Expenses:**

This ratio may be worked out as under:

\[
\text{Total establishment expenses} \div \text{Number of employees}
\]

This ratio is used for making comparison of per employee establishment expenses among branches. If this ratio is very high, efforts should be made to control the cost by redeployment of staff.

10. **Per Employee Average Business:**

This ratio may be worked out as under:

\[
\frac{(\text{Deposits} + \text{Advances})}{\text{Number of staff members}} \times 100
\]

This ratio will indicate productivity of the employee. Comparison of productivity may be made among branches through this ratio. If productivity at certain branches is low as compared to the Bank level productivity, efforts should be made to improve the level of business or staff should be redeployed at these branches. Generally, productivity at computerised branches will be at higher level as compared to that at non-computerised branches.
NOTES & REFERENCES


CHAPTER VI

BANKING TREND OF ALLAHABD BANK IN BAÑDA ECONOMY

6.1 A Brief History of Banking
6.2 Origin of Lead Bank - Allahabad Bank
6.3 Functions of Lead Bank
6.4 Expansion of Branches of Commercial Banks
   6.4.1 Branch Licensing Policy
6.5 Present Status of Allahabad Bank
6.6 Monetary and Credit Policy
   6.6.1 Stance of Monetary and Credit Policy for 2002-03
   6.6.2 Monetary Measures
   6.6.3 Credit Delivery Mechanism
6.7 Supervision and Monitoring
CHAPTER VI

BANKING TREND OF ALLAHABAD BANK IN BANDA ECONOMY

6.1 A BRIEF HISTORY OF BANKING:

"Long years ago we made a tryst with destiny, and now the time comes when we shall redeem our pledge, not wholly or in full measure, but very substantially. At the stroke of the midnight hour, when the world sleeps India will awake to life and freedom. The achievement we celebrate today is but a step, an opening of opportunity, to the greater triumphs and achievements that awaits us. Are we brave enough and wise enough to grasp this opportunity and accept the challenge of the future?"

As Nehru proclaimed the birth of a free nation with these prophetic words, little before midnight of the 14th August 1947 - a new era began in the history of banking in India.

Although banking in India was as old as her civilization, it was the British rulers who introduced modern banking in the country. Introduction of banking in the country helps in conducting transaction in money otherwise, people were using something other things in lieu of money, what is called barter economy. An incomplete list of things that have served as money are clay, goats, rice, iron, copper, hoes, stone, debts of the banks, cattle etc.

Bank of Bengal was established in 1809 followed by other presidency banks viz Bank of Bombay and Bank of Madras in 1840 and 1843 respectively. Immediately after independence, Reserve Bank of India, which started functioning in 1935 as a shareholders’ bank was nationalised in
1948 and thereafter, the Banking Regulation Act was enacted in 1949. In 1955 the Imperial Bank of India which was formed by amalgamation of the presidency banks, was taken over by the government and was rechristened as State Bank of India.

From the very beginning, Indian policy makers embraced socialistic pattern of society with the objective of reducing inequalities in income and wealth. It was observed that the operations of the Banking system was not conducive to realisation of this goal. Banks were controlled by big industrialists, who cornered the major share of bank funds at the cost of the weaker sections demanding priority.

In order to impose social control over banks the Government set up National Credit Council in 1967 for determining priority in lending and amendment the Banking Regulation Act to tighten legislative Control.

The idea was somewhat akin to the Gandhian concept of trusteeship. Gandhiji believed that any asset physical, intellectual or otherwise which is held by anybody is held as a trustee for the benefit of the society at large.

However, social control failed to achieve its desired objective because "the weakness of social control was that in many banks people who had been controlling their policies in the past continued to exercise their influence." Therefore, it was decided that direct control would be more effective. "In order to serve better, the needs of development of the economy in conformity with the national policy objectives 14 major banks were nationalised in 1969. And finally, in 1980, the process was completed with the nationalisation of six more banks. Any amount of statistical data
can be furnished to substantiate the achievements of nationalisation, but nothing can put it more emphatically than the following words of Sri B.K. Ghose, Ex. CMD of Dena Bank:

"The post nationalisation period has witnessed a complete re-organisation of Indian Banking from "Class" banking to "Mass" banking. There has, in fact, been a change in the very concept, percept and outlook of Banking."

But the achievement did not come without a price. PSU banks had to pay dearly for their plunge into social banking in terms of low productivity, increase in Non Performing Assets, rising costs, inefficiencies in operation and growing number of loss making branches. There were complaints of deterioration in customer service. The Banks failed to make full use of advancement in communication and banking technology.

A major portion of their funds were pre-empted by Govt. through high percentage of SLR/CRR and for providing credit support to the weaker sections at concessional rate of interest. Consequently, profitability took a beating. Their woes were aggravated by the securities scam.

6.2 ORIGIN OF LEAD BANK : ALLAHABAD BANK

Allahabad Bank, the oldest joint stock bank of the country was setup in the historic town of Allahabad on April 24, 1865 by a group of Europeans. At that juncture, in India, organised industry, trade and banking had just started taking place.

The bank was started with a subscribed capital of Rs. 2.00 lacs and by the end of 19th century³, it had branches at Jhansi, Kanpur, Lucknow,
Bareilly, Nainital, Kolkata and Delhi. In the early 20th century, with the start of Swadeshi Movement, Allahabad Bank witnessed a spurt in deposits and reserves increased to over Rs. 30 lacs by 1910.

In 1920, the bank was taken over by P&O Banking Corporation at a bid price of Rs. 436 per share. The Head Office and the Registered Office of the Bank were then shifted to Kolkata in 1923 for business considerations and operational convenience. In 1927, the banks went into the fold of Chartered Bank, that acquired the controlling interest in the P&O Banking Corporation.

The Bank passed through the critical period of ‘Great Depression’ during the early thirties, which caused a general stagnation in the global markets, without sparing the Indian Banking Industry. The Bank dovetailed its functioning, in accordance with the exigencies of the Five Year Plans, which were started in 1951. In the post independence era, Allahabad Bank maintained a steady growth and by 1964, the bank had opened its 100th branch. On July 19, 1969, along with 13 other major commercial banks, Allahabad Bank was nationalised. At the time of nationalisation, the Bank had a network of 151 branches, deposits of Rs. 114 crores and advances of Rs. 82 crores to its credit, with nationalisation, the bank spread its activities in the rural, unbanked and underbanked areas. At the end of 1979, the branch network of the Bank increased to 875 with the share of rural branches being 46.40 percent. Deposits of the bank grew to Rs. 735 crores at the end of 1979 while advances rose to Rs. 407 crores.

In order to bolster the rural economy, a plethora of Social Banking Schemes was introduced. Thus, Lead Bank Scheme (1969), Regional Rural
Banks (1975). Twenty Point Programme (1975), New twenty point programme (1981). Integrated Rural Development Programme (1980) etc. were introduced in the Indian Banking industry. Directed lending to priority sectors, weaker sections. Scheduled castes, Scheduled Tribes and other Backward castes were given a greater thrust and the Bank responded to this initiative and increased its presence in these areas also. As on March 31, 2002, the Bank's priority sector credit is at Rs. 4885 crores, forming 44.40 percent of net credit and agriculture credit is over Rs. 1994 crores constituting 18.10 percent of net credit.

The Bank opened its 1000 branch on April 3, 1982. The bank had also started opening specialised branches. SSI Finance Branches, Recovery Branches etc.

The bank made a foray into merchant banking activities in 1984 and subsequently transferred the merchant banking activities to All Bank Finance Limited, a wholly own subsidiary in 1991. All Bank Finance Ltd. was registered as a category I Merchant Banker with SEBI and undertook activities such as project advisory services, loan syndication, issue management, leasing, trusteeship and portfolio investment services. Consequent upon the SEBI Rules and Regulations notified on Dec. 9, 1997 for segregation of capital market and fund based activities into separate entities, the company surrendered its merchant banking registration with SEBI with effect from July 1, 1998 and got itself registered as NBFC with RBI on August 21, 1998. In October 1989, United Industrial Bank Ltd. was amalgamated into Allahabad Bank. The Bank ventured into the credit card business by launching its credit card the BOBCARD, Allahabad
Bank, with Bank of Baroda on April 25, 1989. The Bank, in 1992-93, entered into a memorandum of understanding with Bank of India to launch Indiacard, replacing BOBCARD. Indiacard has got affiliation with Master Card International.

One of the major challenges faced by the bank was the accumulated losses incurred by it for three consecutive years i.e. from 1992-93 to 1994-95, owing to the adoption of prudential accounting norms, in line with RBI directives. To overcome this situation and to strengthen the bank in various functional areas, a major revamping exercise was initiated. The bank put a greater thrust on areas like technological upgradation and modernisation, improvement in customer services, credit management with focus to reduce non-performing assets etc. The Bank staged a turnaround in 1995-96 with a net profit of Rs. 5.62 crores which increased to Rs. 129.21 crores in 1997-98 and then to Rs. 135 crores in 1998-99.

It has launched "Gold Trading" with the approval of Reserve Bank of India for import of gold under open general license. The Bank become the first nationalised bank in Eastern India to become depository participant of National Securities Depository Ltd. to offer and related services and initiated "Flexi Fix Deposit Scheme" to mobilise resources. The Bank also introduced "Kisan Card" to facilitate agriculture related activities as well as to met the domestic requirements of farmers. In order to boost credit off take, the Bank has launched user friendly and attractive products viz consumer finance, car finance, educational loans etc.

The growth of the Bank over the years is in the table below:
### Table 6.1

**Growth of Banks**

(Rs. in crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Branches</th>
<th>Paid up Capital</th>
<th>Deposits</th>
<th>Advances</th>
</tr>
</thead>
<tbody>
<tr>
<td>1865</td>
<td>1</td>
<td>0.02</td>
<td>0.01</td>
<td>0.01</td>
</tr>
<tr>
<td>1890</td>
<td>4</td>
<td>0.04</td>
<td>0.70</td>
<td>0.53</td>
</tr>
<tr>
<td>1910</td>
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</table>

Source: Allahabad Bank Offer Document 2002-03.

**Advantages Expected from Lead Bank:**

The close involvement of the lead bank with a particular area will not only result in deposit mobilisation but also in the expansion of finance to agriculture and small industries. Individual Lead Bank was expected to make a detailed survey of the area of their operation and the potential in that area for economic growth and evolve schemes to accelerate their involvement in their respective areas.
The following important advantages were expected from the Lead Bank Scheme:

1. The whole country would be served by a well-knit system of the commercial cooperative banking.
2. Branch expansion, supervision and guidance would become effective.
3. A dynamic relationship between commercial banks, cooperative credit institutions and government authorities at the district level would evolve.
4. That would be a close integration of credit and banking business with other activities.

The main advantages of the Lead Bank can be better appreciated against the background of the miseries met by millions of plough men in India even after attainment of freedom. Some social security measures in rudimentary forms were there, no doubt, but they were not all embracing that “banker must become the friend, philosopher, guide of the farmer by providing technical assistance, inputs, supervision of credit and input use, and by simultaneously financing the development of storage and marketing facilities”⁴. (P.M. Indira Gandhi, 1969)

6.3 FUNCTIONS OF LEAD BANK:

Commercial Banks were given district as their units of development far away from their principal areas of their operation. The lead bank survey and identify bankable schemes serves as a clearing house through district level consultative committee for discussion problems arising out of financing of priority sectors.
The main functions of bank are listed below:

1. Survey of banking potential.

2. To identify places, suitable for branch expansion, deposit mobilisation and credit expansion.

3. Prepared a phased programme for branch expansion in the district so as to bring banking services within the ambit of the entire area.

4. Estimate the current needs of credit and prepare a phased programme to meet it by supplanting the non institutional (money lender type) purveyors of credit.

5. Identify the potential area of agricultural and small industry development and to encourage local entrepreneur in agriculture and small industry to improve progressively his productive efficiency.

6. To devise such schemes of deposits and financial investment, as would prove attractive and effective to the local people for mobilising deposits as well as raising the rates of saving in the district and;

7. To reduce, if not completely remove, the regional and functional imbalances in banking development.

8. To ensure proper coordination in the implementation of special schemes such as IRDP, TRYSEM, for SSS in tiny sector.

9. To formulate special schemes for beneficiaries to be covered under the 20 point economic programme in consultation with the state government agencies.

10. Arising other primary lending agencies.

11. Follow up and inspection of the end use of loans.
Thus, the lead bank is a financial house for credit and deposit mobilisation, planning agency for the district, a development bank and co-ordination of planning and implementation forum. In a way, it is more or less central bank and a credit planning and implementing agency of the districts.

6.4 EXPANSION OF BRANCHES OF COMMERCIAL BANKS:

Nationalisation in major commercial banks in 1969 has witnessed unprecedented growth in the branch network of banks. This phenomenal increase in the branches of banks have also result into multifarious activities of banks. In a period of about three years, banks have made their efforts in reducing disparities in regional spread of banking facilities. Branches of banks have also opened in a very remote area, rural semi-urban areas. The national average of population per banking offices has been brought down substantially and the divergence between the national average and the average in certain regions has been narrowed. The ‘Lead Bank Scheme’ which is oriented toward as ‘area approach’ for banking development in the country has setup the pace for branch expansion in a co-oriented way.

The nationalisation has imparted a new sense of urgency to the problem of expanding the geographical coverage of the banking system with a view to providing banking facilities to the underdeveloped areas expeditiously. The study group of the National Credit Council on ‘organised framework of or the implementation of social objectives’ under the chairmanship of Prof. D.R. Gadgil, observes in October 1969 that banking
credit was unevenly distributed as between different states and as between different sectors. It further revealed that credit extended by the banks was not widely dispersed and there were credit gaps, particularly in the case of a small borrowers. The groups recommended the operation of an 'area approach' to evolve plans and programmes. In this context, it was felt that a close involvement of a bank with a particular area would not only expand its efforts towards deposit mobilisation but also enlarge its sphere of finance to agriculture, small industry and other priority sectors.

The Reserve Bank of India has been arranging regionwise meetings of the representatives of all the lead banks. So far, seven such meetings have been convened at Madras, Kanpur, Patna, New Delhi, Calcutta, Bhopal and Jaipur and 833 unbanked centres allotted to various banks. Banks have also been convening similar meetings at district level for allocation of unbanked centres identified in the local survey. It would be of interest to note that of 5375 offices opened since nationalisation i.e. from 19th July 1969 to end June 1972, as many as 3416 or 63.5 percent were opened in hitherto unbanked centres. The relatively under developed states of Assam, Bihar, Jammu & Kashmir, Madhya Pradesh, Manipur, Meghalaya, Nagaland, Orissa, Rajasthan, Tripura, Uttar Pradesh and West Bengal accounted for 31.6 percent of these new offices. Even out of the offices opened at unbanked centre, these states accounted for 34.1 percent. In Manipur and the Union Territories of Arunachal Pradesh, Dadar and Nagar Haveli and Mizoram, all the offices opened during July 1971-June 1972 were at unbanked centres. Under perspective planning commercial banks
would be able to open at least about 1500 branches each in 1972 and 1973 and perhaps somewhat more in 1974, adding up to a total of about 5000 branches. Banks have been advised to be more selective in the matter of further branch expansion and take into account the objective of providing banking facilities in centres with potential, their responsibility in their lead districts, their areas of operation and the need for giving priority to the relatively underdeveloped/under banked states. In addition banks have been advised to constantly appraise the performance of their branches in relation to their present business and future goals. For a long time it was felt that there was a gap in the distribution of bank offices in the district as a result masses were not getting benefit of the banking service. The district wise spread of bank offices was taken and lead bank schemes. The district wise spread of bank offices reveals that the imbalances in the availability of banking services as between different districts has been corrected to a large extent. The average population per bank offices was 65000 at the end of June 1969 and 120000 at the end of June 1989 and March 1990. The percentage of bank offices in rural areas increase from 22 percent in 1989 to 57.0 percent at the end of June 1989. In, there was 325 villages to a rural branch. In 1983 this ratio declined to 27 to 1 and now it is 15 to 1. In June, 1990 there was lead organisation of some lead districts, in which case more districts were carved out of the some of the existing ones.

6.4.1 BRANCH LICENSING POLICY:

In the recent period, the policy for commercial banks has been
substantially liberalised, Bank's Board have been empowered to decide on the policy and strategy for setting up of new branches, closing and shifting of existing branches, subject to certain conditions. In order to encourage more efficient banking services all over the country, it is proposed to provide further flexibility in the branch licensing policy.

RBI will consider favourably any proposal for transfer of branches in rural and semi urban centres from one commercial banks to another by mutual agreement banks will be expected to ensure that such mutually agreed transfers do not adversely affect the available banking services in area.

6.5 PRESENT STATUS OF ALLAHABAD BANK:

As on March 31, 2002, the bank had 1914 branches, comprising 959 rural, 321 semiurban, 367 urban and 267 metropolitan, which formed 50.1 percent, 16.8 percent, 19.1 percent and 14.0 percent of the total respectively. The branches include 32 specialised branches (i.e. 4 industrial finance branches, 6 SSI Finance Branches, 6 International Branches, 6 Recovery Branches, 1 NRI Branch, 1 Industrial Finance cum International Branch, 2 Specialised Personal Banking Branch, 1 Specialised Savings Bank Branch, Quick Collection Services Branch and 2 Trading Finance Branch) besides 16 services branches. The Bank has 138 Extension Counters. A number of Bank's branches and offices are housed in the Bank's owned premises situated at prime locations in major cities of the country.

The Bank has been fulfilling its responsibilities under the Service Area Approach. The Bank has sponsored 7 Gramin Banks (RRBs) (6 in
U.P. and 1 in M.P.) and has Lead Bank responsibilities in 15 districts (13 in U.P. and one each in M.P. and West Bengal).

The bank has been entrusted with SLBC convenorship in the newly formed state of Jharkhand. The Bank is continuing its endeavour for economic upliftment of the state through its various development programmes. The Bank has set up a residential institute in the home of Birsha Munda Institute of Entrepreneurship Development at Hazaribagh as a part of promotional measures for enhancement of flow of bank credit in Jharkhand State. The Institute has so far imparted training to 281 entrepreneurs, a majority of who are women, to take up various economic activities.

The bank's performance was noticeable in implementation of 'Kisan Credit Card' launched on 1.9.1998 to ensure easy and timely supply of credit to farmers for their short term working capital requirements for agricultural activities and also for domestic requirements e.g. education, consumable items, medical expenses etc. of its existing clients. The Bank received third prize for exceeding the disbursement target in 2000-01. During 2001-02, the Bank issued 1,11,871 cards as against the target of 76000. With the 'Kisan Credit Card' a new feature of Group Personal Accident Insurance cover has been provided.

The Bank has been giving much importance to Human Resource Development. It has sent some officers for overseas training also. Computerisation and automation of operations continued to receive focussed attention from the Bank. The Bank has 333 partial and 342 totally mechanised branches and 40 ATMs.
The Bank launched Telebanking in 3 branches and internet banking in 5 branches during this year. The Bank has also installed its own VSAT based Intranet and website. The Bank has computerised 72.3 percent of its business as at March end 2002.

6.6 MONETARY AND CREDIT POLICY:

The basic objective of monetary policy in a developing country like India is to promote economic growth in an environment of reasonable price stability. Further, in an economy characterised by wide disparities, an important objective is that growth should be accompanied by distributive justice. If all these objectives were so related that the pursuit of one automatically led to the fulfillment of the others, the formulation and implementation of monetary policy would have been indeed easy tasks. In reality there is a good deal of incompatibility and some trade offs, as between these objectives become inevitable.

The monetary and credit policy 2002-03 has the best blend of measures to speed up the second generation reforms manifesting a commitment to tow the banks towards global best practices, Reserve Bank of India has been administering the measures of reforms aligning them to the capacity of Banks to endure. The process of deregulation, regulations and re-regulations are planned to infuse more to the Banks to withstand the influence of various forms of risks. RBI made a significant mention of its commitment to improve the capacity of banks to implement the new capital account evolved by the Bank for International Settlement, more particularly to manage their market risks. The nuances of these
market risks in a liberalizing environment have the potentiality to erode the net worth of money banks if not properly and proactively supervised. The short term stance of the Monetary Credit Policy to be to me liquidity requirements for sustained credit growth and to maintain buoyancy for demand for investment in the economy. The medium term shall focus on greater flexibility in the interest rate structure. However, both these aspects continue to be the on-going objectives of monetary policy to increase the efficacy of transfer mechanism and enhance financial stability. It can further be observed that the long-term objectives are candidly intended to implant sound principles of prudential banking structure built on strong and sustainable fundamentals. These are met by gradually implementing the measures of banking sector reforms suggested by Narsimhan Committee II.

6.6.1 STANCE OF MONETARY AND CREDIT POLICY FOR 2002-03:

The overall stance of monetary policy in 2002-03 outlined in annual policy statement of 2002 was as follows:

# Provision of adequate liquidity to meet credit growth and support investment demand in the economy while continuing a vigil on movements in the price level.

# In line with the above, to continue the present stance on interest rates including preference for soft interest rates.

# To impart greater flexibility to the interest rate structure in the medium term.

# To impart greater flexibility to the interest rate structure in the
medium term.

1. In line with its monetary policy stance, liquidity conditions during the year were very comfortable. This is evident from the higher average volume of repo tenders under the liquidity adjustment facility during the year. The average outstanding volume of LAF repo was higher around Rs. 11,300 crore during 2002-03 as compared with Rs. 3500 crore during 2001-02. Though the real GDP growth turned out to be lower than that expected in the annual policy statements of April 2002 because of wide spread drought, the Reserve Bank continued with the policy of emerging adequate liquidity in the financial system for supporting industrial revival noticed during the year.

2. The sharp accretion to foreign currency assets of RBI posed some challenges for liquidity management during the year. During 2002-03, the net foreign currency of RBI (net of revaluation) increased by as much as Rs. 82,090 crore. The monetary impact of such large inflows had to be neutralised by conduct of substantial outright OMO sales. The net outright OMO sales of government securities were Rs. 53780 crore during the year. As a result, the reserve money expansion was Rs. 30,960 crores. Despite the intervention of RBI through sterilisation the interest rate did not firm up as adequate liquidity could be maintained in the system through judicious LAF operations of RBI.

3. Not withstanding the comfortable liquidity position emanating from the foreign exchange build up, RBI made further progress in meeting
its medium term objective of reduction in the cash reserve ratio. The Cash Reserve Ratio was reduced from 5.5 percent to 5.0 percent in June 2002 and further to 4.75 percent in Nov. 2002 augmenting the lendable resources of banks by about Rs. 10,000 crores.

4. In order to stabilise interest rate expectations, the Reserve Bank of India had signalled its intention, in advance of reducing the Bank Rate by up to half a percentage point (50 basis points) in the annual policy statement of April 2002 if warranted by the evolving liquidity and credit situation. After reviewing the liquidity and monetary conditions the Bank Rate was reduced by 25 basis points to 6.25 percent, and repo-rate under the Liquidity Adjustment Facility was also reduced by 25 basis points to 5.5 percent in the mid-term Review of October 2002. the repo rate under the Liquidity Adjustment Facility was further reduced to 5.0 percent on March 3, 2003.

5. As inflation remained benign for most part of the year, despite the impact of drought and higher oil prices, there was general reduction in market interest rates. The overnight call money rates remained stable and almost overlapped the repo rate. The yield on 91 days and 364 day Treasury Bill and dated government securities of various maturities ruled much lower than yields at the beginning of the financial year. This enabled the large market borrowings programme of the Government to be completed at a low cost without unduly affecting the general interest rate structure. During the last three years (March 2000 - March 2003), the yields on 91
day Treasury Bills, 364 day Treasury Bills and government securities of residual maturity of 10 years have declined substantially from 9.17 percent, 9.93 percent and 10.85 percent in that order to the level of 5.89 percent and 6.21 percent respectively.

Despite Drought conditions and volatility in international oil prices, the inflation rate remained benign till Jan 2003 but has picked up since then. The point to point inflation rate in 2002-03 (on March 29, 2003) was significantly higher at 6.2 percent (as compared with 1.6 percent on March 30, 2002).

The recent price increase was however confined to a few commodities essentially mineral oils (because of the Iraq War), and drought related items (oilseeds, edible oils, oil cakes and fibres). Excluding price increase due to such items (with an aggregate weight of 15.4 percent) the inflation rate for the remaining basket works out to 2.7 percent as compared with 1.5 percent last year. Considerable uncertainties still remain on the inflation front due to current geopolitical uncertainties. Further, from the view point of the domestic economy, the progress of the south-west monsoon is important so that supply constrains, which could have an adverse impact on inflation, do not emerge. Movements in international oil prices over the next few months cannot also be predicted as there are uncertainties in the aftermath of the Iraq war. As such, the inflationary situation needs to be watched closely. There is no room for complacency on this account. For the present, however, it is proposed to continue with the policy of maintaining adequate
liquidity in the system and a soft interest rate environment. In case demand pressures emerge and the inflationary situation worsens, which hopefully will not be the case, the present monetary policy stance may have to be reviewed.

7. The monetary policy framework has changed over the recent period in response to reforms in the financial sector. The Reserve Bank’s endeavour has been to enhance the allocation efficiency of the financial sector, preserve financial stability and improve the transmission mechanism of monetary policy by moving from direct to indirect instruments. A number of steps have been taken to ensure balanced development of various segments of the financial market as also to preserve its integrity and transparency. The operationalisation of the Clearing Corporation of India Ltd. negotiated dealing system, introduction of collateralised borrowing and lending obligation, prudential limits on uncollateralised call/notice money market and encouragement of collateralised repo transactions, and introduction of interest rate options would increase the depth of the financial market. This process would get a further boost with the operationalisation of the real time gross settlement System.

8. The Reserve Bank is committed to the implementation of the “Core Principles for Effective Banking Supervision” drawn up by the Basel Committee on Banking Supervision. In order to achieve full compliance with these principles, steps have been taken in a phased manner, to move towards a system of consolidated supervision for enhancing the role of external auditors, strengthening corporate
governance, internal controls and audit procedures, increasing transparency and disclosure in the balance sheets of banks. An off site monitoring system was introduced gradually and extended to cover cooperative institutions also.

9. In addition to the initiatives in areas of regulation and supervision, RBI continues to foster institutional structures and mechanisms which would strengthen the existing financial infrastructure. These include setting up of the Credit Information Bureau, introduction of a mechanism for corporate debt restructuring, Non-performing Assets management, technology upgradation and legal aspects. Banks and financial markets have responded well to RBI’s regulatory and advisory initiatives. The perceptible improvement recorded by banks is reflected in certain key performance parameters, viz, reduction in net Non-performing Assets ratio and increase in the capital adequacy ratio.

10. The fiscal deficit of the Central Government, which was budgeted at 5.3 percent of GDP for 2002-03, was revised upwards to 5.9 percent. For the year 2003-04, the fiscal deficit is placed at 5.6 percent of GDP and the market borrowing programme of the centre is estimated at Rs. 1,66,230 crore (gross) and Rs. 107194 crore (net). While the market borrowing programme in respect of some states has come under stress, RBI hopes to conduct debt management without serious pressure on overall liquidity and interest rates unless there is a change in the overall macro economics situation due to unanticipated domestic or external
developments.

11. For the purpose of monetary policy formulation, real GDP growth in 2003-04 is placed at about 6.0 percent after taking into account the current trends in the various macro economic factors. Subject to satisfactory spatial distribution if rainfall is around 96 percent of the long term average (as per advance forecast released by India Meteorological Department on April 16, 2003), recovery in agricultural output may be over 3.1 percent during 2003-04 (which is the estimated decline in output during 2002-03). A recovery in agricultural output coupled with the continuance of the upturn in the industrial and the services sectors should help in achieving the projected growth for 2003-04.

12. While assessing the inflationary outlook for 2003-04, the following major developments in the economy will have to be borne in mind:

# The higher base prices at the end of March 2003.
# The expected decline in oil prices (which had picked up during the last quarter of 2002-03)
# Expectation regarding behaviour of the monsoon in 2003-04.

Based on the present assessment of relevant factors, the inflation rate in 2003-04 on a point-to-point basis may be placed in the range of 5.0 to 5.5 percent. As pointed out earlier, the increase in inflation in the last quarter for 2002-03 was dominated by certain commodities such as edible oils, oil cakes and mineral oils. While prices of edible oils increased sharply because of drought, domestic mineral oil prices increased substantially in the wake of the sharp
rise in international oil prices. The prices of these items are, as of now, expected to decline during the course of the year. It is important to initiate measures which through a strong "pass through" effect, will help to soften the prices of commodities which showed would help in further reducing the projected rate of inflation, which would be highly desirable for monetary and financial management.

13. Consistant with the expected GDP growth and inflation, the projected expansion in broad money (M₃) for 2003-04 is placed at 14.0 percent. As the projected expansion of money supply is on a higher base, including the mergers that took place in the banking industry, the volume of liquidity would be adequate to meet the credit needs of the productive sectors of the economy. Consistent with this order of growth in M₃, an increase in aggregate deposits of schedule commercial banks is set at Rs. 1,79,000 crores. Non-food bank credit including investment in commercial paper, shares/debentures/bonds of public sector units and private corporate sector is projected to increase by 15.5-16.0 percent, which should be adequate to facilitate the substance of growth in industrial activity during 2003-04.

14. The Bank Rate Changes, combined with CRR and repo rate changes, have emerged as important tools of liquidity and monetary management. The Liquidity Adjustment Facility has evolved as an effective mechanism for absorbing and/or injecting liquidity on a day to day basis in a more flexible manner and, in the process,
providing a corridor for the call money market. The prudential limits placed on banks and PDs in their operations in the call money market, and gradual phasing out of non banks from the call money market, are expected to bring integrity to this market, contribute to development of repo/term money market and further help to strengthen the channels of monetary transmission. With most of the procedural and technological upgradation being put in place. RBI’s efforts to make LAF more effective will continue. The RBI will also continue its efforts to bring about development and smooth functioning of the financial markets.

15. An issue of policy interest for financial management by banks and other market participants is whether, after a sharp decline in the past 2-3 years, interest rates have bottomed out. As is well known, the outcome for interest rates depends heavily on the outlook for inflation, growth prospects and investment demand and it is not possible to predict short run movement in interest rates, either up or down, without taking cognizance of possible movement in all the other macro-economic variables. These variables are also subject to unanticipated changes because of unforeseen domestic or external developments.

16. On balance of probabilities, given normal conditions and overall stability in macro-economic environment, in view of several structural constraints, the present nominal and real interest rates are relatively low. There may not be significant potential for further sizeable downward movement in interest rates. Some important structural
factors that contribute to inflation and nominal interest rates in India - which are generally somewhat higher than those in industrial and fast growing emerging market economics are:

(a) the fixation of some food and other procurement prices by the Government which has an important impact on determining the prices of these items, which have a high weightage in price indices.

(b) the need for adjusting several administered food and other subsidies that increase the burden on current expenditure, which contributes to continuing high fiscal deficit, and

(c) the existence of relatively rigid wage structures with built-in inflation related increases in wages, dearness allowances etc. in the organised sector.

17. The above structural factors, which are generally not prevalent in most industrial and emerging market economies, impart an upward bias to sustained price increases from year to year, particularly during the upward phase of the business cycle. It is important to continue efforts over the medium to reduce the impact of these factors inorder to facilitate greater downward flexibility and a sustainable soft interest rate climate.

18. In sum, as per present statement and barring the emergence of any adverse and unexpected developments in the various sectors of the economy, the overall stance of monetary policy for 2003-04 will be :

# Provision of adequate liquidity to meet credit growth and
support investment demand in the economy while continuing a vigil on movement in the price level.

# In line with the above, to continue with the present stance of preference for soft and flexible interest rate environment within the framework of macro economic stability\textsuperscript{10}.

\subsection*{6.6.2 MONETARY MEASURES :}

In view of macro-economic and overall monetary conditions and consistent with announcements made by the finance minister regarding certain administered interest rates, RBI reduced the interest rate on serving account from 4.0 percent to 3.5 percent effective from March 1, 2003.

The repo rate under Liquidity Adjustment Facility made available on March 3, 2003 was reduced from 5.5 percent to 5.0 percent and thereafter the cut-off rate is being decided at each auction.

\subsubsection*{a. Bank Rate :}

The Bank rate has been reduced by 0.25 percentage point from 6.50 percent with effect from the close of business of October 29, 2002. Commenting on the bank rate reduction, the Governor stated that under the circumstances, as the present and other money market rates were quite comfortable and there was a sizeable gap between these rates and the average lending rates of banks, no useful purpose would be served by a further reduction in the bank rate in the near future. Unless circumstances change, the policy bias in regard to the bank rate is to keep it stable at the present level at least until the end of the financial year.
b. **Repo Rate:**

The repo rate under the LAF of the Reserve Bank of India to be made available from October 30, 2002 has been reduced by 0.25 percentage point\(^1\). Subsequently the auction method for repos will continue as previously. The Governor clarified that while repos auctions are conducted without any pre-announced rate and bids are accepted on the basis of uniform price method, the Reserve Bank has retained the option to switch over to fixed rate repos on overnight basis. The Reserve Bank would continue to use this flexibility of switching over between the options so as to make efficient use of the Liquidity Adjustment Facility system in the daily liquidity management.

c. **Cash Reserve Ratio:**

The Reserve Bank has been pursuing the medium term objective of reducing CRR of banks to the statutory minimum level of 30 percent. In this direction, CRR was gradually reduced from 11.0 percent in August 1998 to 4.75 percent by Nov. 2002. In line with this medium term objective, it is now proposed to:

- To reduce CRR from 5.0 percent to 4.75 percent from the fortnight beginning Nov. 16, 2002. With this CRR has been reduced by as much as 3.75 percentage points over the past two years.

- To raise the minimum daily maintenance of CRR of banks to 80 percent of required amount with effect from the fortnight beginning Nov. 16, 2002. The minimum level of
80 percent would be applicable for all the days in a reporting fortnight.

d. **Interest on cash balances maintained with RBI under CRR:**
In the mid term review of October 2002, in response to a suggestion made by banks, RBI had announced that interest on eligible CRR balances maintained by banks with RBI would be paid on monthly basis, with effect from an appropriate date, as against the present practice of quarterly rests. Accordingly, the first such interest payment will be made for the month of April 2003 covering the fortnights ended April 4, 2003 and April 18, 2003 in the month of May, 2003. Pursuant to this, Reserve Bank of India has suitably modified the interest claim settlement to be submitted by banks.

e. **Statutory Liquidity Ratio of Regional Rural Banks:**
# Statutory Liquidity Ratio holdings of Regional Rural Banks in the form of deposits with sponsor banks maturing beyond March 31, 2003 may be retained till maturity. These deposits may be converted into government securities, an maturity, in case the concerned RRBs, have not achieved the 25 percent minimum level of SLR in government securities by that time.
# Although deposits with sponsor banks contracted before April 30, 2002 would be reckoned for SLR purpose till maturity. RRBs are advised to achieve the target of maintaining 25 percent SLR in government securities out of the maturity proceeds of such deposits with sponsor banks as well as from their incremental public deposits at the earliest.
Interest Rate Policy:

a. Interest Rate Flexibility:

The Governor said that the recent monetary policy statements have drawing attention to factors causing rigidities in the structure of interest rates, particularly in the lending rates of commercial banks. There has been some improvement with regard to non-performing assets operating expenses and cost of funds of commercial banks. In order to further improve flexibility, banks have been given freedom to decide the period of reset on variable rate deposits.

b. Prime Lending Rate of Spread:

The governor explained that in the current environment of low inflation, unreasonably wide spreads could adversely affect the overall credit portfolio of banks. Furthermore very wide spreads provide opportunities for non transparency. In order to ensure appropriate pricing of loans, banks are encouraged to review both their prime lending rates and spreads and align spreads within reasonable limits around prime lending rates subject to approval of their Boards.

c. Interest Rates on Deposits by Cooperative Banks/Regional Rural Banks/Local Area Banks:

The governor indicated that interest rates on deposits have been deregulated except deposits in saving bank accounts, which is currently prescribed by the Reserve Bank. However, discretion was given to regional rural banks, local area banks and co-operative banks (urban/central/state to pay additional interest. In order to
remove these anomalies, the governor has suggested:

- Sponsor banks may not pay interest on the current accounts maintained by RRBs with them,
- Co-operative banks may not pay interest on current accounts.
- RRBs/LABs and cooperative banks may not pay any additional interest on the savings bank accounts over and above what is payable by commercial banks.

d. **Interest Rates on Export Credit:**

With view to encouraging competition among banks and also to increase flow of credit to export sector, the governor proposed to liberalise interest rates on rupee export credit in two phases. Accordingly, in the first phase it is proposed that:

- The ceiling rate of PLR plus 0.5 percentage point on pre-shipment credit beyond 180 days and upto 270 days and post-shipment credit beyond 90 days and upto 180 days would be deregulated with effect from May, 1, 2003. Banks would have freedom to charge PLR or sub-PLR rates subject to their Board’s approval.
- In the second phase, with effect from a date to be announced later, it would be considered whether the ceiling rates on pre-shipment credit upto 180 days and post-shipment credit up to 90 days should also be discontinued to encourage greater competition in the interest of exports.

e. **Flexibility in the repayment of export credit:**

Repayment/prepayment credit would henceforth be permitted subject
to mutual agreement between the exporter and the banker. For this purpose, balances held in the exporters exchange earners foreign currency account can also be used.

f. **Interest rate on FCNR (B) Deposits:**

The Governor stated that banks are free to decide foreign currency non-resident Banks [FCNR (B)] deposit rates denominated in Japanese Yen which may be equal to or less than LIBOR/SWAP rates of corresponding maturities till further notice. Interest rate ceiling on FCNR (B) deposits denominated in other currencies would remain unchanged at the prevailing level of LIBOR/SWAP rates of corresponding maturities minus 25 basis points.

### 6.6.3 CREDIT DELIVERY MECHANISM:

(a) **Priority Sector Lending:**

In order to improve credit delivery to the priority sector, the governor proposed:

# **Agriculture:**

Increase in the limit of advances granted to dealers in drip irrigation/sprinkler irrigation system/agricultural machinery located in rural/semi urban areas from Rs. 10 lakh to Rs. 20 lakh under priority sector lending for agriculture.

# **Small Business:**

Increase in credit limit sanctioned to small business from Rs. 10 lakh to Rs. 20 lakh without any ceiling for working capital. Banks would be free to fix individual limits for working capital depending
upon the requirements of different activities.

# Weaker Sections:

Increase in the individual credit limit to artisans, village and cottage industries from Rs. 25,000 to Rs. 50,000. The limit would be under the overall limit of Rs. 25 percent advances to weaker sections under priority sector or 10 percent of net bank credit.

# Housing Loans:

Increase in the limit of housing loans for repairing damaged houses from Rs. 50000 to Rs. 1 lakh in rural and semi urban areas and Rs. 2 lakh in urban areas.

b. Micro Finance and Credit:

Micro finance has been defined by RBI as provision of thrift, credit and other financial services and products of very small amount to the poor in rural, semi-urban and urban areas for enabling them to raise their income levels and improve living standard. Micro credit institutions are those which provide these facilities. Micro credit has been defined as supply of credit to the poor and it is one of the micro finance services.

# Targets:

RBI has not specified any targets to be achieved and has advised banks to devise their own models, prescribed their own criteria for selection of micro credit organisation and lending norms including interest rates. Banks should, however, deal with micro credit organisations having proper credentials, track record, system of maintaining accounts and records with regular audit in place and
manpower for closer supervision and follow-up.

Credit Scheme:

Banks may formulate their own models or choose any conduit, intermediaries for extending micro credit and choose suitable branches, pockets and areas where micro credit programs can be implemented.

Banks can devise appropriate lending and saving products and related terms and conditions such as size of loan, unit cost, unit size, maturity period, grace period etc., keeping in view the ground realities. Credit should however cover their production, consumption and housing shelter requirements.

Banks are to include micro credit in their branch credit plans, block credit plan, district credit plan and state credit plan. Micro credit is to form an integral part of bank’s corporate credit plan and which is to be reviewed at the highest level on a quarterly basis.

Table of the micro financing by commercialised banks has been given in Table 6.2. Here primary sector, SSI (Other) IRDP, Village industries and rural artisans are assumed as a micro unit. Micro financing for priority sector have been increasing except of IRDP and village industries, still if we take the figure of 1999, 2000, it is clear that micro credit for IRDP has been increased in 2002-03 by commercial banks.

Urban Co-operative Banks:

The governor mentioned that the Reserve Bank had again drawn attention to the present system of dual/triple regulatory and
<table>
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Note: * = Commercial Banks include Allahabad Bank, CBI, UBI, PNB, TGB
NA = Not available.
Source: District Credit Plan, Allahabad Bank.
supervisory control (involving centre, states and the Reserve Bank) and stated that it is not conducive to efficient functioning of cooperative banks in interest of their depositors. A committee under the chairmanship of Hon. Minister of State for Finance examined the issue and agreed that duality of control should be done away with and recommended that the Reserve Bank should be vested with full powers for regulation and supervision of Urban Cooperative Banks.

6.7 **SUPERVISION AND MONITORING:**

a. **Risk Based Supervision:**

The governor stressed that the Reserve Bank should switch over to risk based supervision of banks by 2003 and accordingly certain changes in management processes were initiated by the Project Implementation Group formed for the purpose.

b. **Consolidated Accounting and Supervision:**

The governor mention that in order to provide enabling provisions to facilitate consolidated accounting and quantitative methods under Indian conditions, a working arrangement with other regulators viz. Security and Exchange Board of India and Insurance Regulatory and Developing Authority for sharing of information by way of Memorandum of Understanding is being explored.

**Prudential Measures :**

The prudential norms are aimed at imparting strength to banks and financial institutions including greater accountability and market discipline
and creating a secure and conducive environment for the smooth and effective functioning of the financial system. These norms cover not only capital adequacy, assets classification and provisioning but also exposure rules, accounting standards, transparency and disclosure, risk management and asset liability management system. In this context RBI's approach has been to benchmark the norms with international standards and introduce the same after extensive consultations. It has also been a standard practice to allow the participants to absorb changes incrementally without causing any major dislocation.

a. **Adoption of 90 days norms for recognition of Loan Impairment by State Cooperative Bank and District Central Cooperative Bank:**

With a view to moving towards international best practices and to ensure greater transparency. Commercial banks were advised to adopt 90 days norm for recognition of loan impairment from the year ending March 31, 2004. In order to have a consistent and uniform approach towards all segments of the banking system, the 90 days norm has been extended to state cooperative banks and district central co-operative banks and from the year ending March 31, 2006. To facilitate smooth transition, banks are advised to move over to charging interest on monthly rests from April 1, 2004.

b. **New Capital Accord:**

The Governor mentioned that the Reserve Bank is continuing its efforts towards obtaining international agreement on the proposals on the New Capital Accord so that in its final version due next
year, it would provide sufficient flexibility for national regulation to take into account the differences in institutional framework and capacity in different countries, including developing countries.

c. **Bank’s Entry into Insurance Business:**

The Governor said that under the referred arrangement, banks provide physical infrastructure within their select branch premises to insurance companies for selling their insurance products to the bank’s customers with adequate disclosure and transparency and in turn earn referral fees on the basis of premia collected. Accordingly, a few banks have been permitted to enter into referral arrangement with insurance companies subject to certain conditions to protect the interest of their customers.

d. **Technical Committee on Market Integrity:**

The Governor mentioned that the Report of an internal Technical Group which assessed India’s position vis-a-vis internal standards on ‘market integrity’ has been placed on the Reserve Bank’s website for wider dissemination.

e. **Guidelines on ‘Know Your Customer’**

**Norms and cash transactions:**

Banks have been advised to put in place a sound ‘Know your customer’ policy, adopt anti money lending measures comprising systems and procedures for customer identification while opening accounts, institute internal control and audit mechanism, and lay down risk management and monitoring procedures.

f. **Offshore Banking Units in Special Economic Zones:**
The Reserve Bank has formulated a scheme of off shore banking unit in special economic zones as branches of banks operating in India and has obtained the approval of the government.

g. **Non-SLR Investments by Banks and Financial Institutions:**
Draft prudential guidelines on management of non-SLR investment portfolio have been referred to the RBI-SEBI Technical Committee to take a view of disclosure and regulation of private placement.

h. **Country Risk Management:**
Draft guidelines on country risk management together with a "Note for Discussion" were forwarded to banks and were also placed on the the Reserve Bank's website seeking comments/views thereon.

i. **Investment Fluctuation Reserve:**
The Governor recalled that with a view to building up of adequate reserves to guard against any possible reversal of interest rate environment in future, banks were advised to build up Investment Fluctuation Reserve. As per the extent guidelines, banks are required to build up Investment Fluctuation Reserve of minimum 5 percent within a period of 5 years.
NOTES & REFERENCES


4. Jatna, Renu, "Lead Bank Scheme".


CHAPTER - VII

CRITICAL APPRECIATION OF THE NATIONALISED COMMERCIAL

BANKING IN BANDA ECONOMY

7.1 Planning of Lead Bank Scheme
7.2 Problems of Overdues
7.3 Credit Development
7.4 Human Resource Development in Banking
7.5 Banking Technology
7.6 Non-Performing Assets
   7.6.1 Causes of High Level of Non-Performing Assets
7.7 Problems of Financial Institutions
7.8 Measuring Profitability Performance of Branch
CHAPTER VII
CRITICAL APPRECIATION OF THE NATIONALISED COMMERCIAL BANKING IN BANDA ECONOMY

7.1 PLANNING OF LEAD BANK SCHEME:

One of the major objectives of planning in India is to bring about balanced development not only among different regions in the country but also to minimise the glaring inequalities among different scores of the society. Eradication of poverty and hunger through generation of employment has been also one of the main goals of planning in India. Employment opportunities in rural areas originating from agriculture are very limited. In this regard rural development is a strategy designed to improve the economic and social life of a specific group of people, the rural poor. Besides, on the recommendations of the National Credit Council’s Study Group (Gadgil Study Group) the Lead Bank Scheme was evolved by the Reserve Bank of India in Dec. 1969 i.e. soon after nationalisation of commercial banks with a view to enabling the nationalised banks to work effectively as a catalytic agents in economic development.

Under the Lead Bank Scheme “Banks could be allotted specific district, where they would act as a consortium leader in surveying the potential for banking development in extending branch banking after identifying viable propositions and mobilising deposit out of rising level of income.” On the basis of recommendations of these two committees the Reserve Bank of India introduced the Lead Bank Scheme in December 1969. The scheme was to give a concrete shape to the idea of the area
approach for development of credit facilities. Its two fold objectives were massive mobilisation of rural deposits and stepping up of banks lending to the weaker sections in rural India.

Under the scheme all the districts in the country (excluding the metropolitan area) are allocated among the public sector banks and to private sector banks. In each of the districts the respective lead banks is expected to play the role of consortium leader among the banks operating in matters relating to identification of prospective centres for opening of branches, mobilisation of deposits, identification of prospective activities and extension of adequate credit to help intensive utilisation of the economic potentialities of the concerned districts.

Another aspect of the scheme in the “formulation of dynamic relationship between nationalised and non-nationalised banks between commercial banks and cooperative credit institutions and between short and long term lending institutions”².

The lead bank is expected to function as a consortium leader in the banking business in the allotted district and not as monopolist. The success of the lead bank will be judged not so much by the banking business or even the development work by its own offices in the districts, but by the overall improvement it is able to bring about through the banking system. The implementation of the lead bank scheme together with phased programmes of branch expansion will no doubt contribute in a major way to the spread of banking habit and thereby spreading up the process of monetisation of the economy.

Financing priority sectors is not just an outlet for the bankers
resources but a powerful tool of raising the level of production in these sectors and thereby improving the standard of the living of the people. In connection with the priority sectors lending in general and lending in backward and rural areas in particular, the bank has accorded an enthusiastic response to the implementation of the lead bank scheme.

7.2 PROBLEMS OF OVERDUES:

Over dues in respect of rural and industrial bank loans have been on the increase. Inadequate recovery of claims impairs the banking system's ability to recycle funds, prevents optimum use of resources and erodes profitability.

The factors responsible for this state of affairs have been well studied and analysed. Apart from defective appraisal of loan applications and inadequate monitoring of credit utilisation, there are reasons such as the impact of natural calamities, wilful defaults, misutilisation of loans and weaknesses in recovery procedures. Since commercial banks are now committing 40 percent of their lending to priority sectors, mainly in rural areas, they must improve the quality as well as recovery of such loans. Rural Branch managers need to develop greater contacts with their clients through regular field visits so that identification of beneficiaries and appraisal of loan applications improve, post-sanction monitoring of credit utilisation is strengthened and recovery of loans is pursued regularly and effectively. At the same time, it is necessary that underfinancing is avoided, repayment schedules are pragmatically drawn up and when natural calamities occur, short term loans are quickly converted into medium term
loans according to prescribed procedures. It will be useful if bank economists were to consider how bank profitability could be affected if present rates of recovery do not improve. Importance of maintaining an environment conducive to recovery of dues cannot be over emphasised. Here, the role of state government is crucial. In the past across the board solutions, through large scale write offs or reduction of loan liabilities, have not worked well. On the contrary, such measures have created expectations of further reliefs and accentuated disinclination to repay loans on the part of wilful defaulters\(^3\). The present systems and procedures to provide for affording relief where warranted. One major step in improving the environment would be to enforce recovery from defaulters who are large borrowers. The existing laws and administrative arrangements are inadequate to tackle the serious problem of mounting bank advances. The central government is already considering improvement in the law of recovery of bank dues. This should be supplemented by strengthening enforcement machinery. At present whenever loans are recalled, banks file civil suits which takes several years to be disposed off. Execution of decrees poses serious problems. Recalcitrant defaulters take full advantage of these delays to the detriment of banks. There are complaints about unauthorised diversion of assets.

The question related to the reasons for non-repayment of loan were open-ended, but procoded, based on certain broad categories of responses. Several interesting reasons were given for non-repayment, some of which appeared to have a direct bearing on the role of lending agency. The reason for non repayment have been presented below:
Poor Yield.
Delay in income generation from the scheme,
Lack of desire for getting future loan.
Lack of persuasion by bank officials.
Inadequate returns from the scheme.
Deliberate default.
Inadequate marketing facilities.
Presence of other debts.
High family consumption.
Poor maintenance of assets.

Lower level of recoveries has been also due to want of commitment on the part of co-operative organisations. Especially, directors of the development banks, as a team and in particular local directors representing the specific area are seen indifferent to the problem of rising overdues. The defaulters also appears to be getting political patronage. In some cases defective lending policies and financing of non-viable projects have been responsible for blocking recoveries.

While the need to disburse adequate loan on time is recognised, timely recovery of farm loans is essential because it will help to augment loanable funds to expedite pace of development. It will also enable the financing bank to secure more and more refinance from such bodies as the NABARD. The bank can also take quick decisions and reduce time lag in procedures, systems operations etc. More credit can flow as a consequence to a large number of deserving borrowers. The overall impact of timely and good recoveries could enable the bank to reduce cost of
credit as the number of litigations would be minimised and the operational staff also would be able to devote more time for real development work. Indirectly and quite significantly the improved recoveries would make the banking structure and system sound, securing the much needed confidence and support of the general public.

7.3 CREDIT DEVELOPMENT:

The objective of the district plans formulated under the 'Lead Bank Scheme' is to guide the credit institutions in the district to deploy their credit in a such manner that they will have the maximum impact on the development of the district and at the same time, benefit on increasing proportion of the weaker sections of the society. The credit plan, thus mainly seeks to indicate the scope for the development of various types of economic activities which can be financed by credit institutions, a given time schedule, with an emphasis on increasing the opportunities for the weaker sections to participate in the process of development. Basically, the credit plan is an exercise in indicating the lines on which credit can be extended in a given area in a given period of time, on the basis of the anticipated demand for credit, from existing or development induced economic activities. Estimation of credit demand is an essential step in the formulation of credit plan to facilitate settling of realistic goals by banks. Credit estimation is in terms of standard schemes included in the credit plans, prepared on the basis of a study of cost benefit of the activities and their needs for credit. District credit plan constitutes framework for credit extension in the district under viable banking
schemes, which are expected to constitute all-round and integrated
development of the district economy and reduction of regional imbalances.
In the process of formulation of the district credit plans. Schemes prepared
under integrated Rural Development Programme, where it was in operation
and other beneficiary-oriented or area development programmes were
studied, and bankable schemes aligned with those programmes were
included in the district credit plans. The scheduled commercial banks
provided credit to Banda district as compared to other district in Uttar
Pradesh is given below.

**Table 7.1**

**District Wise Distribution of the Number of Reporting Offices,**
**Aggregate Deposits and Gross Bank Credit of All Scheduled**
**Commercial Banks - September 2002**

State: Uttar Pradesh

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<th>Credit</th>
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</tr>
<tr>
<td>54</td>
<td>Moradabad</td>
<td>194</td>
<td>226427</td>
<td>98119</td>
</tr>
<tr>
<td>55</td>
<td>Muzzafar Nagar</td>
<td>186</td>
<td>177419</td>
<td>68620</td>
</tr>
<tr>
<td>56</td>
<td>Pilibhit</td>
<td>80</td>
<td>48445</td>
<td>22638</td>
</tr>
<tr>
<td>57</td>
<td>Pratapgarh</td>
<td>131</td>
<td>113614</td>
<td>18571</td>
</tr>
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<td>58</td>
<td>Rae Bareilly</td>
<td>127</td>
<td>104879</td>
<td>19974</td>
</tr>
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<td>59</td>
<td>Rampur</td>
<td>98</td>
<td>49600</td>
<td>28368</td>
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<td>60</td>
<td>Shahjahanpur</td>
<td>145</td>
<td>157045</td>
<td>59431</td>
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<td>61</td>
<td>Sant KabirNagar</td>
<td>54</td>
<td>37656</td>
<td>7551</td>
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<tr>
<td>62</td>
<td>Sant Ravidas Nagar</td>
<td>56</td>
<td>89809</td>
<td>40250</td>
</tr>
<tr>
<td>63</td>
<td>Shahjahanpur</td>
<td>126</td>
<td>86961</td>
<td>36705</td>
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<tr>
<td>64</td>
<td>Sharvasti</td>
<td>53</td>
<td>20118</td>
<td>6209</td>
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<tr>
<td>65</td>
<td>Sidharthnagar</td>
<td>82</td>
<td>52011</td>
<td>12505</td>
</tr>
<tr>
<td>66</td>
<td>Sitapur</td>
<td>161</td>
<td>91970</td>
<td>24527</td>
</tr>
</tbody>
</table>
67 Sonbhadara 66 85202 19977
68 Sultanpur 143 129425 30020
69 Unnao 114 107599 18798
70 Varanasi 208 425026 100007
UPPRADESH 8182 10232661 2781298

Source: Banking Statistics Division, Department of Statistical Analysis and Computer Services, Reserve Bank of India, Mumbai, Quarterly Handout, September 2002.

The capital of Uttar Pradesh Lucknow got highest rank in credit with Rs. 306442 lakh in September 2002 having population 36.8 lakh. This research is being conducted for BANDA district which is the most backward district of Uttar Pradesh. From the point of view of population it comes on fifty oneth with 15.0 lakh population. Credit provided by scheduled commercial banks in Banda district was Rs. 14291 lakh which gives it 45th rank. It seems that those districts are comparatively developed which are enjoying more credit from the scheduled commercial banks. In 1998 scheduled commercial banks credit to Allahabad, Kanpur Nagar and Azamgarh was Rs. 58346, Rs. 161923 and Rs. 14030 lakh respectively while in September 2002 credit has been increased to Rs. 86112 lakh, Rs. 213474 lakh and Rs. 27216 lakh. There is growth in providing credit. In percentage, we find that Allahabad has 147.58 percent while Kanpur Nagar and Azamgarh has 131.83 percent and 193.98 percent respectively. In case of Banda district in March 1998 credit provided to banda district was Rs. 10014 while it has been increased to Rs. 193.02
lakh. There is 192.75 percent growth. It also proves that the economy of Banda is being monetised gradually.

7.4 HUMAN RESOURCES DEVELOPMENT IN BANKING:

The importance of people in organisation was ignored by the accounting profession until approximately two decades ago. During early and mid-sixties, behavioural scientific attacked conventional accounting practice for its failure to value the human resource of the organisation along with its other material resource. Thus no sophisticated methodology had been developed for managing and accounting for the human resource of the organisation. However, even today, there are a few organisation which have started valuing their human resources.

The concept of ‘human value’ is derived from general economic value theory. Prof. Falmholtz has stated that ‘like all other resources, people possesses value because they are capable of rendering future services.’ However, before we attempt to determine whether a human resource is an assets, we need to define what an asset is its ‘service potentiality’⁴. Thus there must be an expectation of future economic benefits from a resource and such benefit must be measurable.

The banking industry is a service oriented industry. It has undergone a sea change since the time of the British Raj where profit was the consideration. It then moved to the socialist era of seventies and eighties where serving the commonest of the common man in the remotest corners of India was the sole objective. During this period, the nationalised banks operated with a view to give access to as many people as possible to
organised banking. Bank policies were directed towards the social objectives of employment generation and employee welfare and, HRD performed merely and administrative and regulatory role.

In the last few years, banking as a function, has come full circle. The prime mover for banks today is profit, with clean indication from the government ‘perform or perish’. This change is a result of banking reforms viz. the Narsimham Committee recommendations, liberalisation and opening of the up of the economy in nineties and the government’s decision to privatise the bank’s by reduction in state ownership.

With the current change in the functional orientations of banks, the entire purpose of banking is under redefinition.

Customers in urban area no longer want to wait in longer queues and spends hours to deposit or withdraw. They are asking one fundamental question, “It is my money, why should I be kept waiting?” This change in customer attitude has been substantiated with the development of ATM’s phone and net banking and availability of service right to their door steps. All the above said facilities provided by Banks to their customer exist in developed cities. Banda is far away from the said facilities. Not a single bank in Banda district entertaining these facilities. Now from December 2003 the ATM facility is being provided by State Bank of India in Banda District.

Banking as an industry has seen the maximum impact of computers and technology. From the days of manual records to the age of ATM’s, EFT’s and smart cards, IT has revolutionised the ways in which banks work. All these developments should have no doubt in our minds about
the emergence of the new age banking.

The liberalization of the last ten years has seen enormous competition from MNC’s who are setting the standards of excellence in customer service and technology at much lower cost due to lesser manpower and more efficient management systems. Indian banks have to catch up with these global trends and redefine their standards of operation. No wonder that many banks are now looking at implementation of quality standards like ISO 9000.

Post stock market scam and with more scandals coming through after that, the various stockholders are now demanding more and more transparency in financial transactions. It is no doubt that banks now have no option but to keep their economic viability intact, and they are now making that mindset change. Banks are now concentrating on getting the banking fundamentals right. This includes a constant focus towards profit with reduced incidence of bad loans, NPA’s etc. incorporating new initiatives to ensure that deposit mobilisation and loan disbursement is the maximum etc.. However, in all this, it will not be possible to be in tune with the rest of the world unless HRD function in banks move towards empowering their manpower to lead the change wave.

The following ratio can be used to bring out the effectiveness of manpower utilisation:

\[ X = \frac{WF}{E} \]

Where:

- \( X \) is effectiveness of manpower
- \( WF \) is working fund
- \( E \) is establishment cost
The above ratio indicates that in public sector banks one rupee of establishment cost generated Rs. 54 of business in 1999-2000 and Rs. 49 in 2000-2001 and in private sector banks one rupee of establishment cost generated Rs. 112 of business in 1999-2000 and Rs. 127 in 2000-2001 indicating a major variation in private sector and public sector banks ratio. In foreign banks, however every rupee of establishment cost generated Rs. 96 of business in 1999-2000 and Rs. 103 in 2000-2001. But this equation ignores the following : a) the centre wise pattern of branch network, and b) the level of mechanisation/technology. However, it is interesting to observe in respect of public sector banks that one rupee of establishment cost generated in 1999-2000 has come down to Rs. 49. As against this in case of private sector banks, the same has gone up from Rs. 112 in 1999-2000 to Rs. 127 in 2000-2001 indicating better management of establishment cost by private sector banks.

It may be noted that which have been able to maintain continuous growth and profitability as well as strength of balance sheet have been able to record better ratio of manpower effectiveness. The same methods can be used to bring out bank wise variations and evaluate the relative changes in productivity levels from year to year.

In actual figures the above equation can be translated as follows:

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TABLE No. 7.2
Effectiveness of Manpower

<table>
<thead>
<tr>
<th></th>
<th>Public Sector</th>
<th>Private Sector</th>
<th>Foreign</th>
</tr>
</thead>
<tbody>
<tr>
<td>WF</td>
<td>890600</td>
<td>1029769</td>
<td>132053</td>
</tr>
<tr>
<td>E</td>
<td>16394</td>
<td>20975</td>
<td>1180</td>
</tr>
<tr>
<td>(\frac{WF}{E}=x)</td>
<td>54.32</td>
<td>49.09</td>
<td>111.90</td>
</tr>
<tr>
<td></td>
<td>(1:54)</td>
<td>(1:49)</td>
<td>(1:112)</td>
</tr>
</tbody>
</table>


7.5 BANKING TECHNOLOGY:

Banking in India has seen the introduction of new technologies during the decade, broadly computerisation and networking. This has opened up new avenues for diversification and augmenting revenues. The economic reform process was initiated in 1992 by opening of the Indian Economy, in as much as liberalisation of commerce/trade controls and partial convertibility of the rupee.

It is imperative that cost effective solutions to security vulnerabilities be structured. Rapid advances in the power of computing which is set to increase at an exponential rate, as per Moore’s Law, will make the computer hardware/software obsolescent in short time periods. Great care and foresight has to be exercised in induction of hardware, operating system and applied software. Communication channels will considerably increase in number capacity and speed of transmission, BANKNET is to
be domestic data communication network for instant receipt and dispatch of information for internal use as well as interbank communications. RBI currency chest operations are being reported through NICNET a computer communication network of the National Information Centre.

Computerisation in Allahabad Bank began in 1985-86 mechanising Andheri (East) branch, Mumbai as a pilot project. Since then, the bank is in a continuous process of introduction of appropriate technology in its various offices/branches. In line with the guidelines/directives received from the Government of India, Reserve Bank of India and Indian Banks Association. During the period 1995-2000, the Bank availed of Modernisation and Institutional Development Loan of US $ 14.40 Million (Rs. 63.41 crores) from World Bank with prime objectives of introduction of Modern Banking and facilities for the customers. The information technology is considered by Allahabad Bank as an important tool for facilitating new ways of managing and organising the bank’s business and developmental activities.

The bank has so far computerised 726 branches/extension counters out of which 387 branches are running with Total Branch Automation system where as 339 branches/extension counters are partially computerised with ALPMs. The Bank has computerised all its specialised branches including 7 International Business Branches and 15 Service Branches. Work on computerisation of another 100 branches is in progress. The Allahabad Bank has implemented Bilingual Banking Software in 30 branches in Hindi speaking areas to facilitate the customers. Apart from computerisation of branches, the bank’s strategy towards the technology upgradation includes
introduction of new delivery channels like ATMs, Telebanking, Internet Banking, Information Kiosks, Any Branch Banking etc. The Allahabad Bank has already installed 44 ATM at important centres and has planned to install 100 ATMs by March 2003. All these ATMs will be interconnected through a central switch.

The Allahabad Bank’s corporate office at Kolkata and all of its 48 Regional Offices are computerised. By use of its 19 Very Small Aperture Terminals installed under Indian Financial Network of IDRBI, Hyderabad, the bank has developed its own network, INTRANET which currently connects its 117 administrative offices/important branches across the country.

7.6 NON PERFORMING ASSETS:

The issue of non-performing assets has come to occupy the centrestage in the discussions of India’s financial sector reforms and the international rating agencies have added to the concerns of the international financial community and the multilateral agencies\(^9\). At a time when systematic soundness and stability of the banking system all over the world is engaging the attention of policy makers, such concerns get heightened. But I would only remind that the issues of NPAs is to be seen in the context of transition the Indian economy and financial system in particular are passing through. The first set of reforms in the financial sector has addressed the issue of strengthening the financial condition of banks by prescribing prudential accounting and capital standards. The gaps that have arisen in the scheduled commercial banks in respect of
provisioning and capital have been met by the government to a large extent. Recapitalisation of scheduled commercial banks has continued and as much as Rs. 20,000 crore has been provided till 1997-98. This, no doubt represents a huge amount and is also a reflecting of the large baggage of non-performing assets which the scheduled commercial banks have been carrying.

The data of non-performing assets of the Allahabad Bank is furnished below:

**Table 7.3**

**Non-Performing Assets of Allahabad Bank**

(Rs. in Crores)

<table>
<thead>
<tr>
<th>Particulars</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross NPA at the beginning of the year</td>
<td>1520.11</td>
<td>1694.16</td>
<td>1821.31</td>
</tr>
<tr>
<td>Addition during the year</td>
<td>434.35</td>
<td>407.54</td>
<td>530.52</td>
</tr>
<tr>
<td>Reduction during the year</td>
<td>260.30</td>
<td>280.39</td>
<td>350.08</td>
</tr>
<tr>
<td>a) Upgradation</td>
<td>35.90</td>
<td>42.24</td>
<td>15.57</td>
</tr>
<tr>
<td>b) Cash recovery</td>
<td>86.21</td>
<td>101.49</td>
<td>83.74</td>
</tr>
<tr>
<td>c) Compromise</td>
<td>42.63</td>
<td>65.97</td>
<td>86.33</td>
</tr>
<tr>
<td>d) Write off</td>
<td>95.56</td>
<td>70.69</td>
<td>164.44</td>
</tr>
<tr>
<td>Gross NPA at the end of the year</td>
<td>1694.16</td>
<td>1821.31</td>
<td>2001.85</td>
</tr>
<tr>
<td>Provision</td>
<td>642.81</td>
<td>733.05</td>
<td>822.51</td>
</tr>
<tr>
<td>Interest Suspense</td>
<td>14.35</td>
<td>4.01</td>
<td>12.12</td>
</tr>
<tr>
<td>DICGC &amp; ECGC Balance</td>
<td>34.22</td>
<td>9.60</td>
<td>7.01</td>
</tr>
<tr>
<td>Net NPA at the end of the year</td>
<td>1002.78</td>
<td>1074.65</td>
<td>1160.16</td>
</tr>
</tbody>
</table>

Source: Allahabad Bank Offer Document 2002-03.
The total non-performing assets of Allahabad Bank at the beginning of the year 2000, 2001, 2002 was Rs. 1520.11 crores, Rs. 1694.16 crores and Rs. 1821.31 crores respectively. The addition of non-performing assets during the beginning of the year 2000, 2001 and 2002 was Rs. 434.35 crores, Rs. 407.54 crores and 530.62 crores respectively and reduction during the year 2000, 2001 and 2002 was Rs. 260.30 crores, Rs. 280.39 crores and Rs. 350.08 crores respectively. The table indicates the increasing trend of NPAs every year and addition in the non-performing assets of the Bank was also increasing, this is something which should not be happened. Considering that the prudential accounting norms were introduced from 1992-93 and thereafter tightened gradually, the crucial question is whether the huge level of non-performing assets is to be seen as, historical baggage arising out of ideological reasons. More particularly, given the directive lead regime or if I may say, over-regulated environment. Where banks were expected to act as agents of economic development, the risk return approach could not be used effectively. Besides, the deficiencies in the credit recovery system, reflected in the lack of adequate legal remedies, added to the woes of the banks in collecting their debts.

7.6.1 CAUSES OF HIGH LEVEL OF NON-PERFORMING ASSETS:

It would be instructive to know the causes for the build up of such high level of Non performing assets in the Indian context. As I said earlier, the over-regulated environment, both in the real as well as financial sector was one of the main reasons. However, there are other
important factors also as revealed from a study conducted by the Reserve Bank of India recently. After studying about 800 top NPA accounts in 17 banks, the RBI study has found the following in order of importance, to be the causative factors for loan accounts turning NPAs.

# Diversion of funds, mostly for expansion/diversification of business or for promoting associate concerns.

# Factors internal to business like product/marketing failure inefficient management, inappropriate technology, labour unrest etc.

# Changes in the macro environment like recession, infrastructural bottlenecks etc.

# Time/cost over runs during project implementation.

# Changes in government policies (i.e. import duties) and

# Deficiencies like delay in release of sanctioned limits by banks.

It is also revealed that the internal factors for outweighed the external factors in accounts turning bad. The contribution to Non performing assets burden of banks was also significant from directed lending (nearly one fourth of the total gross Non performing assets were accounted by priority sector advances) where banks had little control under the sponsored programmes and where debt forgiveness vitiated the repayment culture.

7.7 PROBLEMS OF FINANCIAL INSTITUTIONS:

The financial institution face the problems of double financing. Some applicants approach more than one agencies such as District Industries Centre, Khadi & Village Industries Commission and Scheduled
Caste Development Corporation for loans and these agencies may recommend loans to the banks and (sometimes to different banks) in favour of the applicant. These bank in turn sanction financial assistance not knowing the multiplicity of the deal by the applicants. It is observed that some sponsored applicants are found to be minors or over-aged and it will be proper to entrust schemes to minors or over-aged persons for fear of mis-management\textsuperscript{10}. Verification of end use of funds is sometimes difficult as in a joint family. It is not possible for bank officials to segregate them on post sanction supervision. It is the experience of the lead banks in Banda District that some loans do not make proper use of the loan assistance give to them. After the delivery of the equipment, the same equipment later finds its way to the dealer at discounted rated. Rural and Cottage Industries are quite different from agriculture with regard to their needs for marketing facilities, financing, skill and equipment. The banks are yet to have trained manpower in rural, cottage and small industries financing. Because of the low profitability and high cost of financing in rural banking, the commercial banks are reluctant to finance rural and cottage industries. To make the scheme viable, it is necessary to identify development centres and finance the schemes in such areas. This may also necessitate the conglomeration of “Scattered” artisans in the village to form co-operatives. Monitoring the evolution are the end point of planning and implementation. Lack of adequate and experienced staff in banks in rural based industries hinder the quality of post sanctioned supervision.

The Scheme Planning is unnecessarily time consuming, sketchy and
unrealistic. Adequate homework is never done by sponsoring agency hence the pre-sanction processing time for bringing the project to operation increase. Scheme sanctioned in this manners turn to be realistic as the cost of equipment, working capital, availability of raw materials and marketing facilities are not kept in view. The flow of co-operation between sponsoring agency and the credit institution is not regular. For this reason a workable relationship is called for between the banks on the one hand and KVIC, DIC and other related corporate bodies on the other. This arrangement involves joint strategies which would surely ensure improved performance of these industries.

And, finally it must be emphasised that the problem of small industries form a vast complex of material, production, quality control, finance, marketing etc. All these can not be solved in isolation of each other. The credit and finance problems have to be tackled as a part of the whole programme if they are to be solved, according to Ramkrishna. Every problem of the small producer concerning production or materials, quality or marketing is in the ultimate analysis of financial one.”

7.8 MEASURING PROFITABILITY PERFORMANCE OF BRANCH:

Transfer Price Mechanism is being used for assessing profits at the branch level in our country and in most of other countries worldwide. It is observed that the Transfer Price Mechanism as practiced now is not capable of assessing profit/loss at the branch level in transparent manner. Profits of the branch arrived at through Transfer price mechanism system includes subsidy at higher level.
There are at present, three TPM system in vogue, viz. Unitary Transfer Price System, Dual Transfer Price System and Multiple Transfer Price System. In absence of a clear direction from the Reserve Bank of India or the Indian Banks Association every bank is following different methodology for assessing profits at the branch level which makes difficult the meaningful inter-bank comparison of the loss making branches.

Advent of computerisation in the Indian banking industry and removing the entry barriers for foreign banks/new private sector banks have resulted in increased competition for PSBs. Improved branch level profitability performance, therefore, is the need of the hour. The age old Transfer price mechanism system has lost its relevance owing to the radically alteration of the Indian banking environment. Earlier branches were focussing mainly on two activities viz. accepting deposits and making advances (Transfer price mechanism system also is based on these two activities only) but multi-directional activities are being undertaken now at the branch level. Spreads are under severe strain and income from non-fund based business is showing the signs of improvements. Interest rates on deposits and advances are no more administered but these have since been regulated. All the above said developments have put the question mark on the proper assessment of profit/loss at the branch level through the existing Transfer price mechanism system.

There is now need to measure the profitability of the branch instead of assessing profits Emphasis has to be laid on the branch level profitability performance, as ideally branches are the only profit making windows for a bank. If branches mobilises profitable business, the bank
level profit will automatically register a healthy growth. Unfortunately, the real life picture is somewhat different.

There should be shift in focus from quantitative performance to qualitative achievements and profitable operations. It is in this context, that a need has arisen for proper measurement of profitability at the branch level.

In business terminology, profit is defined as an excess of income over expenditure and is an absolute measure of a branch's performance. However, to measure the relative performance of a branch overtime, profitability seems to be the appropriate measure. The latter is preferable to the former because it is arrived at after purging the effects of size variables on the absolute levels of profits. Till now, six major attempts have been made by different committees constituted under the direction or at the instances of RBI/IBA/NIBM at different times: (i) first in 1968, to undertake a study of loss making branches of the State Bank of India; (ii) second, by the Banking Commission (1969-72); (iii) third, by the working group on productivity, efficiency and profitability, popularly known as PEP committee (1976); (iv) fourth by a Technical Group by IBA (1980s); (v) fifth, by a following committee on Branch Profitability under the aegis of the NIBM (1986) and (vi) sixth in 1998, the existing TPM methodologies were reexamined by a Study Group appointed by IBA at the 1997 Bank Economists' Conference with reference among others, to "evolving rational and appropriate Transfer Pricing Mechanism to enable a meaningful inter-bank comparison about the loss making branches and assessing the possibility of uniform Transfer Price Mechanism for Banks"
Efforts have also been made in the past for evolving a system of measuring profitability at the branch. The RBI had convened a seminar on "Branch Profitability" during the year 1987. The year 1989 and 1991 witnessed a workshop and seminar respectively arranged by the RBI. The National Institute of Bank Management also made efforts for devising a suitable model for measuring profitability performance at the branch. The NIBM had convened a meeting of senior executives from commercial banks during the year 1985 and 1987. Emergence of the concrete view about using Ratio Analysis for measuring the profitability performance of a branch was the outcome of the marathon discussions in the above said meetings/seminars/workshops.

The recently evolved Branch Licencing Policy should also help contain expenditure and improve productivity. The increasing incidence of Non performing assets is a serious drags and calls for effective remedies. Quality of bank assets present and future must be upgraded. Bank’s could also within reasonable limits, increase their non fund business. Needless to say that they are entitled to levy appropriate charges on the services rendered by them. Improved cash management and safeguards against revenue leakage need greater attention. Banks could also examine the scope for nationalisation of loss making branches consisting with the need for providing adequate services to the relevant localities.
NOTES & REFERENCE


CHAPTER - VIII

PERSPECTIVE PLANNING OF THE NATIONALISED COMMERCIAL

BANKING IN BANDA ECONOMY

8.1 Bank and Customer Services
8.2 Strategies of Overdues
8.3 Credit Planning
8.4 Profit Planning
8.5 Overcome the Problems of Non Performing Assets
8.6 Training for Banking Sector Performance
8.7 Modernisation
8.8 Preventive Measures
CHAPTER VIII

PERSPECTIVE PLANNING OF THE NATIONALISED COMMERCIAL
BANKING IN BANDA ECONOMY

8.1 BANKS AND CUSTOMER SERVICES:

Public opinion as is voiced through various media clearly indicates that there is growing dissatisfaction on the service rendered by banks. On the contrary, there are claims supported by statistical data that banks have fulfilled one of the important objectives of nationalisation, i.e. need based spread of banking activities in rural and unbanked areas. It is true that quantitatively banks have done a lot but for an individual customer it hardly matters. He is rather more concerned about the service rendered to him. He is bothered about the qualitative aspects rather than quantitative. As the customer is interested in personalised service, every banker should keep this point in mind. The following patterns deserve special consideration with regards to indispensibility of customer service.

(a) There has been trends towards intensification of competition. The emergence of oligopolistic market structure in the banking world encourages high level of competitive interdependence. As the interest rates fixed by the Reserve bank of India, the scope of price competition disappears. This also bring uniformity in various schemes offered by various banks. It is like the same material wrapped up in different coloured paper. The customers can be lured and fortunately, since there cannot be any uniformity in quality of service. Banks shall have to work hard to win the customers.
b) It is more expensive to develop new customers than it is to maintain the current customers. In a study made by Drake Sheahn and Stewart Oongal, USA it has been shown that on an average it is six times more expensive to develop a new customer than it is to keep current customers. Financial experts also feel that the resources invested in customer service activities provide a substantially higher return than resources invested in promotion and other customer development activities.

c) Customer service has become indispensable on account of change in thinking of the general management. A shift is viable from product orientation to market or customer orientation.

d) The deterioration in the quality of service as perceived by the dissatisfied public could be due to the increased public expectation from the nationalisation of commercial banks and the phenomenal growth of banking in recent years.

According to impressionistic survey conducted by the Department of Banking operations and service of the Reserve Bank of India, opening and closing of bank counters in time, time taken for encashment of cheques and drafts, as also issue of cheque books and drafts, collection of instruments drawn on outstation centres, delay in credit of telephonic transfer remittances and postings of passbooks are some of the areas which needed careful attention by the banks.

One of the steps recently taken by banks to provide improved customer service has been the introduction of MICR cheques which will be a long way in speedier clearance of local and custodian cheques.
Initially, the scheme was implemented in four metropolitan centres of Bombay, Calcutta, Delhi and Madras. Proposals were formulated to extend the schemes at other centres. There are numerous complaints regarding delays and other procedural difficulties in the disposal of balances in deceased accounts in the single names. Therefore, prospective and existing account holders should be told about the implications of having accounts in joint names and they should be persuaded to keep their accounts in joint names (either or survivor type). This will enable the successor(s) to overcome the difficulties faced in obtaining the balance in deceased accounts in single names. The customers are still unaware of this facility.

For payment of balance in a deceased accounts to survivor(s) claimant(s) without production of succession certificate, the branches can exercise its discretion and can make payment on the basis of dual local enquiry and adequate indemnity.

Banks have formed special teams of senior officers to visit selected branches to make spot assessment of the state of customers service at these branches. The branches which were poor in extending proper customer service were identified for further study and improvement. Efforts are being made to provide guidance to the staff at branch level after on the spot study. Many banks have conducted customer meets in several of their branches. Apart from the regular customer meets, fifteenth of every month (if that happens to be holiday, the next working day) is being observed by the banks as customers day. Customers are invited, the problems posed are analysed and action taken. The State Bank established a customer Service Centre in Bombay from 1st October 1985.
Complaints relating to all public sector banks in Bombay are received at
this centre and their disposal is satisfactory. The complaints emanated
from a small fraction of the Bank's number of accounts. In order to
strengthen and tune up the banks machinery to handle customer's
grievances, complaints-cum-suggestion boxes placed at the branches and
offices. A comprehensive analysis of the complaints received has been
made.

There is tremendous scope for improvement in customer service
rendered by commercial banks. Efforts are being made at all levels to
improve these services. A few suggestions are made hereunder to tune
up the customer service in banks:

i) Banking being the service industry, the attitude of bank staff
towards customers is important, and unless these undergoes a
change any amount of coercive methods may not achieve the desired
results.

ii) Along with the bank staff, there is need for educating bank
customers. Several customers are not aware of banking practices
and hardly a few are aware of their rights. All India Bank Depositors
Association is trying to educate the public. However, it is able to
cover only minuscule percentage of the total depositors.

iii) Removing officials may be stationed to assist and guide customers
to complete their banking transactions expeditiously and give first
class customer services.

iv) Analysing individual customer behaviour and needs in another aspect
which produces a reasonably good customer service.
v) Customer service must match with marketing efforts otherwise the customer would remain a dissatisfied soul and all marketing efforts will go down the drain. If possible, the branch manager should involve members of this staff in marketing planning. This will create an atmosphere where the bank staff may appreciate the problems of customers and render appropriate service unhesitatingly.

vi) Besides, motivation, it is necessary to provide the top managements in banks with powers to impose discipline among the bank staff. No doubt, decisions of the management should be based on well enunciated guidelines and norms in respect of transfers, placements, promotions, sanction of staff and punishment.

vii) The application form should be drastically simplified and standardised. The beneficiaries should be advised to fix his recent passport size photograph on the application form which can help in identifying the borrowers. The borrowers should be issued a small loan pass book in which all important particulars in regional language should be entered particularly terms and conditions on which the loan is sanctioned, disbursement, interest, repayments, subsidy particulars.

viii) The borrowers/beneficiaries should be invariably explained in detail, the need for introducing this same aspects of lending, role and responsibilities of the borrowers and banks, what borrowers should do in the event of failure of activity, non-generation of income etc.

ix) There is also need for an effective follow up plan for the beneficiaries, which should largely be concerned with the way the
scheme is functioning whether the loan provided under the scheme is properly maintained to what extent the commercial banks are provided other assistance to the beneficiaries, like the 'know-how' moral support etc. the banks' role as an instrument of change not only lies to the extent to which they provide financial support to the beneficiaries. The beneficiaries should be adequately trained to make the best use of the resources, to realise the importance of credit, their, their timely repayment, etc.

x) Under the present scheme the Bank officials will have to identify the right type of beneficiaries as per the eligibility criteria, collect the applications, interview them, conduct pre-sanction appraisal, post disbursement follow-up and supervision, asset verification, recovery of loans etc. Now banks can't blame any other for corruption, wrong identification, bunching of applications, late release of subsidy etc. Thus all the formalities will have to be completed by banks right from the selection of the beneficiaries and suggesting best suited activities which could be implemented by them under a given situation of existing infrastructural facilities, upto recovery of loans.

xi) The Department should enjoy experienced, commitment and trained officers and other staff. Adequacy of the staff will have to be carefully decided taking into consideration one officer exclusively to take care of 300 live borrowal accounts involves herculean labour which perhaps the agricultural officers (field officers) implementing the IRDP know very well.
xii) The officials should have a planned programme of contracting these borrowers at their place of work/occupation. As they will not be expected to visit branch for repaying loans and paying interest amount since it amounts to loss of time and work, accordingly repayments alongwith interest may have to be collected at their places of work.

xiii) The bank officials should maintain locality wise books/diaries in which details of their contact with the borrowers and discussion as well as income earned and expenses incurred by borrowers under the activity as well as for their consumption purpose should be recorded. This diary is a very useful record from which bank can prepare a case study based on factual data and use for their training establishments. Besides, this can serve as a basis for conducting monitoring-cum-concurrent evaluation studies which can also help to analyse the working of the scheme and re-design the planning and implementation process.

8.2 STRATEGIES OF OVERDUES:

Overdues in respect of rural and industrial bank loans have been on the increase. Inadequate recovery of loans impairs the banking system’s ability to recycle funds, prevents optimum use of resources and erodes profitability. Some suggestion could be made for preventing emergence of overdues and improving flow of repayments to the financing banks. These are -

i) Area approach to project financing would ensure effective supervision
over the end use of credit and would eventually reduce cost of
loading scattered leading without reference to needs of integration
have been responsible for overdues.

ii) Adequacy and timeliness of credit have been emphasized from time
to time in the context of their contribution to recoveries, yet in
reality, this does not appear to have been fully understood by the
institution. This factor helps to ensure proper utilisation of loans
because such loans would take care of costs, scales of finance and
estimates of incremental income on a more realistic basis.

iii) The mode of disbursement could be essentially in kind. Thus
payment could be made to the suppliers against borrowers
acknowledgement of receipt of materials. Within certain limits,
borrowers may be allowed freedom to select inputs. At the same
time it may be necessary to put a check on the likely malpractices
by the suppliers in regard to quality price etc.

iv) The repayment programme should be carefully drawn so as to make
it convenient for the borrowers drawn to repay the installments
during the period when the funds are available with them.

v) Since the recoveries have to come essentially from increased
agricultural income and since Indian agriculture is prone to risks
of drought, floods etc. provision have to be made for rescheduling
some of instalments at some stage so that the farmers are not
declared unfairly defaulters.

vi) Supervision and follow-up arrangement to ensure proper end use
of credit is very necessary. the lending organisation can thereby
know unforeseen problems, if any, obstructing the development process.

vii) Borrowing from multigencies leading to incurring of debts beyond capacities or for inter agency adjustments, without any productive purpose in view, needs to be checked. Sometimes it is also noticed that a charge is created over assets not secured by the bank and without its knowledge.

viii) There is equally urgent need for the financing banks to strengthen their own organisational machinery and to streamline the procedures relating to sanctioning the loans and their follow-ups. The development banks could be reasonably expected to pay proper attention to arranging supportive facilities and services in co-ordination with the concerned government agencies, department and other organisations.

8.3 CREDIT PLANNING:

The objective of the district plans formulated under the 'Lead Bank Scheme' is to guide the credit institutions in the districts to deploy their credit in "such manner that they will have the maximum impact on the development of the district and at the same time, benefit on increasing proportion of the weaker sections of the society. The credit plan, thus, mainly seeks to indicate the scope for the development of various types of economic activities which can be financed by credit institutions, in a given time schedule, with an emphasis on increasing the opportunities for the weaker sections to participate in the process of development. Basically the credit plan is an exercise in indicating the lines on which
credit can be extended in a given area in a given period of time, on
the basis of the anticipated demand for credit, from existing or
development induced economic activities. Estimation of credit demand is
an essential step in the formulation of credit plant to facilitate setting
of realistic goals by banks. Credit estimation is in terms of standard
schemes included in the credit plans, prepared on the basis of a study
of cost benefit of the activities and their needs for credit. District credit
plan constitutes the framework for credit extension in the district under
viable banking schemes, which are expected to constitute all-round and
integrated development of the district economy and reduction of regional
imbalances. In the process of the formulation of the district credit plans,
schemes prepared under Integrated Rural Development Programme, where
it was in operation and other beneficiary oriented or area development
programmes were studied and bankable schemes aligned with those
programmes were included in the district credit plan.

The committee felt that the present system of cash credit of
commercial banks has certain drawbacks and recommended that it should
be substituted mainly by loans and bill financing mechanism. In this
connection, the committee has proposed that the working capital limits
should consist of (a) Cash Credit I (b) Cash Credit II and (c) Normal
Working Capital Limit. The committee has further suggested that Cash
Credit I should be composed of (i) Loan portion (ii) Bill finance limits,
and (iii) Cash credit portion. The committee’s recommendation also
envisage a multiple interest rate structure attracting a different lending
rate. There is no gain saying that the cash credit system of lending has
slowed down the growth of bills financing, and that the predominance of cash credit should be substantially reduced. The forum may consider whether it would be feasible to adopt multiplicity of credit limits carrying different interest rates suggested by the committee. If not are these other preferable alternatives or variants?

8.4 PROFIT PLANNING:

In the context of increasing profitability of banks, operation; profit planning assumed crucial importance in any efforts towards efficiency improvement\(^2\). Profit planning is based on fund management, work management and cost management techniques. It necessitates locating profit and cost centres; identifying elements that determine income and cost structure of each centres and the organisation as a whole; finding out the extent to which these factors can be influenced by policy and planning; evolving means to widen spread between cost and returns; and developing supplementary/alternative source of income or profit. There is growing realisation to control increasing operational costs due to expansion of unremunerative branches in rural areas, growth in employment, rise in the wage bill due to pay revision and cost of living indices and a general increase in overheads and other costs. Cost increases through rational system of pricing financial services and revision of service changes, rationalising lending and investment policies and realistic rate structure.

In evolving a programme of profitability improvement, concentrated attention has to be given to costs of staffing patterns, operational work flow, wastage removal analysis, well developed management information

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system, social obligation accounting, cost and performance control, decentralised supervision and cost-benefit analysis.

8.5 OVERCOME THE PROBLEMS OF NON PERFORMING ASSETS:

Banks have been addressing the burden of non-performing assets through all the available remedies. At the end of the year 2000, 2001 and 2002, the total non-performing assets of Allahabad Bank was Rs. 1002.78 crores, Rs. 1074.65 crores and Rs. 1160.16 crores respectively. However, given the inadequate environment for enforcement of securities, the progress in recoveries has been slow. Besides restoring to legal remedies to recover their dues, banks have also utilised the services of the DRTs. In addition, where desirable, they have adopted the route of negotiated settlements/compromise with borrowers, in the process, sacrificing some revenue and gaining in terms of time value of money. For the purpose, banks have established Settlement Advisory Committees, for certain categories of borrowers which are expected to approach the process of negotiated settlements in a simple and transparent manner. Where the chances of collecting the dues are ascertained to be bleak, write offs have been made and such loss booked to banks’ revenue. But as banks are accountable to their ultimate owner viz. Government and the Parliament, such write-offs have been done selectively and as far as possible where the incollectible nature of debt is beyond doubt. I’m not sure whether the Narsimham Committee II (1998) had visualised such a situation while prescribing further tightening of the prudential accounting norms, which is being implemented gradually. No debt, the committee has
voiced its concerns about the lack of quick remedial measures for resolution of bad debts of banks. In the event of the borrower taking refuge under Section 22 of the SICA 1985 which forbids enforcement of securities without the consent of the BIFR or the Appellate Authority, the recovery of bank dues becomes further delayed, more so when the BIFR takes a very long time to decide the case for either winding up or for a debt work out. The delays in amending the SICA to trigger off the remedial mechanisms at the incipient sickness stage itself has increased the difficulties of banks. On the suggestion of the Narsimhan Committee I the Debt Recovery Tribunals have been set up and at present 10 such Tribunals have been established. But their record in resolution of bad debts of banks has been lacklustre of the total amount of more than Rs. 8,900 crore transferred by banks to these DRTs at the end of March 97, only Rs. 178 crore has been recovered.

In essence what I would like to highlight is that the Indian Banking system suffers from the structural infirmity of lack of proper legal foundation for enforcement of controls and recovery of bank dues. Having described the available methods of bad debts resolution in the Indian context. I would proceed to discuss the one another suggested means of remedying the situation viz., Assets Reconstruction Companies (ARCs). The Narsimham Committee in 1992 had proposed such a remedy to overcome the problem of repeated and costly recapitalisation of banks. In its second report in 1998, the Narsimham Committee expressed its anguish over the non-implementation of its earlier suggestion. It is not surprising that the suggestion could not find takers at the policy level
because it is a question of “loss allocation”. Banks being derivative institutions, there well being or otherwise is inextricably linked to the other sectors of the economy. Therefore, bank losses have to be ultimately borne somewhere in the economy and such loss allocation has politico-economic connotations. If we take the amount of recapitalisation of banks which is of the order of over Rs. 20,000 crore from budgetary sources, then the loss allocation has been mainly on tax payers. It may be satisfying that such loss allocation through the budget has not disturbed macro economic stability and led to excessive money creation. However, the huge backlog of NPAs needs resolution at the earlier as otherwise, it can weaker the foundation of the entire financial system. Experience in some other countries has amply demonstrated that postponement of addressing the bad debt problem of banks has been one of the main causes for banking crisis.

The Narsimham Committee (1998) has reiterated its suggestion for ARCs and has made a strong case against further bank recapitalisation. While it is true that recapitalisation is a costly and in the long run unsustainable, can we see the ARCs as an effective panacea to the bad debt problem of banks? What the Narsimham Committee has suggested is that the hardcore NPAs of most banks be carved out and transferred to an ARC which could be funded and manned by banks themselves so as to maintain “institutional memory” on NPA to effect recoveries. Suggestions for securitisation of such loans and establishment of ARCs by banks and DFIs have also been made. Appropriate changes in the legal system and provision of tax incentives have also been recommended.
I feel that the issues involved in adopting what is essentially a “carve-out” of the bad debts of banks is far more complex than is understood.

The Narsimham Committee (1991) has suggested that after having off the Non Performing Assets portfolio of banks, there should be operational restructuring covering aspects like revamping management, staff and branch rationalisation. It further suggests that simultaneous steps be taken to prevent re-emergence of Non Performing Assets by stricter application of prudential norms I wonder whether such prescription could really prove effective till the fundamentals problems relating to enterprise restructuring are addressed. This is essentially a matter of sequencing of reforms which I emphasised earlier. While upgrading the managerial abilities in banks, including credit skills is vital, reforming the recovery environment is a pre-requisite for reduction of Non Performing Assets. Delays in reforming the enterprise sector are themselves a contributory factor to the weakness of the financial sectors are mutually reinforcing.

As globalisation gains speed, Indian corporate sector will be exposed to the on slough of competition. Some of the traditional industries, which have been earning profits consistently, have shown losses in the recent period. Since I see the reform process “irreversible” you can’t set the clock back adjustment to the new environment will have to come about. As in the case of financial reforms where one of the objectives is achieving allocative efficiency, the enterprise sector will have to address issues of efficiency in resource use and spruce up internal management. While accounting norms will have to match international standards, there will
be need for better disclosures and effective corporate governance.

8.6 TRAINING FOR BANKING SECTOR PERFORMANCE:

Information technology and the internet revolution have already made domestic bank look beyond national boundaries for business with some domestic private sector banks already busy looking for alliances in the Middle-East. These private sector banks hold an advantage vis-a-vis public sector bank/schedule commercial banks in terms of application of technology, recruitment policies and lower administrative costs. These banks have outsourced the technology and related applications without indulging much in such non-core areas, leaving it to the vendors to deliver the goods. The entry of new breed of private sector banks has really made the domestic banking sector more competitive breaking the near monopoly enjoyed by the scheduled commercial banks and foreign banks to rethink their strategies too. Some foreign banks have already sold their businesses and some others are busy concentrating on certain activities and existing from the retail banking business. The vibrant performance of the new private sector banks together with aggressive marketing and investor friendly services has really free the Scheduled Commercial Banks to seriously rethink their strategies.

Organisation around the world are fast realizing that by exposing their manpower resources to the best training inputs they could achieve highest sales/profits and attract and retain the best people. Organisation with second best training would get second best people.

Human Resource professionals and training managers across the
globe and now realizing that training needs of the workforce, which is increasingly becoming heterogenous, cannot be met by traditional methods alone. The number of employees of the bank as on 31.3.1999 was 22345 comprising 6858 officers, 10620 clerical staff and 4867 subordinate staff as against 22606 with 6904 officers, 10759 clerical staff and 4945 subordinate staff as on 31.3.1998.

Banks are realizing that money in additional class-room training and additional travel is not going to close the training gap adequately and therefore are increasingly inclined to use technology to close the gap quicker and make training more accessible to more people right at the front line. Moreover, training manager do not want their staff to spend valuable time away from their clients to enhance skills. Therefore, onsite learning would result in less time away from the office and reduced employee travel costs and make available more time for customized learning. This resource harnessing helps employees in their current job as well as enhances their overall skills for future employability.

Taking a cue from the aforesaid trends, HR professionals and training managers of domestic banks in India need to invest in modern techniques of training like computer based training web based training, self training and self development to enable employees learn the skills without being away from the customers. In this regard, Allahabad Bank increased its thrust on information technology and enhanced its utility towards increasing banks competitive strength. The Bank in its '5 point fitness' has given top slot to 'Adoption Technology for Growth'. In the process of implementing the plan under Modernisation and Institutional
Development Loan of World Bank, the Bank utilised a loan amount of Rs. 20.40 crores. In order to render better service to the customers and bringing desired efficiency in operation, the bank has increased its thrust on partial as well as total mechanisation. The bank has made computer necessary for its employees, it has also made computer as a minimum qualification for its recruitment. The bank has 136 partial and 38 total mechanised branches. Additionally, 122 branches were provided 488 pcs. 488 printers and 122 Passbook printers. Total Branch Mechanisation was effected in 13 branches including 5 International Branches, during 1998-99, taking the total branches covered under TBM category to 38. Under Forex computerisation, 3 of our 4 dealing rooms. Mumbai, Delhi and Chennai are live while the dealing room in calcutta is under implementation.

Local Area Network facility has been installed in 4 of the 14 service branches which 9 of the remaining 10 service branches have been provided with PC based solution for their operation.

During the year 1999, the bank has procured 15 ATMs in addition to 2 already installed under Shared Payment Network System. Out of these 17 ATMs, 5 are live, 3 are installed and ready and rest of the ATMs are under various stages of installation.

EFT services have been introduced in 208 branches in 4 metro cities under Reserve Bank of India’s EFT Scheme. The software, provided by RBI for Electronic Clearing Service, has been implemented in 4 metros. Society for World Inter Bank Financial Telecommunication has been extended to 5 more branches taking the total to 11. As on 31.3.1999, 5 currency chests have been connected to RBI NET through 19 nodes.
The Bank’s home page www/allahabadbank.com is active and customers can have access to all the schemes, launched by the bank. The bank provided 48 additional internet connections taking the total to 79 in the bank. The bank has since installed 19 VSAT under the INFINET. Thirteen VSATS are tested of which 6 are operational. The Reserve Bank of India has installed the main Hub at Hyderabad. The Bank’s hardware and Software in use have been made Y2k complaint. The mainframe at Head Office is running smoothly and large volume of computerised jobs like inter-branch reconciliation, provident fund are being processed. Mainframe programmes that are running in proprietary system are being converted for running in open system on Intel and Sco-Unix Platform.

During 1998-99, a consultant has been engaged to prepare frame work and manuals for proper EDP audit function and to implement the recommendation of Jilani Committee Report. Instruction Manual for ATM operation was prepared and circulated. In fulfillment of Central Vigilance Commissioner’s directives we have covered 26.33 percent of our actual business. Volume through computerisation and during the next fiscal year it is planned to cover 63 percent. Besides, there is a strong case for domestic banks to seriously consider retraining and self training techniques by encouraging their employees to upgrade their skills because the requirement of multi-skilled employees, especially in the financial sector, is increasing as players in the financial sector are looking for diversification of their activities to enhance their profit margins and overall growth. It also helps the employees in improving their employability at a time when jobs are no longer secure as in the past with many banks planning very
seriously. To reduce their workforce. Self training techniques would in the long run help banks to locate/find multiple talents within the bank rather than look outside.

Retraining forces on the basic competencies needed in a new or redesigned job and addresses advanced level technical skills. It helps banks in redirecting their human resources to address skill imbalances or projected skill shortages resulting from internal and external factors. It helps banks to expand knowledge and skills of employee through multi-skilling and cross training and helps stabilize the work environment. It can also build employee morale which was adversely affected by the exodus of several skilled personnel from the scene in the work of VRS.

An effective retraining programme in any bank should have the following elements:

1) Top management support;
2) Retraining programme goals linked to the strategic goals of the bank;
3) Good communication and information sharing;
4) Better placement opportunities for retrainees;
5) Conduct of needs assessment to determine what competencies are needed for new occupations;
6) Development of a retaining curriculum;
7) Counselling to help employees cope with psychological consequences of change in job content; and
8) Technical, interpersonal, and analytical skills training as well as activities that help individual adjust to other work culture.
or environments.

Bank need to consider retraining of employees very seriously because the way banking is being done is changing fast and would continue to change in future too. To increase profit margins, banks would continue to look for new areas of operations. Retraining programmes goals linked to the strategic goals of the banks would help them to find the skills required within the bank rather than recruit a fresh from the market.

8.7 MODERNISATION:

Modernisation does not mean only the adoption of innovative methods and methodology by the regular, market participant and institution, but in the true sense, also modernisation in the thinking process of the personnel and institutions of the financial markets, product markets and its various constituents. Therefore, the adoption of change in technology would only be relevant in the personnel are properly training and equipped with the latest methods to tackle various frauds and manipulations emerging out of technological advancement.

Legally speaking, section 17 of Indian Contract Act explains the act of fraud. As per this section, fraud means and includes any of the following acts committed by a party to a contract or by his agent with his connivance with an intent to deceive or to induce a person to enter into a contract.

i) The suggestion as fact of that which is not true by anyone who does not believe it to be true.

ii) The active concealment of a fact by one having knowledge
or belief of the fact.

iii) A promise made without any intention of performing it.

iv) Any other act fitted to deceive.

v) Any such act or omission as the law specially declares to be fraudulent.

Section 25 of Indian Penal Code explains the act of fraud, i.e. A person is said to do a thing fraudulently if he does that thing with intent to defraud, but not otherwise, so deceit + injury = fraud. In frauds, the important components are intention, motive and opportunity, where intention is subjective and opportunity objective. The overall knowledge of the concept of dishonesty, wrongful gains, wrongful loss, misappropriation, cheating, public servant, constitution and legal remedy and natural justice would also prove to be fruitful in dealing with frauds.

8.8 PREVENTIVE MEASURES:

Now a days, a matter of great concern for the financial market is growing, alarming figure of non-performing assets in the banking sector. The basic factor which could be identified as the major contributor for this increase in the mismatch of laid down policies and the decision process/authorities and also the laziness/intentional non-performance of functional staff. Had the vigilance department of the organisation performed their preventive vigilance role ahead, including the role of market intelligence aspect this increasing figure of non-performing and in consequence decline profitability and erosion of capital could have been checked in time.
The following could be the guiding steps in the adoption of preventive measures by the organisations.

# Identification of weak areas (observations which must be based on unbiased judicious application of mind).

# Establishments of sensitive areas and alarming signals.

# Setting up of full proof procedures and their uninterrupted, equal application and enforcement along with consistency in decision making.

# Monitoring of rules and procedures

# Proper inspection and monitoring.

Constitution of a surveillance committee would prove to be fruitful. The committee inter-alia must look into the gray areas of discretionary actions and examine clear cut evidence. Therefore, the provision of proprietary audit in certain circumstances could yield some leading information which could be helpful in deciding the future course of action in dealing with matters. Under discretionary powers (i.e. whether any set uniform policy has been laid down for the use of discretion, whether the law of natural justice, judicious application of mind has been observed while dealing in a case-to-case basis, as there must be the broader basic parameters in reaching a conclusion in a discretionary matter). In order to avoid improper use, mismanagement, misutilisation etc. of such discretionary powers, the concept of joint decisions/committee decisions could be adopted. Otherwise, joint committee could decide/provide for a broader and parameters of such discretionary areas.

The Financial Service Sector will face considerable risk in using
computers networked by telecommunication. The potentialities of information technology will lead to computer based decision making and large transfer of money\(^7\). The most destabilising threat which the industry will face in the near future will be threat of computer security.
NOTES & REFERENCES


CHAPTER - IX

CONCLUSION AND SUGGESTIONS

9.1. Lead Bank and Banda
9.2 Rural Upliftment in Banda District by Lead Bank
9.3 Testing of Hypotheses
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CHAPTER - 9
CONCLUSION AND SUGGESTIONS

The Lead Bank Scheme was introduced by the Reserve Bank of India in December 1969, as a supplement to branch expansion programme of commercial banks to ensure the flow of bank credit to priority sector and to coordinate the activities of the various agencies such as banks and developmental agencies of the Government at various levels. Under the Lead Bank Scheme a particular district was allotted to a particular bank which was made responsible to develop banking and credit in that district. The bank so selected was designated as the Lead Bank for that district. It was expected to perform the following functions (i) to conduct a survey of the resources and potential for the development of the banking services; (ii) to determine the centres of growth for opening branches in a phased manner; (iii) to identify commercial units and other establishments which do not have bank accounts and which are dependent on money lenders; (iv) to take stock of the facilities for marketing of agricultural produce, industrial production, storage and warehousing and the linking of the credit with marketing in the district; (v) to obtain details of facilities for the stocking of fertilizers and other agricultural inputs and for the repair and servicing of equipments; (vi) To recruit and train staff for offering advice by small borrowers and farmers and for the supervision and monitoring of end use loans; (vii) to provide assistance to other primary lending agencies; and (viii) to maintain liaison with Government and Semi Government agencies.
An analysis of the facts and figures, discussed in different chapters, leads us to make important concluding observations and some suggestions in this last chapter. We have, so far, made analytical study of the changing role of banks in the context of planned economic development, the characteristic features of the backward economy of Banda District and in depth study of the working of banks and the Lead Bank Scheme. In the previous chapters, I have also discussed the Lead Bank Scheme as casting its impact on branch expansion, deposit mobilisation, credit deployment policy and practices, specially lending to priority sectors. I have made an effort to evaluate the impact of the lead bank scheme on the economy of Banda District both in quantitative and qualitative terms. It would make more useful a study if I summaries the findings of my work and suggest measure to improve the working of the Lead Bank.

Economic development is a direct functions of the rate of capital formation. It is primarily through increasing, mobilising and appropriately channelling the deposits that banks contribute to the economic development of the country.

Modern central and commercial banks play a crucial role in the context of economic development. Their promotional role has now assumed more importance that their traditional role. They have come to be recognised not merely as dealers in money but more realistically as the leaders in development. They are supposed to shoulder the responsibility of not only providing adequate credit but also take the initiative in solving the problem of maintaining higher level of output and employment in
the developed economy and of achieving the high rate of capital formation and pronounced targets of the plan in developed economy.

The Reserve Bank of India has introduced following modification in the Service Area Approach -

(i) Service Area branches may be grouped blockwise without disturbing their identities or their obligation to prepare village level/service area plans so that the borrowers have the flexibility to approach other branches within the block for fulfilling their credit requirements;

(ii) In service areas which are very large and which are located in tribal/hilly and inaccessible areas satellite or mobile offices be set up.

(iii) To facilitate the use of their infrastructure to the maximum area of operation of the specialised branches like the agricultural development branch, the agricultural banking division and Gram Vikas Kendras may be enlarged.

(iv) Realigning the scared service areas; and

(v) Exemption of large projects covering several districts/states from the Service Area Approach.

The Reserve Bank of India has been playing an effective role as a promotional agency in the economy. Some of the development roles played by the Reserve Bank of India is amply demonstrated if we recollect the vital part played by it in providing liberal finance to the central and state Governments for execution of Development projects, setting up specialised financial institutions like the Agricultural Refinance Corporation, the Industrial Development Bank of India and the Unit Trust of India etc. with the passage of time, the RBI has assumed greater responsibilities
in the financial management of the country and has now become a real leader in development besides playing its role as friend, philosopher and guide to the monetary management and economic policy.

There has been a radical change in the principle and practice of modern central and commercial banking. New banking policy in the context of economic development is embodied in the shape of various innovative schemes for promoting capital formation and the rate of growth. The conceptual change in the functioning of banks has much relevance in the context of planned development in India. India endowed with vast natural resources and labour force, has been needing capital and funds for economic development on a very vast scale and hence the Indian banking system was expected to adopt itself to the changed circumstances.

With the introduction of planning in our country, the promotional role of banking was duly recognised. But commercial banks in India could not serve the purpose according to plan priorities and they remained confined in the fortress of industrial world. The major share of bank credit went to the industrial sector at the cost of the priority sectors like agriculture, small scale industries etc. Agriculture, generating more than 50 percent in our national income, provides employment to more than 70 percent of our population.

Nationalisation of major fourteen commercial banks in 1969 ushered in a new era of development of commercial banks and needs of the economy. The idea of Lead Bank Scheme suggested by the Gadgil Committee and designed by the Narsimham Committee was the next big push to our banking industries. The aim of Lead Bank Scheme was to
remove the glaring regional imbalances and the socio-economic disparities, the scheme gave a concrete shape to the concept of district planning or micro-level planning. The massive branch expansion in the unbanked rural areas was the first phase of the scheme followed by credit plans. Its formulation, implementation and evaluation all to be done by the collaborative efforts of the financial institutions and the different agencies. Regional Rural Banks was another major structural change in course of the furtherance of the concept of area approach and micro-planning, with socio-economic objectives. The area approach and micro level planning necessitated the case study of the quantitative impact of the measures adopted under the Lead Bank Scheme. The state of Uttar Pradesh itself is an example of poverty in the mid of the plenty. Banda district is the most backward region in the backward state of Uttar Pradesh. Comprehensive to certain limit, the study is confirmed to commercial banks in Banda district in general and the lead bank, Allahabad Bank of Banda district in particular.

9.1 LEAD BANK AND BANDA:

Banda district is located in the Jhansi Division of Uttar Pradesh and lies between Lat. 25°29’20” N and Long. 80°20’20” E. It is named after the headquarters town, Banda. Which is said to have derived its name from Bamdev, a sage mentioned in Hindu mythology as a contemporary of Ram. The district had a population of 1237.96 hectare according to 1991 census comprising 562.10 female and 675.87 hectare. The district is divided into five tehsils namely Banda, Baberu, Naraini and
Atarra. The district is largely consists of irregular uplands with outcrops of rock intermingling with marshy low lands, frequently underwater in the sowing season. The river of the district belong to the Yamuna system and consists of the Ken, the Baghain, the Paisuni and their numerous tributaries. The course of all the streams is from south to north with the exception of the Baghain river which flows obliquely across the district from south-west to north-east.


Integrated Rural Development Programme is an important activity aiming towards alleviation of poverty, various sectors are financed for those below poverty line. It does not yield desired results. The achievements under IRDP for the year 1990-91 was Rs. 281.65 lakhs against the target of Rs. 431.29 lakhs. The achievements under 1993-94, 1994-95 and 1995-96 was Rs. 349.99 lakhs, Rs. 569.91 lakhs, Rs. 387.59 lakhs respectively as against the target of Rs. 524.50 lakhs, Rs. 313.09 lakhs, Rs. 504.38 lakhs.

While it was observed that each year the target was more or less achieved, a comment on the quality of implementation needs to be made.
The bank must make concerted efforts to ensure that the programme is implemented in a qualitative manner and that the target families actually benefitted from the investment. For this, the banker must insist that the norms of lending as prescribed by NABARD from time to time, viz. technical feasibility, economic viability, adherence to prescribed unit cost, financing of complete unit etc. are adhered to. Further, there is also a need to give adequate coverage to women under the programme to the stipulated level of 40 percent as per Government of India directives.

From 1997 to 2000, the achievement of lead bank in Banda District in the service sector were Rs. 160.11 lacs, Rs. 86.11 lacs, Rs. 63.19 lacs and Rs. 113.94 lacs as against target of Rs. 89.76 lacs, Rs. 87.04 lacs Rs. 104.39 lacs and Rs. 114.26 lacs respectively. As per data available, the achievement is lesser than the target except the financial year 1997. The basic infrastructure for the development of industries is nil. The achievement of lead bank in industries were Rs. 8.98 lacs, Rs. 39.34 lacs in 1999 and 2000 respectively as against target of Rs. 51.98 lacs and Rs. 53.77 lacs in 1999 and 2000 respectively.

There are no industries at all in Banda district, which result into increasing the number of unemployment in the district. For reducing unemployment in the district lead bank credited Rs. 6330 thousand, Rs. 7440 thousand and Rs. 8255 thousand in 1999-2000, 2000-2001 and 2001-2002 respectively under Prime Minister Rozgar Yojana (PMRY).
9.2 RURAL UPLIFTMENT IN BANDA DISTRICT BY LEAD BANK:

Allahabad Bank, the oldest joint stock bank of the country, was set up in the historic town of Allahabad on April 24, 1865 by a group of Europeans. At that juncture, in India, organised industry, trade and banking had just starting taking place. The Head Office and the Regional Office of the Bank were then shifted to Kolkata in 1923 for business considerations and operational convenience.

The greatest striking features that has taken place in Banda district is the rural upliftment that come to be as a result of as series of anti-poverty programmes implemented in the district by the Lead Bank. These programmes covers agriculture and allied activities, small scale, rural and cottage industries, tertiary sector, educational and minimum need consumption overheads. Thus the Lead Bank is an instrument for transforming the rural Banda into a pretty modern district.

(A) Integrated Rural Development Programme (IRDP):

Under this poverty alleviation programme, various sectors are financed for those below poverty line. The identified beneficiaries are included to take up economic activities of smaller outlay under farm and non-farm sector. Physical and financial targets for financing under IRDP is given by the state government. In the district dairy, sheep, goat, pig and poultry sectors/activities are financed under IRDP for which government earmarks the subsidy. Various borrowers categories are supported for which targets are to be achieved each year, for example women, SC/ST etc. Review of implementation of programme is done in BLBC, standing
committee, DCC and DLRC meetings. The cash disbursement is also in vogue under IRDP giving more freedom to beneficiaries to choose quality of assets from the open market. In the district, branch level committees as per RBI Guidelines, have been constituted.

From the period 1993-94 to 1999-2000, credit distributed under Integrated Rural Development Programme by Allahabad Bank was Rs. 16205000 Rs. 14074000 Rs. 9456000 Rs. 8090000, Rs. 14216000, Rs. 10618000, Rs. 11346000 respectively. During 1993-94, 3816 families were benefitted as against the target 5940 while during 1994-95, 5623 families were benefitted in Banda district as against the target of 2946.

(B) Agriculture:

Banda district is agrarian and the largest proportion of the population is engaged in agriculture. Agriculture attracts the single largest allocation in Annual Credit Plan. Both Rabi and Kharif crops are grown in the district. Total agricultural advances provided by Allahabad Bank in 1993-94 was Rs. 49250000 while in 1999-2000 it was Rs. 34073000. During 1997 target fixed by Allahabad Bank was Rs. 282.58 lacs. However it got success in achieving only to the amount of Rs. 244.71 lacs while target achieved by the Bank was higher than the target amount in 1998, 1999, 2000 and 2001. Unfortunately, all these increase in agriculture and allied activities helps in better standard of living of the farmers.

(C) Small Scale Industries:

Small scale industries also include tiny sector, village industries rural
artisans and miscellaneous. Total credit by Lead in the district during the last seven years i.e. 1993-94, 1994-95, 1995-96, 1996-97, 1997-98, 1998-99, 1999-2000 of Annual Credit Plan were Rs. 6136000, Rs. 8102000, Rs. 5524000, Rs. 6563000, Rs. 10000000, Rs. 5198000 and Rs. 5377000 respectively. Target fixed by lead bank for the industries in Banda economy during last seven years were never achieved.

(D) Service Sector:

The performance of Lead Bank in the service industry has been comparatively satisfactory in Banda district. The achievements of the Lead Bank Allahabad Bank during last five years (i.e. 1997, 1998, 1999, 2000 and 2001 of Annual District Credit Plan were Rs. 160.11 lacs, Rs. 86.11 lacs, Rs. 63.19 lacs, Rs. 113.94 lacs and Rs. 128.60 lacs respectively as against the target of Rs. 89.76 lacs, Rs. 87.04 lacs, Rs. 104.39, Rs. 114.26 lacs and Rs. 132.66 lacs respectively.

(E) Development Programmes:

In order that Lead Bank Scheme functions according to time bound needs of the people, several development programmes are under implementation in the district. The chief force behind all these programmes is the IRDP which has the family as its unit of planning with the sole aim of raising the family above the poverty line. There are also organisation and supports in the district for smooth operation of the LBS in the midst of problems emanating from inadequacy of manpower, resources and approach to implementation.
It is also worthy to note that while the emphasis is on the eradication of rural poverty, there are other programmes for the urban poor and educated unemployed youth in the district. All these diversifications are strategies to eradicate ignorance and poverty at all levels in the society.

9.3 TESTING OF HYPOTHESES:

The hypotheses formulated for testing under this study is as follows.

1. Nationalised Commercial Banks have helped in the monetisation of the economy.

The result of the investigation proves the hypothesis. During 1994-95 deposits was Rs. 9231 crores, which increased to the amount of Rs. 22665 crores in 2002. Advances of Allahabad Bank in 1994-95 was Rs. 4237 crores which has been increased to Rs. 10992 crores in 2002. Investment of Allahabad Bank has also been increased to the amount of Rs. 10358 crores in 2002 from Rs. 3798 crores in 1994-95 (Table 3.7, p. 69). This hypothesis can also be tested with the help of deposits and loan distribution of the commercialised banks in Banda economy. During 1991-92 deposits of commercialised banks in Banda district was Rs. 1289253000 which has been increased to the amount of Rs. 4126280000 (Table 3.5 p. 67)

The success of the lead bank will be judged not so much by the banking business or even the development work by its own offices in the districts but by the overall improvement, it is able to bring about
through the banking system, The implementation of lead bank scheme together with phased programmes of branch expansion (Table 3.6, p. 68) i.e. at the end of March 1990 total number of branch were 1766 which increased to 1914 at the end of March 2002) will no doubt contribute in a major way to spread of banking habit and thereby spreading up the process of monetisation of an economy.

2. **The Credit facilities of the banks have helped the people to improve their standard of living:**

Banda is an agrarian economy. People of Banda are dependent upon agriculture for their livelihood as there is no industry at all. Development of agriculture will improve the standard of living of people. This hypothesis can be tested from the credit facilities to agriculture by lead bank in Banda economy. During 1990-91, the target of Allahabad Bank was Rs. 496.81 lacs for agriculture. However, it has achieved more than the target i.e. to the amount of Rs. 496.98 lacs. The target achieved in 2001-02 was Rs. 687.75 lacs than the target amount of Rs. 499.25 lacs. In percentage term the achievement of Allahabad Bank in agriculture was 100.03 percent in 1990-91 while in 2001-02 it was 137.75 percent (Table 3.4, p. 62) This hypothesis can also be tested by the increased in net irrigated area in 2002-03 which was 111940 hectares from the net irrigated area 84050 hect. in 1993-94. (Table 3.1, p. 58). This hypothesis can also be tested with the help of financing priority sectors. Commercial banks financed priority sectors to the amount of Rs. 131787000 in 1993-94, which increased to the amount of Rs. 328400000 in 2002-03. (Table 6.2, p. 177). Financing priority sectors is not just an outlet for the banks
resources but a powerful tool of raising the level of production in these sectors and thereby improving the standard of living of the people.

3. **Most of the poor people of backward area have been helped to free from the clutches of money lenders.**

The findings of this research proves the hypothesis. As on 31st March 1990, number of rural branches were 998. It has been increased to 1008 at the end of 1997. Total number of branches at the end of 31st March 1990 were 1766, which have been increased to 1863 at the end of March 1997. (Table 3.6 p. 68). This hypothesis can also be tested with the help of advances to agriculture.

During 1993-94 advances to agriculture in Banda economy provided by Allahabad Bank was Rs. 49250000 and in 2002-03 it amounted to Rs. 52615000. in 1993-94 advances to agriculture by District Credit Cooperative Bank was Rs. 35567000. This amount has been increased to Rs. 71952000 in 2002-03. All the above findings indicates that people of backward area of Banda district started using banking facilities which ultimately result into free from the clutches of money lenders.

4. **Commercial banks have helped in the development of the priority sectors.**

The lead bank Allahabad Bank provided credit to priority sector to the amount of Rs. 7185000, Rs. 65402000, Rs. 36087000, Rs. 48621, Rs. 65656000, Rs. 52921000, Rs. 56784000, Rs. 62626999, Rs. 77331000, Rs. 93360000 during 1993-94, 1994-95, 1995-96, 1996-97, 1997-98, 1999-2000, 2000-01, 2001-02, 2002-03, respectively. This table indicate that the commercialised banks have helped priority sector to the
great extent.

5. **Microfinance is used as an instrument to bring real benefit to the poor.**

Ground level credit disbursement under term loan by commercialised banks in the financial year 1994-95 was Rs. 352.26 lacs. In 2001-02, it has been increased to Rs. 472 lacs. In 2002-03, ground level credit has been increased to Rs. 800 lacs. This indicates the significance of micro finance. Increasing of ground level credit indicates real benefit to poor. Besides, by a conservative estimates, during 2000-01 the district of Banda shall be linking 60 SHGs with banks.

6. **Micro finance institution helped in raising income level and improved standard of living in rural, semi-urban and urban areas.**

The findings of this research proves the hypothesis as the scope of Rural Infrastructure Development Fund has been extended to micro finance institution like Gram Panchayats, Self Help Groups and certain other institutions to develop rural infrastructure. Repayment period has also been increased from the present 5 years to 7 years. All these activities are indicating that micro finance institutions are achieving their target and thereby these institutions are raising income level.

7. **Micro finance is a prime necessity of the economic development of this area.**

Commercial Bank’s credit to priority sector, SSI (Other), and rural artisans have been increased except that of IRDP and village industries. However, credit for IRDP in 2002-03 has been increasing as compared
to credit provided of IRDP in the financial year 1999-2000 (Table 6.2 p. 177)

Reliable and suitable data is not available regarding remaining hypotheses constructed for the present study. Therefore, it is intentionally left for future research scholar to test the remaining hypotheses.

9.4 SUGGESTIONS:

The Lead Bank Scheme had been evolving gradually for the last several years. Several measures have been taken and are proposed to be taken for solving many of the procedural, organisational, co-ordinational, and extension problems. Following are a few suggestions for improvement of working of the Lead Bank Scheme and there by the development of Banda economy.

To improve the working of the Bankers:

The bankers are the financing bodies of the Lead Bank Scheme. They provide finance to different schemes. The beneficiary is the beginning and ultimate end of the LBS. Thus the efficacy of the bankers will indicate the incidence of the scheme which reflects on the beneficiary as the end result. To improve the functioning of the bankers for the ultimate benefit of the beneficiary, the following suggestions are made:

# Attitude:

The attitude of the bank staff and the Government officials towards the bank scheme needs to be changed. They should accept the viability of the scheme as one which has the potential to transform the rural economy through integrated rural development approach.
Managers and staff concerned be open about the mistakes and failures so as to learn from them. Managers should be willing to expose their work to review by their peers and welcome criticism. Managers should have the capacity to accept their responsibility for the work they and their staff do.

# Trust between the Banker and Beneficiaries should be maintained:

There is mutual mistrust between the bankers and the beneficiaries. This mistrust is endogenous and it is suppressed before each other. The bank officials should perform their functions in such a way as to demonstrate to the loanees that they have no skeleton in the cupboard.

On the other hand, the beneficiaries attitude should be cooperative, to suggest to the bankers that they have no ulterior motive and that the assets created out the Bank loans will be utilised for the purpose they are meant for. The poor relationship can be overcome if ‘Beneficiaries Meet’ is organised by the Lead Banks in cooperation with the Government Departments at the village level.

# Procedural Modifications:

Certain modifications in procedures are also required to ensure faster credit facilities to the priority sectors.

(i) Delays in the sanctioning and disbursement of loans of sponsored applications give encouragement to corruption. For this reason, sponsored applications must be sanctioned and disbursed within the official time limit. Any delay in this
regard must be explained in writing to the sponsoring authority and to the prospective beneficiary.

(ii) Bank should arrange credit-camps frequently with assistance from Government Officials in which representatives both from banks and blocks should be present to collect, sort out and sanction loans to the applicants at the spot itself to facilitate a cluster approach to lending.

If the organisation is to prosper, there must be a proper communication system, i.e. the movement of information in the right direction to the right person and at the right time. If the heart stops the pumping of blood and the lungs and kidneys stop purifying the blood then nobody can think of survival. It is the same thing with the systematic, smooth proper functioning of a management information system i.e. a fool-proof system must be identified and accordingly activities like effectiveness of standards, procedures, rules, regulations roles and talents must be properly utilised and energy properly channelised.

Information must be classified and access to it must be decided keeping in mind the sensitivity of the information, i.e. the most confidential information must be made strictly available to top levels of management and accordingly the filtered information be passed on to the lower level i.e. the functional areas.

Proper training to new extent, in management expectation, procedural aspects, secrecy, discipline, their role in the organisation. Transaction analysis and refresher course on other functional areas.
Annual compilation with updation of all the internal circulars ministerial guidelines, judicial pronouncement along with its functional applicability and relevance to the organisation. A copy of which should invariably be made available to each department.

Two series of information, i.e. (i) General; (ii) Confidential, and proper security; screening upkeeping, recording be done. The concept of filtered information along with proper feedback be adopted.

Market vigilance concept in broader frame-work to be adopted. As only the regulatory authority could not ensure timely taping of loopholes in the systems and procedures, so in order to act proactively, the role of SROs, market and market players would be the deciding factors. To avoid financial crimes including cyber crimes. Systems manipulation computer misappropriation etc. the control and check system would have to be invariably put at proper places.

By observing these safe guards, management can minimise the chances of fraud. Besides adhering to other measures as laid down by an organisation must be scrupulously followed and employees should be educated about their importance. Each and every person in a chain must be treated as an important person in discharging the duties of the organisation. A sense of belonging must be developed among the employees which in turn would be the motivational factor for the employees, and is an important element for organisational and personal growth.
Lending norms for the banks have also been liberalised. They can now decide the levels of holding of individual items of inventory and receivables to be permitted to borrowers and also the quantum and period of adhoc credit limits without charging additional interest.

Bank should be given freedom to open new branches and upgrade extension counters on attaining the prescribed capital adequacy norms. They are also permitted to close down non-viable branches except in rural and semi-urban areas.

To promote competition in banking operations for improving the customer services, private banks should be allowed to set up as per Reserve Bank guidelines.

Rural banks should confine their operations only to Rural areas mainly to finance agriculture and allied activities but their eye should be on profitability.

The priority sector should be redefined.

Cash reserve ratio should be progressively reduced.

Local Bank should operate only in a specified region.

One or more rural banking subsidiaries should be set up by each public sector bank to take over all its rural branches.

The policy of branch licensing should be abolished and individual banks should have the freedom to open or close any branches.

Interest rate should be deregulated so as to reflect emerging market trends.

Balance sheet of banks should be transparent.

To promote investment in commercial and/or high technology
agriculture and allied activities such as Horticulture, Floriculture and Agro-Processing, State level Agricultural Development Finance Institutions are proposed to be set up with NABARD as the chief promoter having other national level financial institutions as well as state governments in equity participation.

# New Private Local area banks with jurisdiction over two or three contiguous districts should be set up in order to enable mobilisation of rural savings in their area and at the same time make them available for investment in the local areas.

# Micro finance should be adopted as it has been emerging as an effective means of alleviating poverty.

# The scope of Rural Infrastructure Development Fund (RIDF) should be extended to cover Gram Panchayats, Self Help Groups and certain other institutions to develop rural infrastructure.

# Enhancement power of working capital requirement should be vested with bank managers to ensure that most credit proposals are decided at the branch level.

# It is hard truth to believe that subsidy is not an incentive for hard work. It has been revealed that many applicant beneficiaries are interested only in the subsidy and not in the scheme itself. It is pertinent therefore, that the subsidy scheme be discontinued and in its place, a low interest rate along with period of repayment be introduced. Certainly, this will discourage those interested in subsidy and at the same time, the desirous ones will be encouraged to work hard which will eventually improve the recovery position of banks.