

# A STUDY ON THE ROLE OF BANKS IN DEVELOPMENT OF THE DISTRICT

**Dr.S.Sheeba Gladis**

*Assistant Professor, PG& Research Department of Commerce, Annai Velankanni College, Tholayavattam, Kanyakumari District, Cell: 9943867783, e.mail: sheebareshiba@gmail.com, Affiliated to Manonmaniam Sundaranar University, Tirunelveli, Tamilnadu, India.*

**Dr.M.Josephine Rani**

*Head of the Department of Commerce, Annai Velankanni College, Tholayavattam, Kanyakumari District, Cell: 9487186677, e.mail: anton.joshik@gmail.com, Affiliated to Manonmaniam Sundaranar University, Tirunelveli, Tamilnadu, India.*

## ABSTRACT

Financial Institutions play an important role in the process of economic development. The major job involved in this process is to blend extension service and infrastructure facilities with credit disbursement. The credit plan is prepared by detailing the lending strategies with development strategies. Hence, the efforts of the development agencies and financial institutions should have the same direction and objectives. For this purpose, close co-ordination among all the developmental agencies and financial institutions is necessary. With the introduction of Service Area Approach, the planning strategy for lending has been more logically revamped. Under the new dispensation, a Branch Manager in rural and semi-urban area covered by Service Area Approach has to gain intimate knowledge of his service area, its activities, potentials and the like. He has to assess the credit requirement of the area with all intimacy and sincerity for its integral development. This lending programmes have to necessarily be got approved by the controlling offices concerned. It becomes the Branch Credit Plan for the year concerned. This will be aggregated in Block Level Bankers Committee Meetings. Such Block Credit Plan along with the lending programmes of semi-urban branches not covered under SAA, when aggregated, becomes the District Credit Plan.

**KEY WORDS:** Role, Credit system, Development

## 1. INTRODUCTION

Banking system occupies an important place in a nation's economy. A banking institution is indispensable in a modern society. It plays a pivotal role in the economic development of a country and forms the core of the money market in an advanced country. The banking sector has a crucial role to play in all economic and commercial pursuits. It serves as the engine of growth and development. Generally banking in India is fairly mature in terms of supply, product range and reach-even though reach in rural India and to the poor still remains a challenge. The government has developed initiatives to address this through the State Bank of India expanding its branch network and through the National Bank for Agriculture and Rural Development (NABARD) with facilities like microfinance.

## 2. OBJECTIVE OF THE STUDY

1. To study Role of Banks in the Development of the District
2. To find out Sector-wise Credit Flow in Kanyakumari District.
3. To study Development Programmes in the District

## 3. METHOD AND MATERIAL

The study descriptive in nature Secondary data collection technique was implemented. The secondary data relating to the study have been collected from various journals, newspapers, books, periodicals, internet and unpublished document.

## 4. REVIEW OF LITERATURE

**Vijayarani K and Vilvijayan C** (2012) the banking industry the world over has undergone a profound transformation since the early 1990s. This study has focused on performance of commercial bank during financial crisis. Result of panel data analysis

of the profitability ratio show that return on asset has not changed overtime, which is confirmed by statistically insignificant during the years. The cost of intermediation of the banks has been surged after the crisis. After crisis, efficiency of the bank has come down due to increase in the cost of obtaining funds.

**Lehal and Singh (2007)** revealed that the organizational climate in the banking sector in Punjab is moderate. In private sector banks, the executives perceive the climate as more favourable than those in the public sector banks. The perceived climate is better in HDFC bank than that in the Bank of Punjab. In the public sector banks, the executives in State Bank of Patiala perceive the climate more favourable than those in the public sector banks. In the public sector banks, the executives in the State Bank of Patiala perceive the climate more favourable than those in the Punjab National Bank. The training and development, scope for advancement and objectivity and rationality are the important dimensions to improve the organizational climate in the banks.

**Reddy (2009)** in his study on "Productivity of Public Sector Banks: An Appraisal" analysed the profitability performance and operational flexibility of banks during pre and post reform era pertaining to a period of 20 years. The study revealed the growth of profits of United Bank, Vijay Bank, State Bank of India and Punjab National Bank. The growth rate of profits of public sector banks as a whole is 21.9 percent in the districts under study which is higher than the growth in national level of 18.6 percent. The study has identified some of the exogenous and endogenous factors affecting the profitability of the public sector banks in the context of financial sector reform.

## 5. THE ROLE OF BANKS IN THE DEVELOPMENT OF THE DISTRICT

❖ **Banking Network:** Kanyakumari District is divided into 6 taluks namely Agasteeswaram, Thovalai, Kalkulam and Vilavancode, Killiyur, Thiruvattar. These taluks are further divided into nine blocks namely Agasteeswaram, Killiyoor, Kurunthencode, Melpuram, Munchirai, Rajakkamangalam, Thiruvattar, Thuckalay and Thovalai. Development programmes in the district are either sponsored by the Central Government or State Government.

These programmes are intended to bring about a perceptible improvement in the production, productivity and the income levels of target groups in the district. The programmes designed are mostly selective in nature as they are intended to benefit specific target groups, mostly weaker sections of the society. The ultimate aim is to create job opportunities among the under privileged sections fulfilling the co-objective of incremental production to instill the feeling in their minds that they are contributing their due share in the nation

building, besides bringing down the income disparity and other irregularities that co-exists.

❖ **Co-operative Banks:** The co-operatives in the district have 114 Primary Agricultural Credit Societies and 16 branches and 5 Primary Land Development Bank Societies. The co-operatives play a vital role in the credit scene, particularly in rural areas in the district. The co-operative department has to oversee the functioning of these micro-level bodies and ensure that they are following the lending norms uniformly. The co-operatives also concentrate on the service area concept, and it ensures that their plans are properly presented and implementation monitored in the block level meetings.

❖ **National Bank for Agriculture and Rural Development (NABARD):** NABARD is getting more and more involved in the activities concerning rural development. With the introduction of Service Area Approach, NABARD has been asked to participate effectively in credit Planning, in addition to the primary function of providing refinance support to banks. They should oversee the implementation of Service Area Approach, preparation of Branch Credit plans and review periodically the performance against such targets. NABARD also monitors the functioning of co-operative sector institutions, under Service Area Approach

❖ **Lead Bank:** As convener of the District Consultative Committee, the Lead Bank is responsible for the development of banking activities in the district. The Lead

Bank strives for the co-operation and co-ordination among various development agencies on the one hand and the financial institutions on the other to implement its schemes in the district. It motivates the participating banks to play their role in the successful implementation of the credit Plan. It arranges with all the developmental agencies / departments to make their credit linked programmes to be known to the bank Branch Managers concerned so that they will know the extent of credit to be earmarked for each programme. The Lead Bank also arranges to make available the information regarding the availability of non-credit inputs and other infrastructure facilities needed to support Bank Credit before finalization of the Branch Credit plans. It ensures that Block Level Bankers Committee (BLBC) meetings are convened regularly and the credit plans aggregated as well as performance reviewed Branch wise / Sector wise at quarterly intervals. It assists the banks as well as block level government functionaries to sort out their operational

problems as well as infrastructure bottlenecks, by due liaison and monitoring at district level and conducting evaluation study on district credit Plan<sup>2</sup>.

#### ❖ Industrial Development

**Bank of India:** This bank is fully owned by the Government of India. The object of this bank is to provide refinance facilities to the State Financial Institutions, Commercial Banks, Rural Development Banks and Co-operative Banks, which provide term loan assistance to SSI Units. It also assists sick SSI Units for revival, for expansion and for technological improvements. Small Industries Development Bank of India aims at the rapid industrial development throughout the country. This bank operates several schemes such as refinance facilities, marketing service facilities, direct bill discounting scheme, creation of common facilities to cluster of SSI units and the like for the development of SSI sector.

**Table No.:1**

**District-wise Spread of Bank Branches in Tamilnadu**

Districts	No. of Branches					
	Rural	S. Urban	Urban	Metro	Total	%
Chennai	0	0	0	1575	1575	<b>14.53</b>
Coimbatore	155	262	416	0	833	<b>7.68</b>
Kancheepuram	160	357	171	91	779	<b>7.18</b>
Madurai	100	102	272	0	477	<b>4.40</b>
Tiruvallur	90	211	62	104	467	<b>4.31</b>
Tirunelveli	99	162	101	0	362	<b>3.34</b>
Tiruchirappalli	127	192	110	0	429	<b>3.95</b>
Salem	102	155	153	0	410	<b>3.78</b>
Erode	117	184	82	0	383	<b>3.53</b>
Vellore	133	181	93	0	407	<b>3.75</b>
Tiruppur	113	113	186	0	412	<b>3.80</b>
Thanjavur	131	98	106	0	335	<b>3.09</b>
Villupuram	160	136	4	0	300	<b>2.76</b>
<b>Kanyakumari</b>	<b>95</b>	<b>139</b>	<b>62</b>	<b>0</b>	<b>296</b>	<b>2.73</b>
Dindigul	96	137	48	0	281	<b>2.59</b>
Namakkal	105	150	1	0	256	<b>2.36</b>
Cuddalore	114	107	51	0	272	<b>2.51</b>

Virudhunagar	86	131	28	0	245	<b>2.26</b>
Sivaganga	125	93	25	0	243	<b>2.24</b>
Tuticorin	88	83	65	0	236	<b>2.17</b>
Thiruvannamalai	102	85	34	0	221	<b>2.04</b>
Pudukottai	117	42	37	0	189	<b>1.74</b>
Nagapattinam	98	72	20	0	190	<b>1.75</b>
Krishnagiri	86	83	41	0	210	<b>1.94</b>
Theni	26	141	0	0	167	<b>1.54</b>
Tiruvarur	81	85	1	0	167	<b>1.54</b>
Karur	50	101	3	0	154	<b>1.42</b>
Ramanathapuram	62	78	1	0	141	<b>1.30</b>
Dharmapuri	64	68	1	0	133	<b>1.23</b>
Nilgiris	17	94	0	0	111	<b>1.02</b>
Perambalur	40	33	0	0	73	<b>0.67</b>
Ariyalur	54	29	0	0	83	<b>0.77</b>
<b>Total</b>	<b>2993</b>	<b>3904</b>	<b>2167</b>	<b>1773</b>	<b>10837</b>	<b>100</b>

**Source:** Bankers Association in December 2019

The bank branches in Tamilnadu are widespread all over the 32 districts. More branches are found in Chennai (14.53%), Coimbatore (7.68%), Kancheepuram (7.18%), Madurai (4.40%) and Tiruvallur (4.31%) and the concentration is low in the districts like Nilgiris (1.02%), Ariyalur (0.77%) and Perambalur (0.67%) .

## 6. DEVELOPMENT PROGRAMMES IN THE DISTRICT

Various development programmes are done in the district which is either sponsored by the central Government or state Government. These programmes are intended to bring about a perceptible improvement in production, productivity and the income levels of the target groups in the district. The programmes designed are mainly selective in nature as they are intended to benefit specific target groups mainly the weaker sections of the society. The ultimate aim is to create job opportunities among the under privileged sections fulfilling the co-objective of incremental production to instill the feelings in their minds that they are contributing their due share in the nation building besides bringing down the income disparity and other irregularities that co-exists.

## 7.ROLE OF INFORMAL CREDIT DELIVERY SYSTEM

The objective of promoting informal credit delivery system is to evolve supplementary credit innovations for providing credit to the poor who are not normally in a position to avail of institutional credit. In the scenario of increasing transaction cost, manifold increase in the number of loan accounts, increasing NPAs due to poor supervision, reduction in staff, an urgent need is felt for economic empowerment of rural poor by improving their access to the formal credit system through various credit innovations in a cost effective and sustainable manner. One of the credit innovations in this direction is micro-finance which means provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improve their living standards. The concept of SHGs has made unprecedented progress in the past years in the credit delivery system. Self help Group is an informal homogenous group of people who have come together to secure greater economic and financial strength through mutual help.

A sizable number of rural poor have come out from the clutches of traditional money lenders. Still, despite the vast expansion of the formal credit system in the country poverty has not been fully eradicated and the dependence of rural poor on

moneylenders continues in some areas, especially for meeting emergent needs. Such dependence is pronounced in the case of marginal farmers, landless labourers, petty traders and rural artisans belonging to socially and economically backward classes and tribes whose propensity to save is limited or too small. For various reasons, credit to these sections of the population has not been institutionalized. In recent years, many organizations, particularly NGOs, have actively involved in promoting informal groups of the rural poor to encourage thrift with a view to help them in financing their emergent needs and wearing them away from

the greedy money lenders. The studies of these informal groups have brought out that it is possible to bring together the formal banking structure and the rural poor in mutual benefit.

#### **Sector-wise Credit Flow in Kanyakumari District**

The Lead Bank prepares the Annual Credit Plan making provisions for the credit requirements by the various sectors. The distribution of credit is done through three major sectors namely Agriculture, Industries and Services.

#### **Sector-wise Break up of Annual Credit Plan in Kanyakumari District (Rs. In Crores)**

Year	Agriculture	%	Industries	%	Services	%	Total	Trend
2004-05	170.00	60	61.00	21	53.00	19	284.00	100
2005-06	194.00	64	49.00	16	60.00	20	303.00	107
2006-07	222.00	66	40.00	12	74.00	22	336.00	118
2007-08	228.00	60	39.00	10	114.00	30	381.00	134
2008-09	282.74	61	45.98	10	136.18	29	464.90	164
2009-10	627.61	73	58.68	7	168.30	20	857.59	302
2010-11	760.68	74	70.76	7	192.56	19	1024.00	361
2011-12	702.24	67	89.39	9	252.39	24	1044.22	368
2012-13	881.20	69	96.23	8	296.40	23	1273.83	449
2013-14	1063.00	68	125.00	8	372.00	24	1560.00	549
2014-15	1369.00	69	157.00	8	458.00	23	1984.00	699
2015-16	2905	77	229	7	621	16	3755	1322
2016-17	3373	75	276	6	856.	19	4505	1586
2017-18	3689	75	269	6	954.00	19	4912	1730
2018-19	3863	76	272	5	970	19	5105	1798
2019-20	3954	72	439	8	1082	20	5475	1928
<b>Average</b>	<b>1518</b>	<b>69</b>	<b>145</b>	<b>9</b>	<b>416</b>	<b>22</b>	<b>2079</b>	<b>732</b>
<b>R</b>	<b>0.92</b>		<b>0.90</b>		<b>0.95</b>		<b>0.93</b>	
<b>T</b>	<b>43.82</b>		<b>33.08</b>		<b>65.55</b>		<b>48.38</b>	

**Source:** Annual Credit Plans, Kanyakumari District, various issues.

$$t = \frac{r}{\sqrt{1-r^2}} \sqrt{n-2}$$

It is seen from the above table that the amount allotted for agriculture has been gradually increasing. In case of industrial sector, the amount has been gradually declining and with regards to the service

sector, it shows a fluctuating trend. On an average, 69 per cent has been allotted for agriculture, 9 per cent for industries and 22 per cent for service sector. As far as the lending on agriculture is concerned, it has a correlation coefficient of determination of 0.92, for service sector it is 0.95, for industrial sector it is 0.90 and for total lending it is 0.93.

The structural changes of the agricultural credit are tested through t test and it shows that the structural change is more for service sector to the tune of 65.55, then for agriculture to the extent of 43.82 and 33.08 for industries and lending to all the sectors is significant to the extent of 48.38.

The aggregate deposits and loans of all institutions stood at Rs. 9278.53 crore and Rs. 12083.09 crore for the year ended 31 March 2017 and registered a growth of 7.7% and 2.8% over the previous year. CD ratio for the district as a whole is 130.0% (including all agencies) as against 136.3% as on 31 March 2016. The credit potential for the year 2018-19 has been estimated at Rs. 656577.36 lakh as against Rs.570919.03 lakh during 2017-18, an increase of 15.0 % which has taken into account the revised priority sector guidelines of RBI and the national priorities of Government of India to scale up lending to the various sectors of the economy. An amount of Rs. 418776.50 lakh is estimated as credit potential for agriculture credit which includes Rs.276122.69 lakh towards short term credit for agriculture. The credit potential for Micro, Small and Medium enterprises is estimated at Rs.74107.92 lakh. As per the revised priority guidelines of RBI, for the first time, credit potential for export and social infrastructure through bank credit has been estimated under the PLP and they stood at Rs.50000.00 and Rs.2388.92 lakh respectively. Keeping in view the priorities of GoI on Housing for all by, the credit potential for housing has been estimated at Rs.30000.00 lakh.

While broadly sticking to the physical units envisaged in the Base PLP 2016-17 except for the new areas, upward revision of financial projections has been necessitated on account of changes in unit costs & scales of finance, trends in credit flow, technical parameters, priority sector guidelines etc. As there are area constraints, development of allied activities is relevant for the district in order to sustain and improve the income levels. Very high density of population i.e., 1119 persons per sq km, high level of literacy, small land holding pattern, forest area of 32.4.5 percent, absence of surplus land are some of the important characteristics of the district's economic profile. Hence, there is an increasing need to support non-farm sector and service sector. Industrially, the district has not progressed due to constraints on availability of

land at competitive rates and high labour cost. The non-farm sector activities which are closely linked to the primary sector offers scope for exploitation. Development of coconut/rubber/fisheries based industries is essential. The works being done on the development of Rubber Industrial Park and establishment of harbours at Colachel, Thengapattinam, Muttom and Rajakkamangalamthurai augurs well for the development of these two sectors.

## 8. CONCLUSION

The banks in Kanyakumari district play a vital role in the economic development of the district. The penetration of various bank branches especially the cooperative banks in the rural areas help the rural people too to have easy access with the banking facilities. As far as the banks in the district are concerned, they have good credit deposit ratio, better lending practices to all sectors like agriculture, industry and service sectors. The banks are doing mighty works on financial inclusion too. The lending practices of banks are more on agriculture and then on service sector while it is least on industrial sector. To boost up the industrial sector of Kanyakumari District, the banks may liberalise the formalities and lending practices to the industrial sector. As the district is blessed with rich agriculture and allied activities, it is needless to say that the banking sector is a boon to people of all walks of life especially to the farmers at large.

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