

LEAD BANK SERVICES FOR THE GROWTH OF MSME SECTORS IN INDIA

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ABSTRACT

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 idea is commercial banks should be assigned a particular district in which they should work as a consortium leader and pace setter in providing integrated banking and credit facilities. The main objective of lead bank scheme is to extend more credit facilities to the identified priority sector and provide for the major elements of development, namely, infrastructure, extension and credit. It is the responsibility of lead bank to locate the growth centre, ascertain credit gaps in the area of operation, locate project areas and formulate development oriented bankable schemes. As on March 2011, the lead bank scheme covered 622 districts of the country. The main focus of LBS is to enhance the proportion of bank finance to the priority sector. The objective of the scheme has been to co-ordinate the activities of the banks and other developmental agencies to facilitate the flow of credit to the priority sector. In this paper an attempt is made to analyse the position of lead banks in India, its flow of credit to MSMEs by the lead banks and the performance of MSMEs.

Keywords: Lead Bank, Lead Bank Scheme, Micro, Small and Medium Enterprises, Farm sector, Priority Sector

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After the introduction of social control over commercial banks in 1967, the commercial banks were not providing adequate credit to rural borrowers. In order to involve the commercial banks in the task of rural development, they were brought under social control in 1967. The National Credit Council, therefore, set up study groups to study this problem and make appropriate recommendations. A study group on "Organisational Framework for the Implementation of Social Objective" recommended an "Area Approach" to be followed by commercial banks to promote economic development of backward areas in the country.

With the nationalization of 14 banks, the Government took the initiative of extending the banking system to rural areas and was looking for a scheme of rapid branch expansion. 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". Towards the end of 12th December, 1969, the Reserve Bank of India accepted the scheme and finalized a Lead Bank Scheme, for all the 380 districts in the country.

Lead Bank Scheme

The Lead Banks Scheme (LBS) provides leadership in initiating, streamlining and accelerating the process of development of the respective district by invoking co-operation of other banks and by maintaining continuous liaison with Government and quasi Government agencies. It provides an appropriate organizational framework to ensure increased flow of credit to the core sectors of the rural economy. 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 for both banks and various government departments.

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". The allotment of districts of the various banks was based on such criteria as the size of the bank, the adequacy of its resources for handling the volume of work. Contiguity of district, the regional orientation of banks, the desirability for each state to have more than one lead bank operating in the territory and, to the possible, for each bank to operate in more than one state.

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 idea is commercial banks should be assigned a particular district in which they should work as a consortium leader and pace setter in providing integrated banking and credit facilities. The main objective of lead bank scheme is to extend more credit facilities to the identified priority sector and provide for the major elements of development, namely, infrastructure, extension and credit. It is the responsibility of lead bank to locate the growth centre, ascertain credit gaps in the area of operation, locate project areas and formulate development oriented bankable schemes. It prepares a credit plan to cater to the needs of the district in planned manner in collaboration with other financial institutions at the district level.

Lead Bank Scheme and its Reforms in India

LBS and the machinery created for its implementation at various levels has stabilized over the years. A multi-agency credit delivery system is in place for financing credit-based development activities, under the lead bank scheme. In 1988, the service area approach was also introduced as a strategy for improving the quality of rural lending. The Lead Bank Scheme Information System and Service Area Monitoring Information System (SAMIS) have also been operationalised using monitoring arrangements. The micro-finance and linkage of the banks to the self- help-groups / NGOs and the issue of kisan credit cards are among the recent developments in the area of rural lending in India. Despite the large number of initiatives, the rural credit delivery system still requires improvements.

As on March 2011, the lead bank scheme covered 622 districts of the country. The main focus of LBS is to enhance the proportion of bank finance to the priority sector. The objective of the scheme has been to co-ordinate the activities of the banks and other developmental agencies to facilitate the flow of credit to the priority sector. The lead bank position among public sector banks in India is given in table 1.

TABLE 1
POSITION OF LEAD BANKS IN INDIA

Sl. No.	Lead Banks	No. of Districts	Rank
1	State Bank of India	168	
	Subsidiary Banks	36	
	Total SBI and its Subsidiaries	204	1
2	Punjab National Bank	57	2
3	Bank of India	49	3
4	Central Bank of India	48	4
5	Bank of Baroda	43	5
6	UCO Bank	34	6
7	Canara Bank	25	8
8	Union Bank of India	14	9
9	Syndicate Bank	25	8
10	Indian Bank	14	10
11	Andhra Bank	6	13
12	Indian Overseas Bank	13	11
13	Dena Bank	13	11
14	Oriental Bank of Commerce	3	14
15	Allahabad Bank	17	9
16	P & S Bank	3	14

17	Vijaya Bank	3	14
18	Corporation Bank	3	14
19	United Bank of India	30	7
	Total Nationalised Banks	400	
20	Bank of Maharashtra	6	13
21	Jammu And Kashmir Bank Ltd.	12	12
	Total Private Banks	18	
	Total	622	

Source: Report of RBI, 2011

It is observed from the table 1 that in India SBI and its subsidiaries hold a top position in assuming lead bank responsibility in 204 districts. Next to SBI, the Punjab National bank holds the second position in assuming lead bank responsibility in 57 districts. The Bank of India, The Central Bank of India and the Bank of Baroda hold the third, fourth and fifth positions respectively in assuming lead bank service. The public sector banks including SBI dominate in assuming the lead bank role in 604 districts. Out of 622 districts, the private banks such as Bank of Maharashtra and Jammu Kashmir Bank are acting as lead banks only in 18 districts in India.

Position of Lead Banks in Tamil Nadu

Table 2 shows the district wise lead banks held by the public sector banks in Tamil Nadu.

TABLE 2
DISTRICT-WISE LEAD BANK IN TAMIL NADU

S. No.	Name of the Lead Bank	Name of the District	No. of Districts Covered
1	State Bank of India	Ariyalur, Chennai, Thoothukudi, Tiruppur.	4
2	Canara Bank	Coimbatore, Dindigul, Erode Madurai, Nilgiris, Theni	6
3	Indian Bank	Cuddalore, Dharmapuri, Krishnagiri, Perambalur, Salem, Thiruvallur, Thiruvannamalai, Vellor, Villupuram	9
4	Indian Overseas Bank	Kanchipuram, Kanyakumari, Karur, Nagapattinam, Namakkal , Pudukkottai, Ramnad, Sivagangai, Thanjavur, Thiruvarur, Tiruchi, Tirunelveli, Virudhunagar	13
		Total	32

Source: National Bank for Agriculture and Rural Development, Chennai, 2011.

There are four public sector banks acting as lead bank in 32 districts of Tamil Nadu. Out of the above four banks, Indian Overseas Bank acts as lead bank in 13 districts and Indian Bank in 9 districts. In the rest of ten districts, Canara Bank (6 districts) and State Bank of India (4 districts) are playing the role of lead banks. Indian Overseas Bank and Indian Bank have their head office at Chennai. Hence, they are capable of capturing the high position in lead bank. At the national level, SBI stands top position in covering major districts but in Tamil Nadu it covers only three districts. Flow of credit from commercial banks to MSME sectors is presented in the following table 3.

TABLE 3

FLOW OF CREDIT FROM COMMERCIAL BANKS TO MSME SECTORS

Year	Net bank Credit (In crores)	Annual Growth (%)	Credit to MSME (In crores)	Annual Growth (%)	MSME as per cent of Net Bank Credit
1994-95	192424	----	29175	----	15.17
1995-96	228198	18.75	34246	17.12	14.98
1996-97	245999	17.89	38196	11.40	15.52
1997-98	297265	21.20	45771	19.60	15.40
1998-99	339477	14.14	51679	12.66	15.22
1999-00	398205	17.40	57035	10.46	14.31
2000-01	467206	17.33	60141	5.43	12.86
2001-02	535063	14.56	67107	11.65	12.53
2002-03	668576	25.04	64707	(-)3.60	09.67
2003-04	763855	14.20	71209	10.04	09.32
2004-05	971809	27.22	83498	16.71	08.55
2005-06	1350467	38.96	101285	21.30	07.5
2006-07	1768376	30.95	127323	25.71	07.2
2007-08	1840853	04.09	213539	67.72	11.6
2008-09	2266611	23.13	256127	19.9	11.3
2009-10	2716507	19.85	364012	42.1	13.4
2010-11	2924648	7.66	413824	13.68	14.15
2011-12	3204872	9.58	462063	11.66	14.42

Source: Annual Reports of RBI.

Table 3 shows the annual growth rate in terms of Net Bank Credit, Credit to MSMEs and Percentage of Net Bank Credit offered to MSMEs show fluctuating trend. In 2002-03, the annual growth rate of credit to MSMEs showed a negative result. All the Scheduled banks offered credit to small enterprise to the tune of Rs 64,707 crores which was less than that of the last year (2002-03) by Rs 400 crores. Another noteworthy year is 2007-08 which witnessed high annual growth rate in terms

of credit to MSME Sector (67.7 percent). The annual growth rate of credit offered by Public Sector Banks in 2008 over 2007 is 47.4 percent, for Private Banks 257.1 per cent and for foreign banks 67.7 per cent. This abnormally high growth rate was due to re-classification of MSEs as per MSMED Act, 2006. However, annual growth rate in terms of Net Bank Credit is extremely low (4.09 per cent). The annual growth rate of percentage of Net Bank Credit offered as credit to MSMEs has not shown sufficient increase even after re-classification of MSEs as per MSMED Act, 2006.

Performance of Small Enterprises in India

The launching of the First Five Year Plan and the adoption of the socialistic pattern of society by the Parliament paved the way for the Industrial Policy Resolution, 1956. It recognized the role of the small enterprise in providing employment opportunities, mobilizing local skills and capital resources and, in the process, integrating with the large-scale industrial sector. Table 4 clearly shows the performance of the small enterprise in terms of the number of units, output, employment and exports.

Table 4 discloses the performance of the small scale industries in terms of the number of units, employment, investments, production, exports and share in total exports during the years 2000-01 to 2011-12. The number of small scale units increased from 26.58 in 2000-01 to 126.42 lakhs units in the year 2011-12. There has been a steady growth in the investments and in production also during the same fifty-five year period. The investment and value of production increased from Rs.267.26 crores and Rs.3626.56 crores and in 2000-01 to Rs. 468.84crores and Rs. 5042.73crores respectively in 2011-12 at current price levels. The level of employment is an important variable that significantly influences the economic development of a nation. In a country with more than 100 crores of people, it is feasible to get more of employment mainly through small scale units. Employment opportunities provided by the small enterprises are highly encouraging as the data show that employment increased from 151 lakhs in the year 2000-01 to the level of 312.41 lakhs in the year 2011-12.

The performance of small enterprises in the export front has also been significant. Exports increased from Rs.364.70 crores in the year 2000-01 to the remarkable level of Rs. 1342.55 crores in 2011-12. The share of the small enterprise's contribution to the total value of export increased from 34.3 per cent to 39.1 per cent during the last 12 years period. The contribution of the small enterprises in the total value of the export of the country has been steadily increasing and many of the important products of exports originate from the small scale sector.

TABLE 4
PERFORMANCE OF SMALL ENTERPRISES IN INDIA

Year	No of Units (Lakhs)	Employment (Lakhs)	Investment (Lakhs)	Production (Lakhs)	Exports (Lakhs)	Share in T.Exports (Per cent)
2000-01	26.58 (100)	151.0 (100)	267.26 (100)	3626.56 (100)	364.70 (100)	34.3 (100)
2001-02	28.03 (105.45)	160.0 (105.96)	273.13 (102.19)	4118.58 (113.57)	392.48 (107.62)	33.4 (97.38)
2002-03	29.44 (110.76)	167.2 (110.73)	289.00 (108.13)	4626.41 (127.57)	444.42 (121.86)	35.2 (102.62)
2003-04	30.80 (115.88)	171.6 (113.64)	312.74 (117.02)	5206.50 (143.56)	489.79 (134.30)	34.6 (100.87)
2004-05	32.12 (120.84)	178.5 (118.21)	320.26 (119.83)	5728.87 (157.97)	542.00 (148.61)	34.0 (99.12)
2005-06	33.12 (124.60)	185.6 (122.91)	332.41 (124.38)	6390.24 (176.21)	697.97 (191.38)	34.4 (100.29)
2006-07	34.42 (129.49)	192.2 (127.28)	342.89 (128.29)	6903.16 (190.35)	712.44 (195.34)	34.3 (99.99)
2007-08	35.72 (134.38)	199.5 (132.12)	354.12 (132.50)	7630.13 (210.40)	860.12 (235.84)	34.0 (99.12)
2008-09	113.95 (428.70)	271.36 (179.71)	374.56 (140.15)	3577.33 (98.64)	976.44 (267.74)	34.5 (100.58)
2009-10	118.59 (446.16)	282.91 (187.35)	412.56 (154.37)	4182.63 (115.33)	1032.54 (283.12)	36.7 (106.99)
2010-11	120.18 (452.14)	297.18 (196.81)	432.42 (161.79)	4683.49 (129.14)	1152.62 (316.05)	38.5 (112.24)
2011-12	126.42 (475.62)	312.41 (206.89)	468.84 (175.42)	5042.73 (139.04)	1342.55 (368.12)	39.1 (113.99)

Source: Ministry of Small Scale Industry and Development Commissioner (Small Scale industry), www.indiabudget.com

Suggestions

1. Majority of small entrepreneurs still practice personal banking despite the advent of alternate channels. Hence, banks under survey have to educate the small entrepreneurs about the advantages of using internet banking, mobile banking, ATM service and so on.
2. Banks have to update their websites disseminating information on credit programmes targeting small entrepreneurs and small scale borrowers.
3. One of the constraints discouraging the small entrepreneurs from availing loan facility is the need to undergo a lot of procedural formalities. The R & D team functioning at the corporate office has to minimize the formalities to encourage more small entrepreneurs and small borrowers to avail themselves of bank finance. Banks have to give wider choice to borrowers for offering acceptable alternate securities for considering sanction of loan in the context of many loan proposals, being rejected.

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