CHAPTER I
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INTRODUCTION

Indian economy has the predominance of rural sector, the prosperity of which mainly depends on the prosperity of agriculture and subsidiary occupations. Agriculture provides economic sustenance for nearly 70 per cent of population and it contributes to about 45 per cent of gross domestic product. It accounts for 40 per cent of foreign-exchange earnings in India and also provides raw materials to the agro-based industries like cotton, textiles, jute, tea and tobacco, etc. Thus, the contribution of agricultural sector to national income, foreign-exchange earnings and employment is a measure of that sector's importance in the economy of the country. The All India Rural Credit Review Committee (1969) viewed that "the agricultural sector would alone act as a catalyst in breaking the vicious circle of poverty".¹ It is in the agricultural sector that "the battle for long term economic development in South Asia will be won or lost" is the opinion of Gunnar Myrdal.² To augment the agricultural production, the provision of wherewithal along with other services is a vital factor.


Credit plays an important role, among all inputs, in getting substantial production in farm in an integrated approach. It is not only a primary and paramount factor but all other factors are being utilised properly on the presence of it. Nicholson observes that, "the lesson of universal agrarian history from Rome to Scotland is that an essential of agricultural is credit". The provision of adequate and timely agricultural credit on easy terms would solve the other problems of the farm sector.

The provision of credit should aim at augmenting production and strengthening the economy. Many surveys were conducted in this direction to know the role of credit in connection with production and employment in order to achieve the planned development. Among them, Rao, C.H.H.⁴, Lele Uma,⁵ Vyas, V.S.,⁶ and Roy T.S.,⁷ stated that "the credit is an essential input to farm sector and it has its impact on

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increasing production and employment opportunities". Schumpeter spoke of credit as "a phenomena of development". The credit in farm sector is, thus, considered the potent instrument to boost up farm production. The seasonal character, the adoption of new agricultural technology and the majority of farmers belonging to weaker section are some of the important factors which made credit essential to sustain and accelerate farm production.

A credit policy aims at promoting socio-economic conditions of the people in particular and the development of country's economic progress in general. Nothing this objective, the Government of India felt the need and took the measures for institutionalisation of rural credit. Due to these splendid endeavours of veterans and planners, the role of institutions in the field of rural credit has increased a lot. But, this progress is not to the mark of expectation for the uplift of rural people. The reason for this is that though there is a substantial expansion in number of branches as well as advances achieved, the availability of credit is inadequate and not in time. This laid emphasis on the need for the conducive steps for the operational efficiency and support to the lending institutions.
THE PROBLEM

The chief objective underlying the formation of lead bank scheme is to meet the requirements of rural people and to arrange the funds for potentially-viable projects in the District. In brief, intensive development of the area is the main objective of the lead bank scheme. A considerable progress has been found in the working of the lead bank scheme since its inception. The scheme is an ongoing one. It is high time to make an appraisal of its working as it has completed a decade and a half. By carrying out an empirical study, the problems, if any, could be identified and steps could be taken for improvement in the light of the experience. The study opens up the problems pertaining to;

I. Could the lead bank make efforts in coordinating to attain the district credit plan objectives

II. Could the banks be involved in formulation and implementation in area developmental plans

III. Have the institutions experienced the problems in implementation of district credit plan

IV. Is there proper coordination among and between the banks and the district administration.

All these make the author select the topic, 'Performance of Lead Bank with a Reference to Farm Finance'.
A review of the earlier work done provides an insight into the working of lead bank which helps in evaluating the performance of lead bank. Navin Chandra Joshi stated that "the task of overall monitoring of the progress of the scheme would have to be that of the District Consultative Committee. Effectively handled, this would provide collective supervision which is important since a feeling of domination from either the Lead Bank or the Government would have adverse affects on the psychology of the participating banks". Kalyani in her study says that the achievements of District Credit Plan are far from satisfactory. Further, she says that "the district credit plan would be more successful if participated various institutions and commitment by all the banks and institutions". Raghupathi, R., conducted a survey on lead bank programme and came to the conclusion that "unless the State or Central Government takes up the task of building up of infrastructure, very little would probably be done by the lead bank and banking institutions in developing the district". Further he says that it would be discordent if the lead bank respond to the social and economic impulses on an adhoc basis without proper planned strategy in tune with the overall planning in an integrated regional development".


9. Kalyani, P., Credit Planning in Anantapur District - A Case Study of the District Credit Plan 1980-'82, S.K.University, Anantapur, 1985, pp.120.

In appraising the objectives of the lead bank scheme that would clearly be framed taking into account the resources available in the district. Kantha Rao and Sitha Ramaiah express that "the credit facilities could meet by the constituents of the lead bank hardly 30 per cent of the allocation for the agricultural sector and this performance could relate to the provision of credit in the areas of assured irrigation". The scheme of the lead bank was conceived to accelerate rural development through means of branch network covering far and wide corners of the country. S. Balakrishnan observed that except the tertiary sector, actual performance of the bank has been far below the targets. To achieve the targets in industrial sector is not always easy and it is quite surprising to see shortfalls even in agricultural and allied activities. Asha Kant analyses the performance of lead bank scheme and expresses that "since the significance of credit plan is not fully appreciated, the lead bank scheme is limping. The lead bank by identifying credit gaps, preparing district credit plan and financing the planned schemes and projects in consortium with other banks and institutions as infact expected to bring about a silent revolution in the country-side".

11. A Detailed Study on this Aspect was made by Dr. Kantha Rao, M.L., and Sri Sitaramaiah, in the paper presented to the Indian Economic Association, 1980.


The success of lead bank scheme needs a coordinated effort particularly from the bank officials. This is more so in branch offices located in rural centres in order to feed the credit plan with sufficient credit to get optimum results. Goyal, R.P., stated that "the paucity of suitable staff in the rural branches is major constraint. The rural branch is often manned by inexperienced personnel. The situation is worse, where no technical support is available". Beliraya and Pramod have observed that "there is lack of interaction at the scheme formulation stage among various commercial and cooperative banks operating in the region and between the agencies such as input dealers and organisations marketing agricultural output. Dialogue among them is crucial as it would lead to realistic assumption in scheme formulation and avoidance of areas of overlap in functional as well as geographical sense." Seshaiyah in his doctoral study analysed the role of district credit plan with reference to commercial banks only. He found, there is a significant variation in the target and performance between sectors and districts. The share of agriculture was highest both in target and performance.


The achievement is lower in case of those banks with higher targets and impressive in respect of those banks with lower targets.  

Though the realistic problems and recommendations are found in the above studies, they seem not to be applicable to the drought-prone districts like Anantapur. Hence, a need felt for the present study to examine the role of lead bank scheme with reference to farm finance.

OBJECTIVES OF STUDY

The specific objectives of the study are:

1) to study the organisational set up of the lead bank scheme

2) To examine the operational performance of the lead bank scheme with reference to farm finance

3) To highlight the efforts of coordination and cooperation among the rural credit agencies in implementing the lead bank scheme

4) To suggest remedial measures based on the findings

METHODOLOGY

The present study covers the working of the lead bank scheme with reference to farm finance in the Anantapur District. In this district there are 13 commercial banks with wide network of 202 branches besides District Cooperative Central Bank with 217 primary cooperative societies under single window system. Data was collected from the published sources which include the Anantapur District Credit Plan, Reserve Bank of India Bulletins, Reports on Currency and Finance, Annual Reports of Commercial and Cooperative Banks and District Statistical Abstracts. Further, information from research works and other relevant sources was chosen for the study. Personal interviews were conducted with the officials of the Lead Bank, Commercial and Cooperative Banks, and District Administration to elicit relevant information.

TOOLS OF ANALYSIS

The data so obtained is classified and arranged in the form of tables. To highlight the participation of all rural credit institutions in the programme of agricultural credit the 'location quotient' technique is studied. It indicates average change. The location quotient is more or less than one or proportional which would mean the change is more or less or proportional. The location
quotient pertaining to the performance of rural credit institutions in agricultural credit to total credit may be expressed as:

\[ LQ = \frac{Ac_d}{Cd} : \frac{Ac}{C} \]

Where, \( Ac \) = Agricultural Credit,
\( C \) = Total Credit and
\( d \) = Division.

Similarly, the location quotient can also be made applicable to highlight the performance of commercial banks, regional rural banks and cooperative banks. In the district, now, the fourth credit plan is in operation. To know whether an improvement has occurred in the 2nd, 3rd and 4th over the first credit plan, the elasticity coefficient is adopted. The elasticity coefficient would mean ratio of change. If elasticity coefficient is more or less than one, it means the marginal increase is more or less than average increase. And if it is one, it amounts the marginal increase is equal to average increase. To highlight the performance of rural credit institution as a purveyor of credit, the elasticity coefficient technique is more appropriate. The formula is as:

\[ Ce = \frac{\Delta Ac_d}{Cd} : \frac{\Delta C}{C} \]
The compound growth rate method is applied to know at what rate the rural credit institutions have attained their performance in respect of sources of funds as well as deployment of credit. The formula of compound growth rate is 

\[ r = \text{Antilog of } (\log P_n - \log P_o/n) - 1 \times 100 \]

PLAN OF THE STUDY

The present study is divided into five chapters. In the first chapter, methodological issues are discussed. The profile of the district with reference to agricultural sector is appraised in the second chapter. The organisation of the Lead Bank Programme is examined in the third chapter. The operational performance of the Lead Bank is discussed in the fourth chapter. Summary and conclusions are set in the last chapter.

RATIONALE OF THE STUDY

The findings of the present study would bring out and identify deficiencies in the functioning of Lead Bank Programme. Such findings and suggestions would provide some guidelines in reframing the credit plan and implementing the programme effectively. In brief, the study would help in decision-making and also contribute knowledge to the existing literature.