

CHAPTER - IV

NATURE AND IMPORTANCE OF LEAD BANK SCHEME

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CHAPTER - IVNATURE AND IMPORTANCE OF LEAD BANK SCHEME4.1 INTRODUCTION :

Developed Banking System is a feature of an advanced economy. The economic history of development testifies this fact unequivocally. The Western countries are in general, very much developed in all respects as compared to oriental countries due to the difference in the degree of development of Banking. India an undeveloped country has introduced the modern banking due to contact of British rulers. The Banking in India especially in urban areas, has achieved a comparable stage of development and moulded the rural life since independence. Many important changes in policy of methods in banking have taken place with national interest, from 1951 to date. The idea of Lead Bank scheme is one of the many innovations introduced by Indian Banking System which is going to have far reaching effects on Indian Banking.

4.2 GENESIS OF LEAD BANK SCHEME :

The concept of Lead Bank Scheme was first mooted by the Gadgil Study Group, which was appointed in October, 1968. It submitted its report in October, 1969. The Study Group drew attention to the fact that commercial banks had not paid

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sufficient attention to the banking needs of the rural areas in general and backward areas in particular. The needs of Agricultural, Small Scale Industries and Cottage Industries as also retail trade and rest of the service sector were neglected both because of the lack of adequate number of banking offices in the rural areas and lack of rural orientation in the banking system. The study group, therefore, recommended the adoption of an area approach¹ to evolve plans and programmes for the development of adequate banking and credit structure in the rural areas. In August 1969, Reserve Bank of India appointed Mr. F.K.F.Nariman Committee to study these recommendations.

The recommendations of the Gadgil Study Group were examined by a Banker's Committee, headed by Mr. F.K.F.Nariman which submitted its report in November, 1969. It recommended that in order to enable public sector banks to discharge their social responsibilities, each bank should concentrate on certain districts where it should work as a lead bank. On the basis of the recommendations of both the Gadgil Study Group and Nariman Committee, the Reserve Bank of India evolved the Lead Bank Scheme in December, 1969.²

4.3 ALLOTMENT OF LEAD RESPONSIBILITY :

On the basis of the recommendations of both the Gadgil Study Group and the Banker's Committee, R.B.I. introduced the "Lead Bank Scheme" towards the end of 1969. To enable banks to assume their lead role in an effective and systematic manner, all districts in the country (excepting the metropolitan cities

of Bombay, Calcutta and Madras and certain Union Territories) were allotted among the public sector banks and a few private sector banks.

The Lead Bank Scheme did not envisage a monopoly of bank business to the Lead Bank in the District. The Lead Bank was to act as a consortium leader of coordinating the efforts of all credit institutions in each of the allotted districts, for expansion of branch banking facilities and for meeting the credit needs of the rural economy.

The criteria adopted in making the allocation of district to each Bank were :

- i) The size of the Bank and the adequacy of its resources for handling the volume of work.
- ii) The contiguity of districts so that "Clusters" of Lead districts could emerge.
- iii) The regional orientation of Banks.
- iv) The desirability of each state to have a particular Lead Bank operating in its territory and, desirability of each bank to operate in more than one state.

4.4 FUNCTIONS OF LEAD BANK :

The concept of "Lead Bank" is product of National Credit Council (on the organisational framework) for the implementation

of social objectives. The Lead Bank Scheme was launched with a view to providing framework for attaining certain objectives of Bank nationalisation as mentioned earlier. It was designated to focus on.³

- i) Extension of bank facilities to rural areas and backward regions where such facilities were lacking earlier.
- ii) Extension of credit to Agriculture and other priority sectors which were neglected.
- iii) To identify unbanked growth centres which had potentials for opening branches of bank.

Thus the "Lead Bank " were expected to play a new role, branch expansionss were not to be viewed in the context of making available banking facilities to unbanked areas, but also in the context of assessing potential savings and mobilising potential deposits generated by higher income to meet the credit gaps in priority sector such as agriculture, small scale industry etc. Thereby help in bringing larger areas of economic activities within the organised banking system and under monetary disciplines.

The Lead Banks should be familiar with the area and under take impressionistic survey to know the untapped resources physical, natural, human or financial. Find out the alternatives to many lenders, integrate credit and banking business with

economic activities identify growth centres and work as consortium for collaborating and coordinating in joint endeavour of initiating growth through meeting financial requirements felt by sectors and areas.

The Reserve Bank as spelt out in some detail the functions of Lead Bank in the allotted district, which are⁴:

- 1) Surveying the resources and potential for banking development in its district.
- 2) Surveying the number of industrial and commercial units and other establishments and farms which do not have banking accounts or depend mainly on money lenders, and increasing their owned resources by the creation of surpluses from the additional production financed by the banking system.
- 3) Examining the facilities for the marketing of agricultural produce and industrial production, storage and warehousing space, and the linking of credit with marketing.
- 4) Surveying the facilities for the stocking of fertilisers and other agricultural inputs and repairing and servicing of equipments.
- 5) Recruiting and training staff which would offer advice to small borrowers and farmers in the priority sectors.
- 6) Assisting other primary lending agencies and ,
- 7) Maintaining contacts and liaison residually with Government and quassi Government agencies.

More recently the prime task for which the Lead Banks have to devote considerable time efforts and attention has been the formulation of District Credit Plans, Annual Action Plans so as to achieve the national objective of particularly reaching the priority sectors and more so the weaker sections within the priority sector.⁵

4.5 EVOLUTION OF D.C.P. :

The concept of Planning at the district level for credit and banking development can be traced to the Gadgil Study Group's Report which advocated an area approach to the development of banking and credit structure. It also recommended the adoption of district which constituted the main administrative unit as the base unit for the purpose.

The Banking Commission in its Report(1972) pointed out the difficulties inherent in the preparation of credit plans by lead Banks, in the absence of proper development plans. The commission also emphasised that the realm of development planning belonged properly to government and that carrying out techno economic surveys, district by district, could not be the legitimate responsibility of commercial banks.

Some of the lead banks had on their own, commenced the work of preparation of D.C.Ps since 1973. The earliest D.C.Ps.

were those for Gorakhpur (W.P.SBI), Rae Bareilly(W.P.Bank of Baroda). The pace of preparation of D.C.Ps was slow in the beginning, since lead banks were new to this type of work. A study of the first round of D.C.Ps prepared by the lead banks revealed certain major deficiencies such as lack of uniformity in coverage, contents and period, failure to align the plans with the development programmes of Government, and inadequate attention to agricultural and allied activities. The need was, therefore, felt that RBI should give a direction to district credit planning so that institutional credit flowed smoothly to priority sectors, in accordance with national priorities. Accordingly, RBI advised the lead banks to terminate the existing credit plans as of December, 1979 and formulate new DCPs for the years 1980-82 and Action Plans for each calendar year.

Now at the present position uniformity has been achieved to a large extent in the presentation of DCP and AAP. The parameters laid down in the guidelines for measurement of credit outlays envisaged and credit to be provided there under have helped in bringing about a large amount of homogeneity in the plans.

4.6 SERVICE AREA APPROACH :

The seminar on Rural Lending Organised by Reserve Bank of India in January, 1988, unanimously recommended the adoption

of "Service Area Approach" to bank lending in Rural Areas and was announced as one of the policy measures by the Union Finance Minister in his budget speech in February 1988. It aims at forging an improved link between bank credit in the rural sector and its objectives viz. increasing production, productivity and income levels of the rural population. Admittedly, banks have made big strides in lending for development of the rural sector in the last two decades. Yet, much remains to be achieved in terms of increased production, productivity and income levels. The service area approach is intended to bring about orderly and planned development of the specific village earmarked as service area for each bank branch.

The service Area Approach involves five major aspects which are as follows. :

- a) Identification and allocation of service area for each bank branch. :

Specific area will be identified and allocated to each rural and semi urban branch of commercial bank including the Regional Rural Banks. Each branch may have approximately 15 to 25 villages under its area of operation which will be known as service Area. Cluster approach would be followed in selecting the villages for service area, their contiguity and proximity to the branch being the other main criteria. All the villages

in the block will have to be allocated among the branches. Banks have been advised to expedite the opening of branches at rural and semi urban centres for which allotments have been made.

b) Survey of villages in the service area for assessing the potential for lending activities and identification of beneficiaries for assistance :

After fixation of the service area, each branch is to undertake a survey of the allotted villages and prepare village profiles, such survey will cover different aspects such as existing economic activities and potentialities for their expansion as also for undertaking new activities, available infrastructure in the area, existing skill of villagers and coverage of rural families by the credit institution etc. The village profile thus prepared have to be updated periodically, say once in a year for preparing the credit plans taking into account the development changes etc.

c) Preparation of credit plan on an annual basis for the service by each branch :

Each branch would prepare annual credit plan for its own service area on an on going for this purpose, first the credit plan of each village will be prepared, and aggregate village credit plan will be based on it. The credit plan should reflect both the needs and the potentialities of the area, on the basis of information gained through the survey, and also

other available information from the local agencies such as block authorities and officials connected with agriculture. Animal husbandary, irrigation, small scale industry and village panchayat. The Lead Bank Officer has to play a crucial role in this regard. He should provide necessary guidance and support to all the branch managers in the district in the following matters. :

- i) Making available information obtained from concerned District Authorities and other agencies regarding likely developments in infrastructure and supporting service for different activities in the near future in the area of branch and special programme to be taken up.
- ii) Making available standard schemes for guidance of Branch Managers, covering among others the economics of different activities identified as suitable for the district, incorporating there in the economic unit, unit cost, repayment period etc.
- d) Coordination between credit institutions on the one hand, field level development agencies, on the other, on an on going basis for the effective implementation of the credit plan.

A Block level Bankers Committee would be formed to coordinate the activities of the banks and the Government

Officials. All the banks operating in the block, including DCCB, LDB and RRB would be members of this committee. In addition the Block Development Officer and the technical officers in the Block looking after agriculture, industries, animal husbandary etc. would also be the members. The lead bank officer of the concerned district would be the Chairman of the Committee and in his absence the Manager of the Lead Bank would preside over the meeting and he would also work as its conveynor.

The Block level Bankers committee is expected to meet at least once in a quarter to perform the following functions. :

- i) To discuss the credit plans of the different branches and their aggregation into Block Credit Plan.
- ii) To review the progress in implementation of Block Credit Plan and the performance of each branch in relation to its branch credit plan.
- iii) To allocate service areas to newly ^{branches} opened/in the block.
- iv) To consider operational problems in implementation of credit plans with special reference to enlisting the cooperation of the State Governments etc. in provision of inputs, infrastructure and linkages.

- e) System of continuous Monitoring of Progress in the implementation of the plans :

4.7 IMPORTANCE OF LEAD BANK :

The Lead Bank Scheme is an important instrument for overall development and its chief merit lies in the fact that responsibility for banking development has been laid squarely on specified bank in each district which is required to act as a leader and coordinate the activities of the various agencies in the district for its rapid overall development. The scheme aims at avoiding overlapping of efforts and employing the human and financial resources of banks to optimum effect for economic betterment through area approach. It would, however, be unrealistic to expect banks to undertake the formulation and implementation of district development programmes entirely on their own. They have to seek the active assistance and cooperation of other agencies and not to replace them. Through, the regional offices, lead banks have been able to establish meaningful contacts and dialogue with state, district officials responsible for development. The concept of lead responsibility has helped to bring about a better understanding of the need for an integrated area planning approach among commercial banks, other financial institutions, state government and commercial agencies. It should be remembered in this context, that the "area approach" to planning and commercial banks is somewhat of a recent

innovation for banking industry in our country. In the past, banks went to only such places as has already been developed and where, consequently profitable business obtained. To assume responsibility for the development of banking facilities in particular district, with a view to stimulating elements of growth, and to identify bankable schemes in an area not yet fully developed is something new to traditional bankers,. And this responsibility has now been assigned to him through the lead bank scheme. Rapid success depends primarily upon the quality of leadership the lead banks can provide at the district level.

The crux of the lead bank scheme is joint action by banks, other financial institutions, State Governments and associated agencies for the implementation of bankable schemes which would make a definite impact on the economy of the district. Therefore, the district credit plans will have to be such as to meet the development needs of the district concerned. They are involved in speedy preparation of technically feasible and economically viable schemes and their quick implementation by joint action of the institutions concerned.

An important role played by Lead Banks in their specific district by surveying the number of industrial and commercial units and other establishments and firms which do not have

a - banking accounts or depend mainly on moneylenders and increase their owned resources by the creation of surpluses from the additional production financed by the banking system. In short, lead banks act as substitute for traditional money lenders in their specific district.

The Lead Bank Scheme was visualised as an instrument for the implementation of the social objectives conceived for the banking system at the time of nationalisation of 14 major banks in 1969. Prior to nationalisation, commercial banks did little to meet the banking needs of rural areas in general and backward areas in particular. There were several sectors, such as agricultural, small scale industries, which despite their importance from the national income point of view, did not receive any adequate attention from the banking system. The Lead Bank Scheme arose out of a need to adopt an area approach to the problem of developmental banking. It is an action programme which is based on the area approach to banking developments, to be implemented in a phased manner to realise the social objectives of the nationalisation of banks. Branch Expansion programme undertaken by the lead bank scheme from the beginning, i.e. 1969, it may be said that the progress achieved by the eve of nationalisation, there were only 1832 rural branches in the country. Their number went up to 24,705 (including RRBs) at the end of March 1984. Following Table shows the branch expansion position in various years.⁶

TABLE NO. 4.1NUMBER OF COMMERCIAL BANK BRANCHES

Year	Rural	Semi-Urban	Sub Total (2+3)	Urban	Metro-politan	Total (4 + 5+6)
June 69	1832	3322	5154	1447	1661	8262
Dec. 75	7385	6164	13549	3589	3308	20446
Dec. 76	8839	7024	15863	4135	3657	23655
Dec. 77	11092	7493	15585	4445	3966	26936
Dec. 78	12806	7778	20584	4668	4352	29504
June 79	13333	7845	21178	4717	4307	30202
June 80	15105	8122	23227	5178	4014	32419
June 81	17658	8468	26126	5453	4127	35706
June 82	20398	8763	29161	5360	4659	39180
June 83	22618	9036	31654	5575	4787	42016

SOURCE : BSR Statistics of R.B.I.

It will be really appreciated that the responsibilities that have been cast on the commercial banking system are considerable in terms of number of branches to be opened and the lending programmes to be undertaken involving not only a heavy outlay, but also bringing into the banking fold a very large number of beneficiaries belonging to the weaker section.

4.8 IMPORTANCE IN PLAN :

Each Lead Bank prepares a "District Credit Plan" covering all the possible bankable projects in the district and allocate credit plan targets among various banks functioning in the district as also among other financial institutions like, cooperative credit societies, Regional Rural Banks etc. Naturally this is to be done in consultation with the District Consultative Committee.

While preparing the District Credit Plan the lead Bank keeps in view the steps for removing unemployment and under employment in the district, to raise the level of living of the poorest section of population in the district laying emphasis on labour intensive projects as they would generate employment, take steps to increase productivity level of agriculture and allied activities as that would reduce unemployment and under employment in the district and keep in view the welfare of small and marginal farmers, landless agriculture labourers and members of scheduled casts and to provide them the needed consumption loans, and to see that all schemes included in the district credit plan are technically feasible and economically viable. All the districts in the country except certain metropolitan cities have been distributed among these Lead Banks, which are expected to assume the role of catalytic agents of the economic development

in their respective district. The district credit plan prepared by Lead Bank of District in one sense amplification of the overall district development plan. This implies that the district credit plan formulated by the Lead Bank should be in consonance with district development plan and strategy worked out by the Government.

The District Credit plan is to be formulated by the Lead Bank on blockwise basis, as the national policy has been to make the block as the basic geographical unit for formulation of economic plan.

4.9 IMPRTANCE IN OVERALL ECONOMIC DEVELOPMENT :

The basic aim of the Lead Bank Scheme is that Individual banks should adopt particular district for intensive development. Under the scheme, Lead Bank make the survey of their lead district so as to identify unbanked centers where bank branches could not been located and proper phased programme for branch expansion in their district. On the basis of the survey lead banks estimate the deposit potential and the credit gap. The close involvement of the lead bank with particular area not only result in deposit mobilisation but also in extention of finance to agriculture and small industries. Branch expansion, supervision and guidance become more effective as a result of Lead Bank Scheme. Lead Bank established a dynamic relationship between

commercial banks, cooperative credit institutions and Government authorities at district levels.

The Lead Bank act as leader in the particular (specific) district and the scheme avoiding the overlapping of efforts and employing the human and financial resources of banks to the optimum effect for economic betterment through area approach.

In past, banks went to only such places as had already developed and where, consequently profitable business obtained. To assume the responsibility for the development of banking facilities in particular district, with a view to stimulating elements of growth and identify bankable scheme in an area not yet fully developed is something new to traditional bankers, and this responsibility is always taken by lead bank scheme.

We can elaborate the importance of Lead Bank Scheme in overall economic development in the following manner. :

a) Lead Bank Scheme and Agriculture Finance :

Considering the technological achievements and its potentialities, the Fourth Five Year Plan inter alia has targeted a growth rate of five per cent per annum for agriculture. The target envisaged is proposed to be achieved by massive programme covering different facts of agriculture production viz.

- i) Augmentation and intensive utilization of irrigation facilities.
- ii) Use of high yielding varieties of seeds together with relatively larger doses of fertilisers.
- iii) Mechanisation of agriculture on large scale.
- iv) Soil conservation.
- v) Plant protection measures.
- vi) Improvement in storage, transport and agriculture produce.
- vii) Use of pesticides.

For achieving the above/different facts of agriculture development, the Lead Bank finance to agriculture for levelling of land, construction of new wells, installation of pump sets, or laying of pipe lines and credit is granted for purchase of tractors, oil engines, electric motors, cane crushers and other agriculture appliances. The Lead Bank have formulated a number of schemes that are meant to help small farmers, landless labourers, to supplement their income. In agriculture sector the Lead Bank finance to the farmers short term loans for purchasing the fertilisers, seeds, pesticides, crop loan, animals Bullocks and Bullock carts etc. and long term finance made for the purpose of Tractors installation of pump sets, or laying pipe lines, levelling the land and other agricultural appliances. Subsequently, the target for lending to priority sector was raised to 40 per cent of total credit provided by all the banks and

financial institutions in the district and that target of 40 per cent alongwith it was to be reached by 1985.

b) ACTIVITIES ALLIED TO AGRICULTURE AND LEAD BANKS :

Major activities allied to agriculture i.e. subsidiary occupations of rural masses are dairy, poultry, goaterly, sheep rearing, piggery etc. lead bank provides financial assistance for Dairy in form of :

- a) Supply of improved cattle.
- b) Veterinary facilities.
- c) Accessible chilling plants.
- d) Supply of cattle feeds.
- e) Setup for supply of cattle feeds.
- f) Government Technical personnel etc.

Lead Bank Scheme provide financial assistance for Poultry in form of :

- a) Supply of Birds.
- b) Supply of concentrate feed.
- c) Setup for supply of feed.
- d) Veterinary facilities.
- e) Setup for marketing of eggs.
- f) Government Technical personnel etc.

c) LEAD BANK SCHEME AND INDUSTRIES :

Generally we find a few industries in every district as processing as well as productive industries. Though their products use for agricultural implements, houseware or general personal use, however, it requires huge amount of capital in production process in the form of fixed and working capital. Here, Lead Bank plays vital role in providing financial assistance for :

- a) Land Acquirement.
- b) Machinery purchasing.
- c) Raw material.
- d) Transportation.
- e) Marketing etc.

d) LEAD BANK SCHEME AND SMALL SCALE INDUSTRIES :

Small scale industries generally depends on traditional skill, craftsmanship which need modernized manufacturing activities in that case lead bank plays vital role in supplying the raw material, marketing assistance, for purchasing machinery, Diesel and power as well as for acquiring the plots in industrial estate and help to rectify regional and sectoral imbalances alongwith provide technical personnel to start the S.S.I. which provide employment to the large section of society.

e) LEAD BANK SCHEME AND WEAKER SECTION :

The Lead Bank have formulated a number of schemes that are meant to help weaker section, small farmers, landless labourers etc. to suppliment their income. Bank provides financial assistance to weaker section, backward classes, and landless labourers to purchase a Bullocks, Bullock carts, Buffaloes, cows, sheep, goats, poultry birds, etc. which are supplementary and allied activities to agriculture.

f) LEAD BANK SCHEME AND SERVICE SECTOR :

There are various types of petty traders, services and handicrafts both in priority and non priority sector which are mainly depend upon lead banks. Lead Bank provide various schemes and takes positive steps to improve their participation in economically viable activities so that totally productivity and incomes of the people in weaker section rise.

In this way the Lead Bank plays role of catalytic agent of overall economic development in their respective lead district.

4.10 CONCLUSION :

The Lead Bank Scheme has provided a framework for coordinated development of banking and credit at the grass roots level. It was originally conceived as consortium approach on

the part of financial institutions but with emphasis on development oriented credit, it has developed into a partnership between credit agencies and developmental agencies. The credit plan, closely aligned with the development plan for the district, provide the basis for joint programme of work for financial agencies and district level functionaries.

The working of the lead bank scheme has, no doubt, thrown up certain problems such as coordination between banks and Govt. agencies, between lead bank and non lead banks and between cooperatives and commercial banks. But the scheme also provides for a machinery for sorting out these problems, at various levels.

The L.B.S. has a tremendous potential in achieving the economic improvement of the rural and semiurban areas. It is an exercise in decentralisation of the planning process and has the capacity to ensure that bank credit acts as powerful lever to achieve economic uplift of the poorer and weaker sections of rural population. Success under the LBS could be achieved more rapidly only with full involvement of all the elements of system i.e. the lead banks, other banks, Govt. development departments, and other development agencies, proper coordination atn the field or ground level is the key to achieve this.



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