

Role of Commercial Banks in Industrial Development of Muzaffarpur District



Commerce

KEYWORDS :

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I. Introduction

In this country, Banking is not a new occupation. We have a record of Banking which goes back at least 2500 years, if not more. But in this long history of Banking till about 30 years back, Banking had very little to do with industry. Going through our ancient chronicles, whether the Arthashastra or Buddhist Jatakas or the Jain chronicle, one does not see much connection between Banking and Industry, though there are plenty of linkage between bankers and trade, between bankers and the state. Savarkar (1938) writes, banking was known and practised in India at a time when the rest of the world had yet to evolve a medium of exchange in the form of money. The first joint stock bank – The Hindustan bank was established in 1700 by Alexander and Co., which was one of the agency houses at Calcutta. In 1865, the Allahabad Bank was established under European management.

Most of the time, bankers whether in India or in Europe, have been concerned with the financing of trade, with the remittance of funds and with the putting out of their own resources to make them available to those who needed them. The idea of mobilising resources from other in order to place them in the hands of a large number of people is a new concept. Bankers have to lend out their deposits. Any other sources of funds are temporary or transient. It is not meant to be a genuine source of funds, it is not a resources in the real sense. That bankers have had to finance the Government since the dawn of recorded history has parallels as of now, because a large part of banking resources goes into the financing of the Government. Since the late sixties, there has been as unrivalled and unprecedented expansion in banking accompanied by a massive diversification of activities. During the last few years, there has been a much greater involvement of bankers in social and economic development.

The commercial bank is the most important financial institution. In financing day-to-day transaction of the business world, it enables all other financial institutions to function and contribute directly to their activities. The commercial banking structure is the core of the modern financial systems. Every commercial and industrially advanced nation today has its commercial banking system adapted to its own needs. There is no phase of the economy in such nations, whether it be personal, corporate or government economic activity which is not touched directly or indirectly by the commercial banking systems. Modern commercial banking has often been described as “departmental store banking”, as it is equipped to perform practically any financial service which its customers require.

In India nationalisation of fourteen major banks in 1969 and six banks in 1980 changed basic nature and objective of the industry. It has no more kept itself restricted to accepting deposits and making loans based on principles of economic and financial liability of proposals. Since nationalisation, the resources of banking industry are being utilised to meet socio – economic objectives also. In view of the changed situation the funds available with the profit centres have become meagre and costly. Thus, the bank have been confronted with a new challenge, they realise that the qualitative and quantitative dimensions of the new tasks have assumed unmanageable proportions and that they could not be met with existing ways and methods.

Commercial Banks, apart from providing a vital service, are business enterprises, and should, therefore conduct their affairs in such a manner as to efficient business norms, both in collecting funds from different sources and the manner in which such

funds are utilised. The sources of funds are deposits, borrowing, profits etc. which in accounting terminology are liabilities. The avenues for utilising these funds are loans and advances and investment in securities etc. The sources and the uses of funds need to be such as to keep the banks liquid and profitable. Unlike the banking institutions, the bankers ought to pay more attention to these two conflicting aspects of business, viz. liquidity and profitability, because of the special nature of the deposits and advances.

After nationalisation, there has been a structural change in the advance portfolio of the Commercial Banks with emphasis shifted from securities – based lending activities to need based ones. In this regards the significant step taken by the Government was the identification of certain sectors, viz. agriculture, small scale industries, retail trade, small business, road and water transport operators, self-employed and professionals, experts and education as priority sectors which were to be given loans of concessional terms. Credit allocation was deliberately charged in favour of these sectors. The risk of default was bound to be high as a result of the shift in favour of the unorganised, small and scattered sectors. In order to alleviate the bank fears of increased risk, the Reserve Bank of India promoted a Public Limited Company, the Credit Guarantee Corporation of India Ltd., on 14th January, 1971, as a part of the policy to promote the extension of credit to borrowers of small means in priority and other relatively neglected sectors. This corporation provides guarantee cover for small loans and other credit facilities extended by Commercial Banks to priority sectors.

Nationalisation of twenty major Commercial Banks aroused enormous expectations from the banking system in India. The emphasis shifted from large industrial and commercial sectors to agriculture and small scale industries as well as from urban to rural areas with a view to achieve the social objectives of economic development. Consequently, the Indian Commercial Banks particularly in the public sector, experienced on unexpected growth in branch expansion, deposit mobilisation and priority sectors lending both quantitatively and qualitatively.

The Commercial Banks have an important role to play in economic development of our country. The effectiveness of a banking system will ultimately depend on the provision of efficient service as well as the safety of depositor's funds and their investments and above all economic development for the elimination of poverty, unemployment and inequality deep seated in India. From past two decades, the nationalised commercial banks have started large scale financial works both in industrial and agricultural sector for balanced economic growth of the country.

Agriculture, which is the basic industries in the country, had been completely ignored by the commercial banks. They remained indifferent to the credit needs of the farmers, for agricultural operations and land improvement. This was the basic reason for the failure of the planning in the agricultural sector and consequently for the failure of general planning. The commercial banks had helped only large scale units. These had created concentration of economic power, or monopoly. These banks had ignored helping the small business and small industrial units. This was against the Government policies of helping and encouraging small scale and medium business and industrial units. Small business and industrial units were being continuously and consistently ignored. Agricultural credit was never seriously considered.

It is a fact that the level of financing achieved by the banks in Bihar is very low. The indicator credit deposit ratio is an important index to judge the performance of Commercial Banks. At present for every Rs. 100 received by the bank as deposit in Bihar, the credit advanced by them is a mere Rs. 39.41. Contrast this with Rs. 65 to Rs. 85 in states like Maharashtra, Karnataka, Gujrat, Haryana, TamilNadu even the credit deposit ratio of West Bengal and Uttar Pradesh is higher than Bihar being Rs. 60 and Rs. 55 respectively. The credit deposit ratio of India is Rs. 56 which left Bihar much behind the national average.

The present study relates to the role of nationalised commercial banks in the industrial development of a particular district of North Bihar. Muzaffarpur district is an important part of the North Bihar. But it is backward in the industrial field. More than 80% people of this district depend on agriculture and horticulture for their livelihood. Due to lack of industries the ratio of unemployment is very high. After nationalisation of Commercial Banks, the banks are providing financial assistance to the people of this district for establishing big, small and cottage industries. Hence, the study has got special Justification in view of the problems facing the people of this district and role being played by the nationalised commercial banks for the solution.

II. Objectives of the study

- To assess the role of Commercial Banks in Industrial Development.
- To examine their lending policy and procedure.
- To evaluate the contribution of Commercial Bank in the development of industries in the Muzaffarpur District

Finally, to consider any other related problems.

III. Methodology and Data

3.1 Data Collection and Analysis

Taking the objectives into consideration the research study involved both primary and secondary data. The primary data was collected mainly through interview with the beneficiaries, managerial personnel, executives etc. Secondary data was collected from the records and reports published by the Reserve Bank of India, Annual Action Plan, District Credit Plan, Data published by State and Central Government, Census Report, Economic Survey Report etc. Apart from this, information is also tapped from journals, magazines and daily newspapers like Times of India, Hindustan Times, Economic Times, Business Line, Financial Express etc. The collected information were suitably classified and tabulated in the form of simple tables. With the use of various analytical techniques like trend analysis, ratio analysis and some statistical techniques like trend mean, standard deviation, coefficient of variance, the collected and classified data have been interpreted.

3.2 The Area of Study

The present study is concerned with the study of the impact of nationalised commercial banks on the development of industries in a particular district of North Bihar. It is designed mainly to examine the lending policies and co-ordinate with other district level financial institutions in the development of large, medium, small and cottage industries. The present study analyses the role of nationalised commercial banks in the industrial development of the chosen area.

It is a well known fact that Muzaffarpur district is an important part of the North Bihar. But it is backward in the industrial field. More than 80% people of this district depend on agriculture and horticulture for their livelihood. Due to lack of industries the ratio of unemployment is very high. After nationalisation of commercial banks, the banks are providing financial assistance to the people of this district for establishing big, small and cottage industries. Hence, the study got special justification in view of the problems facing the people of this district and role being played by the nationalised commercial banks for the solution.

3.3 Hypotheses

In the present study it is hypothesized

- The industrial development of the district may be very helpful in all round development of the district.
- It will lessen the burden of population on agriculture, remove unemployment and break the vicious circle of poverty.
- Due to unemployment and poverty, a large number of people go to the different part of the country in search of jobs every year.
- Providing credit facility to the people of this district, commercial banks will certainly change the economic structure of the district.
- There are certain areas where the performance can be improved by effective management. These areas include (a) Deposit Mobilization; (b) Loans Disbursement; (c) Recovery of Loans.

3.4 Scope of the Study

The present study is based on both primary and secondary data and area of investigation lies in the Muzaffarpur district of North Bihar. If the Commercial Banks provide credit facility to the people, it will certainly change the economic structure of that area and hence this study will provide useful guidelines and directions for conducting similar studies in other parts of the country. The conclusion of this study would be helpful in formulating policies and strategies for accelerating industrial growth and improving the overall socio – economic conditions of the country.

3.5 Design of the Research Study

The present study comprises seven chapters, including introduction, findings and conclusion. The first chapter begin with the origin of commercial banks in India and its development, in which the concept of social control of banks and nationalisation of commercial banks has been discussed in detail. The second chapter throws ample light on the socio-economic background and infrastructure of the district under study. The third chapter has been denoted to highlight the object, organisation and functions of the commercial banks in detail. The fourth chapter deals with the role of commercial banks, played in providing finance for small scale industrial units, from different angles. The performance of commercial banks in Industrial Development of the district under study evaluated in chapter fifth. It includes the performance of the industries as well as commercial banks at national level and state level as well as district level. In the sixth chapter, the problems and prospects of commercial banks in the industrial development of backward region in general and Muzaffarpur district in particular has been discussed. Finally, in the last chapter; i.e. in seventh chapter, the whole work has been summarised and suggestions to revamp and streamline the Indian Banking sector had been put forth.

3.6 Limitations of the Study

The present methodology adopted for analyzing data in this investigation therefore has some inherent limitations. The main limitations of the present study are:

- The study was based on both – primary and secondary data – collected from the records and reports published by several bodies and through interviews. The limitation of the data, if any, is likely to influence the study, and as such its findings depends entirely on the accuracy of such data.
- The study has been conducted at Muzaffarpur district level of North-Bihar. Hence the general applicability of the result is limited and may not hold true for other parts of the state of Bihar and the country.

IV. Major Findings of the Study

Some key policy implications emerging out of the research were:

- Deposit mobilisation has been the important problem of the commercial banks. Though the deposits of the banks has been increasing fastly since nationalisation due to expansion of the branches in rural areas, but its ratio is not satisfactory for a big country like India. The deposits of the banks in Bihar have increased from 186 crores in 1969 to

16,785 crores in 2006-07 but it is not satisfactory for a big and populous state like Bihar.

- Before the nationalisation of the banks only industrial sectors were the main recipient of the banks advance. The agricultural sector was almost neglected because it was provided only 1.5% of the total loans and advancement. But since nationalisation the agricultural and industrial sectors are equally benefitted. The priority sectors are getting more than 65% of the total loans from the Commercial Banks.
- The perplexing problem that confronts the entire banking industry in India today is the problem of recovery. The banks have failed to recover more than 40% of the total loan.
- Interest paid on deposits constituted a major portion of costs. However, the higher interest cost was matched by higher interest income either on advances or from Head Office, or both. As a result of low credit deposit ratio, funds were being diverted in most of the cases from these branches to Head Office for investment elsewhere. This reduce the profitability of the banks.
- The Credit Deposit Ratio (CD Ratio) of the Muzaffarpur District Commercial Banks has been declining. CD Ratio of Commercial Banks in 2005, 2006, 2007 was 31.92%, 35.00% and 35.70% respectively. The low CD Ratio of the district is also due to the advancing of the big share of the banks' loans to some big businessmen, traders and transport operators.
- There are some political interferences in the distribution of the bank loan. The politicians press the bank's official to grant loan to their parties; hence men without fulfilling any precondition. They also put obstacles in collecting the loans for their political ends.
- It has been observed that the Commercial Banks could not achieve the targets and objectives even after 39 years of nationalisation. It is due to the lack of suitable management. The banks are suffering from the shortage of man - power. The branches of the banks are expanding but the number of employees are inadequate for the day to day functioning of the banks. The trade unionism is badly affecting the functioning of the banks.
- Between June 1969 and 2006, the total number of Bank offices increased from 8,252 to 69,620 mostly at unbanked and under - banked centres. The population served per bank office declined from 64,000 to 15,000. Deposits with scheduled Commercial Banks as a percentage of national rose from 15.5% in 1969 to 57.13% by June 2007.
- Following nationalisation, there has been a marked shift in the sectional deployment of credit over the last four decades. The most striking change has been in the agricultural segment. A progressively larger allocation of incremental resources towards the direct and indirect financing of agriculture and allied activities took its share from 2.2% in March 1968 to 16.9% in March 2007.
- Another significant achievement of the banking system has been the substantial improvement in the banking facilities in the backward areas which till nationalisation, had been neglected by Commercial Banks. As a result of the re - orientation of credit deployment in favour of Agriculture, Small Scale Industries and Small Business Enterprises, the volume of credit flow in the industrially backward states as substantially stepped up and the shares of these states in the total banks credit more than doubled.
- It has also been observed that the banks will have to play on extended role in the Integrated Rural Development Programme. In particular, they will have to pay greater attention to the problems of artisans, small and marginal farmers, landless labourers and Scheduled Castes/Tribes in rural areas. Besides giving term loans and working capital financial help to be provided for construction of rural industrial estates, as well as for financing the marketing activities of rural artisans.
- It has been revealed that in order to play significant role in industrial growth, greater professionalism and development of adequate expertise in handling industrial accounts will be absolutely necessary. In the field of foreign trade especially for growth of exports, banks will be required to provide facilities of credit for pre-shipment and post-shipment on reasonable terms.
- Bihar and Muzaffarpur district still lack banking facilities up to the end of March 2007. The total number of bank offices in Bihar was 4,232 against 273 in 1969. During the same period there are 204 bank offices in Muzaffarpur district as against 43 in pre-nationalisation period e.g. June 1969. Population per branch is expected to come down to 7,000 in rural and semi-rural areas by the end of 2007 in Bihar.
- The worse thing is that the credit deposit ratio of the banks is extremely low in Bihar. In 2006, the credit deposit ratio was only 39.8% in Bihar, whereas it was as high as 95% in Maharashtra, 78.9% in Karnataka and 90.9% in Tamil Nadu. The national average was 67.5%. This is really a matter of great concern and hence there is an urgent need to reverse this trend.
- The study also reveals that bank even in post-nationalisation period have not succeeded in removing regional disparities. In spite of welcome change in the branch expansion and loaning policies of the banks in regard to relatively undeveloped states like Bihar is still a poorly banked state and has not received sufficient credit facilities.
- The study reveals in coming years the main interest of the banks should be in improving customer services. There should be re - orientation of the employees in areas of personal relations as they would enhance customer - employee relationship.
- It is observed that to cope with the problem of increased quantum of work, there is an urgent need to use modern technology.
- At present time the need for training as a planned organisation endeavour has arisen very sharply in the banking industry due to expansion and diversification in activities.
- The Banking system in the country is almost completed by under governmental control. So, it is necessary that banks do not become a tool in the hands of our parliamentarians for meeting their political ends. Banks are primarily the trustees and custodians of public funds and hence should act accordingly.
- It appears that one of the main problem faced by nationalised banks is fraud. Frauds are being committed by customers/external persons and also by bank employees. Unscrupulous elements are indulging in it and doing it through multiple borrowings and cheating. Thus, effective mechanism is needed to safeguard banks from cheating forgeries and frauds.
- Our study shows that banks did a lot in the field of branch expansion, but from the point of view of productivity, efficiency and quality these branches suffer from shortcomings and hence fail to serve the desired purpose. So, there is a need for qualitative change alongwith quantitative changes. Branch expansion policy requires over - all changes.
- Deposit mobilisation efforts must be planned with specific objectives and must be directed towards specific groups of potential depositors. To attract more public savings banks will have to provide more facilities. Easy procedures, efficient and prompt service, personalised behaviour of staff with all this, new attractive and innovative schemes and plans suited to different potential depositors should have to be started.
- The study reveals that funds are flowing from rural to urban area. There is urgent need to check this trends so that funds generated in rural area may be utilised for rural development. The bank should aim at raising the proportion of their advances to priority sector and to agriculture sector.
- Worldwide bankers have realised that they cannot sustain on interest income alone, efforts are, therefore being made to augment income from non - funding business. Some Indian bankers have also been making efforts in this direction in the past few years, but their involvement is still rudimentary. Banks should be permitted to set up separate subsidiaries to undertake activities like leasing, portfolio management and merchant banking.
- Overall changes are found to be mostly quantitative. Initiative has to be taken to convert it into a qualitative change.

- Change in work technology is not enough; it calls for change in work culture. There is still scope for improvement in the attitude of bank employees.
- More resources need to be invested in human resource development with a focus on quality, timeliness and delivery of financial services and building up immense skill capabilities.

V. Conclusion

It can thus be concluded with the bright hope and complete confidence that the suggestion mentioned in the area of

- Improvement in quality business;
- Containment of costs;
- Scientific pricing of services;
- Diversification;
- Focus on customer service;
- Attitudinal change;
- Cost and profitability consciousness;
- Effective mechanism to control problem of frauds;
- Credit deployment performance

are significant and will be useful for banking industry in India. These will also induce more efficient for the industrialization and overall development of the economy of the country. As the banking industry is base for economy and very useful for public, the Government should also promote and project this industry. The RBI, the Bank Management and the Economic Planners should formulate a dynamic Commercial Banking Policy, as to meet the roadlines the over increasing financial needs of the country. Thereafter, the more employment for society and higher revenue can be generated. Consequently the process of the upliftment of society will get accelerated and regional disparities may get removed.