CHAPTER – 6

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

The banking industry in India has made considerable progress especially during the last three decades, to emerge as one of the accredited agencies of rural development. The National Credit Council was set up in Dec, ’67 to determine the priorities of bank credit among various sectors of the economy.

The NCC appointed a study group on the organizational framework for the implementation of social objectives in Oct.’68 under the chairmanship of Prof. D.R. Gadgil.

The study group found that the commercial Banks had penetrated only 5000 villages as of June’67 and out of institutional credit to agriculture, at 39%, the share was negligible at 1% the balance being met by the cooperatives. The Banking needs of the rural areas in general and backward in particular were not taken care of by the commercial Banks.

Besides, the credit needs of Agriculture, SSI and allied activities remained neglected. Therefore, the group recommended the adoption of an area approach for bridging the spatial and structural credit gaps. Later, All India Rural Credit Review Committee 1969 endorsed the view that CBs should increasingly come forward to finance activities in rural areas.

The study group which was presided over by Prof. D.R. Gadgil recommended in Oct.’69 the adoption of an “area approach” for the development of credit and banking in the country on
the basis of local conditions. The committee of Bankers appointed by RBI under the chairmanship of Sri F.K.F Nariman endorsed this area approach, RBI accepted the recommendation and formulated the lead Bank scheme (LBS) in Dec,’69. Under the scheme, each district had been assigned to different banks (public and private) to act as a consortium leader to co-ordinate the efforts of banks in the district particularly in matters like branch expansion and credit planning.

The LBS did not envisage a monopoly of banking business to lead bank in the district. Leader for co-ordinating the efforts of all credit institutions in each of the allotted district For expansion of branch banking facilities and for meeting the credit needs of the rural Economy. In the meanwhile, nationalization of 14 major commercial banks in July 1969 (and another 6 banks in 1980), paved the way for bringing about dramatic changes in their operations. One of the important changes ushered in immediately, was the expansion of the Branch network in the unbanked areas with a view to bridge spatial gaps. Banks were directed to open a large number of branches in unbanked rural and semi-urban areas.

**ALLOTMENT OF DISTRICTS AMONG THE LEAD BANKS**

All the districts in the country excepting the metropolitan cities of the Mumbai, Kolkata, Chennai and Union Territories of Chandigarh, Delhi and Goa were allotted among public Sector banks and a few private sector banks. Later on, the Union Territories of the Goa, Daman and Diu as also the rural areas of the Union Territories of Delhi and Chandigarh.
have been brought within the purview of LBS.

**FORMATION OF DISTRICT CONSULTATIVE COMMITTEES (DCC)**

The next important development in the history of LBS was the constitution of DCCs in all the district, in the early seventies to facilitate co-ordination of activities of all the banks and the financial institutions on the one hand and government departments on the other. The DCCs were constituted in the lead districts during 1971-73.

**STUDY GROUPS ON LEAD BANK SCHEME IN GUJARAT AND MAHARASHTRA**

RBI constituted two study groups to study the working of the LBS in Gujarat and Maharashtra as per the decision taken in the regional consultative committee (western Region) held in August 1975.

**DISTRICT CREDIT PLAN (DCP)**

The second and most important phase of the LBS was formulation of DCPs and their implementation. Although certain structural credit gaps were identified earlier, positive measures were introduced only after nationalization of the banks. Certain sectors which were hitherto neglected were given a priority status and banks were asked to provide credit to these sectors in a more concerted way. Priority sector included agriculture, small scale industries (SSI), small road and water transport operators, retail trade and small business, education, self-employed persons, etc. It was made mandatory for the CBs to deploy a stipulated percentage of credit for priority sector. It was fixed at 33.30% of
outstanding credit by March 1979 and 40% by March 1985 onwards. Within the priority sector, sub targets were prescribed for agriculture and allied activities and weaker sections. The credit planning exercise under the LBS primary aimed at overall development of a district through the coordinated efforts of banks acting in unison with the developmental organs of the state government at the district level.

**LEAD BANK OFFICERS AND LEAD DISTRICT OFFICERS**

The organizational base of the lead banks was strengthened for preparation of DCPs and for its monitoring and implementation. RBI advised them in 1979 to appoint lead bank Officer [normally called lead district manager (LDM)] in each district for the purpose. Our lead banks are being headed by lead district managers. Simultaneously, RBI appointed LDOs who were allotted 4 or 5 districts each and were entrusted with the preparation and implementation of DCPs in the allotted districts.

**6.1 Summary and Conclusion:**

After independence of the country, the definition of a small-scale industry has been modified various times. The limit is revised from time to time to offset the impact of inflation and to meet technological needs. Presently in India the Small Scale Industry is defined as an industrial undertaking in which, investment is fixed assets in plant and machinery whether held on ownership terms, on lease or on hire purchase does not exceed Rs. 1 crore (subject to the condition that the unit is not owned, controlled or subsidiary of any other institutional undertaking).
Small scale industries play an important role in socio-economic transformation of the economy characterized by lack of capital, chronic unemployment, gross income inequality, huge quantity of unused and hidden wealth and glaring imbalances in the inter-regional industrial development. Small-scale industries deserve to be assigned a very crucial role in the development of the district, state and country.

Small-scale industries face a number of financial, technical managerial, marketing and infrastructural problems. Small Entrepreneurs suffer from lack of finance for working capital and fixed capital, their own financial resources are limited and they do not get adequate amount of loans from banks and other financial institutions which are setup for assisting SSIs.

As far as growth of SSI in Aligarh district is concerned it may be said that growth of small-scale industries is satisfactory, the number of registered units of SSI are increasing. Employment is also being generated but the growth of SSI, in urban areas is more satisfactory than the growth of SSI in rural areas of the district. The total number of Registered units and factories in Aligarh district is 7,134 respectively. 219 units are engaged in the production of locks, building fitting materials, electrical equipment, belt badges, letter boxes, other metal products like, lantern, scissors, metal notice sign board etc. in which there are about more than 37484 workers employed.

In Aligarh District, various institutions such as lead Bank (Canara Bank), SIDBI, U.P. Financial Corporation, NSIC, DIC,
and some commercial banks and cooperatives provide finance to small-scale industries and cottage industries. But in this district no enterprise has received loan from any financial institution either because of high rate of interest or because of problem of repayment of loan or they have failed to get the loan.

The banks and financial institutions do not show interest in financing new entrepreneurs. This is due to low risk involved in lending to those who are already financially sound.

The procedure of taking both term loan and working capital is so cumbersome that people take the help of relative, friends and moneylender in times of need or they use funds from their own sources.

Apart from financial problem, there are number of problems which are faced by the entrepreneur of SSIs and cottage industries of the district.

For the payment of raw material and their daily needs, the entrepreneurs have to sell their product to retailers or wholesale dealers at low prices. If they work for other concerns they receive payments after a week. During that week they become highly indebted and subsequently the whole amount is used for the payment of debt.

There is lack of proper co-ordination among financial institutions, promotional agencies and the institutions, which provide land to entrepreneurs. This results in delay and the ultimate sufferer is the entrepreneur.

There is lack of awareness among the entrepreneurs of the new machinery and technology, which have come in other
regions. There is no Research and Development facilities in the SSI units and this retards the growth and innovation among the entrepreneurs.

Though it should have been a routine affair for the District Industry Centre (DIC) officials and bank officials to inspect the working of SSI units. But they hardly visit the concerned SSI units to check whether they are working properly or not. So these are some of the problems, which influence the growth of SSIs of the District.

A number of banks and other institutions were set up by the Government of India for the financial assistance to the small scale and cottage industries. The Non-Bank Statutory Financial Organization (NBSFOs) or development banks are playing a very important role in the development of these small scale and cottage industries. At present there are about 35 such institutions, which include IDBI, IFCI, NABARD, Lead Bank, SIDC, SIDO, SIDBI and so on. They provide wide range of fund based and non-fund based assistance to industries.

Lead bank also coordinates the activities of agencies, which provide finance to small-scale industries. Lead Bank also has announced various schemes like 'Single Window Services', Inland letter of credit scheme, composite loan scheme etc for the development of small enterprises.

In the northern zone, Lead Bank has opened its branch office at Aligarh (U.P.). Lead Bank offers various projects and schemes for the development of SSIs in Aligarh District. Lead Bank also helps in the modernisation and technology upgradation of existing ones. In Aligarh several small-scale
units are operating by using obsolete technology. Then productivity and profitability may be raised through modernisation & upgradation of technology. It helps in expansion of well-run units, diversification of these units for enhancing their competitiveness. Marketing is another area where the small-scale units of Aligarh need special attention. This would increase their profitability.

Lead bank has evolved itself to meet the various requirements of SSIs of Aligarh district by offering various financial products & resource like term loan assistance, working capital term loan, support organs delayed payment, foreign currency loan, and also by micro credit and indirect financial assistance.

Lead Bank also introduced several schemes, for the development of SSIs like SVCL, JMER etc. A large number of SSIs of Aligarh district may be benefited through these financial operations of Lead Bank.

So the study proves the hypothesis that finance act as a major constraint in the growth of small-scale industries in Aligarh District.

6.2. **Recommendations:**

The study makes the following recommendations having policy implications:

1. The Lead Banks, banks and financial institutions should provide both the working capital and term loans, without delay to the SSIs.

2. In sanctioning of the quantum of credit facilities, there is a tendency to cut down the limits on an adhoc basis
on the plea that the units will require the full credit limit only when it goes into full production. There are often delays subsequently for enhancing limits and the operations of the units suffer. The full working capital should therefore be sanctioned at the outset obviating the necessity for reference to sanctioning authority subsequently.

3. Financial guarantee to a reasonable extent may be given to small entrepreneurs to enable them to secure contracts for supply of goods and to carry out the work undertaken.

4. There must be accountability on the parts of District Industries Centre (DIC) and bank officials and the special tribunal should be established so that stringent action can be taken against the erring officials. There should be greater coordination between Lead Bank and DIC.

5. Lead Bank should follow uniform policy of providing need-based finance to small units.

6. It is suggested that before providing finance for any project the Lead Bank should have a close look at the top management as well as the complete organizational set up.

7. Besides Lead Bank all the institutions & organizations, which are related with the working of SSIs, should set up a separate department of customer care for the benefit of entrepreneurs.

8. It is suggested that the Government should ensure in
coordination with Lead Bank that all the facilities related to finance, marketing etc. needed by SSIs should be made available at one place so that entrepreneurs do not have to go to different parts of the city for a single work. This will save a lot of time and delay on the part of entrepreneurs.

9. Lead Bank should provide project reports to the prospective entrepreneurs easily and at affordable cost.

10. The Lead Bank in cooperation with banks and financial institutions should conduct specialized training programmes and seminars not only for their staff but also for the borrowers to bring about better understanding and coordination between them.

11. Banks and financial institutions should also take steps to bring about an attitudinal change in their officers and other functionaries dealing with the industrial units so that they adopt helpful attitude from pre-sanction stage and are able to win the confidence of their borrowers.

12. The procedure of taking loans from Lead Banks, banks and financial institutions should be simplified and more powers should be delegated to the branch manager so that unnecessary delays may be avoided.

13. The Government should be promoting the SSI units to develop Research and Development (R&D) facilities and concession should be given to those units, which have R & D facilities.

14. Efforts should be made by the Government in
coordination with Lead Bank to revive the sick units in the Industrial Estates and Industrial Areas.

15. Lead Bank and other banks should go beyond the purview of lending and recovery. They should try to act as a friend, philosopher and guide to small scale Industries.

16. The Government should take full advantage of the establishment of Lead Bank’s office at Aligarh and provide all the necessary assistance to it in carrying out its operations successfully in Aligarh. Since, the efforts of the Government towards the development of Aligarh as an industrial hub of western U.P. have not been successful and the desired degree of success has eluded us. It is all the more important to involve agencies like Lead Bank and assign them an increasingly greater role in the industrial development of Aligarh District.

6.3. General Suggestions to streamline the working of Canara Bank:

No doubt Canara Bank is working very well in the district but to further streamline the working of Canara Bank and to enable it to render better services to its customers, the following suggestions may be given:

1. The Bank should remove all constraints and ensure prompt collection of cheques which will enable it to maintain larger balances in current and saving account. At the same time, the complaints and grievances of the customers should be removed as early as possible so as to keep them attracted towards the

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banks.

2. Vigorous deposit campaigns should be launched and extension counters should be opened at various centres. Incentives like higher commission should be given to those who attract larger deposits towards the banks. Gift articles like calendars, diaries, fountain pens, etc, should be liberally distributed among the customers.

3. With a view to secure fullest cooperation of the staff, it is necessary that the grievances of the staff should be removed expeditiously and a sense of involvement may be created among them by inviting their opinions and suggestions on several matters from time to time.

4. For ensuring internal control, a register should be maintained, listing out the irregularities and responsibilities that are fixed and all the departmental heads should be checked from time to time.

5. The Bank should so conduct its operations that they are in alignment with the national policies and objectives for increasing production diffusion of economic power, reduction of the irregularities, removal of poverty etc.

6. Banks should consider all application for credit facilities on merit, precautions should be taken that such facilities are not extended to an unworthy customer and they are not denied, under any circumstances to a worthy customers for production purposes and viable schemes/units.