1.1 INTRODUCTION

India’s economy is agrarian, planned, mixed and developing in character. The Five Year Plans (FYP) and the recent Structural Adjustment Programmes (SAP) and the
Economic Reforms involving Liberalization, Globalization and Privatization (LGP) have successfully been transforming the social economic and commercial aspects in India. Though agriculture and industries enjoy the primary and secondary sector status conditions, the tertiary or services sector functions as the bedrock on which all the others hinge and thrive. Transportation, Banking, Power, Education, Health and Trade are the strong pillars of this vital branch of the economy.

The banking sector has a crucial role to play in all economic and commercial pursuits. It serves as the engine of growth and development. The very morphology and functional structure of the banking sector have been undergoing changes for the better consistently and continuously over the years. A number of novel and innovative schemes and programmes have been designed and implemented. Among them, the Lead Bank Scheme (LBS) of 1969 plays a strategic role in the Indian economy.

A notable feature of Indian Commercial Banks, prior to the introduction of social control over banks in 1969 and the subsequent nationalization of the 14 major commercial banks on July 19, 1969, was that the majority of the banks were controlled by leaders of commerce and industry. At the end of March 1951, 36 per cent of bank credit was absorbed by trade and 34 per cent by industry and at the end of March 1956, the share of industry and commerce in the total bank credit continued to be 37.10 per cent and 36.50 per cent respectively.¹ The beneficiaries of the bank credit were the people connected with the administration of banks.

The National Credit Council (NCC) was set up in February 1968, with a view to providing a forum for discussion and appraisal of credit priorities on an all India basis. The following were the leading periodical functions of the NCC\textsuperscript{2}.

(a) NCC was engaged in the assessment of the demand for bank credit from the various sectors of the economy and

(b) To determine priorities for grant of loans and advances, or for investment, having regard to the availability of resources and requirements of the priority sector in particular such as agriculture, small scale industries and exports and further to co-ordinate lending and investment policies among the commercial and co-operative banks and specialised agencies to ensure optimum utilization of resources.

Although the banking system has taken certain steps for achieving the objectives of social control, the progress made in this regard was not adequate. With a view to ensuring that the banks were adequately motivated towards a speedy achievement of the social purposes such as meeting the legitimate requirements of the weaker sections of the society, 14 major commercial banks were nationalized on July 19, 1969.\textsuperscript{3}

In a country where a large segment of population is suffering from poverty, social needs and expectations cannot be ignored and the public sector banking system will need to reorient its functioning in a way which makes it an effective instrument of service to the community. Interest mechanism should sub-serve the objective of social


\textsuperscript{3}Reserve Bank of India Functions and Workings, 5\textsuperscript{th} Edition, 1969, p.246.
justice in the matter of distribution of credit but at the same time the banks should continue to retain their character as viable institutions.

The extension of credit to small borrowers in priority sector is the prime aim of nationalization and therefore, its magnitude is the real test of its success.

As of now, the Government has classified the weaker sections of borrowers who

4: (1) have really no tangible security of any worth to offer on their own,
(2) cannot produce a security / guarantee of a well-to-do party,
(3) are prepared to work hard,
(4) can be helped to rise above their present economic levels in a productive endeavour with assistance from banks, the productive endeavour being such as would become economically viable within a period of about 3 years, and
(5) do not incur liability to two sources of finance at the same time.

The following are among the sectors within which the banks could locate parties who deserve the differential rates:5

1. Scheduled tribes, scheduled castes and others engaged on a very modest scale in agriculture.

2. People who themselves collect or do elementary processing of forest products and people who themselves collect fodder in difficult areas and sell them to farmers or traders.

4Ibid.
3. People physically engaged on a modest scale in the fields of cottage and rural industries and vocations in urban areas. Illustrative examples are: cutting cloth and sewing garments, making reasonably cheap eatables home delivery service of articles and commodities of daily use, running way-side tea stalls, plying of self-owned manual rickshaws and cycle-rickshaws, repairing of shoes, sandals, basket-making mainly by hand.

4. Intelligent students who prosecute their higher education but do not get scholarships / maintenance grants from governmental or educational authorities.

5. Physically challenged persons pursuing a gainful occupation where some durable equipment and / or continuous supply of raw material is necessary and

6. Orphanages and women’s homes where saleable goods are made and for which no adequate and dependable sources of finance like endowment or regular charities exist.

In a fitting message to the International Seminar on Banking and Development, the then Prime Minister observed “Economic growth is important for all countries. For the poorer countries it is vital. Of the many structural and institutional changes that are necessary in developing countries, not the least important is the adaptation of financial institutions to serve the objectives of development and to bring about greater mobility of resources to meet the emerging needs of the economy. In India, we have taken several steps designed to make our banking system development-oriented and to set up special institutions to give the requisite financial support to the new
development in industry and agriculture, to large-scale industry and the small-scale entrepreneurs. Our concern has been not only with growth but also with ensuring that the benefits of development reach out more and more to the vast masses of population.”

1.2 LEAD BANK SCHEME (LBS)

The Lead Bank Scheme was evolved in 1969 as an important organisational framework to fulfill the objective of increasing bank finance to priority sector and also to promote their role in overall development of the various Districts in the country. All Districts have been allocated among various banks designated as the Lead Banks for the Districts.  

The Lead Bank Scheme has been based on the ‘area approach’ to banking. Its prime goal is to achieve 100 per cent balanced distribution of bank branches among the several towns and villages in a District. The so far unbanked or under banked areas particularly in rural areas will be brought into the network of banks.

The function of the Lead Bank is to co-ordinate the efforts of all other banks, financial institutions and other development agencies such as District Rural Development Agencies, District Industries Centres, Backward Classes, Corporations,

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6Extracts from then Prime Minister Srimathi Indira Gandhi’s Statement on The International Seminar on Banking and Development, New Delhi, December 14, 1969.
8Ibid.
and Housing Development Authorities/Boards working at various levels for bringing about the overall development of the Districts.

The scheme covers 526 Districts in the country. Annual Credit Plans (ACPs) are prepared on the deployment of credit for numerous activities and the progress in implementation thereof is reviewed in meetings of Block Level Bankers Committees (BLBCs), District Consultative Committees (DCCs) and State Level Bankers’ Committees (SLBCs). The Reserve Bank of India monitors the progress in the implementation of Annual Credit Plans through its Regional Offices.

**Lead Bank Scheme and District Level Credit Plan**

Prior to nationalization of 14 commercial banks, agriculture got only a meager share of about 2 per cent of total bank credit. By the time, it was felt that banking facilities should be extended to rural areas to promote agricultural development which generated about 50 per cent of national income, responsible for about 40 per cent of export earnings and providing employment to about 70 per cent of the population.

The major objectives of lead bank scheme is to extend the banking facilities in the rural areas to enable the rural people to enjoy the benefits of economic development through the adoption of production raising technology, subsidiary occupations and rural industrialization. The lead bank is responsible for the all round development of the district allotted to it.

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The lead banks have expanded and strengthened their branch network and have established the necessary machinery for securing co-ordination between the activities of financial institutions and development agencies at district/state level.

To meet the credit needs of the customers, the lead banks have prepared credit plans for all the districts in the country and they are at various stages of implementation. In 1979, the Agricultural Refinance and Development Corporation issued guidelines to the states for the preparation of block banking plans which were to be in effect portfolio of immediately bankable schemes. At the end of November 1980, 196 banking plans covering 17 states and 1375 blocks and involving a financial outlay of about Rs.323 crores had been prepared.

The District credit plans are prepared by the lead bank in consultation with other institutional credit agencies and district authorities to promote balanced rural development. The multi-agency approach has considerably streamlined and strengthened the rural credit structure.

According to Gadgil Study Group and Nariman Committee,10 the Reserve Bank of India introduced the concept of “Lead Bank” in December 1969. The RBI declared with a wider responsibility of accelerating banking development in the area.

The lead bank should conduct District surveys and prepare District credit plan and to implement them accordingly with the co-operation of other banking institutions in the District. The following are the objectives of the scheme.

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i) Bank branch expansion, supervision and guidance would become effective.

ii) Co-ordination among commercial banks, co-operative credit institutions and government agencies.

iii) Conduct surveys and prepare credit plans.

Lead Bank conducted surveys in 380 Districts in 1973-74 and there was a rapid bank branch expansion between 1969 and 1990. There was almost a seven fold expansion in the number of branches. Before 1969 one branch office served 65000 people, but in 1969 the branch population ratio was 1:12000. During 1950-51, bank deposits were in the order of Rs.8.5 crores. It rose to Rs.235.29 crores in June 1992. During the above periods the bank credit increased from Rs.580 crores to Rs.25000 crores. During 1969 one out of thirty Indians only had a bank account while in 1989; one out of three Indians had a bank account. Now the priority sector target is 40 per cent out of total credit, whereas it was 14 per cent in 1969. The number of priority sector borrowing accounts have shown a phenomenal increase from around 4,00,000 to nearly 35 millions at present.

The study groups recommended that the lead banks should prepare technologically feasible and economically viable schemes in priority sectors. The High Power Committee reviewed the progress of the lead bank in 1976 and recommended that the lead bank should prepare District Credit Plan and Annual Action Plan. The lead bank should implement Integrated Rural Development Programmes (IRDP).
The Lead Bank Scheme,\textsuperscript{11} introduced towards the end of 1969, envisages assignment of lead roles to individual banks (both in public sector and private sector) for the Districts allotted to them. A bank having a relatively large network of branches in the rural areas of a given District and endowed with adequate financial and manpower resources has generally been entrusted with the lead responsibility for that District. Accordingly, all the Districts in the country (excepting the metropolitan cities) have been allotted to various banks. The lead bank acts as a leader for coordinating the efforts of all credit institutions in the allotted Districts to increase the flow of credit to agriculture, small-scale industries and other economic activities included in the priority sector in the rural and semi-urban areas, with the District being the basic unit in terms of geographical area.

The bank has been assigned lead responsibility in respect of 140 Districts out of a total of 564 Districts across the country. The bank disbursed loans to the different sectors aggregating Rs.2033 crores in lead Districts and has achieved 104 per cent of the annual outlay for the year ended March 2004 as against 90 per cent by All Financial Institutions. The bank also disbursed loan aggregating Rs.11,552 crores in the non-lead Districts to various sectors and has achieved 92 per cent of the annual outlay.

State Level Banker’s Committees are formed in all the states for inter-institutional coordination and joint implementation of programmes and policies by all the financial institutions operating in the State. Responsibility for convening State Level Banker’s Committee (SLBC) meeting has been assigned to various commercial banks.

\textsuperscript{11}www.statebankofindia.com./ruralbanking/leadbankscheme.asp.
SLBC meetings, held quarterly, provide for interaction amongst the various banks in the State on the one hand and between the banks and the State Government authorities on the other.

**Administrative Set Up of Lead Bank Scheme**

The lead bank officers and supplementary staff, appointed by the banks in their lead Districts, are looking after the implementation of the scheme. It is the duty of the lead bank officer to assist the concerned regional manager of the bank to ensure that the bank has fulfilled its responsibility of developmental activities under the scheme. On the other hand, the effective implementation of the scheme largely depends upon the clear understanding of the concept of the scheme and the role payable by the branches. In the non-lead Districts, District co-ordinators are also appointed mainly to focus on the role played by their banks in the District at the meeting of the Districts level credit committee and other forums.

**Benefits of the Scheme**

1) **Co-ordinated Development**

   It gives the scope for co-ordinated development of banking in the entire country, particularly in the neglected and backward areas.

2) **Joint Participation**

   It provides the basis for a joint participation of credit institutions and Government departments in the developmental activities.

3) **Creation of a Link**
It creates a link between banking and other developmental activities of the country.

4) Implementation of Government Programmes

It is instrumental in the implementation of 20 point programme, the integrated rural development programme and other anti poverty programmes of the government.

5) Identification of Potential Areas

The surveys conducted under this scheme facilitate the identification of potential areas and the problems which affected their growth.

6) Rural Credit Facility

The District credit plans prepared under this scheme divert the flow of credit to the major sectors of the rural economy.

7) Co-ordination of Development Programmes

The annual action plans co-ordinate the programmes of development prepared by the development agencies operating in the Districts, particularly in the rural areas.

While looking at the progress made under the lead bank scheme, it is clear that it has a greater impact on the country’s economic development. Though there are certain drawbacks in the implementation of the scheme, the scheme has been made successful as regards the following:

i) The flow of credit to the weaker sections of the society.

ii) The promotion of co-ordinate effort among different agencies towards the development of the country.
However, to bring the Lead Bank Scheme effectively at the village level, the Government has introduced the ‘Service Area Approach’ to development. Under this scheme the plans are prepared village wise instead of District-wise.

**Lead Bank Scheme and Service Area Approach to Rural Lending**

**Origin of the Lead Bank Scheme**

Following shortfalls in agricultural output and slowing down of industrial production in 1965-67, the Reserve Bank’s credit policy for the slack season 1967 was liberalized on a selective basis with a view, among other purposes, to enlarging the flow of credit to the select sectors such as agriculture and small-scale industries, as also exports. The measures for social control over banks were initiated by the Government of India in 1967-68 for securing a better adaptation of the banking system to the needs of economic planning and also for playing a more active and positive role in aiding sectors like agriculture and small-scale industries. The scheme of social control envisaged a purposive distribution of available lendable resources consistent with the basic economic and social objectives as well as a more effective mobilization of savings, besides eradication of certain deficiencies observed in the functioning of the banking system. The origin of priority sector prescriptions for banks in India can also be traced to the Reserve Bank’s credit policy for the slack season of the year 1967-68, wherein it was emphasized that commercial banks should increase their involvement in the financing of key sectors, such as, agriculture, exports and small-scale industries, as a matter of urgency. Further, the nationalization of major commercial banks in 1969
also envisaged that no viable productive endeavour should falter for lack of credit support, irrespective of the fact whether the borrower was big or small.\textsuperscript{12}

In pursuance of a decision of the National Credit Council, as its meeting held on July 24, 1968, a Study Group on the organizational framework for the implementation of social objectives were constituted towards the end of October 1968, with Prof.D.R. Gadgil as Chairman. The group was entrusted the task of identifying the major territorial and functional credit gaps and making recommendations to fill them up so that adequate institutional credit, at reasonable terms, could be made available to neglected sectors and areas and weaker sections of the community. The group noted that the Indian banking system had made significant progress in the last 20 years by expanding its territorial and functional coverage and yet the unevenness of spread of institutional credit facilities to different areas of the country, the urban-oriented organization of commercial banks, weaknesses of the co-operative system and the non-availability of institutional credit to the weaker sections of the community, still persisted. The group observed that the main social objective of banking and credit was to more evenly spread institutional credit over unbanked and underbanked areas and to ensure that neglected sectors and the small borrowers, who had to depend on non-institutional credit, also got adequate credit at reasonable terms from banks.

The concept of ‘Lead Bank Scheme’ was first mooted by the Gadgil Study Group, which submitted its report in October 1969. The Group was of the view that banking was not developed in India judging by the criterion of population served per

\footnote{www.rbi.org/publicationdivision\leadbankscheme.}
bank office. The average population served by a commercial bank office in India was as high as 73,000 as against 4,000 in United Kingdom and 7,000 in USA. In the rural areas, it was found that only one per cent of the total number of villages (5,64,000) were served by commercial banks by the end of June 1967. Further, there was an uneven spread of bank offices and banking business as between States and population groups. Thus, commercial banks did not have adequate presence in rural areas and also lacked the required rural orientation. Moreover, out of the institutional credit to agriculture sector at 39 per cent of total credit, the share of commercial banks was negligible at one per cent, with the balance being met by the co-operatives. As a result, the banking needs of the rural areas in general and the backward regions in particular, were not adequately taken care of by the commercial banks and particularly the credit needs of rural sector of the economy such as agriculture, small-scale industry and allied services remained virtually neglected. The Group, therefore, recommended the adoption of an ‘An Approach” to evolve plans and programmes for the development of an appropriate banking and credit structure in the rural areas. The group also observed that the central idea was to assign, depending upon their area of operations and locations, to commercial banks, particular Districts in an area where they should act as pace-setters providing integrated banking facilities. There was the imperative need that thus all the Districts in the country were to be covered. The District was identified as the unit under the Area Approach because the co-operative structure was organized in relation to a District and most statistical and other data were available at the District level.

The Reserve Bank appointed a Committee of Bankers on Branch Expansion Programme of public sector banks, which submitted its report on November 15, 1969,
endorsing the area approach. It further recommended that in order to enable the public sector banks to discharge their social responsibilities, each bank should concentrate on under banked districts were it should function as a ‘Lead Bank’, as well as open bank branches to fulfill the target of providing every place designated as a town with a bank branch by the end of 1970.

Thus, pursuant to the recommendations of the Gadgil Study Group and Nariman Committee suggesting adoption of ‘area approach’ in evolving credit plans and programmes for development of banking and the credit structure. The Lead Bank Scheme was introduced by the Reserve bank in December, 1969. The scheme envisaged allotment of districts to banks to enable them to assume leadership in bringing about banking developments in the respective Districts.

Development in the districts was sought to be achieved by making banks the key instruments for local deployment of credit, entrusting them with the responsibility of locating growth centres, mobilizing deposits, and identifying credit gaps and evolving a co-ordinated programme for credit deployment in each District, in concert with other banks and credit agencies. In order to enable the banks to assume ‘leadership’ in an effective and systematic manner, the various districts, except the metropolitan cities of Mumbai, Delhi, Kolkata and Chennai and certain Union Territories in the country were allotted among the public/select private sector banks and each such bank was designed as the Lead Bank for the District concerned. The Lead Bank was also expected to work for expansion of branch banking facilities and assume a major role in the development of banking and credit in the allocated Districts.
The specific functions of the Lead Bank in a District are as follows:

(i) Surveying the resources and potential for banking development in its district.

(ii) Surveying the number of industrial and commercial units and other establishments, and farms, which do not have banking accounts or depend mainly on money-lenders, and increasing their own resources through the creation of surpluses from additional production financed from the banking system;

(iii) Examining the facilities for marketing of agricultural produce and industrial production, storage and warehousing space, and linking of credit with marketing in the District;

(iv) Surveying the facilities for stocking of fertilizers and other agricultural inputs and repairing and servicing of equipments.

(v) Recruiting and training staff, for offering advice to small borrowers and farmers, in the priority sectors, which may be covered by the proposed credit insurance schemes and for follow-up and inspection of end-use of loans;

(vi) Assisting other primary lending agencies; and

(vii) Maintaining contact and liaison with Government and quasi-government agencies.

The Lead Bank Officer was given the responsibility to prepare the District Credit Plan/Annual Action Plan (DCP/AAP) for the District after taking into account the annual estimated commitments of individual financial institutions. The plan document indicated a sectoral, scheme-wise and institution group-wise break-up of the total credit outlays, as also the estimated expectation of Government departments by way of
specific action on infrastructure development, supply of inputs and the like. The DCPs/AAPs were to be prepared in consonance with the objectives of the National Plan, namely, removal of unemployment and under-employment and bringing about an appreciable rise in the standard of living of the poorer sections of the population through provision of credit to meet their basic needs. Consequently, the main objectives of the banks’ loans envisaged loans for labour-intensive schemes which generated employment, increased productivity of land and other allied sectors so as to reduce underemployment and increase income levels, besides granting loans to the weaker sections of the population for productive purposes as also meeting in part their consumption needs. The DCP/AAP was to be passed on the existing pattern of economic activities and potential for development, ensuring Five-Year Plan targets and annual budgetary provisions; performance of financing agencies under the previous plan and their potential in respect of availability of funds as well as man power, in addition to likely demand for credit in respect of specific projects, different sectors and blocks in the District. The allocations of the credit plan amongst the commercial banks, co-operative institutions and other financial agencies operating in the district were to be done at a special meeting of the District Consultative Committee (DCC).

In pursuance of the recommendations of the Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) (Chairman: B. Sivaraman), the Reserve Bank, in November 1981, set up a working group under the chairmanship of U.K. Sarma to review the working of the Lead Bank Scheme in all its aspects. The recommendations of the Group, with some modifications, were implemented. The major recommendations pertained to:
(a) Reconstitution of the DCCs and Standing Committees to make them effective for;

(b) Constitution of District Level Review Committees in place of District Level Review Meetings (DLRMs);

(c) Status, designation and role of the Lead Bank Officer;

(d) Periodical DCC, DLRC meetings and their conduct;

(e) Effective management information system under Lead Bank Scheme;

(f) Training needs on Lead Bank Scheme for all officials up to the block level in government and officers of rural branches of financing agencies;

(g) Strengthening infrastructure of Lead Bank Offices, i.e., provision of jeep, telephone connectivity and the like.

Presently, the Lead Bank Scheme is in operation in all the Districts in the country (except the metropolitan cities of Mumbai, Delhi, Kolkata, Chennai and certain Union Territories) and covers 622 Districts as at the end of March 31, 2009.¹³

1.3 SERVICE AREA APPROACH (SAA)

With the establishment of the wide network of bank branches in rural and semi-urban areas in the late eighties, studies were undertaken to assess the impact of bank credit in increasing production, productivity and income levels of the rural population. These studies revealed several weaknesses in the existing system of dispensation of rural credit namely; rural lending by bank branches was rather haphazard and dispersed in a large number of villages spread over a wide area rendering supervision

¹³www.rbi.org|publicationdivision|leadbankscheme.
difficult. It was; therefore, felt that a move should be made towards concentrated lending by adopting an approach of designating specific service areas to the bank branches in rural and semi-urban areas in which they can operate for productive lending. It was felt that such an approach had significant advantages in contributing to orderly and planned development of the entire identified area and in monitoring and supervising credit and ensuring better recovery. Besides assessment of the impact of bank credit on production, productivity and income levels, it would also help in harmonising the efforts of banks in the task of rural development and avoiding diffusion of efforts over wide areas.

A decentralised planning policy was adopted and the Service Area Approach (SAA) was introduced in April 1989. Accordingly, each rural and semi-urban branch was allotted a specific area comprising 15 to 25 villages based on the principles of contiguity and proximity and it was asked to prepare an Annual Credit Plan on Service Area Plan after careful assessment of the potentialities and the needs of the various priority sector activities in its service area. Annual Lending Programmes drawn up by all branches in the Block/Taluk were thereafter aggregated to form the Block Credit Plan (BCP) for the block as a whole and the District Credit Plan (DCP) was prepared by aggregation of all Block Credit Plans in the District.

The implementation of BCPs was reviewed at Block Level Bankers’ Committee convened every quarter. Lead District Officers (LDOs) of Reserve Bank of India

\[^{14}\text{Ibid.}\] 
\[^{15}\text{Ibid.}\]
attended these meetings selectively in order to monitor the progress under District Credit Plans and various other programmes. Service Area Monitoring and Information System (SAMIS) were introduced as a medium for reporting the progress in the Lead Bank Returns (LBR) through which the Reserve Bank of India in association with National Bank for Agriculture and Rural Development monitors its usefulness and effectiveness. Under SAMIS code numbers were allocated to each activity and the information is suitably computerised.15

Table 1.1 shows the name of the Districts in Tamilnadu and the Lead Banks in the respective Districts.

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<tr>
<th>Sl.No.</th>
<th>District</th>
<th>Name of the Lead Bank</th>
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<tbody>
<tr>
<td>1</td>
<td>Ariaylur</td>
<td>State Bank of India</td>
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<td>2</td>
<td>Chennai</td>
<td>State Bank of India</td>
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<td>3</td>
<td>Coimbatore</td>
<td>Canara Bank</td>
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<td>4</td>
<td>Cuddalore</td>
<td>Indian Bank</td>
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<td>5</td>
<td>Dharmapuri</td>
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<td>6</td>
<td>Dindigul</td>
<td>Canara Bank</td>
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<td>7</td>
<td>Erode</td>
<td>Canara Bank</td>
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<td>8</td>
<td>Kancheepuram</td>
<td>Indian Overseas Bank</td>
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<td>Madurai</td>
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<td>Virudhunagar</td>
<td>Indian Overseas Bank</td>
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As per the Table 1.1 shows that 30 Districts are covered under Lead Bank Schemes in Tamil Nadu and four nationalized banks are playing the role of Lead Bank. Indian Overseas Bank is the Lead Bank for 13 Districts, followed by Indian Bank in eight Districts, Canara Bank and State Bank of India in six and three Districts respectively.

**1.4 SMALL-SCALE INDUSTRIES (SSI)**

The Small-scale Industries (SSI) sector has acquired a prominent place in the socio economic development of our country. Small scale industries are small in term but play a significant role in the Indian economy. It is acknowledged by the government that, alongside agriculture, small scale industry is an important segment of the Indian economy. Small scale industries contribute significantly to employment generation, dispersal of industrial activity to rural and backward areas, ushering in all round economic growth by value addition, ensuring the mobilization of local capital and developing entrepreneurial skills. There were 34.40 lakh industrial units in the
country directly employing 192.20 lakh workers at the end of March 2002. While the rate of growth of the industrial sector as a whole was 6.01 per cent in the last decade (1992–93 to 2001–02) the SSI sector showed a growth of 8.28 per cent.\textsuperscript{16} The rate of growth of the SSI sector has consistently outperformed the growth of the industrial sector. The contribution of the SSI is even more significant in bolstering the growth rate of the Gross Domestic Product of our country.

\textquote{The small industrial sector is undoubtedly the engine of employment and income-generation. It helps to empower the masses who have relatively less access to resources. In a developing and predominantly agricultural economy like India, small industries can exercise a stabilizing influence on the vagaries and uncertainties of a rural economy besides contributing to its prosperity.}\textsuperscript{17} In India there is the basic problem of absorbing the surplus manpower in non-agricultural jobs and providing additional employment opportunities for the growing population.

The SSI sector enjoys priority in getting financial and non-financial assistance from the Central Government, State Governments and other non-governmental organizations. To protect the interest of the SSI units and to improve their viability, the Government gives preference to the items manufactured by them. At present, it produces more than 8000 products. As per the policy note 2004–2005 issued by the Small Industries Department, our country has about 35.31 lakh SSI units


\textsuperscript{17}
providing employment to more than 199.65 lakh persons responsible for 40 per cent of the country’s industrial production, and 35 per cent of the national exports are contributed by the SSI sector.


In spite of the thrust accorded through the administrative machinery of the government and financial assistance extended by financial institutions and commercial banks, the growth of the SSI sector has been much below the expected level. At the end of the Ninth Plan, namely March 2002, the small–scale industries produced goods worth Rs.6,90,522 crores against the target of Rs.7,38,180 crores. They exported goods valued at Rs.62980 crores against the Ninth Plan target of Rs.78900 crores.18 Though the SSI sector contributed significantly to the economy of the country, it has not emerged as an engine of exponential growth and rapid economic transformation of the semi-urban, rural and backward areas. The liberalization and reform process initiated in India since 1991 has enlarged the problem areas of the SSI sector. While notable advances were made in exports and high technology areas, the general state of many small units continues to be critical.

1.5 SMALL-SCALE INDUSTRY AND LEAD BANK FINANCE

There is a well-known fact that finance is the lifeblood of any sort of business, trade, commerce or industry. Any enterprise engaged in industrial production realizes a great need of finance according to form, size and capacity. In a small scale industry the need of finance is very essential due to its limited sources and that too with difficult
procedures. It is a hard fact that finance is lacking in the small-scale sector.\textsuperscript{19} There is also an acute shortage of credit available to this sector.

\textsuperscript{18} Laghu Udyog Samachar, \textit{op.cit.}, pp.5–11.

Finance is an important input for an industry. Financing a business may take any of the traditional or new innovative forms. For small scale industries, forms of financing are private funds, loans and venture capital funds.\textsuperscript{20} Money is the main element in starting any business. To procure this, small entrepreneurs have to approach either the organised sector such as banks and financial institutions or the unorganised sector such as money lenders, friends, relatives, and the like.

Among these sources banks play a significant role in financing small scale industries. Banks are financial institutions providing financial infrastructure which is an essential factor in the process of development of SSI.

The role of commercial banks in the process of economic development is well recognized. The year 1969 was a major turning point in the Indian financial system when fourteen major commercial banks were nationalized. The main objective of bank nationalization was re-orientation of credit flows so as to benefit the till then neglected sectors such as agriculture, small-scale industries and small borrowers.

Government has constituted several committees from time to time to improve the credit delivery system of commercial banks towards SSI. Accordingly at present
SSI has been recognised as a priority sector by commercial banks and they lend liberally to SSI.


In spite of this, the SSIs are facing problems in securing credit from commercial banks.

The greatest problem faced by the small scale entrepreneurs was the non-availability of adequate financial assistance. Lack of finance may arise at the implementation stage itself. In the present day the most important problem facing small scale industries is finance.\(^{21}\)

A proper system is lacking in the commercial banks for apprising the projects of the SSI units. In sanctioning working capital assistance, they follow a security–oriented approach. This leads to the entry of unviable projects into the industrial area that in due course become sick.\(^{22}\)

**1.6 STATEMENT OF THE PROBLEM**

The banking sector has been playing a crucial role in a developing economy. A dynamic and vibrant banking sector has emerged as a sector of the masses rather than that of the classes these days. The balanced distribution of the bank branches could ensure both quantitative and qualitative improvements in the economy at large. In order to optimise the benefits of the banks and serve the requirements of multistructuralism; an egalitarian approach based on the ‘Area matrix’ has been well conceived and
implemented throughout India from 1969 onwards. Consequently, the Lead Bank Scheme was born and started bearing creditable fruits, particularly in rural dominated segments of the economy. The Lead Bank leads all other agencies and organisations and co-ordinates their functions suitably well.

Availability of timely and adequate finance is the sine qua non for the growth of any sector, including the SSI. In a small scale industry, the vital need of finance becomes a problem due to the limited resources of the entrepreneurs and the cumbersome procedures in getting the loans from financial institutions. The SSI unit faces several challenges such as low productivity, low profitability, stiff competition and the like mainly due to the inadequacy of institutional credit.

Several financial institutions and commercial banks operate in Virudhunagar District. They liberally provide all sorts of financial assistance to SSI units. Among them the Indian Overseas Bank is one of the nationalised banks, which is the Lead Bank of Virudhunagar District, playing a dominant role in the financing of Small Scale Industries. The development of small industries in Virudhunagar District largely depends on the financial assistance provided by Indian Overseas Bank which is also the Lead Bank of Virudhunagar District. There are varied opinions among the entrepreneurs of the industrial units in Virudhunagar District regarding the claim of providing sufficient finance by the Lead Bank, namely the Indian Overseas Bank.
Keeping this in view the researcher has attempted to analyse the performance of Lead Bank and the financing strategies to SSI industries in Virudunagar District.

1.7 OBJECTIVES OF THE STUDY

The specific objectives of the present study are:

1. To analyse the extent of financial assistance to the small scale industrial units by the Indian Overseas Bank (Lead Bank) in Virudunagar District.

2. To study the socio-economic profile of an entrepreneurs the selected sample of small scale industrial units.

3. To analyse the attitude of an entrepreneurs of the selected sample of small scale industrial units towards the lending services of the Lead Bank.

4. To study the level of satisfaction and to identify the factors influencing the level of satisfaction of the industrialists.

5. To offer suitable suggestion based on the findings of the study.

1.8 HYPOTHESES

The following null hypotheses are formed:

1. The variables namely age, community and education of the respondents are independent of their level of satisfaction.

2. The factors relating to the nature of organisation, type of industry, years of existence, area of plant location and location status of plant have not influenced the level of satisfaction.
1.9 METHODOLOGY

Designing of a suitable methodology and selection of analytical tools are important for a meaningful analysis of any research problem. This section is devoted to describe the methodology which includes collection of data, construction of questionnaire, pre test, sampling design, scope of the study, period of the study and data processing and tools of analysis.

1.9.1 Collection of Data

Both primary and secondary data have been used for the present study.

1.9.2 Primary Data

The primary data have been collected from the 250 sample units with the help of a pre-tested interview schedule administered to the entrepreneurs of the small scale enterprises to elicit first hand information.

1.9.3 Secondary Data

The secondary data for this study have been collected from various published and unpublished sources:


2. Annual Reports of Indian Overseas Bank, Chennai.


7. Annual report of the Tamil Nadu Industrial Investment Corporation, Chennai.


1.9.4 Construction of Questionnaire

The variables to be studied were identified from the various reports and booklets published by the Reserve Bank of India and the Indian Overseas Bank. The questionnaires for the industrialists are drafted on the basis of the available literature and were calculated among some resource persons for a critical review with regard to wording, format sequence and the like. The questionnaires were drafted on the light of their expert comments.

1.9.5 Pre-test

A pilot study was conducted by contacting 25 sample industrialists of SSI units. In the light of their comments, the interview schedule was modified.

1.9.6 Sampling Design

In order to evaluate the lead bank finance to small-scale industries in Virudhunagar District, 40 per cent of the total small scale industrial units who availed of lead bank finance (250 small-scale industrial units) were selected by adopting the proportionate stratified random sampling method. For this, SSI units assistance from Indian Overseas Bank branches were obtained from the register of the Indian Overseas Bank, Circle Office at Virudhunagar, as on 31 March 2012. There are different
categories of SSI borrowers according to the nature of industries into six division, namely, (i) Food products, (ii) Electrical and Electronics, (iii) Rubber and Rubber Products, (iv) Metal and Metal Products, (v) Chemical and Chemical Products, and (vi) Miscellaneous units includes textiles and textile products, readymade garments and the like. The proportionate stratified random sampling method was adopted to select 250 from these six major categories. The selected sample units are shown in Table 1.2.

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Type of Industries</th>
<th>Total Number of Units who availed Lead Bank Finance</th>
<th>Sample Size (40%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Food Products</td>
<td>180</td>
<td>72</td>
</tr>
<tr>
<td>2.</td>
<td>Electrical and Electronics</td>
<td>105</td>
<td>42</td>
</tr>
<tr>
<td>3.</td>
<td>Rubber and Rubber Products</td>
<td>45</td>
<td>18</td>
</tr>
<tr>
<td>4.</td>
<td>Metal and Metal Products</td>
<td>90</td>
<td>36</td>
</tr>
<tr>
<td>5.</td>
<td>Chemical and Chemical Products</td>
<td>95</td>
<td>38</td>
</tr>
<tr>
<td>6.</td>
<td>Miscellaneous</td>
<td>109</td>
<td>44</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>624</strong></td>
<td><strong>250</strong></td>
</tr>
</tbody>
</table>

Source: The records from Indian Overseas Bank, Circle Office, Virudhunagar, 2012.

1.9.7 **Scope of the Study**
The present study deals with the overall financing of the Indian Overseas Bank towards SSI units. The survey project has also an in-depth analysis of the Lead Bank financing in Virudhunagar District. The study also covers the perception of the small scale industrialists regarding the Lead Bank financing in the District.

1.9.8 Period of the Study

The period of coverage for the study is the last nine financial years that is 2003-2004 to 2011-2012. This period is selected for the study because the researcher would collect complete data for the entire period. The period is considered to the adequate for the study to infer valid conclusion. The researcher has spent almost nine months from October 2010 to June 2011 for collecting primary data.

1.9.9 Data Processing and Tools of Analysis

After completion of the data collection, the filled up interview schedules were edited to make them ready for coding. A master table was prepared to sum up all the information obtained through the interview schedule. With the help of the master table, every information was coded and then transcribed on transcription cards. With the help of the transcription cards classification tables were prepared. These were used for further analysis.

In order to examine the growth in the number of branches, deposits, advances, lending and the like and its stability over the period under study, the Arithmetic Mean (∑X) and Coefficient of Variation (C.V.) have been applied.
In order to measure the attitudes of the SSI units to the lending services of the Indian Overseas Bank (Lead Bank), thirty statements were identified and given in the form of a five point scale. The Likert Type Scaling technique was adopted. Further, to examine the factors that influenced the level of satisfaction, the Chi-square test was also applied.

Factor analysis was used to analyse the attitude of the SSI units to the lending services of the Lead Bank. The Rotated Factor Matrix has been used to express the ratio between the attitude variables and the underlying factors.

Apart from these, trend, compound growth rate and percentages have also been used.

1.10 LIMITATIONS OF THE STUDY

Every study suffers from approximations and limitations. Some of the limitations may be inherent in the research design, whereas, some other limitations become part of the study. The current research work suffers from the following limitations.

1. The study is related to only one District namely Virudhunagar District.

2. The present study is confined to nine years of secondary data from 2003-2004 to 2011-2012.

3. Financial information collected from the study which is the secondary data carries all the limitations unique to the secondary data.

4. The sampling of the respondents is limited only 250 numbers and so it may not give a real picture.
5. The limitations of tools and techniques applied for the analysis are also some limitations in the present study.

6. The study may have biased opinion of the respondents which is in available.

**1.11 SCHEME OF RESEARCH REPORT**

The present study, “A Study on Lead Bank Finance to Small - Scale Industries (SSI) in Virudhunagar District” is divided into seven chapters.

The first chapter deals with the introduction and design of the study, the scenario of Lead Bank financing in India, statement of the problem, objectives of the study, hypotheses, methodology and frame work of analysis, construction of questionnaire, pre test, sampling techniques, scope of the study, period of the study, data processing and tools of analysis, limitations of the study and chapter frame.

The second chapter deals with review of literature adopted of the study.

The third chapter describes the profile of the study area.

The fourth chapter analyses the trend and growth of Indian Overseas Bank finances to SSI in India, Tamilnadu and Virudhunagar District.

The fifth chapter deals with the socio-economic profile of the entrepreneurs of selected sample of the small scale industrial units in Virudhunagar District.

The sixth chapter discusses the attitude of industrialists regarding the lending services of the Lead Bank in Virudhunagar District. Further, it examines the factors influencing the level of satisfaction of the industrialists with regard to their services.
The seventh chapter presents the summary of the findings along with suggestions based on the findings of the study and the conclusion.
CHAPTER I
INTRODUCTION AND DESIGN OF THE STUDY

1.1 Introduction
1.2 Lead Bank Scheme (LBS)
1.3 Service Area Approach (SAA)
1.4 Small-scale Industries (SSI)
1.5 Small-scale Industry and Lead Bank Finance
1.6 Statement of the Problem
1.7 Objectives of the Study
1.8 Hypotheses
1.9 Methodology
1.10 Limitations of the Study
1.11 Scheme of Research Report

2.1 REVIEW OF LITERATURE

Lead bank financing to SSI is an interesting topic for research. Many researchers have made several studies on this topic in different dimensions. A brief review of such works is presented here.

G. Balakrishnan15 (1961) analysed the experience of joint stock companies in finding finances and found that was a demotivating factor for availing finance from banks.