CHAPTER VIII
"Since verbal science has no final end, since life is short and obstacles impend, let central facts be picked and firmly fixed, as swans extract the milk with water mixed.

- The Panchtantra

How have-the-reforms impacted on efficiency and stability? These can be judged in relation to a variety of measures. A central proposition that is sought to be addressed here is whether the dominant public sector presence in banking has been conducive to or detracted from efficiency and stability. So, I provide figures for PSBs but the conclusions apply to the banking sector as a whole.

PROFITABILITY:

As measured by net return on assets, profitability in PSBs rose from -0.4 per cent in 1992-95 to 0.8 per cent in 2005-06 with the peak of 1.12 per cent being achieved in 2003-04. It is not just that Indian banks have achieved a turnaround. They have gone onto become among the most profitable in the world. Internationally, a return of 1 percent on Ram Mohan (2005) reviews the literature on bank reforms in the initial years. Much of this is not relevant today because there has been a marked improvement in the performance of the Indian banking sector along with that of the overall economy in recent years. For instance, Sarkar et al (1998) found a weak ownership effect but
their sample covered only two early years in the post-reform period: 1993-94 and 1994-95.

What is notable, however, is that the studies that went even only up to the late 1990s have detected a certain convergence in performance between public sector banks and foreign and private banks [Das 1997; Ram Mohan 2002 and Ram Mohan 2003; Ram Mohan and Ray 2003]. Bhaumik and Dimova (2004) provide further confirmation of this trend. Their results suggest that, although domestic private and foreign banks performed better than public sector banks at the onset of competition in 1995-96, the gap tended to narrow over time. By 1999-2000, the authors found, there was no observable relationship between ownership and performance in the Indian banking industry. This suggested that the PSBs had responded better to competitive forces than their private sector counterparts. These conclusions accord with what has been observed in the literature on privatisation: competition, deregulation and the imposition of hard budget constraints do have a positive yngact on the performance of state-owned firms.

FACTORS UNDERLYING PERFORMANCE IMPROVEMENT:

The improvement in PSBs’ performance is thus undeniable. How did this improvement come about? It is often suggested that luck played a big part in the PSBs’ turnaround and thereby the turnaround in the Indian banking system. The most common* refrain that you will hear is that the PSBs profited in a big way from capital gains on their large holding of government securities.

Consequent to the imposition of the Basel norms and given that
they were operating close to the capital adequacy norm of 9 percent, the PSBs raised their investment in statutory liquidity ratio (SLR) securities way above the statutory requirement of 25 per cent - at one point, their holdings were over 40 per cent. When interest rates declined, the PSBs reaped a huge windfall through capital appreciation on their investment portfolios.

I have two observations to make on this point. First, the Indian banking system is not unique in benefiting from a long-term decline in interest rates. In the US, the banking system was battered towards the end of the 1980s on account of huge exposures to Latin America, a region that had plunged into economic crisis. There was much speculation that the American banks would be swallowed up by the large Japanese banks. Then, the US Congress passed the Balanced Budget Amendment Bill. The resulting decline in interest rates led to a recapitalisation of the American banking system. By the early 1990s, the American banks had come roaring back onto the world stage.

Secondly, while it is true that treasury gains boosted PSB banks’ profits, it is not the whole story. In 2003-04, which was among the best years for treasury, the share of trading income at PSBs; was 11 per cent of total income. In 2004-05, trading income halved to 6 per cent of total income as interest rates began rising from October 2004. Many analysts had forecast that, with a decline in trading income, the days of high profitability for PSBs would come to an end. This did not happen. Profitability did decline in 2004-05, but the decline was not steep— the return on assets was a healthy 0.9 per cent of total
assets. In 2005-06, which saw interest rates rising through the year, profitability declined only slightly to 0.82 per cent.

Trading income boosted profitability following the decline in the interest rates towards the late 1990s. But profitability improvements had happened even before and several factors contributed. Table 6 indicates the role played by these factors over two different periods: 1993-2000 and 2000-06.

Improvements in operating profit can result from the following: an increase in spread, an increase in other income and a decrease in operating costs. The improvement in net profit will reflect these factors and also decrease in provisions and contingencies. Two items do not figure in the table: change in volume of advances and investments, which would impact on operating profit; and changes in taxes which would impact on net profit. The unexplained portion of the net profit increase in the table can be ascribed to these two factors.

Comparing 1999-2000 with 1992-93, the first year of reforms, it can be seen that the fall in provisions and contingencies was by far the biggest contributor to the increase in profitability. When we compare 2000-06 with 1999-2000, we find that a decrease in operating costs was the biggest contributor. This is understandable. In this period, there was a huge increase (54 per cent) in the volume of advances and investments in PSBs while manpower actually reduced through the introduction of a voluntary retirement scheme.

An increase in spread contributed to the increase in profitability in both the periods, the contribution being bigger in the first period.
Other income (which includes treasury gains) declined in the second period. If we add the increase in spread and the decrease in operating costs in this period and subtract the fall in operating income, we get an increase in operating profit of 0.35 percentage points. The remaining increase -0.08 percentage points-may be ascribed to the increase in volume of credit over the second period.

Thus, it is possible to overstate the role of treasury income (which goes into “other income”) in explaining the improvement in performance of PSBs. At various points, a decrease in on attractive packages. Employees who have invested in their banks’ shares must recognise that steps such as these will enhance the value of their holdings in the long run.

Improvements on the HRD side will also call for determined efforts on the part of the government and the bureaucracy. Compensation need not be delinked from government pay scales or be linked to what obtains at private banks. They can be benchmarked with respect to government pay. But that does not mean compensation at banks (or the other PSUs) cannot exceed pay in government.

In determining pay at PSBs, we must work backwards from what it would take to bring in recruits from the better management colleges. The CEO pay can be a certain multiple of this pay but it must also be not higher than a certain multiple of the highest paid bureaucrat. If were to operate on these principles, we would be in a position to attract talent to PSBs without compromising the competitive advantages that accrue from a lower wage structure relative to private banks.
Last but by no means the least, there is a need for better communication on the part of unions - with the media as well as the general public. Unions must create a cadre for people who are well-trained for this role. And they must make every effort to communicate positive steps they are undertaking, not just wage demands. Let unions make presentations to the media on other groups on their perceptions of where their respective banks stand and what needs to be done to improve competitiveness. Where wage demands are concerned, the rationale must be clearly articulated, backed by facts and figures. This again is a neglected area.

8.1 IMPACT OF REFORMS:

The Lead Bank Scheme was introduced by the Reserve Bank of India in December 1969, as a supplement to branch expansion programme of commercial banks to ensure the flow of bank credit to priority sector and to coordinate the activities of the various agencies such as banks and developmental agencies of the Government at various levels. Under the Lead Bank Scheme a particular district was allotted to a particular bank which was made responsible to develop banking and credit in that district. The bank so selected was designated as the Lead Bank of that district. It was expected to perform the following functions (i) to conduct a survey of the resources and potential for the development of the banking services; (ii) to determine the centres of growth for opening branches in a phased manner; (iii) to identify commercial units and other establishments which do not have
bank accounts and which are dependent on money lenders; (iv) to take stock of the facilities for marketing of agricultural produce, industrial production, storage and warehousing and the linking of the credit with marketing in the district; (v) to obtain details of facilities for the stocking of fertilizers and other agricultural inputs and for the repair and servicing of equipments; (vi) To recruit and train staff for offering advice by small borrowers and farmers and for the supervision and monitoring of end use loans; (vii) to provide assistance to other primary lending agencies; and (viii) to maintain liaison with Government and Semi Government agencies.

An analysis of the facts and figures, discussed in different chapters, leads us to make important concluding observations and some suggestions in this last chapter. We have, so far, made analytical study of the changing role of banks in the context of planned economic development, the characteristic features of the backward economy of Banda District and in depth study of the working of banks and the Lead Bank Scheme. In the previous chapters, I have also discussed the Lead Bank Scheme as casting its impact on branch expansion, deposit mobilisation, credit deployment policy and practices, specially lending to priority sectors. I have made an effort to evaluate the impact of the lead bank scheme on the economy of Banda District both in quantitative and qualitative terms. It would make more useful a study if I summaries the findings of my work and suggest measure to improve the working of the Lead Bank.

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

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

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

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

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

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

iv) Realigning the scared service areas; and

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

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

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

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

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

8.2 LEAD BANK AND BANDA:

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

In Banda District crop loans provided by Allahabad Bank was Rs. 9001000, Rs. 8810000, Rs. 2451000, Rs. 4824000, Rs. 13045000, Rs. 9001000, Rs. 9000000, Rs. 11180000, Rs. 15150000, Rs. 30020000 in the year 1993-94, 1994-95, 1995-96, 1996-97, 1997-98, 1998-99,

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

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

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

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

8.3 RURAL UPLIFTMENT IN BANDA DISTRICT BY LEAD BANK:

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

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

A) Integrated Rural Development Programme (IRDP):

Under this poverty alleviation programme, various sectors are financed for those below poverty line. The identified beneficiaries are included to take up economic activities of smaller outlay under farm and non-farm sector. Physical and financial targets for financing under IRDP is given by the state government. In the district dairy, sheep goat, pig and poultry sectors/activities are financed under IRDP for which government earmarks the subsidy. Various borrowers categories are supported for which targets are to be achieved each year, for example women, SC/ST etc. Review of implementation of programme is done in BLBC, standing committee, DCC and DLRC meetings. The cash disbursement in also in vogue under IRDP giving more freedom to beneficiaries to choose quality of assets from the open market. In the district, branch level committees as per RBI Guidelines, have been constituted. From the period 1993-94 to 1999-2000, credit distributed under Integrated Rural Development Programme by Allahabad Bank was Rs. 16205000 Rs. 14074000 Rs. 9456000 Rs. 8090000, Rs. 14216000, Rs. 10618000, Rs. 11346000 respectively. During 1993-94 3816 families were benefitted as against the target 5940 while during 1994-95, 5623 families were benefitted in Banda district as against the target of 2946.
B) Agriculture:
Banda district is agrarian and the largest proportion of the population is engaged in agriculture. Agriculture attracts the single largest allocation in Annual Credit Plan. Both Rabi and Kharif crops are grown in the district. Total agricultural advances provided by Allahabad Bank in 1993-94 was Rs. 49250000 while in 1999-2000 it was Rs. 34073000. During 1997 target fixed by Allahabad Bank was Rs. 282.58 lacs. However it got success in achieving only to the amount of Rs. 244.71 lacs while target achieved by the Bank was higher than the target amount in 1998, 1999, 2000 and 2001. Unfortunately, all these increase in agriculture and allied activities helps in better standard of living of the farmers.

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

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

E) Development Programmes:

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

8.4 TESTING OF HYPOTHESES:

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

1) Nationalised Commercial Banks have helped in the monetisation of the economy:

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

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

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

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

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

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

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

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

The lead bank Allahabad Bank provided credit to priority sector to the amount of Rs. 71850000, Rs. 65402000, Rs. 36087000, Rs. 48621, Rs. 65656000, Rs. 52921000, Rs. 56784000, Rs. 62626999, Rs. 77331000, Rs. 93360000 during 1993-94, 1994-95, 1995-96, 1996-97, 1997-98, 1999-2000, 2000-01, 2001-02, 2002-03, respectively. This table indicate that the commercialised banks have helped priority sector to the great extent.

5) **Microfinance is used as an instrument to bring benefit to the poor:**

Ground level credit disbursement under term loan by commercialised banks in the financial year 1994-95 was Rs. 352.26
lacs. In 2001-02, it has been increased to Rs. 472 lacs. In 2002-03, ground level credit has been increased to Rs. 800 lacs. This indicates the significance of micro finance. Increasing of ground level credit indicates real benefit to poor. Besides, by a conservative estimates, during 200-01 the district of Banda shall be linking 60 SHGs with banks.

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

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

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

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

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

8.5 SUGGESTIONS:

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

To improve the working of the Bankers:

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

# Attitude:

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

**Trust between the Banker and Beneficiaries should be maintained:**

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

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

**Procedural Modifications:**

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

1) Delays in the sanctioning and disbursement of loans of sponsored applications give encouragement of corruption. For this reason, sponsored applications must be sanctioned and disbursed within the official time limit. Any delay in this regard must be explained in writing to the sponsoring authority and to the prospective beneficiary.
ii) Bank should arrange credit-camps frequently with assistance from Government Officials in which representatives both from banks and blocks should be present to collect, sort out and sanction loans to the applicants at the spot itself to facilitate a cluster approach to lending.

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

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

# Proper training to new extent, in management expectation, procedural aspects, secrecy, discipline, their role in the organisation. Transaction analysis and refresher course on other functional areas.

# Annual compilation with updation of all the internal circulars
ministerial guidelines, judicial pronouncement along with its functional applicability and relevance to the organisation. A copy of which should invariably be made available to each department.

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

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

By observing these safe guards, management can minimise the chances of fraud. Besides adhering to other measures as laid down by an organisation must be scrupulously followed and employees should be educated about their importance. Each and every person in a chain must be treated as an important person in discharging the duties of the organisation. A sense of belonging must be developed among the employees which in turn would be the motivational factor for the employees, and is an important element for organisational and personal growth.

Lending norms for the banks have also been liberalised. They
can now decide the levels of holding of individual items of inventory and receivables to be permitted to borrowers and also the quantum and period of adhoc credit limits without charging additional interest.

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

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

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

# The priority sector should be redefined.

# Cash reserve ratio should be progressively reduced.

# Local Bank should operate only in a specified region.

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

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

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

# Balance sheet of banks should be transparent.

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

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

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

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

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

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