



## PERFORMANCE OF LEAD BANK FINANCETO SMALL SCALE INDUSTRIES IN TAMILNADU

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### **Abstract**

*Finance is an important input for an industry. For a small scale industry the need for finance is very essential due to its limited resources. The sources of finance for small scale industries are of two types-internal and external. The role of commercial banks in the process of economic development is well recognized. The year 1969 was a major turning point in Indian financial systems when 14 major banks were nationalized. Different national and state level institutions operating in the country for meeting the credit requirements of the SSIs sector include Small Industries Development Bank of India, Commercial Banks, Regional Rural Banks, Co-operative Banks (State, Central and Primary), State Financial Corporations/ State Industrial Investment Corporations, State Small Industries Development Corporation, National Bank for Agriculture and Rural Development, statutory bodies (KVIC, COIR Board, Handloom Board and Handicraft Boards), National Small Industries Corporations Limited and the like. The Indian Overseas Bank is lending to the small-scale industries in Tamilnadu, compared to the public sector and the priority sector lending. This paper attempts to study the extent of lead bank finance made available to small-scale industries in Tamil Nadu.*

**Keywords:** *Lead Bank Scheme, Service Area Approach, Small Scale Industries.*

### **Introduction**

India's economy is an agrarian, planned mixed and developing in character. The five year plans and recent structural adjustment programs and the economic reforms involving liberalization, globalization and privatization have successfully been transforming the social economic and commercial aspects in India. Though agriculture and industries enjoy the primary and secondary sector functions as the bedrock on which all the other 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. A number of novel and innovative schemes and programs have been designated and implemented. Among them, Lead Bank Scheme plays a strategic role in the development of Indian economy. The Lead Bank Scheme (LBS) introduced by Reserve Bank of India in December, 1969 was intended to bring, among other things, all round development by evolving a coordinated and planned approach to credit deployment with district as a unit. In April 1989, Service Area Approach (SAA) was dovetailed into the scheme to forge improved link in credit dispensation in villages assigned to bank branches.

### **Lead Bank Scheme (LBS)**

Lead Bank Scheme (LBS) was introduced in 1969 based on the recommendations of the Gadgil Committee. It is an important organizational 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.

For a small-scale industry the need for finance is very essential due to its limited resources. The sources of finance for small scale industries are of two types – internal and external. Internal sources consist of initial capital and profits reinvested. External sources consist of loans and other assistance from institutional and non-institutional sources.



### Role and Functions of Lead Bank

Lead bank is based on the principle of “one among all”. A particular bank should act as a group leader for all the banks in the selected district. The LBS has not only created awareness for better credit planning but has also resulted in better understanding of mutual problems at the grass roots level both for banks and various government departments. It provides an appropriate organizational framework to ensure increased flow of credit to the core sectors of the rural economy. Under the scheme, all the nationalized banks and a few private sector banks were allotted specific districts and were asked to play the “Lead role”.

LBS were introduced to plan and implement credit programmes at district level. The first District Credit Plans (DCPs) was implemented by the banks in their lead districts in 1974. DCPs have been prepared and implemented by various lead banks in their respective districts. The various issues identified and discussed relate to the generation of data, estimation of credit gap and funds availability, allocation of loan funds, disbursement of loans, monitoring and recovery. During 1978-79, the government introduced the Integrated Rural Development Programmes (IRDP). Under the directions of the government of India, commercial banks adopted from April 1989. As on March 2009; the lead bank scheme covered 622 districts of the country.

All the public sector banks are actively involved in the implementation of lead bank scheme (LBS). The new guidelines issued by the Reserve Bank of India to the Lead Banks for preparing the District Credit Plans in March, 1979, taking into account the objectives of the Five Year Plan 1978-83. The fresh District Credit Plan in 1979 has to take the need based estimates of credit requirements block-wise, sector-wise, scheme-wise and bank-wise.

### 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. 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. 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.

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

**Table – I, Lead Banks in Tamil Nadu – District-Wise as on 2018**

Sl.No.	District	Name of the Lead Bank
1	Ariaylur	State Bank of India
2	Chennai	Indian Overseas Bank
3	Coimbatore	Canara Bank
4	Cuddalore	Indian Bank
5	Dharmapuri	Indian Bank
6	Dindigul	Canara Bank
7	Erode	Canara Bank



8	Kancheepuram	Indian Bank
9	Kanyakumari	Indian Overseas Bank
10	Karur	Indian Overseas Bank
11	Krishnagiri	Indian Bank
12	Madurai	Canara Bank
13	Nagapattinam	Indian Overseas Bank
14	Namakkal	Indian Bank
15	Nilgiris	Canara Bank
16	Perambalur	Indian Overseas Bank
17	Pudukkottai	Indian Overseas Bank
18	Ramanathapuram	Indian Overseas Bank
19	Salem	Indian Bank
20	Sivaganga	Indian Overseas Bank
21	Thanjavur	Indian Overseas Bank
22	Theni	Canara Bank
23	Thiruvallur	Indian Bank
24	Thiruvarur	Indian Overseas Bank
25	Tiruchirapalli	Indian Overseas Bank
26	Tirunelveli	Indian Overseas Bank
27	Tiruppur	Canara Bank
28	Tiruvannamalai	Indian Bank
29	Thoothukudi	State Bank of India
30	Vellore	Indian Bank
31	Villupuram	Indian Bank
32	Virudhunagar	Indian Overseas Bank

<https://www.rbi.org.in/2018>

As per the Table I show that 32 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 10 Districts, Canara Bank and State Bank of India in 7 and 2 Districts respectively.

#### Number of branches, deposits and advances of Indian overseas bank in Tamil nadu

Table II presents the number of branches, deposits and advances of the Indian Overseas Bank in Tamil Nadu.

**Table – II, Number of Branches, Deposits and Advances of Indian Overseas Bank in Tamil Nadu**

Year	Number of Branches	Percentage Increase over Previous Year	Deposits (Rs. in Crores)	Percentage Increase over Previous Year	Advance (Rs. in Crores)	Percentage Increase over Previous Year
2003-04	442	-	4556	-	3049	-
2004-05	453	2.49	5244	15.10	3395	11.35
2005-06	453	0.00	6401	22.06	3525	3.83
2006-07	457	0.88	7340	14.67	3643	3.35



2007-08	458	0.22	8004	9.05	4167	14.38
2008-09	460	0.44	8970	12.07	5411	29.85
2009-10	464	0.87	9220	2.79	6664	23.25
2010-11	468	0.86	10661	15.63	7880	18.25
2011-12	470	0.43	12318	15.54	9997	26.87
2012-13	474	0.85	13987	13.55	10424	4.27
2013-14	479	1.05	15546	11.15	11245	7.88
2014-15	483	0.84	16894	8.67	13547	20.47
2015-16	487	0.83	17784	5.27	14213	4.92
2016-17	492	1.03	19245	8.21	15721	1.61
2017-18	497	1.02	19445	1.04	16421	4.45

Source: Annual Report of Indian Overseas Bank and Lead Bank Department, 2017-18.

It is found from Table II that the number of branches of the Indian Overseas Bank in Tamil Nadu has increased from 442 in 2003-04 to 497 in 2017-18. Marginal fluctuation was observed every year regarding the number of branches opened in Tamil Nadu during the period. In the case of deposits, it has increased from Rs.4556 crores in 2003-04 to Rs.19445 crores in 2017-18. In the case of advances, the amount of advance has increased from Rs.3049 crores in 2003-04 to Rs.16421 crores in 2017-18. Less fluctuations in percentage increase per annum was observed compared to deposits over the period under study. By and large fluctuations are not wide and small increase or decrease may be due to obvious reasons.

#### Share of Indian overseas bank lending in total credit of public sector banks to ssi units in Tamil nadu

The share of the Indian Overseas Bank lending to SSI in the public sector banks in Tamil Nadu is shown in Table III.

**Table- III, Share of Indian Overseas Bank Lending to SSI in Public Sector Banks in Tamil Nadu**  
(Rs. in Crores)

Year	Public Sector Banks	Indian Overseas Bank	Percentage of Indian Overseas Bank to Public Sector Banks
2003-04	1324.29	328.07	24.77
2004-05	1754.69	411.46	23.45
2005-06	2013.50	510.59	25.36
2006-07	2355.62	606.46	25.75
2007-08	2540.23	640.34	25.13
2008-09	2502.42	674.44	26.95
2009-10	2889.16	776.92	26.89
2010-11	2981.31	740.90	24.85
2011-12	3591.48	906.30	25.23
2012-13	3745.12	945.21	25.24
2013-14	3815.45	975.13	25.56



2014-15	3945.21	987.34	25.03
2015-16	4164.20	995.35	23.90
2016-17	4215.54	1010.35	23.97
2017-18	4364.34	1027.64	23.55

Source: Annual Report of Indian Overseas Bank and Lead Bank Department, 2017-18.

It shows that the total lending to SSI by public sector increased from Rs.1324.29 crores in 2002-03 to Rs.4364.34 crores in 2017-18. The lending to SSI by the Indian Overseas Bank alone ranged from Rs.328.07 crores in 2002-03 to Rs.1027.64 crores in 2017-18. The Indian Overseas Bank's lending increased from 24.77 per cent of total lending given by public sector banks in 2002-03 to 23.55 per cent in 2017-18. It is understood from the analysis that the gradual annual growth in the share of the Indian Overseas Bank lending in public sector banks was more or less constant during the period under study.

### Conclusion

The National Credit Council Study Group under the chairmanship of Prof. Dr.Gadgil first recommended the "Area Approach" to nationalized banks. The Committee of Bankers (Known as the Nariman Committee) appointed by the Reserve Bank of India in 1969 accepted the "Area Approach" and gave a practical shape to it under the title "Lead Bank Scheme". Adequate delegation of power at the branch level may be given so as to avoid several layers of hierarchy in granting loans to SSI units. The regular repayment of loans by SSI units may be rewarded by the bank under study with increase in the loan amount and reduction in the rate of interest for further loans. The lead banks in all districts may have periodical meetings with the DICs and the Association of the SSI units to assess the nature, type and amount of loans required by SSI units.

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