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CHAPTER-I

1

INTRODUCTION.

1.1 INTRODUCTION.

The present study deals with the working of Lead Bank Scheme in the district of Sangli.

After Nationalisation of major commercial banks in 1969, several steps have been taken by the Government and Reserve Bank of India to replace traditional banking by innovative banking . One such a step was the introduction of the lead bank scheme on the basis of recommendation of two separate study team. The study seeks to examine the working of this scheme in the district .

This chapter therefore falls the basis of the further chapters and hence it mainly deals with the details of the scheme.

1.2 THE GENESIS OF SCHEME :

A study group was appointed in October, 1968 of with the approval of the National Credit Council under the Chairmanship of Pro. D.R.Gadgil to go into the question of "building up an appropriate organisational framework for the banking system for meeting the problems of credit gaps of the economy." The study group submitted its report in October 1969 . This group felt that an attempting to overcome the regional imbalances in the availability of banking facility, the adaptation to local condition was essential. The group hence suggested the

adoption of an ' area approach ' evolving plans and programmes for the development of the banking and credit structure. It recommended that ' depending upon the area of operation and location commercial banks should be assigned particular district in any area where they should act as pace setters providing intricated banking facilities'. The Group suggested that the district should be the unit in an area approach, because it was in relation to a district that most statistical and other data where available. Moreover the number of the districts in the country was not too large to think into the term of efforts being made for evolving plans for each district.

The Study Group reveal that commercial banks had not paid sufficient attention to the banking needs of the rural area in general and backward area in particular. In 1967 for example there were 13 districts in the country without any office of commercial bank. Only 5.3 % of agricultural finance and 48 % of the credit for small scale industries came from commercial banking sector. The needs of credit for agricultural, small scale industries and cottage industries as also retail trades where neglected 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 that nationalised banks should be given specific responsibilities for the development of banking in various districts, so that these banks could survey the banking potential, established banking offices and

work systematically for feeling the credit gaps in the rural areas.

In August 1969 soon after nationalisation of major Indian scheduled commercial banks the Reserve Bank of India appointed a Committee of Bankers under the Chairmanship of Shri S.K.F. Nariman to evolve a co-ordinating programme for ensuring the setting up of adequate banking facilities in the unbanked district of the country. The Nariman Committee recommended that " bank would be allocated specific district where they would take " the lead" in surveying the potential of banking development in expending branch expansion and extending credit facilities.

1.3 GADGIL GROUPS RECOMMENDATIONS

The lead bank concept arose out of the recommendations of Gadgil Study Group of the National Credit Council in 1969. Study group was constituted towards the end of October 1968 to consider the reorganisational frame work for the implementation of social objectives. The group addressed itself mainly to the task of identifying major credit gaps and to make suggestion to meet problems.

Group's approach to the problems of credit gap.

The existing banking structure and credit gaps nature shows that the strength and the weakness of commercial and co-operative banks. The nationalised commercial banks are not fulfilling the desire of small rural borrowers even though it have large resources and trained staff. The staff is not oriented to rural living. Non-nationalised banks are failing in doing the

same as there resources and areas are limited. The co-operative banking structure is intrigated i.e. three tier hence enabled to extend credit to agriculturists, artisans and small men in general. On the other hand the co-operative system suffers from a number of draw backs like quality of performance, effectiveness of co-operatives. So it is difficult to implement an all India policy through the co-operative system alone. District and State Co-Operative banks are creating problems in issuing funds to individuals as these are giving to societies.

Recommendations: 1

(1) The first recommendation was adoption of an area approach, programme for development of banking and credit structure. The area approach is inherent in the co-operative system. The commercial banks should assign particular district in a area where they should act as pace-setter providing intrigated banking facilities.

(2) The district should be the lowest unit under an area approach because it is the unit in relation to which co-operative structure is at present organised and most statistical and other data are available at the district level.

(3) For formulating and implementing plan it is necessary to bring to-gether all commercial banks , central co-operative banks and land development banks. One bank should take lead in banking development.

(4) Each district plan will have three aspects -

i (i) Establishment of branches at particular places.

(ii) Formulating relationship within a structure.

(iii) Formulating proper policies and procedure.

- (5) An appropriate relationship should be developed between the nationalised banks and the non-nationalised banks so as to utilise the services of both in meeting the credit needs.
- (6) The problem of relationship as between co-operative and commercial banks should be decided on general principles. The functions to be performed by non-existent or be co-operative institutions would be performed by corresponding commercial banking units. Commercial bank should assist co-operative banks and societies by providing managerial assistance and other facilities. District Co-Operative banks should be allowed to deal with individuals as an interim major measure. The commercial banks should place deposits with co-operative banks. A direct relationship between a commercial bank and a primary co-operative society should be established.
- (7) The credit plan should pay attention to integration of credit and banking business with other activities.
- (8) The district credit plan is to be related to refashioning the present policies and procedure of the banking and credit institutions. The credit institutions should maintain a continuous contact with the borrowers operations.
- (9) The group was of the view that an element of subsidy should not be mixed up with banking business.
- (10) A close examination may be conducted of the present working of credit guarantee scheme and view may be taken of the extent to which these can be liberalised or apply to new fields so as to provide further assistance to banks and credit institutions,

in extending credit to small business and weaker sections.

(11) The two main pre-conditions required for making finance available to weaker section are a) integrating the lending business with sales, production and marketing activities -b) making it possible for every body to build up some kind of minimum financial asset in the shape of provident fund , insurance .

(12) District or Zonal committees an all India machinery should be created for task of co-ordinating the programme of district or Zonal Committee , making evaluation of the performance and improving the district plan. Such machinery can carry out investigation for identifying the nature and extent of spatial and territorial credit gaps in the economy. Standing Advisory Committee should be constituted for drawing a master plan and to give guide lines for formulation of district plan.

After giving careful consideration to the recommendation of the Gadgil Study Group and of the Nariman Committee the Reserve Bank of India formulated in December 1969 the "Lead Bank Scheme" which gives the concrete shape to the " area approach" to development .

To enable the banks to assume the role of leadership in an effective and systematic manner, all the district in the country have been allocated among the public sector and few private sector banks. Under this scheme, the 336 districts of the country apart from the Metropolitan cities of Bombay, Calcutta and Madrass and Union Territories of Delhi, Chandigarh and Goa, Daman and Diu where distributed among the State Bank of

India and its seven subsidiaries, the 14 Nationalised Banks and 3 large private sector banks . These banks were asked to play the "Lead Role" for their respective districts. In April 1978. The Union Territories of Goa, Daman and Diu were allotted to the State Bank of India Group to play the lead role . Union Territories of Delhi and Chandigarh have been allotted to State Bank of India and Punjab National Bank to play the lead role.

The basic aim of the "Lead Bank Scheme " was that individual banks should adopt particular district for intensive development. The lead bank was expected to act as leader to bring about a co-ordination of commercial banks , co-operative banks and other financial institutions in their respective district in the interest of district development. They were expected to make a survey of their district so as to identify credit gap., centre for branch expansion. On the basis of survey the lead banks were expected to estimate the deposits potential and the credit gaps so that steps could be taken to tap the deposit potential and fill the credit gap.

The lead bank does not have the monopoly in the banking business in allotted districts, but was expected to function as a consortium leader . Its job was to evoke the co-operation of the various credit agencies in the district. The lead bank scheme had for the first time brought all financial institutions on a common platform with a sense of joint participation.

1.4 ROLE OF THE LEAD BANK: 2

The role of the lead bank has been slowly crystallising

over the past few years, around the concept of leadership in banking development. The main function of the lead bank are -

- a) To conduct impressionistic surveys to estimate credit gaps and identify growth centre.
- b) To identify places suitable for branch expansion .
- c) To prepare phase programme for branch expansion in the district .
- d) To estimate the corrent needs of credit and prepare a phased programmeto meet it .
- e) To undertake the survey for banking potential, for deposit mobilisation and credit extension.
- f) To identify potential area of agricultural and small industrial development and to to encourage local enterprenuer in agriculture and small industries .
- g) To advise such a schemes of deposits and financial investments as would prove attractive and effective for the local people for mobilising deposits as well as raising the rate of saving in the district .
- h) To reduce regional inbalances in banking development .
- i) To help in forming District Consultative Committee for the purpose of co-ordination of the efforts of financial agencies and Government authorities and to act as its convener .

1.5 CRITERIA FOR ALLOCATION OF DISTRICTS:

Under the Lead Bank Scheme districts were allotted to the banks. The allocation of district between the banks was made on the basis of certain criteria. These were principally, the size of the bank, its resources, geographic

contiguity that would yield "clusters" of lead districts. For each state to have more than one lead bank operating in its territories at each bank should operate more than one state. Unbanked area is to allocation to large banks of all India character. Thus the State Bank of India group was allotted the largest number of strategic and difficult districts all over the country, Central Bank was given Madhya Pradesh and Bihar Bank of India in Bihar and Orissa and eastern Uttar Pradesh, where as Bank of Baroda in Rajasthan and eastern Uttar Pradesh.

1.6 PROGRESS OF THE LEAD BANK SCHEME:

The lead bank scheme came into operation in November, 1970 and it has been operating for the last 16 years. There have been different stages of the growth of lead bank concept.

(I) Surveys:

In the first phase of the scheme the lead banks were asked to conduct "impressionistic" surveys for their lead district. The surveys were conducted to identify the growth centre in the district that are in need of banking services and providing potential for development. The Reserve Bank of India has drawn up a detailed proforma for conduct of survey by the concerned commercial banks, and circulated it them for collecting necessary data.

(II) BRANCH EXPANSION:

The immediate action following the quick survey was to prepare phased programme for the opening of new bank branches in the district. The branch expansion programmes were to be prepared on the basis of information about un-banked areas brought

out by the initial survey reports. In fulfilling this programme the lead bank would have to act in collaboration with all other banks operating in the region.

(III) Formulation of District Consultative Committee:

Every lead bank was asked to formulate District Level Consultative Committee for implementing and supervising this scheme at the district level. District Consultative Committee has provided a forum for the bankers to meet and discuss of common interest. The committee has representative of public sector banks , other commercial banks , co-operative banks, term lending institutions, District Collector, Chief Executive Officer of the Zilla Parishad and district officials in charge of agriculture , small scale industries, co-operative etc. The Collector of the district is the Chairman of District Level Consultative Committee .

The District Consultative Committee constitutes an important forum at the grass roots level for co-ordination. The main objects of these Committee are:- 3

- (a) Allocating the credit plan prepared by the lead bank among the financial institutions.
- (b) Monitoring the implementation of the credit plan by these agencies .
- (c) Sorting out the problems faced by the official agencies and credit institutions.
- (d) Allocating identified growth centres among different banks so as to expeditiously extent the branch net work in the dist.
- (e) Evolving methods and procedure to set up the follow-up

credit to priority sectors, and neglected sections of the rural community.

(f) Serving a joint forum for discussing the development needs of the district.

The District Level Consultative Committee meetings are convened at regular interval i.e. on quarterly basis. The Study Group on the working of the lead bank scheme in Gujarat and Maharashtra constituted by the Reserve Bank of India in 1975 felt that the progress of lead bank scheme largely depends on the success of these D.L.C.C. meetings. The active participation of District Collector and representatives of all the financial institutions are essential requirements for the successful functioning of D.L.C.C. meetings. In the D.L.C.C. meeting District Credit Plans are reviewed and the new scheme in operation in the District are also discussed in detail in these meetings.

(IV) Preparation of Credit plan: 4

Under the lead bank scheme lead banks were also given a task of preparing Credit Plan for assigned district in consultation with District Consultative Committee members in each of the district. A Credit Plan includes number of potentially bankable scheme in the district. These plans cover all the segments of the district economy, which includes agricultural , small scale , cottage and village industries , road and water transport operations, retail traders, self-employment, small borrowers. The physical targets and financial outlays under the various schemes were estimated in consultation with the district level Government department and institutions as well as banks.

The schemes are financed by all banks operating in the dist. i.e. co-operative banks, commercial banks, urban banks, financial corporations . Which of the activities could be included in the credit plan and extent of financial provision will depend on the natural factors, human resources, skill available, infrastructure, location of the district and its economic and social status. No particular methodology was recommended for the formulation of the scheme and each bank was to follow the method based suited to its own resources and conditions in the district concerned.

After the credit plans were ready , allocation of plan share was to be done among all the banks and financial institutions at the meeting of the district consultative committee. The banks and financial institutions after accepting their shares of the plan were expected to make branch-wise allocation. The credit plans thus prepared were to be implemented with the co-ordinated efforts of all the financial institutions .

The Reserve Bank of India had suggested that the banks may adopt uniform procedure as methodology in formulating district credit plans. The credit plans are now expected to be prepared for three years. The banks were also asked to prepare annual action plan .

1.7 OBJECTIVES OF THE STUDY :

Objectives of the study are as -

(a) to assess the working of the Lead Bank Scheme in the Sangli district.

(b) To evaluate the performance of Lead Bank Scheme through

various Annual Action Plans in particular the bankwise and sector wise performance.

(c) To suggest suitable measures for improving the performance further.

1.8 SCOPE AND LIMITATION OF THE STUDY:

The study is titled as " A study of the Lead Bank Scheme with reference to Bank of India in Sangli District (1980 to 1985) " . As the study covers the working of lead bank scheme in Sangli District it excludes the working of this scheme in other part of the country. The study is limited to the working of lead bank scheme only and as such it does not take into account the working of other banking schemes. The time reference would be a span of six years i.e. 1980 to 1985. The reasons for choosing such time frame basically stems from the facts that second round of District Credit Plan began in 1980. Thus the scope of the study is limited to the study of Sangli District only., and it is essentially and empirical and micro level study.

1.9 METHODOLOGY:

This study is mainly based on the secondary data i.e. Annual Action plan and district credit plan documents of the lead bank and necessary personal discussion with bank officials about certain matters on the lead bank scheme .

The evaluation of implementation of the District Credit bank has been conducted at the aggregate level of district. For the evaluation considerable back ground data pertaining to the district economy and the formulation and

implementation of district credit plan have been obtained from the lead bank.

The basis for the study founded with the help of intensive library work consisting of a study of various groups journals and reports which were directly or indirectly connected with the subject.

1.10-OVER VIEWS: OF RELATED LITERATURE:

A number of articles published in various periodicals and journals have been studied for understanding the various aspects of the problems and role of lead bank scheme in the banking system. We present below these articles i.e. directly related to the lead bank scheme.

Shri K.L.Gauba in his article published in the Banker November, 1971, pointed out that the lead bank should have trained staff for conducting technoeconomic surveys and staff should be familiar with the needs and aspirations of the local people. But the success of scheme depends in the way it is implemented.⁵

S.Rele in his article published in 1972 brought out concrete picture of the challenges passed by lead bank scheme for the banking business. He pointed out that it is always easy to introduce a particulars but it is dangerous to implement it without having proper understanding.⁶

In an editorial of Pigmy Economic Review March, 1979, and attempts was made to outline the genesis, growth and function of the lead bank scheme?⁷

R. Raghupadhye in his article on "Lead Bank scheme some issues" published in Pigmy economic review on October, 1979



explain stages involved in the introduction of lead bank scheme and pointed out that the developmental activities of commercial bank be placed in proper perspective. There should be greater participation and co-ordination among financial institution and banks.⁸

A.R.Patel in his article published in Financial Express as on 15th May 1982 brought out the role of Standing Committee in the lead bank scheme. He stated that there is lack of co-operation among participating agencies. There is various problems about loan proposals so committee can initiate steps. Committee will have to play effective role in collecting and analysing various data.⁹

In an editorial of Pigmy Economic Review on Sept.1979 pointed out the difficulty in the preparation of district credit plan and suggestion thereof.¹⁰

B.Ramchandra Rao in his article " Feedback from banks" published on 10th June, 1982 in Financial,Express pointed out that just finalising district credit and annual action plan is not enough but the implementation of plan and progress achieved during the period is also necessary. It is possible only when returns are received promptly from all the lead bank branches.¹¹

Mr. Sheldenkar has emphasized in his article "credit planning span perspective " in the Economic Times on 23rd June,82 the need to set-up linkages between the district credit plan and district development plans.He assumed that all development plans are static , a credit plan should precede rather succeed

a development plan , a banker is an instrument of development.¹²

Ashikant in his article "District Credit Plan 1980-1982 published in Economic Times as on 22nd January 1980 brought out the concept of district credit plan, steps in the head bank scheme and difficulties in the preparation of district credit plan.¹³

K.B.Rao pointed out in his article in the Financial Express as on 25th May, 1977 that the lead bank is an important exnovation in Indian Banking and success of the scheme depends on the seriousness with which the scheme is implemented by the lead bank in co-operation with other agencies.

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