Chapter 2

Review of Literature

And

Research Design
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Review of Literature and Research Design

At a time when our planners in India found that physical controls over the economy have not been able to achieve the desired socio-economic objectives, the importance of using financial controls along with the physical controls becomes vital for ensuring a balanced development of Indian economy. It is probably with this view that the nationalization of banks was taken up in 1969. Government policy regarding country’s finances, i.e., people’s savings and their utilisation is the spinal cord of a mixed economy like ours. We have to look for the channelization of credit to the sectors/areas which need our top attention. That is why, after nationalization the banks undertook a major expansion programme to rural and semi-urban areas as far as the branches of banks are concerned. Efforts were made to mobilise deposits of the rural economy in India through various small saving schemes and at the same time by giving due stress on maintaining a healthy credit-deposit ratio, it was also thought that most of the Indian rural economy will be able to receive the credit facilities from the nationalized banks, primary agricultural societies and cooperative banks.

The modern day banking, in its simplest form, is to facilitate financial intermediation between the savers and the borrowers. It also seeks at present to act as a safe place to store money and earn some return in the process, as also a place to seek simple financial institutions to individual problems. The advent of technology in the modern times has heralded three distinct phases in banking: a) Computerisation of back office processes during the 1980s, b) Facilitating higher customer convenience during the 1990s and c) Enabling life style/life stage banking during the 2000s. Thus, over the time, the banks have witnessed significant changes in their outlook.
and have emerged as financial super markets offering a range of complex financial products and services on a round the clock basis, duly customised to the needs of their customers through multiple delivery channels.

The RBI, as the regulator of banks in India, has increasingly deregulated the sectors and has allowed the market players to develop products and services that suited to their customers. As a result both in terms of product & services and delivery channels, there has not been any dearth of innovations. On the product front, the innovation has led to emergence of complex offerings like swaps, derivatives and securitisation, while on the other hand, the delivery channel is no more limited to brick and mortar branches, but has spread to modern, technology-driven channels like ATMs, mobile, internet and the social media, besides the Business Correspondence model. Thus, over the years there has been tremendous amount of progress and innovations in the sector.

The present chapter has been divided into two sections i.e. review of literature and research design.

2.1 Review of Literature

At the time of Independence, the Indian banking scene was quite different from what it is at present. There was large number of commercial banks operating in the private sectors. State Bank of India with its seven associates was the only commercial bank operating in the public sector. Commercial banking was primarily profit centred without any worthwhile social orientation. Enactment of Banking Regulation Act in 1949 gave extensive regulatory power to the Reserve Bank of India (RBI). The RBI made sincere efforts to give social-orientation to commercial banking in India. Since then banking became one of the major area for researchers. The nationalization of major commercial banks in 1969 gave a new dimension to commercial banking in India. Banks were nationalized to convert the banking of classes into the banking of masses.
Since Independence, Indian banking has travelled a considerable distance and commendable changes have been brought to this sector in post-liberalisation era. Having recognised early, the social and economic imperatives of broader financial inclusion, both government and Reserve Bank have pursued this goal over the last several decades, but with limited success. Starting with the nationalisation of banks, priority sector lending requirements, launching of LBS, establishment of RRBs, SAA, NABARD, SHGs-bank linkage programmes— all these innovative programmes were launched with the aim of taking banking services to the masses. Starting in 1990s, however the focus shifted to strengthening the financial institutions as the part of financial sector reforms. Despite the all above efforts, the extent of financial inclusion has remained staggering. It has drawn attention of many agencies/academicians/researchers to study the various aspects of banking in general and Lead Bank scheme in particular during post banking sector reform period.

Review of literature is imperative to analyse the relevant studies which already have been conducted on various aspects of the problem under study so as to understand the problem and find out the inadequacies of earlier research. Reviews of study groups, committees, working groups have been undertaken to understand the chronology of developments in the banking sectors over the years. Articles and studies undertaken by various researchers have also been reviewed thereafter to have better understanding on the present topic of research under reference.

2.1.1 Reviews of Working Groups, Study Groups and Committees

Gadgil Study Group (1969) drew attention to the fact that commercial banks did not have adequate presence in rural areas and also lacked the required rural orientation. As a result, the banking needs of the rural areas in general and the backward regions in particular, could not be adequately taken care of by the commercial
banks and the credit needs of the rural sector of the economy, particularly agriculture, small-scale industry and service sectors remained virtually neglected. The Study Group, therefore, recommended the adoption of an 'Area Approach' to evolve plans and programmes for the development of an adequate banking and credit structure in the rural areas. To serve the purpose at grass root level development, District Credit Plans (DCPs) should be prepared; Credit Guarantee Schemes should be modified in respect of new fields and weaker sections. The Study Group evolved the Lead Bank concept and recommended allocation of districts to individual banks for the development of banking and credit.

**Nariman Committee Report (1969)** was also in favour of regional development and to serve this purpose the committee recommended each bank to concentrate on certain districts where it should act as a 'Lead Bank' to minimise the disparities of banking services in the unbanked areas of the economy. The Committee also endorsed the idea of area approach in its report.

**Banking Commission (1972)** made recommendations for forming District Consultative Committees (DCCs) to facilitate coordination among the various financial institutions and state government departments at district level in the matter of district development schemes. The DCC holds meetings quarterly to review the progress of plan implemented and to overcome the difficulties faced in the implementation phase. Lead Banks have been advised by the Reserve Bank to draw the agenda of the meetings properly to ensure result oriented discussions.

**Study Group on Lead Bank Scheme for Gujarat and Maharashtra (1975)** was constituted by Reserve Bank of India to study the working of LBS in the aforesaid states. The study groups have presented a common (joint) report as the problems relating to the operation of LBS were identical containing recommendations relating to the composition and functioning of DCCs, training needs of the
staff of banks and state governments, constitution of a standing committee in the Reserve Bank of India for reviewing the overall progress of the LBS etc. These recommendations were relevant to all the districts.

The Committee to Review Arrangements for Institutional Credit for Agricultural and Rural Development (CRAFICARD) (1981)\(^5\) recommended reviewing the Working of the Lead Bank Scheme (1981) in all its aspects. The Committee recommendations pertained to- (i) Reconstitution of District Consultative Committees (DCCs) and Standing Committees to make them effective fora; (ii) Constitution of District Level Review Committees (DLRCs) in place of District Level Review Meetings (DLRMs); (iii) Status, designation and role of Lead Bank Officer; (iv) Periodicity of DCC, DLRC meetings and their conduct; (v) Effective management information systems under Lead Bank Scheme; (vi) Training needs on Lead bank Scheme for all officials up to the block level in government and officers of rural branches of financing agencies; (vii) Strengthening infrastructure of Lead Bank Offices.

Narasimham Committee (1991)\(^6\) was constituted to improve the operational efficiency of the banks. The committee recommended autonomy, transparency and uniformity in banking standards. Prudential accounting norms, capital adequacy ratio, entry of private sector banks, gradual reduction in CRR and SLR, phased deregulation in interest rates, directed credit and rural finance, financial supervision system and risk management are some of the main recommendations of the Committee. The Committee also recommended that directed credit programmes should be phased out. It proposed that priority sector should be redefined to comprise the small and marginal farmers, the tiny sector of industry, small business and transport operators, village and cottage industries, rural artisans and other weaker sections. The target for this redefined priority sector should be 10 per cent of aggregate credit. The recommendation was not accepted by the Government.
Narasimham Committee (1998)\textsuperscript{7} was constituted under the Chairmanship of Mr. M. Narasimham to further strengthen the banking sector reforms. The Committee recommended; autonomy, \textbf{narrow banking} for weak banks, review of the personnel policies and speeding up the computerization drive in the banking activities. The committee was also in favour that the small local banks should confine to state or districts to serve local trade, industry and agriculture.

The Committee observed that directed credit had led to an increase in non–performing loans and had adversely affected the efficiency and viability of banks with 47 per cent of all NPAs emanating from the priority sector. The Committee recognized that the small a marginal farmers and the tiny sector of industry and small businesses have problems with regard to obtaining credit and some earmarking may be necessary for this sector. Under the present dispensation, within the priority sector, 10 per cent of NBC is earmarked for lending to weaker sections. The Committee recommended that given the special needs of this sector, the current practice may continue.

The Committee also noted the changes in the scope of beneficiaries under the priority sector since its earlier report and proposed that given the importance and needs of employment oriented sectors (like food processing and related service activities in agriculture, fisheries, poultry and dairying), these sectors should also be covered under the scope of priority sector lending. The Committee observed that a sudden reduction of priority sector targets could have the danger of a disruption in the flow of credit.

It recommended for the removal of concessional rates of interest on loans up to Rs. 2 lakh and a phased move away from overall priority sector targets and sub-sector targets. Debt securitization concept was suggested within the priority sector. This would enable banks, which are not able to reach the priority sector target, to purchase the debt from other institutions.
Reserve Bank of India constituted a “Working Group on Improvement of Banking Services in Himachal Pradesh” (2007)\(^8\) with a view to improving the outreach of banks and their services, promoting financial inclusion and supporting the development plans of the State government. The report submitted by the group in September, 2007, has been found very useful from several points of view. First, it has examined the adequacy of banking services in the context of the state development plans and tried to plug the gaps. Second, it has thrown up a host of constructive suggestions towards enhancing banking outreach and promoting financial inclusion keeping in view the regional requirements, resources and opportunities. Third, the study undertaken has also made useful suggestions for revitalisation of RRBs and Urban Cooperative Banks (UCBs) in the respective regions. Lastly and most importantly; the study; undertaken jointly by the Reserve Bank of India, the State Government, NABARD, banks and financial institutions; has imparted a renewed impetus for consulted action to bring about improvements in the economy of the State.

A High Level Committee to Review Lead Bank Scheme (2009)\(^9\) under the Chairpersonship of Mrs. Usha Thorat, Deputy Governor RBI, has reviewed the LBS and made recommendations – (i) To provide banking services covering every village with population exceeding 2000 through a banking outlet; (ii) To ensure penetration of formal banking services, State governments should ensure road and digital connectivity. Private Sector Banks may involve themselves with the DCCs and action plans; (iii) Each Lead Bank should open a Financial Literacy and Credit Counselling Centre (FLCC) in each district. The Committee also proposed to establish Rural Development and Self-Employment Training Institute (RUDSETI) in each district by 2012; (iv) The Committee recommended the Priority Sector Monitoring and Information System (PSMIS) which could be implemented on a pilot basis in one/two states and thereafter in other states. The Indian
Banks’ Association could devise software for consolidation and generation of bank-wise, block-wise, district-wise, sector wise, activity wise reports by the State Level Bankers Committee (SLBC) convenor banks on an urgent basis; (v) The committee suggested that in urban areas, Know Your Customer (KYC) norms for opening bank account for small value accounts could be simplified. The banks which have the largest presence in cities with more than one million populations could take the leadership in convening a meeting of bankers and allocating responsibility for various wards to different banks.

Report of the Nair Committee on Priority Sector Lending (2012)\textsuperscript{10} suggested revised guidelines with regard to priority sector lending and related issues. By adopting a wide and exhaustive consultation process, the Committee identified key issues facing diverse segments and sections of society; examined them thoroughly and made recommendations that would support achieving the objectives of directed lending.

1. The target of domestic scheduled commercial banks for lending to priority sector may be retained at 40 per cent of adjusted (ANBC) or credit equivalent of off-balance sheet exposure (CEOBE), whichever is higher.

2. The sector ‘agriculture and allied activities’ may be a composite sector within priority sector, by doing away with distinction between direct and indirect agriculture. The targets for agriculture and allied activities may be 18 per cent of ANBC or CEOBE, whichever is higher.

3. A sub target for small and marginal farmers within agriculture and allied activities is recommended, equivalent to 9 per cent of ANBC or CEOBE, whichever is higher to be achieved in stages by 2015 – 2016.

4. The MSE sector may continue to be under priority sector. Within MSE sector, a sub target for micro enterprises is recommended equivalent to 7 per cent of ANBC or CEOBE, whichever is higher, to be achieved in stages by 2013 – 14.
5. Banks may be encouraged to ensure that the number of outstanding beneficiary accounts under ‘small and marginal farmers’ and micro enterprises’ each register a minimum annual growth rate of 15 per cent.

6. The loans to housing and education may continue to be under priority sector. Loans for construction/purchase of one dwelling unit per individual up to Rs. 25 lakh; loans up to Rs. 2 lakh in rural and semi urban areas and up to Rs. 5 lakh in other centres for repair of damaged dwelling units may be granted under priority sector.

7. All loans to women under priority sector may also be counted under loans to weaker sections.

8. Limit under priority sector for loans for studies in India may be increased to Rs. 15 lakh and Rs. 25 lakh in case of studies abroad, from existing limit of Rs. 10 lakh and Rs. 20 lakh, respectively.

9. The priority sector target for foreign banks may be increased to 40 per cent of ANBC or CEOBE, whichever is higher with sub-target of 15 per cent for exports and 15 per cent for MSE sector, within which 7 per cent may be earmarked for micro enterprises.

10. The committee recommends allowing non-tradable priority sector lending certificates (PSLCs) on pilot basis with domestic scheduled commercial banks, foreign banks and regional rural banks as market players.

11. Bank loans to non-bank financial intermediaries for on-lending to specified segments may be allowed to be reckoned for classification under priority sector, up to a maximum of 5 per cent of ANBC or CEOBE, whichever is higher, subject to certain due diligence and documentation standards.

The recommendations of the Committee are expected to have significant impact in addressing issue of directing lending to those who have lack of access to credit and to those sectors which generate
large employment. It is hoped that these recommendations would promote country's developmental and inclusive goals.

**Report of the Nachiket Mor Committee on Comprehensive Financial Services (Jan7, 2014)**: The Committee on 'Comprehensive Financial Services for Small Businesses and Low Income Households', set up by the RBI in September 2013, was mandated with the task of framing a clear and detailed vision for financial inclusion and financial deepening in India.

The Committee lays down a set of four design principles, namely Stability, Transparency, Neutrality, and Responsibility, that will guide the development of institutional frameworks and regulation for achieving the visions outlined. Any approach that seeks to achieve the goals of financial inclusion and deepening must be evaluated based on its impact on overall systemic risk and stability, and at no cost should the stability of the system be compromised. A well-functioning financial system must also mandate participants to build completely transparent balance sheets that are made visible in a high-frequency manner, accurately reflecting both the current status and the impact of stress situations on this status. In addition, the treatment of each participant in the financial system must be strictly neutral and entirely determined by the role it is expected to perform in the system and not its specific institutional character. Finally, the financial system must maintain the principle that the provider is responsible for sale of suitable financial services to customers, and ensure that providers are incentivised to make every effort to offer customers only welfare-enhancing products and not offer those that are not.

At its core the Committee's recommendations argue that in order to achieve the vision of full financial inclusion and financial deepening in a manner that enhances systemic stability, there is a need to move away from a limited focus on any one model to an approach where multiple models and partnerships are allowed to emerge, particularly between national full-service banks, regional
banks of various types, non-bank finance companies, and financial markets. Thus, the recommendations of the Committee seek to encourage partnerships between specialists, instead of focusing only on the large generalist institutions.

In the spirit of the RBI’s approach paper on differentiated Banks, the Committee recommends that the RBI may also seriously consider licensing, with lowered entry barriers but otherwise equivalent treatment, more functionally focussed banks like Payments Banks, Wholesale Consumer Banks, and Wholesale Investment Banks. Payments Banks are envisaged as entities that would focus on ensuring rapid out-reach with respect to payments and deposit services. The Wholesale Consumer Banks and Wholesale Investment Banks would not take retail deposits but would instead focus their attention on expanding the penetration of credit services. The Committee also recommends that the extant Priority Sector Lending norms be modified in order to allow and incentivise providers to specialise in one or more sectors of the economy and regions of the country, rather than requiring each and every bank to enter all the segments. Finally, the Committee proposes a shift in the current approach of customer protection to one that places greater onus on the financial services provider to provide suitable products and services.

Report of the Internal Working Group to Revisit the Existing Priority Sector Lending Guidelines (Mar 02, 2015) focused on channelling credit to segments that get crowded out in the absence of specific targets. These include small and marginal farmers, micro enterprises and the weaker sections while broadening the scope to include other underserved categories of national priority, such as agriculture infrastructure, social infrastructure, renewable energy, exports and medium sized enterprises. The report also suggested ways on how to achieve the priority sector targets in the most effective way as well as measures to be taken in case of under-achievement of the
priority sector targets. The key recommendations of the Report include:

i) **Overall Priority sector target:** The target for lending to the redefined priority sector is retained uniformly at 40 per cent of Adjusted Net Bank Credit (ANBC) or Credit Equivalent of Off-Balance Sheet Exposure (CEOBE), whichever is higher, for all scheduled commercial banks. However, foreign banks, which will now all come under the norms, have been given time to comply with the target.

ii) **Agriculture:** Target of 18 per cent of ANBC retained. A sub-target of 8 per cent of ANBC has been recommended for small and marginal farmers to be achieved in a phased manner. More flexibility has been recommended for banks to lend the remaining 10 per cent of the overall agriculture loan target to other farmers, agricultural infrastructure and ancillary activities as defined by the Group. To give a fillip to agri-infrastructure and agri-processing, no caps on loan limits have been stipulated.

iii) **MSME:** In addition to micro and small enterprises, medium enterprises are included within the ambit of priority sector lending. To ensure that the micro enterprises are not crowded out, a sub-target of 7.5 per cent for micro enterprises has been recommended, which is to be achieved in a phased manner.

iv) **Other sectors:** In addition, loans to sanitation, health care and drinking water facilities and renewable energy will come under the priority sector ambit, as will incremental loans made to exports, with certain ceilings.

v) **Priority sector lending certificates:** The Working Group recommends introduction of priority sector lending certificates (PSLCs) which will enable banks to meet their PSL requirements even while leveraging their comparative advantage in lending.
2.1.2 Researches by Independent Researchers

Podwal and Bandyopadhyay (1973)\textsuperscript{13} examined the question of ‘Bank Branch Location in Rural Areas’. The study concluded that micro-level data would serve the purpose of efficient micro-level decision making pertaining either for branch location or formulation of specific schemes.

Varade and others (1975)\textsuperscript{14} have studied the “Branch Expansion Planning for Banking Industry” in depth and formulated district wise branch expansion plan for the Fifth Five Year Plan Period (1974-79). The study concluded that the need based branch allocation should be evolved in the planning process so that banks could be capable to respond to the demands. The objective of the study was to evolve a branch allocation scheme for branches to be opened, so as to reduce existing disparities in the banking presence.

Patil and others (1975)\textsuperscript{15} in the case study of Bihar “Framework for Banking Development Programmes for the State” concluded that branch expansion and its proper location planning were the means for attaining developmental objectives of a state, district or block. He observed that efficient staff, organised functioning of the branch activities and proper interaction and co-ordination among the various financial institutions, State Level Consultative Committee and the District Coordination Committee is required for the effective implementation of the scheme.

Makarand (1979)\textsuperscript{16} made an effort to evaluate the performance of public sector banks in terms of quantitative indicators in different areas of activity of the banking sector. In the study, six indicators, viz., branch expansion; priority sector credit, deposit mobilization; export credit; net profits to working funds; and wage costs of business development, have been considered to prepare performance index of each public sector bank. This was called the Integrated Priority Index (IPI). IPI incorporated the above leading indicators which were assigned appropriate weights. Apart from inter–bank comparison
based on these performance indices, the study also suggests that Necessary loaning power should vest with the branch managers; Counseling and expert advice to the priority sectors on diversified activities is essential; Not only the top level management but also the staff at lower level should be actively involved in the priority sector credit; and the banks, whose performance is below the national average, should have a second look into their liabilities management, so that factors influencing cost of operations could be kept under control.

**State Bank of India (1979)** evaluated the impact of bank credit on the weaker sections with reference to

a) Incremental net value of output of the borrowers, and

b) Improvement in the financial position to the borrowers.

The study reported that the incremental net value of output was higher in the post-loan period than in the pre-loan period in all the activities. The bank loan has benefited the borrowers belonging to the weaker sections in terms of giving boost in investment and output in the activities financed, net income and improvement in levels of living. However, the position regarding repayment of loans was not satisfactory in all the activities undertaken. The bank's schemes played positive role in enabling the weaker sections to improve their economic conditions. The bank was of the view that bank should also provide the marketing facilities in all the activities. The bank should follow an 'Area Approach' and involve all its branches serving in the areas in formulation and implementation of scheme to finance these activities.

**Goyal (1979)** has studied the problems faced in District Credit Plan implementation. He pointed out that in the process of credit plan formulation and implementation many problems are faced such as problem of attitudes, organization, co-ordination, input, infrastructure, extension work etc. He suggested that the lead bank should provide copies of the credit plan to all the banks, developmental agencies and government officials in the district. Co-
operatives should be revitalized. The banks should take effective steps to open branches in the rural and semi-urban areas. The commercial banks should examine the feasibility of sponsoring RRBs in the district. The banks should review their recruitment procedures and policies. Lead banks should coordinate the effects of all the banks so that maximum benefits reach the beneficiaries.

**Agrawal (1979)** examined the concept of social obligation of banks in his published Ph.D. thesis entitled, "A Portrait of Nationalised Banks-A Study with Reference to Their Social Obligations". The main findings of the study were:

a) Providing number of branch offices to the public in general and in semi-urban and rural areas in particular, as well as at unbanked rural centres;

b) Mobilizing more fixed deposits and deposits from the rural areas:

c) Providing greater credit facilities to the priority and neglected sectors as well;

d) Financing of primary agricultural co-operative societies and farmers service societies and sponsoring regional rural banks;

e) Helping generation and maintenance of employment opportunities in the country;

f) Keeping the viability of banks;

g) Financing the Government societies;

h) Popularizing the bill form of credit;

i) Resorting as little as possible to the refinancing and borrowing facilities; and

j) Opening branches in their lead districts.

**Bilgrami (1982)** in his book on "Growth of Public Sector Banks-A Regional Growth Analysis" has studied the banking growth imbalances in branch expansion, deposit mobilization, credit disbursement and priority sector lending over a decade since
nationalization. The main findings of the book are summarized as:

a) The rapid expansion of bank branches since 1969 has substantially increased the average number of banks per million population in all regions as well as in all states in 1979;

b) But such expansions could not actually prove helpful in eliminating the wide variations between developed and backward regions as well as among developed and backward states;

c) The States and regions which were above the national average population served by one bank in 1969 recorded more progress than the states and regions which were below the national average. Similar trends also emerged in case of deposit, credits, and priority sector lending.

Mukundan (1983)\textsuperscript{21} in his research study on "Monitoring of Lead Bank Scheme: Functioning of Lead Bank Officers and Lead District Officers" has tried to find out whether the policies of Government of India, state governments, Reserve Bank and the credit agencies are implemented accordingly and the proper feedback system is maintained to enable the evaluation and review of the policies is evolved by the concerned authorities as per the targets set in terms of quality, time and financial magnitudes. He concluded that proper exercise of control functions by the middle level officers/agencies which also provide backward and forward feedback with a view to ensuring implementation of the scheme and influencing policy formulation is assured.

Kondle (1984)\textsuperscript{22} in his Ph.D. thesis on "Lead Bank Scheme in Himachal Pradesh: Progress and Perspective" studied the role of Lead Bank Scheme in reduction of inter-district disparities in banking activities in Himachal Pradesh. He suggested that the Lead Bank should formulate and implement DCPs effectively. Bank branches should be nearer and the bank staff should be efficient enough to serve the small borrowers tactfully. He also concluded that Lead Bank
Scheme has been instrumental in reducing inter-district disparities, per-capital advances and per-capita deposits to a considerable extent.

Patel and Shete (1984)\textsuperscript{23} have analyzed the performance of the commercial banks in priority sector advances from two angles: i.e. sector-wise and region-wise during 1969 to 1980. They concluded that the total priority sector advances had gone-up by more than 14 times during the period under study. The annual rate of growth in priority sector advances has been more than 20 per cent and priority sector advances as percentage of total credit has steadily risen. There was a noticeable increase in direct financing of agriculture. However, indirect finance to agriculture, finance to industrial estates and education loans had virtually remained stagnant during the period under reference. The spread of credit advances tend to be even or less skewed between different states. The study also analyzed the advances to the weaker sections and concluded that target has not been met.

Patel and Shete (1984)\textsuperscript{24} studied the repayment behavior of weaker sections and concluded that the weaker sections were always willing to repay their loans and bankers were prompt in making efforts for its recovery. So misconception of the people that weaker sections do not pay their loans was cleared in the study. They pointed out that recovery performance of loans in priority sector and particularly in weaker sections depend upon good income from the activity financed by the bank continuous supply of bank credit. They suggested that there should be an assurance of availability of credit when once repayment was made which played an important role in effective recovery.

Kale and Mali (1984)\textsuperscript{25} have undertaken a survey of problems faced by small formers and agricultural labourers in obtaining loans viz:

a) Knowledge about the availability of loan facilities.
b) Payment to be made to middlemen for getting loans.
c) Obtaining documents, certificates and signature etc.
d) Margin money requirements.
Delays in getting loans.

It was found that mostly farmers did not have knowledge about the procedure of obtaining bank loans. It also indicated that the poor people in rural areas were subjected to various kinds of exploitation by the very same development agencies created for their upliftment.

**Vashisht (1987)** evaluated the performance of commercial banks in meeting their social obligations in the field of priority sector financing during the period 1971–1983. He developed weighted growth index to rank the banks and classified them into four performance levels: excellent, good, fair, and poor. The evaluation concludes that State Bank of Patiala, Indian Bank, Canara Bank, and Punjab National Bank showed excellent performance. Central Bank of India, State Bank of Saurashtra, and Dena Bank showed poor performance. To improve the performance of commercial banks, the study suggested SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis in banks.

**Pasricha (1991)** has studied the role of bank finance in the rural development in Punjab and reported that subsidy-linked banking schemes should be reoriented in order to check the misuse of loans taken just to grab subsidy. It is suggested that subsidy should be released only when the principal amount is repaid. Moreover, the sponsoring agencies should adhere to the quarterly targets assigned to them, while sponsoring loan cases to the financing banks.

**Sharma (1993)** made an appraisal of commercial banks in Himachal Pradesh, during 1969-92. The analysis was carried out with the help of ten indicators reflecting the growth of commercial bank branches, deposits, and advances. The study pointed out that the commercial banks in Himachal Pradesh witnessed a higher growth rate as compared to that in the country as a whole.

**Rengaswami and Subbiah (1997)** analysed the comparative performance of different bank groups (i.e. Public Sector Commercial Banks, RRBs, and Private Sector Banks) in financing priority sector in
On the basis of the study, the performance of public sector commercial banks was found better in lending to the agriculture sector. But in financing the industrial sector, the performance rating of private sector banks was found to be quite high.

Manjappa (1997) in his empirical study has viewed that finance is a backbone for accelerating economic development of any country. Financial sector influence cannot be neglected in overall development of different sectors in the economy. In conclusion, the commercial banking system is considered as an important factor for channelizing pattern of investment in the economy. A developed network of banking can increase the mobility of the funds, access to industrial sector and geographical areas. As a result, the fund can flow to the most productive enterprises, changing pattern of investment and enhancing overall productivity of investment in the country. Therefore, one cannot ignore the role of commercial banks in the rapid development of the economy.

Rengaswamy and Ramnath (2000) have evaluated the performance of financial agencies in priority sector lending under the 'Area Approach' in Madurai District of Tamil Nadu. For the purpose of this study the following null hypotheses were framed:

a) There is no significant difference in the performance of various financial agencies in lending to the agricultural sector.

b) There is no significant difference in the performance of various financial agencies in lending to the industrial sector.

c) There is no significant difference in the performance of various financial agencies in lending to the services sector.

d) There is no significant difference in the performance of various financial agencies in lending to total priority sector.

The results of the study accepted the null hypothesis for agriculture
and services sectors and the null hypothesis for the industrial sectors and priority sector lending were rejected. The study revealed that performance differs significantly among the various financial agencies in lending to the industrial and total priority sector lending in Madurai District.

**Laxminadhan (2001)** has observed there has been gap between the amount of loan financed to weaker sections by the commercial Banks and the amount of refinanced raised from NABARD. The important reasons for such gap are poor recovery, lack of technical experts in the area of operation, non-availability of certain inputs in time, frequent shifting of beneficiaries from one activity to another and existing policy decision of the NABARD. The study suggested that the selection of NABARD financing schemes should be economically and commercial viable based upon the availability of natural resources and potentially of the area. The weaker sections depends upon crop loan and minor irrigation and other term loans mostly by Primary Agricultural Credit Societies and Farmers Service Centers, these institutions should be covered under the ambit of refinance of NABARD. There should be a periodical meeting or regular contacts between bankers and NABARD officials to achieve speedy disposal customer service. This type of interactions will certainly enable to fulfill the aspirations of NABARD towards upliftment of beneficiaries and move so to weaker sections.

**Satyamurty (2001)** in his research paper with the help of "Ratio Analysis Model" (RAM) has made an attempt to demonstrate the application and utility of RAM model through a case study of trend and inter branch comparison of performance of the branches of nationalized bank in late nineteen. The researcher concluded that model (RAM) is said to provide an effective tool to analyses and improve the overall performing bank branches.

**Mishra and Belwal (2002)** revealed the fact that the present banking structure is the outcome of a process of expansion, reorganization and consolidation which has been going on for many
years and passed through three important phases—pre nationalization, post-nationalization and post liberalization. With the advent of internet, one can distinctly perceive the arrival of replacing brick and mortar branches with the electronic delivery channels to provide more options to the customers. Traditionally banking has become a thing of past and technology has changed the rule of the game.

Das (2002) evaluated the performance of public sector banks in regard to expansion of banking services to the unbanked areas in regional perspective, and the performance with regard to advances to the priority sector during the pre and post 1991 periods. The regional disparities in the distribution of bank offices and population have been studied with the help of Gini's coefficient. His study points out a clear cut implication of the financial sector reforms for the banking system and primary sector lendings, has been revealed as the negligence of the priority sectors by the public sector banks. As it is evident from the fact that the percentage share of the priority sector in the total bank credit has been found increasing but at decreasing rate in post reform period as compared to that in pre-reform period. Further, the average amount of rupees per account of priority sector lendings by the public sector banks has also shown the similar trends for the pre and post reform period. The author concludes that the impact of the financial sector reforms on the priority sectors has been very much adverse.

Shete (2003) has studied the performance of public sector banks under the priority sector lending during the post-reform period (1991-2001). He found that the priority sector lending has increased during that period under study. But in the period of March 1992 to 1996, the percentage share of priority sector credit to net bank credit of the public sector banks was less than the RBI's stipulation of 40 per cent of NBC, however since 1997, the percentage share of priority sector credit to NBC of the public sector banks had crossed the RBI's stipulation. As on March 2001, the priority sector-lending ratio to NBC was around 43 per cent for the public sector banks as a group.
Roy (2006) has undertaken the review of bank lending and observed that the surge in bank credit in the last couple of years has been an encouraging phenomenon in India's banking sector. This reflects as much the turnaround in the economy as the improved balance sheets of the banks themselves. However, though overall credit growth has been of a high order, the expansion of agricultural credit and credit to small-scale industries sector has not kept pace with it. Retail credit, which is growing from a very low base, has expanded rapidly during this period. While consumption-led growth can help improve the growth rates in the economy, it would also result in increasing risks.

Soundarapandian (2006) has made an attempt to analyze the growth of Self Help Groups (SHGs) and the role of micro-finance in developing the rural entrepreneurship. The study has revealed that the number of SHGs having been financed by MFIs has increased from 0.2 million in 2001 to 1.1 million in 2004 at the rate of 128% per annum. The number of SHGs financed during a year has increased from 0.26 million in 2001-02 to 0.36 million in 2003-04 with an annual growth of 19.8%. The study suggests that though there is a positive growth rate of the SHGs in states, but in terms of growth of the SHGs there is a wide variation among states. The linkage of banks with the SHGs is found impossible for this variation.

Subramanian (2007) has indicated that micro-finance is pivot upon which the development of rural poor depends. The study also concludes that banks have to employ external agencies like financial consultancies, independent action groups, self -generating consulting groups to monitor the procedural aspects of forming Self Help Groups (SHGs), the formalities regarding sanction of loan and other relevant function of micro-finance disbursal, as promulgated by the Reserve Bank of India. The major aspects that banks have to focus on in promoting SHGs are: (i) Education for the formation of SHGs; (ii) Business consulting for promoting products identified by the SHGs; and (iii) act as a facilitator in backing up various forthcoming activities
of SHGs.

**Sooden and Kumar (2007)** in their article “Priority Sector Lending in the Post Reform Period” observed that priority sector lending has become an essential component of national agenda after the nationalisation of banks. Major changes in priority sector lending are seen after the initiation of banking sector reforms in 1991. The study points out the reasons for poor quality of priority sector lendings, problems of NPA and poor profitability during 1991 to 2004. The authors felt that public sector banks should not give up developmental role and they should adopt a balanced approach as development agent and ensure substantial ability of directed lending. They concluded banks appear to be deviating from their role of a social agent, by not paying the required assistance to the weaker sections in the post reform period. Moreover, shrinking share of real priority sector, neglect of agriculture coupled with its sub optimal structure, neglect of SSIs, falling number of accounts are some serious issues which need immediate attention.

**Kaur (2008)** has concluded that the respondents have not been motivated properly for poverty alleviation and rural development through the SHGs. The study also finds that the concept of the SHGs is very successful in many parts of India like Hyderabad, Tamilnadu etc. where people, government and NGOs have come forward with true motivation and interest. The study observes that about 84.4% respondents have made use of bank loan in household activities and other personal needs instead of some productive activities. The study suggests that the state agencies should formulate the SHGs and finance them on strict criteria of income generation and poverty alleviation and overall rural development. Thus, proper scrutiny of members of the SHGs is a pre-requisite for financial support and economic development.

**Thorat (2008)** in her Independence Commemoration Lecture, emphasised while coming to current times that there is growing
ralisation that the "trickle down" effect of economic growth, while no doubt works, takes too long time and hence there is a need to focus on inclusive growth. "Inclusive growth", is a little more than just the benefits of growth behind distributed equitably and evenly; it is the participation of all the sections and regions of society in the growth story and their reaping the benefits of growth. While concluding, she emphasised that the financial system plays its due role in promoting inclusive growth is one of the biggest challenges facing the emerging economies, especially as the banking system in many countries is in private hands. However, if all stakeholders realise that "inclusive banking" is good business, then regulatory and policy framework that promote accessibility, and responsible banking can definitely lead to the desired outcomes.

Sinha (2007-08) has concluded that in the mid-seventies the introduction of priority sector lending quota for the commercial banks provided a major instrument for allocation of financial resources to agriculture, small scale enterprises and schemes of self-employment. However, the introduction of banking sector reform posed new challenges before the commercial banks as they had to conform to the new prudential asset classification, income recognition and provisioning, capital adequacy standards and still maintain priority sector lending quota. He has compared select public and private sector commercial banks in respect of priority sector lending for the period 2000-01 to 2004-05. For comparison purposes the following indicators have been used:

a) Technical efficiency,

b) Scale Productivity Index.

c) All the observed efficiency, and

Malmquist Total Factor commercial banks registered positive total factor productivity growth during the period.

Kaye (2009) concluded that banks can take certain policy
decisions to inculcate banking habits among people of rural and remote areas provided that there should be proper co-operation and co-ordination of public as well as the government is forwarded to the banks.

Dutta (2011) had concluded that the SHG-Bank linkage programme experienced a tremendous growth over the last decade, but there remains a large regional disparity between the growth of the SHGs in the North and North East India, versus the rest of the country. During 1992 to 2007 the number of groups linked with banks has almost doubled every year. The amount of loan disburse to the SHG has also been growing in a similar pattern. Initially, there was a slow progress in the programme, only 255 lakh SHGs were linked to the banks, whereas the number reached to 32,995 lakh groups in 1998-99. The loan outstanding was Rs.57 crore over a period of seven years from 1992-1999 which then increased to Rs.136 crore during the year 1999-2000. Since then, there has been a rapid growth in the programme. In this study as a result of the collective effort of the Indian government, banks, NGOs and SHGs, more number of rural people now have access to the benefits of the modern financial system. The SHGs-banks linkage programme is yielding promising outcomes. Over the last 15 years, there has been a significant increase in the performance of the SHGs in terms of availing new loans, repeat loan and repaying the loan. The growth of SHGs is dominant in the southern region of India. The ongoing process of training and consultation by NABARD and other organizations will help in the development of the other regions of India. To a great extent, the program is successful in poverty alleviation. It has uplifted the income and saving of the poor, especially of women.

Kaur (2011) has reviewed the performance of commercial banks under priority sector lending with reference to post reform era and found that priority sector advances and agricultural advances of
both the public and private sector banks had improved manifold over the study period. But, they were still lacking behind to achieve the targets set for them by RBI in agriculture sector. It was observed that the performance of private sector banks in respect of all the parameters was better than that of public sector banks. It is suggested to increase the attention of both the public and private sector banks on the priority sector of the economy.

Singla (2011) concluded that mere access to the affordable banking does not solve the problems associated with financial exclusion. There is need to promote the use of banking services as well as to increase access to them. In accordance with the vision of inclusive growth, Reserve Bank of India has adopted a "Bank-led" model for ensuring Financial Inclusion to provide low cost, efficient, ICT based banking services utilizing multiple delivery channels including intermediary low cost brick & mortar structures, branchless banking through Business Correspondents (BCs) and other modes like mobile vans, rural ATMs, etc. so as to cover all the villages of the country in due course.

Benedikter (2011) defines Social Banks as “banks with a conscience”. They focus on investing in community, providing opportunities to the disadvantaged, and supporting social, environmental, and ethical agendas. He has also explained the main difference between mainstream banks and social banks that mainstream banks are in most cases focused solely on the principle of profit maximization whereas, social banking implements the triple principle of profit-people-planet.

Akhtar & Alam (2011) in their book entitled, “Banking System in India Reforms And Performance Evaluation” recounted that prior to economic reforms initiated early 1990s, the banking sector in India suffered from lack of competition, low capital base, inefficiency and high intermediation costs. The banking industry- dominated by the public sector- was subject to a high degree of financial repression, characterized by administered interest rates and allocated credit.
Reforms in the commercial banking sector had two distinct phases. The first phase of reforms-introduced subsequent to the release of the Report of the Committee on Financial System 1992-focused mainly on enabling and strengthening measures. The Second phase of reform-introduced subsequent to the recommendations of the Committee on Banking Sector Reforms 1998-placed greater emphasis on structural measures and improvement in standards of disclosure and levels of transparency in order to align the Indian standards with international best practices. Reforms have brought about considerable improvements as reflected in various parameters relating to capital adequacy, asset quality, profitability and operational efficiency.

Although commercial banks still face the problem of overhang of non-performing assets (NPAs), high spread and low profitability in comparison with banks in other emerging market economies, reforms have been successful in enhancing the performance of commercial banks in terms of both stability and efficiency parameters.

**Kondle & Thakur (2012)** assessed the performance of various financial agencies in lending to the priority sector in Himachal Pradesh. With the help of Kruskal-Wallis Test it is found that the performance of private sector banks in financing agriculture sector has been satisfactory whereas the regional rural banks (RRBs) performed well in financing small scale industry (SSI) sector in Himachal Pradesh. As regards the services sector, all the financial agencies i.e. public sector banks (PSBs), RRBs and cooperative banks (except private sector banks) are performing well. The performance score of private sector banks has been on the top in financing the total priority sector in the state from 2004-05 to 2010-11 time period under review.

**The Tribune (April 2, 2012)** A landmark of branchless banking Financial Inclusion Scheme (FIS) is being launched as a pilot project by Himachal Gramin Bank in the Kotpalari gram panchayat in
this sub-division on April 7, 2012. Under the FIS, people get branchless banking facility to be operated through bio-metric cards on their doorstep. As many as 393 account holders have been identified in the panchayat who will be issued bio-metric cards. Under the FIS, the account holder will get banking services on their doorstep. The lead bank scheme of the RBI will now apply to metros also. Hitherto it was applicable to all the districts, excluding metropolitan areas, mainly rural areas. The shift in policy is to address the problem of financial exclusion among the poor and disadvantaged sections of the community in the major cities also.

Thakur & Kondle (2013)\(^{52}\) in their paper incorporated district wise analysis of branch expansion, deposit mobilisation and credit disbursement in the post reform period for the State of Himachal Pradesh. They opined the principal objective of the branch expansion programme should be to evolve a branch allocation scheme for branches to be opened so as to bring about maximum reduction in the currently existing disparities among various districts regarding uneven spread of banking facilities. With the help of Location Quotient Test it is found that the gap between developed and underdeveloped districts has been widened. It may be concluded that all the districts of the State are possessing high deposit potential and credit disbursement. Hence branch expansion in these districts is imperative and will be economically viable.

Thakur (2014)\(^{63}\) endeavored to study the priority sector lendings by the public, private and foreign bank groups. This study is based on the parameters like lending to priority sector by public, private sector and foreign bank groups, along with the NPAs (Non-performing assets), while lending to priority sector by the said bank groups for the period 2009 - 2010. On the basis of these parameters, the study concludes that NPAs of public sector banks have increased because of high priority sector advances. The paper also throws light on the issues which arise due to priority sector advances and also seek out some strategies to these issues. Thus, the study concludes
that priority sector advances of all the banking groups are increasing. In spite of increasing advances, Indian banks have not achieved some targets fixed by RBI. Lending to priority sector creates many problems for the Indian banks like low profitability, high NPAs, transaction cost etc. It is a need of the hour to find out solutions for these problems otherwise progress of the Indian banks will cease. If the proper priority sector advances are given they will be helpful in reducing the poverty level and will play a more active role in aiding these sectors of national and economic priority.

It can be concluded that the Lead Bank Scheme is an attempt, for the first time in the country, to decentralise planning right to the level at which it is to be implemented with district as a unit. The scheme started in 1969 for achieving the objective of spreading banking facilities in rural areas and channelizing bank credit to the priority sector of the economy for uplifting the weaker sections of the society. The Lead Bank is, therefore, expected to play crucial role for coordinating the programmes of various development agencies engaged in the development of the district, with the credit supply by various financial institutions for such activities. A number of steps have been taken in this regard on the recommendations of various committees. As a result, various coordination committees such as District Consultative Committee, Standing Committee of DCC, Block Level Committees, State Level and Regional Coordination Committees and High Power Committee have come to be established for ensuring proper coordination at district level as well as at higher levels. Most of the studies on the concept, objectives and operations of the Lead Bank Scheme were also officially sponsored and were largely concerned with designing an appropriate organisational framework for the scheme. Of special interest in this context is Report of The High Level Committee to review Lead Bank Scheme which noted that the Scheme has been useful in achieving its original objectives of improvement in branch expansion, deposit mobilisation, and lending to the priority sectors, especially in rural/semi urban areas. There was overwhelming
2.2 Research Design

The research design refers to a blueprint for research. It is a plan through which observations are made and data is assembled. It provides an empirical and logical basis for drawing conclusions and gaining perfect knowledge.

2.2.1 Need of the Study

In the context of planned economic development, the commercial banks with wide network of their branches in the rural areas and having huge funds at their end have been putting in their contribution in bringing about socio-economic change in the rural sector. The government has pinned up high hopes on the banking institutions. Hence the role played by the banking sector is of great significance. Unless the credit facilities are not made available to the needy by the banks, various development programmes being launched by the central and state governments are of no use and validity.

Economic development is a dynamic process in which government policy initiatives in the direction of income, output and employment generation are fructified through the financial support provided by the banks and Financial Institutions. The outreach of banking sectors in terms of branch network and population per branch is commendable as reflected in achievement of cent per cent financial inclusion by Himachal Pradesh, the first State in the country. However, it still leaves scope for further improvements as gaps exist on the credit front. The ground realities prevalent in Himachal Pradesh regarding its topography, hostile climate conditions, sparse population and inadequate infrastructure are needed to be taken into consideration while studying development in the State. However, the higher Human Development Index, conducive environment for tourism and favourable climate for horticulture with the policy packages of Union Government, development plans and
policy initiatives of the State coupled with policy initiatives taken by the RBI, NABARD, SIDBI and other players of the financial system have led to all-round development in the State.

Banks have achieved its first stage of 100 per cent financial inclusion in the entire State by opening ‘no-frills accounts’ covering all households. These newly bank linked households need to be credit linked, which is a gigantic task. Banks operating in the State have to extend their outreach particularly in hinterland by credit expansion through General Credit Card (GCC), Kisan Credit cards (KCC) by involving post offices, SHGs and unemployed rural youth as business facilitators. The dream of taking banking to the doorsteps of the customers in the remote areas can be realized by adopting information technology enabled solutions such as biometric access smart card technology. The cooperative institutions and RRBs are equally important players in achieving the Lead Bank Scheme objectives.

Agriculture is the backbone of the State economy contributing around 24 per cent in the Gross State Domestic Product, small and marginal land holdings constitute about 85 per cent of the total cultivable land holdings in the State. The State government is making all efforts to increase productivity of food grains, vegetables and fruits, rejuvenation of apple plantation, setting up of commodity based market, revamping/expanding cold storage facility, setting up of agro based processing units and creation of post-harvest management system for horticulture/commercial floriculture. Such efforts would succeed through augmented assured irrigation, provision of quality inputs and strengthening of extension services including dissemination of technology to women cultivators, purveying more credit through cooperatives, marketing tie ups through multinationals/big domestic players are especially important. The banking sector is helping through various schemes like KCC, GCC, Debt Swap Scheme for farmers in distress, implementation of collateral norms for small agricultural advances, setting up of credit
counselling centres etc. with coordination of cooperatives and RRBs.

The process of industrialization has picked up especially after the package of concessions provided by the Central Government in 2003 which has been supplemented by State Government through its new industrial policy. However, the State needs to build proper infrastructure for industrial units to facilitate sustainable industrial growth from promoting more industrial clusters. Banks are also required to provide sufficient credit not only to large industries but also to small and medium enterprises, adventure tourism activities etc. The banks can also extend financial support to entrepreneurs undertaking hydel projects especially the small projects up to five Mega Watts.

Tourism sector in the State contributes about 8 per cent of the State Gross Domestic Product and is also a major employment provider. Tourism Policy, 2005 of the State Government aims to accelerate the share of tourism to 15 per cent of the State's Gross Domestic Product by 2020.

A sea change has taken place in banking environment since the initiation of reform process. Since then banking sector has witnessed remarkable changes in perception, policies and practices of bank. Various institutional measures initiated by the RBI and government of India, such as debt recovery tribunals, Lok Adalats, Scheme of Corporate Debt Restructuring in 2001, Basel II implementation for refinement of risk management system and improvement in capital efficiency and the Securitization And Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002. To boost up the mission of 'Financial Inclusion', recently a movement Jan Dhan Yojana preceded by 'Swabhiman' has been launched by the Government of India and the Indian Banks' Association (IBA) to cover the economic distance between rural and urban India. This movement graduated to Pradhan Mantri Jan Dhan Yojana in the country facilitating opening of bank accounts, provide need based credit,
remittance facilities and help to promote financial literacy in rural India. In light of all these sweeping changes that had taken place in banking policies during the last two decades of reform period, it is thought appropriate to evaluate the Lead Bank Scheme and the impact of banking sector reforms on the efficiency, outreach and overall performance of banks namely commercial banks, RRBs and co-operative banks operating in the State of Himachal Pradesh.

Though recently a large number of studies evaluating the performance of these banks during this period have come up, yet certain important aspects remained untouched. A review of the relevant and available literature reveals that a comprehensive study on the Appraisal of Lead Bank Scheme in Himachal Pradesh in the context of banking sector reforms and other measures has not been undertaken so far.

2.2.2 Objectives of the Study

Since the introduction of the Lead Bank Scheme in December 1969, several changes have taken place in the financial sector, especially after 1991. These include increasing liberalisation and globalisation of the Indian economy and the financial sector. The rates of growth witnessed have been unprecedented. At the same time, there are gaps in growth in agriculture and infrastructure. There has also been a greater level of devolution of expenditure to lower levels of Government. There are several regions of the country and sections of the society lagging in development. Accordingly, there has been a conscious shift towards more inclusive growth and financial inclusion. In banking, the use of Information Technology (IT) and intermediaries has made it feasible to increase outreach, scale and depth of banking services at affordable cost.

However, during these years, the structure and monitoring mechanisms under the Lead Bank Scheme have remained more or less static. A need was therefore felt for a comprehensive review of the Scheme and its applicability in the changed scenario. It is in this
context that the present study to make an appraisal of LBS in the State of Himachal Pradesh with reference to Banking Sector Reforms in the last two decades has been planned. The proposed study seeks to evaluate the expansion of banking sector vis-à-vis to branch expansion, deposit mobilization, credit deployment and credit planning linking to development planning at the district level in the State of Himachal Pradesh. The specific objectives of the study are:

a) To study the banking growth and disparities among various districts of Himachal Pradesh.

b) To assess the potential and disparities of deposit mobilization and credit disbursement among various districts of the State.

c) To analyse the performance of banks under Annual Credit Plan with respect to priority sector lending and to point out disparities, if any, among various districts of the State.

d) To review the overall progress of the Lead Bank Scheme vis-à-vis to financial inclusion with reference to banking sector reforms and to make recommendations, suggestions for the effective implementation of the Scheme in the State of Himachal Pradesh.

2.2.3 Scope of the Study

The research confines to Himachal Pradesh with reference to Lead Bank Scheme in all the districts of the State in the context of banking sector reforms. Districts are used as the unit of analysis. The study has made a sectorial analysis of the disbursement of credit in Himachal Pradesh economy. Broadly key areas of performance evaluation are branch expansion; deposit mobilization, credit disbursement and cash deposit ratios. However some latest performance parameters like Kruskal Wallis Test- a non-parametric test has been applied to estimate sectoral performance of financial agencies in the State. Position of NPAs has also been analyzed. For this purpose the data from the year 1998 onwards, which was the year of implementation of Narasimham-II Committee, (Banking Sector Reforms in the last two decades has been planned. The proposed study seeks to evaluate the expansion of banking sector vis-à-vis to branch expansion, deposit mobilization, credit deployment and credit planning linking to development planning at the district level in the State of Himachal Pradesh. The specific objectives of the study are:

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Reforms) has been analyzed. The study basically confines to review the objectives of LBS vis-a-vis banking sector reforms. The present study also covers the national priorities in the financial sector i.e. financial inclusion and the financial literacy in the State. During the process of data collection, ascertainment of the viewpoint of the officials associated with the Lead Bank Scheme has also been in the discussion.

2.2.4 Sources of Data

The present study is mainly based on secondary source yet the viewpoints and opinions of the officials associated with implementation of Lead Bank Scheme have also been incorporated for arriving at the conclusion. The secondary source of information is proceedings of SLBC, DCCs, RBI Reports, Study Groups, Working Groups, Committees, Reserve Bank of India Bulletin (Monthly Issue), Economic and Political Weekly (Quarterly Issue), Basic Statistical Returns of Scheduled Commercial Banks in India, Statistical Tables related to Banks, Report on Trend and Progress of Banking in India, Economic Survey of Government of Himachal Pradesh (Economic and Statistics Department, Himachal Pradesh), Economic Survey of Government of India (Ministry of Finance), Prajnan, National Institution of Bank Management (Quarterly Issue), Indian Journal of Commerce (Quarterly Issue), Finance India, Indian Institute of Finance (Quarterly Journal) etc. Further the websites of various institutions have been used to collect information. Apart from these, number of Research Journals, Ph. D theses, Dailies and Books have also been the source of data for the present study. The data collected from both the sources have been systematically tabulated and suitably presented in the form of charts and diagrams etc.

2.2.5 Research Methodology

Keeping in view the objectives, firstly the Library research was carried out or an exploratory study for formulating the problem clearly. For effecting various measurements in the present study, a
measurement research was carried out. The data collected from different sources has been classified and arranged in tables in one or more forms according to the requirements of the analysis. For the analysis of result, the following techniques have been applied

1. Population Served Per Branch (PSPB):

   National, State and District averages have been calculated by dividing the respective total population figures by the number of Bank Branches operating in the country, State and District

2. Location Quotient (L.Q.):

   To find out the gap among the States and Districts, in terms of population per bank office we have attempted to measure as to how far a district is above or below the State average at two points of time, i.e., December, 1998 and June, 2013. This has been estimated by location quotient method (L.Q.) which refers to the ratio of the ratios. This ratio (L.Q.) will either be proportional or greater or lesser than one. If L.Q. > 1, it would mean that district average is greater than the state average or district is above the State average. If L.Q. < 1, it would mean that the district average is below the State average. If L.Q. is proportionate it would indicate that the district average is in balance of State average. The same concept of L.Q. has been used in the context of number of branches, deposits and disbursements. Algebraically, the respective imbalances can be expressed as under:

(a) **L.Q for number of branches**

\[
LQ = \frac{Ps/NBs}{Pd/NBd}
\]

Where

- \( P \) = Total Population
- \( NB \) = Total number of branches
- \( s \) = State
- \( d \) = District

(b) **L.Q for deposit**
\[ LQ = \frac{TDs / Ps}{TDD / Pd} \]

Where

- TD = Total Deposit
- P = Total Population
- s = State
- d = District

(c) **L.Q for disbursement**

\[ LQ = \frac{TCs / Ps}{TCd / Pd} \]

Where

- TC = Total volume of Credit disbursed
- P = Total Population
- s = State
- d = District

3. **(a) Deposit Elasticity**

\[ E_D = \frac{\Delta d / D}{\Delta b / B} \]

Where

- \( \Delta d \) = Change in the deposit
- D = Total Deposit
- \( \Delta b \) = Change in the number of bank branches
- B = Total number of bank branches
- ED = Denotes ‘Deposit Elasticity’ Co-efficient

(b) **Credit Elasticity**

\[ Ec = \frac{\Delta c / C}{\Delta b / B} \]

Where

- \( \Delta c \) = Change in the volume of credit disbursed
- C = Total Credit
- \( \Delta b \) = Change in the number of bank branches
- B = Total number of bank branches
- Ec = Denotes ‘Credit Elasticity’ Co-efficient

'E' is the value of elasticity co-efficient which will either be proportionate (E=1), greater or less than unity, that is (E>1 or E<1). If 'E' is more than unity, it would mean that average deposit or credit is increasing more than average increase in the number of banks and in
this way the marginal increase in the deposit/credit would be greater than the average increase. If ‘E’ is less than unity the increase in the deposit/credit would be less than the increase in number of banks. Here, both the average and marginal deposit/credit are decreasing in comparison to the increase in the number of banks. In this case the marginal deposit/credit will be less than the average. If ‘E’ is equal to the unit, it would refer that the change in deposit/credit is equal to the change in the number of banks and hence the marginal as well as average increase both are equal. Thus, the districts where ‘E’ is greater than unity may be shown as high deposit potential/high credit disbursement districts. Inversely, where ‘E’ is less than unity that district may be called as low deposit potential/low credit disbursement district.

4. Credit-Deposit (C-D) Ratio:

It is the proportion of the credit sanctioned by banks in a district to the deposit collected in that district. It explains the extent to which a district has been benefitted out of their deposits. The district-wise credit-deposit ratios, therefore, help to investigate a strong and widely propagated disapprobation that banks mobilize resources in the form of deposit in certain district and utilize them elsewhere, thus aggravating regional imbalances.

Besides the terms and concepts enumerated above, the indices used for measuring the progress of Lead Bank Scheme are: branch expansion, deposit mobilization, credit disbursement, advances under priority sectors and achievement of targets.

\[
C - D \text{ Ratio} = \frac{\text{Credit Sanctioned in the district}}{\text{Deposit collected in the district}}
\]

5. Growth Rate

The district-wise population for different years has been estimated by finding out the growth rate of population for the decade concerned, from the population census of 1991, 2001 and 2011. The
The formula used is:

\[ g = \left( \frac{P_n}{P_0} \right)^{1/n} - 1 \]

Where,
- \( g \) = Growth rate of population
- \( P_n \) = Population in the nth year
- \( P_0 \) = Population in the base year, and
- \( n \) = Number of years.

### 6. Linear Growth Rate

To study the growth of banking with respect to different indicators of banking development in different districts, the linear growth rate (LGR) has been calculated. Under this method, the specified function form is

\[ Y_t = \alpha + \beta t \]

Where,
- \( Y_t \) = Trend value of the dependent variable in period ‘t’ for which growth rate is to be estimated,
- \( t \) = Independent variable (time),
- and \( \alpha \) and \( \beta \) the parameters to be estimated i.e.

\[
\alpha = \frac{\sum t Y}{n} - \beta \frac{\sum t}{n}
\]

\[
\beta = \frac{n \Sigma (t.Y) - (\Sigma Y)(\Sigma t)}{n \Sigma t^2 - (\Sigma t)^2}
\]

and,

\[ LGR = \frac{\beta}{\bar{Y}} \times 100 \]

Where,
- \( LGR \) = Linear Growth Rate, and
- \( \bar{Y} \) = Average value of the dependent variable.

Here the functional form assumes that the change in \( y \) is at a constant linear rate of ‘\( \beta \)’ units per year, and this rate does not depend
on the value of ‘Y’ in the previous year.

7. Coefficient of Variation

For measuring the magnitude and pattern of inter-district disparities with respect to the selected indicators, the coefficient of variation (C.V.) has been used. It is calculated as follow:

\[ CV_{it} = \frac{\sigma_{it}}{\bar{x}_{it}} \times 100 \]

Where,
- \( CV_{it} \) = Coefficient of Variation of \( i^{th} \) indicator in years \( t \),
- \( \sigma_{it} \) = Standard Deviation of \( i^{th} \) indicator in years \( t \), and
- \( \bar{x}_{it} \) = Mean of the \( i^{th} \) indicator in years \( t \).

8. Herfindahl Index

Indicator-wise extent of inequalities in banking development has also been explained with the help of Herfindahl Index (H.I.). The H.I. is calculated as follows:

\[ H.I. = \frac{\sum_{j=1}^{n} x_j^2}{[\sum_{j=1}^{n} x_j]^2} \]

Where,
- H.I. = Herfindahl Index
- \( x_j \) = the value of the indicators in \( j^{th} \) district

The Coefficient of Variation and Herfindahl Index give an idea of indicator-wise disparities in the State but fail to reveal the overall behavior of all the indicators taken together. The overall inter-district disparities with respect to all the indicators taken together have been studied with the help of Location Quotient of the districts.

9. Kruskal-Wallis Test

For evaluating the priority sector lending under district credit plans and to know whether there is any difference between targets and
achievements of commercial banks and further to know whether there is any difference between the performance of public sector banks and private sector banks in achieving the targets, the following hypotheses are framed.

a) $H_01$: There is no significant difference in the performance of various financial agencies in lending to the agricultural sector.

b) $H_02$: There is no significant difference in the performance of various financial agencies in lending to the SSI sector.

c) $H_03$: There is no significant difference in the performance of various financial agencies in lending to the services sector.

d) $H_04$: There is no significant difference in the performance of various financial agencies in lending to the total priority sector.

In order to test the above hypotheses, Kruskal-Wallis Test has been applied. The Kruskal-Wallis Test is a non parametric and distribution free test. Non parametric tests are applicable to all types of data: qualitative (nominal scale) data in rank form (ordinal scale) as well as data that have been measured more precisely (interval or ratio scale). Many non-parametric methods make it possible to work with very small samples. Non-parametric tests require less restrictive assumptions concerning the level of data measurement.\(^{54}\)

Kruskal-Wallis test can be used with ordinal data as well as with interval or ratio data. This test does not require the assumption of normality and equal variances. The Kruskal-Wallis Test statistics which is based on the sum of ranks for each of the samples can be computed as follows: \(^{55}\)

$$W = \frac{12}{n_T(n_T + 1)} \sum_{i=1}^{k} \frac{R_i^2}{n_i} - 3(n_T + 1)$$

Where $k = $ number of population groups

$n_i =$ the number of items in sample $i$

$n_T = \Sigma n_i =$ Total number of items in all samples

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The Kruskal-Wallis Test is used when \( k \geq 3 \).

Kruskal-Wallis Test has shown that under null hypothesis if the populations are identical, the sampling distribution of \( W \) can be approximated by a \( \chi^2 \) (chi-square) distribution with \( k-1 \) degree of freedom.

2.2.6 Limitations of the Study:

The present study is confined to sixteen years period i.e. from 1998 to 2013 mainly after implementation of Narasimham Committee-II recommendation. With consideration to objectives of study and its coverage both in terms of time and span, the study is prone to certain limitation.

1. The study concentrates only on analysis of quantitative financial data. The qualitative aspects of progress of banks in India have not been discussed.

2. The study is based on secondary data while the views of various bank officials have been incorporated to know the progress of the Scheme but same was not incorporated in the tabular form.

3. Primary data could not be collected. It could have been more useful for actual assessment of impact of the Scheme. So it leaves a space for further research on Lead Bank Scheme.

4. Secondary data has been collected from different sources. Sometimes there was a mismatch of data from different sources.
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