CHAPTER III

HISTORICAL AND DESCRIPTIVE NOTE ON LEAD BANK SCHEME

3.1 Genesis of the Lead Bank Scheme :-

The Social objective of banking and credit are to spread institutional credit over different areas and ensure that the neglected sectors and small business get credit on reasonable terms from banks. The bank credit should be socially controlled in order to attain these objectives. The Government imposed social control over banks with the aim of regulating our social and economic life to attain the optimum growth and to prevent at the same time any monopolistic trend, concentration of economic power and misdirection of resources. It was felt that the policies and practices of the banking system must serve the basic social and economic objectives.

Consequent on the decision to impose social control over banks, the National Credit Council was established. The main functions of the Council were outlined as assessing the demand for bank credit from the various sectors of the economy and determining priorities for the grant of loans and advances in respect of agriculture, small scale industries and export.

The National Credit Council at its meeting held on July 24, 1968 constituted a study group to examine the question of building up of an appropriate organisational framework for the implementation of social objectives. The study group revealed unevenness in the spread of institutional credit, the urban orientation of commercial banks, weakness of co-operative system and non-availability of institutional credit to weaker sections of the community. It was considered that the benefits of economic development must reach relatively less privileged classes of society. The group felt that this was the direction in which the banking system should move.
The study group considered the structure of the economy and felt that the sectoral distribution of credit by commercial banks tended to favour large scale industry, wholesale trade and commerce rather than agriculture, small scale industry, retail trade and small borrowers. The major banks always catered more to meet the requirements of bigger borrowers than smaller borrowers.

On the eve of nationalisation there were 13 districts, 617 towns and 5,59,000 villages that were not covered by any commercial bank. Hence the study group concentrated on the task of identifying major credit gaps and made suggestions for meeting this problem.

3.1.1 Evolution of the concept:

The large variations in the local conditions under which credit institutions operated all over the country impressed the study group. The first recommendation was therefore for adoption of an 'area approach' to evolve plans and programmes for the development of banking and credit structure. Depending upon the area of operations and the location, commercial banks were assigned particular districts in an area. The commercial banks act as pace setters in providing institutional credit to neglected areas and classes. In this way all districts in the country were covered. It was felt that the 'area approach' would enable the commercial banks to identify and study local problems and evolve an integrated credit plan. For this the district being an administrative unit was identified as the unit under 'area approach'. The statistical and other data were easily available at the district level. It would also be easy to formulate credit plans for each district.

After the nationalisation of the 14 major commercial banks of the country on 19th July, 1969, the Governor of the Reserve Bank of India appointed a committee under the Chairmanship of Sri F.K.F. Nariman, to examine the recommendations of the Gadgil study group. The Committee in its report submitted to the Reserve Bank
of India on November 15, 1969 endorsed the views of the study group headed by Dr. Gadgil and recommended the setting up of the 'Lead Bank' for each district. The standing Committee of Bankers on 12th December, 1969 accepted the principle of the 'Lead Bank Scheme'. The Reserve Bank of India formulated in December, 1969 the Lead Bank Scheme which gave concrete shape to the 'area approach' to development. All the districts in the country were allocated among public sector banks and a few private sector banks. Each bank is expected to provide leadership in initiating, streamlining, and accelerating the process of development. On 31st March, 1979 there were 390 lead districts including Union Territories.

3.1.2 Criteria for allocation of districts:--

The main criteria for allotment of districts under the Lead Bank Scheme were the size of the bank, its resources, its regional orientation, geographical contiguity, resulting in a cluster of lead districts for administrative reasons. Mostly bigger banks were preferred to smaller ones. The resources of the bank were considered on the basis of deposits and existing network of branches. The regional orientation of banks was another criterion for allocation of districts. The geographical contiguity also was kept in mind while lead districts were allocated. This was to ensure viability of operations and providing control points for developmental work and branch expansion. They would also provide the basis for long term growth of banks in the districts allotted to them. Allotment was made in such a way that generally in each state there would be at least two or more lead banks. Similarly as far as possible each bank has been allotted districts in more than one state. Metropolitan centres as well as some union territories have not been allotted lead banks under the scheme.

3.2 Objectives of the Scheme:--

The Lead Bank Scheme is the concrete expression of the 'area approach' to banking development. The scheme was formulated with a view to overcoming regional
imbalances and ensuring balanced economic growth. The Lead Bank was expected to assume a major role in the development of banking and credit in the allotted districts. The bank assigned with the lead role is thus expected to act as the leader of the consortium. It has to identify areas with the potentialities of branch expansion after a proper survey. It has to estimate the extent of credit gaps in the district under its jurisdiction. It has to seek the co-operation of other banks and financial institutions to open additional branches and provide necessary credit. Thus the Lead Bank under the scheme is only the leader of the consortium and does not have either the monopoly or the exclusive responsibility of the development of banking or credit in the district. It has to work through the collaborative effort of all financial institutions. It has to prepare the bankable scheme to be implemented by all financial institutions. The Lead Bank has to provide leadership in the district for initiating and accelerating the process of economic development. It brings all financial institutions, Government and other developmental agencies on a common platform with a sense of joint participation in the co-operative endeavour.

3.2.1 Role of the Lead Bank :-

After the review of the working of the Lead Bank Scheme in Gujarat and Maharastra by the Reserve Bank of India in 1975, the focus under the scheme was on the preparation and implementation of bankable schemes and credit plans for the Lead Districts. The major functions of the Lead Banks are as follows :-

a) To conduct impressionistic surveys to estimate credit gaps and identify growth centres.

b) To undertake survey of banking potential for deposit mobilisation and credit extension.

c) To form District Consultative Committees for co-ordinating the efforts of financial agencies and Government authorities.
d) To identify growth centres for branch expansion and allocate them among various participating financial institutions.

e) To undertake in-depth studies with a view to formulating bankable schemes.

f) To allocate the responsibility of financing various schemes among the participating financial institutions.

g) To help the District Consultative Committees in monitoring the implementations of District Credit plans.

3.2.2 Role of Non-Lead Banks

The choice of 'area approach' implies that all the banks and financial institutions in the District should harness their resources and co-ordinate their efforts so as to stimulate economic development of the district. It is possible only when both Lead and Non-Lead banks understand their respective roles in a given district and make sincere efforts to fulfil their targets accepted after mutual consultation. After all one Lead Bank of a district may be a Non-Lead bank in other districts. Therefore, every bank must understand the role of Lead as well as Non-Lead banks and play it effectively in order to make the 'area approach' a success. The need for co-operation between Lead and Non-Lead banks is further underlined by the fact that in many districts the number of branches under Non-Lead banks are far greater than the number of branches of a Lead Bank and very often the share of credit of all Non-Lead banks far exceeds that of a Lead Bank in a district. The Lead Bank scheme also envisages close co-operation between commercial banks and other financial institutions like co-operative banks. In view of the rural orientation, their wider coverage, the co-operative institutions are allotted a substantial share of agricultural credit. Hence, Non-Lead banks have equal importance in the implementation of the scheme.
3.3 First Phase of the Scheme:

The primary task was that of opening as many branches as possible in the rural areas. This was carried out with the help of other banks in the district. This task represented the First Phase of the operations of the Lead Bank Scheme. Since the commercial banks were oriented towards industry and trade originally, the task of rural expansion called for new perspectives and new skills and posed new challenges.

3.3.1 Impressionistic surveys:

The immediate task of the banks was to acquire basic socio-economic data of their respective districts and to get familiarised with the salient features and problems of the districts. It was also necessary to study the potential of the district in order to mobilise resources. For this the Lead Banks carried out 'impressionistic surveys' of the respective districts. This enabled the banks to identify centres or areas in the districts that are in need of banking service, having the potentiality for development. For Lead district survey to ensure uniformity, the standard proforma prepared by the Reserve Bank was followed. The main objectives of the survey were:

(a) to assess the resources and potential for banking development in the district,
(b) to ascertain the industrial and commercial establishments without banking accounts,
(c) to examine the marketing facilities for agricultural and industrial products,
(d) to survey the facilities for stocking of fertilizers and other agricultural inputs,
(e) recruitment and training of staff for advising borrowers in the priority sectors,
(f) assisting primary lending agencies and
(g) maintaining contacts with Government and Quasi-Government agencies.

The 'impressionistic surveys' which were conducted with these objectives enabled the Lead Banks to identify growth centres where branches were opened. These identified centres were allotted among banks through mutual consultations and Lead Bank did not have any special preference in it. It was felt that without planned ex-
pansion of branches the balanced development of the district economy, the main objective of the Lead Bank Scheme could not be achieved. As a result of the efforts of the banking system, the branch expansion under the First Phase of the Lead Bank Scheme was highly successful.

3.3.2 District Consultative Committee :-

District Consultative Committee is a forum for bankers and administrators to meet and discuss subjects of common interest and understand each other's viewpoints. It is a committee for consultation and close co-ordination with other banks, financial institutions, co-operative institutions and various developmental agencies of the Government. These committees were set up at the instance of the Reserve Bank of India to achieve balanced development of the District. The following are the main functions of the District Consultative Committee. (a) To evolve methods for lending to priority sectors (b) To discuss problems arising out of financing the priority sectors, (c) To identify bankable schemes and work out suitable steps to finance them. (d) To ensure the growth of small scale cottage and village industries, (e) To regulate branch expansion, (f) To ensure provision of infrastructure facilities for establishing bank branches, (g) To suggest ways of mobilising saving potential in the district, (h) To review the development of the district and to evolve a plan of action for accelerating development process. (i) To exchange credit information and co-ordinate activities of co-operative and commercial banking system.

3.3.3 Composition of District Consultative Committee :-

The membership of District Consultative Committee generally consists of the representatives of commercial banks and co-operative banks and other financial institutions operating in the district, the Government officials from Planning, Agriculture, Industries, Irrigation and Electricity Department, Zilla Parishad officials, Small Farmer's Development Agency (SFDA), Marginal Farmer's and Agricultural
Labour Development Agency (MFAL), Tribal Development Agency (TDA), Drought Prone Areas Programme (DPAP) and other development authorities and some Non-Government representatives. The District Collector, Deputy Commissioner or District Magistrate is the Chairman of the District Consultative Committee. The Lead district Manager or Lead Bank officer is the convener of the committee. The District Consultative Committee meetings are convened regularly once in a quarter, preferably in the last month of the quarter. Regarding the size of the committee, if it is too big it is likely to cause delays in taking necessary decisions. Hence, the committees constituted are compact, and consist of only those officials who are connected with the programme.

3.3.4 Participation by Government and Banks :-

The committee of Reserve Bank of India on the Lead Bank scheme has recommended that the District Consultative Committee meeting should be attended by the following officials; Collector of the District, Managers of the Lead Bank and other nationalised banks, Chief Executive officer of the Zilla Parishad, District Co-operative Deputy Registrar, District Industries officer, Managers, State Co-operative and Land Development Banks and Chairman of the District Central Co-operative Bank. In addition to this other district officials necessary may also be invited. The appointment of a Lead District Officer, by the Reserve Bank of India has added significance to such meetings. He attends all the meetings and occupies a place next to the Chairman. He is also a member of the standing committee.

3.3.5 Functioning of District Consultative Committee :-

District Consultative Committee is a forum where the common problems faced by the different agencies such as inadequacy of infrastructural facilities and extension services as well as non-availability of credit facilities are taken up for discussion. Branch expansion at district level, banking statistics, review of the imple-
mentation of the credit plan, review of the assistance to priority sectors under various schemes, review of the proposals forwarded by District Industries Centre etc., are the regular items in the agenda. Based upon the requirements of each district and the schemes in force, additional items are included. One of the important functions of the District Consultative Committee is to arrive at uniform terms and conditions for similar schemes and types of advance. The District Consultative Committee resolves the difficulties encountered in the implementation of the District credit plan and discusses other matters of common interest for overall development of a district. It has no powers to enforce its decisions. But even voluntary commitment to a goal of serving the people must be accepted as morally binding. The whole process is democratic and participative wherein pursuasion, consciousness of work for common goal and appreciation of each other's problems are the basic instruments of achieving the desired objectives.¹⁴

3.3.6 Standing Committee :-

The District Consultative Committee by virtue of its constitution and functioning is not in a position to exercise supervision over the working of the Lead Bank Scheme. Hence a standing committee of the District Consultative Committee has been set up in all districts to deal with the operational problems arising in the implementation of the Lead Bank Scheme. The Lead Bank Officer is the convener of the Standing Committee. The Standing Committee is free to associate other district officials and financial institutions concerned with its work.

The important functions of the Standing Committee are identifying the feasibility of formulating new bankable schemes, assisting in the review of the District Credit Plans, looking into the availability of necessary infrastructural facilities and supply of inputs for the schemes and devising ways and means to ensure proper co-ordination among all the concerned agencies. In short the Standing Committee looks
into the preparation and implementation of District Credit Plans. The Standing Committee meets once in a month. The reports of the Committee are considered at District Consultative Committee meetings.

3.3.7 **State Level Co-ordination Committees** -

There are matters which require policy decision at the State level. Such matters cannot be sorted out at Lead District Level. The State level co-ordination committee is a joint forum of State level commercial bank representatives and State Government officials. There are many problems like provision of infrastructure, development involving budget allocations, issues requiring inter-bank co-ordination, allocation of schemes at district level, uniformity of terms and conditions of credit under specific schemes which can be discussed and solutions arrived at only at State level. Allocation of more staff at district level can be sorted out only at State level since district level officials may lack necessary authority. In the case of banks also certain problems can be solved only at higher level. The problems communicated to higher authorities can be raised at State level Consultative Committee. The convener of the State Level Co-ordination Committee is the Lead Bank for the State and the members are the Lead Bank officers of all districts and State level Government officials. The meeting is convened once in three months. They discuss a number of problems and arrive at solutions.  

3.4 **Second Phase of the Scheme**: -

Under the First Phase, the Lead Banks conducted impressionistic surveys of their Lead Districts and identified a large number of growth centres where bank branches could be opened. The process of branch expansion was considerably speeded up. By and large the Lead Bank programme was a success, both in terms of the number of new offices opened and in the emergence of a pattern of collaborative effort hitherto unknown to commercial banking. Since its formulation and the gradual change
from traditional to development oriented lending by banks, the scheme has undergone a distinctive transformation and attained qualitative dimensions. Once a basic infrastructure for banking development was established with the accomplishment of rapid branch expansion, the stage was set for the Second Phase of the Lead Bank Scheme. It is now concerned with the formulation and implementation of 'area development' programmes. The Second Phase of the scheme implemented around 1974-75 marked a crucial stage whereby banks came to tackle the problems of credit administration at district level.

3.4.1 Need for Credit Plan :-

India is the largest democratic country committed to development planning. It is necessary to have institutions which can subserve the social and economic objectives of planning. Since its formulation in December, 1969, the First Phase of the scheme was completed successfully in a period of five years, and the Lead Banks all over the country embarked upon the formulation and implementation of development programmes. Hence, the Lead Bank has to pin point credit gaps and formulate suitable schemes for growth. This is possible only by preparing credit plans, to cater to the credit requirements of the districts in a planned manner in collaboration with other financial institutions at the district level. Thus, there is need-based lending in the place of haphazard and scattered lending. Since the credit plans are bankable schemes for area development, in the area of priority sectors, to the extent possible the schemes are dovetailed with the plan programmes implemented in the district. The priorities indicated in the district plans, are taken into account in framing schemes under credit plan.

3.4.2 Towards development oriented credit :-

In the Second Phase which started after the guidelines based on the recommendations of the study group were circulated by the Reserve Bank, the role
of Lead Bank Scheme became more specifically development oriented. Lead Bank was originally conceived as a consortium approach on the part of financial agencies. According to the study group report as a leader of the consortium of financial institutions, the Lead Bank is expected to contribute to economic development of the districts by preparing bankable schemes to cover viable economic activities, estimating the credit demand arising under these schemes. This is carried out by invoking the cooperation of other financial institutions in the district. To the extent possible these bankable schemes are dovetailed with the plan programmes of the district. The priorities indicated in the plan are also taken into account in framing the scheme. Linkages of various economic activities are also given due weightage. Development orientation of credit has focussed attention of banks on development planning at the grass root level. It is a part of the overall process of orienting credit policy towards planned development. Consequently banks have become conscious partners in the process of planning for development. This has resulted in partnership between credit agencies and development agencies. The emphasis on development credit has thus added a new dimension to lending by commercial banks. This new approach has necessitated a close collaboration between Government Departments and other financial agencies.

3.4.3 District Credit Plan:

Collective action by banks and other financial institutions in the implementation of bankable schemes is indeed the crux of the Lead Bank Scheme. The second and most important phase of the Lead Bank Scheme is therefore formulation of District Credit Plans and their implementation. It is a plan for an area consisting of technically feasible and economically viable schemes, which can be taken up for the consideration of the financial institutions. It is a collection of bankable schemes to be implemented in a given period of time. It covers only the priority and neglected sectors. Hence it is called 'priority sector plan'. The schemes and programmes of
the Government are taken into account while formulating credit plans. The resources available and the infrastructural development in the district determine the size and content. It is the basis for credit operations in the district. It is a plan for development financing. It is a perspective plan for the district. Thus, it is a blueprint for action by banks and other financial institutions. In fact the District Credit Plan has come to be recognised as piece de resistance of the Lead Bank Scheme.\textsuperscript{16}

3.4.4 Objectives of the Credit Plan :-

As its broad objective, a District Credit Plan - envisages to bring about overall development of the district for which planning is utilised as a tool. Its main objective is to channel bank credit into sectors that have high growth and employment potential for accelerating the process, keeping in view of the overall constraints. As the credit plan is a 'priority sector plan' the broad objectives are development of agriculture, small scale industry and other sectors like road transport, retail trade and small business, professionals and self employed etc. The main objectives of the District Credit Plan in the light of the Principal objectives of the National Plan are\textsuperscript{17}

1. Loans for labour intensive schemes which generate employment.
2. Loans to increase productivity of land and other allied sectors to reduce unemployment and increase income levels and,
3. Loans to weaker sections of populations. However all the schemes to be financed through loans must be technically feasible and economically viable. The District development plan is expected to take care of these basic objectives and clearly indicate where the banks can step in and meet the demand for loans, for bankable schemes. Considered this way the District Credit Plan is only an amplification of certain programme included in the overall district development plan. Hence the credit plan is formulated in line with the development strategy worked out for the district.\textsuperscript{18} Thus the ultimate basic objective is comprehensive area development with maximum benefit to weaker sections.
3.4.5 Preparation of Credit Plan:

Credit plans for their respective districts are formulated on the basis of assessment made by them about the potentialities and resources. In this the respective district development plans serve as the basic framework. Bankable activities which can be financed under different schemes are identified and included in the credit plan. No uniform methodology or approach was prescribed in respect of the formulation of the district credit plan for nearly a decade. Some guidelines were made available for formulations of bankable schemes in the Report of the study groups on the working of the Lead Bank Scheme in Gujarat and Maharashtra in 1975. However, the earlier credit plans prepared by the different Lead Banks were lacking in uniformity of approach, content and size. The duration of credit plans also varied from bank to bank. Hence, the Reserve Bank issued detailed guidelines for the preparation of District Credit Plan 1980-82 and Action Plan for 1980.

The Lead Bank should be as realistic and precise in the preparation of the credit plan as possible. The starting point for the formulation of the District Credit Plan is to assess the capability and role of each of the Commercial banks, Co-operatives in the district and arrive at a consensus about the specific nature and magnitude of lending programme they can undertake. Preparation of the District Credit Plan involves, 1) Identification of economic activities which can be financed by credit institutions, 2) collection of data with a view to preparing bankable schemes, covering these activities and 3) Estimation of credit demand likely to arise under each bankable scheme. Hence, to start with banks should set about the task of formulating individual viable bankable schemes which can be immediately implemented and completed over the plan period. These schemes should be in the broad area of the priority sectors - i.e., in agriculture, small scale industry and small business and self employed. It is necessary that the schemes should be based as far as possible on the existing infrastructural facilities available throughout the district. Only then
it will be ready for immediate implementation. To the extent possible the schemes should be dovetailed with the development programmes implemented in the district.

3.4.6 Need for dovetailing credit plan with development plan:

Dovetailing bankable schemes with development schemes goes a long way in maximising the benefits of development agencies as well as official agencies in the area. The development plan of the Government will include schemes involving outlay in the central sector and the State sector of the plan. The District Credit Plan will involve outlay by all banks, Commercial and Co-operative banks operating in the district. Both the plans will have to take into consideration the resource position for the implementation of the plan. While preparing credit plans to the extent possible, the schemes drawn up by the Lead Bank could be fitted into the major schemes in operation in the district. The credit plan, thus has to take into account the entire flow of economic activity being developed and make appropriate arrangements to finance the activity over various stages. Such an exercise not only has greater developmental impact but also tones up the economic viability and credit absorption capacity of the various interrelated sectors.

When district credit plans are aligned with the development plans of the district, such an alignment has several advantages. If the schemes included in the district credit plan form part of the overall development plan of the State, the infrastructural and administrative support necessary for the successful implementation are already built into the plan. By providing the necessary credit support to these schemes, the credit plan ensures their success. Dovetailing of bankable schemes with the development efforts of the district administration ensures that there is a maximum impact of the operations of both.
3.4.7 Assistance in the formulation of Credit Plan:

For preparing credit plans the Lead Bank officials need basic statistics about the district economy not only aggregate but also block-wise. The statistics should give an idea about the resource base of the district economy, occupational distribution of population, existing state of development of the various sectors of the economy such as agriculture, industry and services, infrastructure development, marketing and other facilities available etc. Besides, the Lead Bank would also need data regarding the development projects of various agencies in the district apart from the departmental schemes of the Government. The Lead Bank also needs a lot of technical data such as ground water potential, details of various types of processing and other facilities available in various parts of the district. It also requires basic block-wise economic statistics of the district. Apart from the study of the broad contours of the economy the natural resources and economic activities with potential for development also need to be looked into. A scrutiny of the development programmes of various institutions is necessary to identify activities which the banks and other financial institutions can select for financing. Once these economic activities are identified for preparation of bankable schemes the necessary data will be collected. The various official agencies should make available such data to the Lead Bank for formulation of bankable schemes. When the importance of credit planning is understood as an activity supporting the developmental efforts of the district authorities there would be no difficulty in getting such information.

3.4.8 Estimation of credit demand:

Estimation of credit demand under bankable schemes in any area is the most difficult step in the preparation of the credit plans. There is no exact method of estimating credit demand. It is therefore necessary to estimate the credit demand under each scheme on the basis of the banker's "informed judgement" supplemented
by other relevant data about the likely number of persons to approach the credit institutions. In estimating credit demand, factors such as potential for development, eligible criteria of the bankable schemes, goals under the development plan, extension efforts of the Government and credit institutions and past experience of the credit institution are taken into account. It is better to make estimates of credit demand block-wise and then aggregate them into district credit plans. The new guidelines issued by the Reserve Bank of India have insisted on the need to have a minimum uniformity in estimating credit demand under the various bankable schemes to be implemented during the plan period. The District Credit Plan involves three estimational exercises viz, namely outlay on account of crop loans, outlay on account of term loans and outlay on account of working capital loans.

3.4.9 Estimation of crop loan requirements:-

In the case of crop loans, the District Credit Plan carefully examines the farm extension programme in the district, the preparedness of farmers to use modern inputs through loans, past experience of the banks in the sphere of crop loans and availability of fertilizers etc., and arrive at the likely need based demand for credit and how much of this could be met by the credit agencies. The crop loan estimate arrived at has to be allocated among banks.

As regards the estimational exercise regarding the crop loan requirements the following two methods are adopted. First the estimate is arrived at on the basis of the gross cropped area under different crops in the district. Gross cropped area is classified as irrigated and unirrigated areas. This is likely to vary due to increase in Cultivable area and changes in cropping pattern as a result of increase in irrigational facilities, rise in acreage under high yielding varieties, introduction of new crops and setting up of processing units for agricultural products such as sugar factories and spinning mills. The estimated gross cropped area under different crops both irri-
gated and unirrigated is multiplied by the respective scales of finance to find out the total cultivation requirements of the district. Since a portion of the requirement is met by the farmers themselves from their own resources the short term credit requirement for agriculture to be met by the institutional agencies has been taken at around 50% of the total requirements.

Under the second method, as per the data on land holding the total cropped area is divided into three groups i.e. area cultivated by i) small farmers (bottom one third of the farmers according to frequency distribution of land holdings in the district available from district level authorities), ii) middle farmers (middle one third) and iii) large farmers (top one third). The crop loan needs of each of these groups could be taken as 100%, 50% and 25% of the cultivation requirements respectively. The total of the groups gives the total credit required from financial institutions.

The aggregate credit estimate thus arrived at is compared with the aggregate credit estimated at 50% of the total costs of cultivation in the district. An average of the two estimates could be considered as the need based crop loan requirement of the district. However, there is a difference between the total of allocations accepted by the different lending institutions in the district and the estimated credit requirements thus arrived at. This indicates the gap in the crop loan availability from the institutional sources.

3.4.10 Scale of finance for a particular activity -

The banks under Lead Bank scheme should know how much to lend for a particular economic activity. They should not lend either more or less. For this, the Lead Bank studies the economics of the schemes prepared by different banks for lending for various activities and come to an understanding regarding a uniform scale of financing for a particular activity in a given area. This is done in consultation with the experts of the technical departments of Government. The Agricultural Re-
finance and Development Corporation also has worked out cost norms and technical criteria for different investment schemes. This is used subject to modifications necessary on the basis of local conditions. All banks in the district should adopt the same scale of finance for a given activity as indicated in the Credit Plan. The credit outlay in the plan is computed on the basis of such uniform scale of financing.

3.4.11 Problems of Synchronisation :-

Most of the credit plan exercises were taken up by the Lead Banks when the Fifth Plan was in its closing years. Hence, credit plans prepared did not coincide with the Fifth Plan. With the termination of the Fifth Plan a year earlier, the link was snapped. However the credit plans were continued till the end of 1979. The Reserve Bank of India issued a directive to terminate all the credit plans in December 1979. The Lead Banks were asked to prepare new credit plans for a period of three years from January 1980 to December 1982 so that new plans will synchronize more or less with the Sixth Five Year Plan. Annual action plans are also prepared by taking into account the emerging schemes of development with provision for review and updating the credit plans.

3.4.12 Credit Plan under Sixth Plan :-

Under the Lead Bank Scheme, Credit Plans were first prepared for the district as a whole. Some Lead Banks prepared credit plans as an aggregation of plans for individual blocks. Some other banks prepared credit plans based on areas of operation of individual branches. An important aspect of the new credit plan is the introduction of block as the basis for planning strategy. Block level planning is easier for formulation, implementation and monitoring than district level planning. Compared to a block, district is a large unit having diversified geo-physical characteristics. Lead Banks have prepared the credit plans now on the basis of community development blocks and integrated their credit planning effort with the planning effort at the
block level undertaken by the State Government. This means orientation of the credit planning methodology of the Lead Banks wherever necessary. In order to give a more meaningful thrust to the strategy of area development the credit plans are framed on the basis of grass-root level studies and resources are allocated according to the priority needs of the area. A comprehensive credit plan is an inter-institutional exercise in development planning implementation.

3.5 Implementation of Credit Plan :-

After the careful preparation, implementation of credit plan is the most important task of the Lead Bank. The success of the Lead Bank Scheme depends to a great extent on the successful implementation of the credit plan. The other financial institutions operating in the district have to share the responsibility for implementation of credit plan. Ultimately everything depends on the co-operation extended by them. A special meeting is normally convened to implement the District Credit Plan.

3.5.1 Allocation of shares :-

The first task in the implementation of the programme is that of allocation of shares between the commercial and co-operative banks. Block level planning enables one to cover as wide a geographic area as possible, in the district, depending on local conditions. The share of each financial institution in credit plan outlay is decided by mutual consent and discussion. In the allocation of shares the spread of the branch net work of individual banks would be an important deciding factor. When the existing level of lending is high, the scope of recycling existing funds and altering the pattern of lending should be examined. In some cases specific shares indicated for each institution is spelt out in the credit plan. There is no indication to the effect that Lead Bank should allocate the credit outlay among the participating agencies. What is important is that the co-operation of other institutions should be invoked
and the responsibility for implementation of the plan shared through a process of mutual consultation and consensus.

3.5.2 Monitoring and Evaluation of Progress :

In order to ensure proper implementation of the credit plan, it is necessary to build up proper information and monitoring system. Details regarding the number of units financed by credit institutions would also be necessary because sometimes performance in financial terms is not a sufficient indication of the help rendered. The needs of the borrowers may vary and the cost and volume of credit under any scheme may undergo a change over a period of time.

Credit plans are currently being monitored by using the proforma introduced by the Government of India for half-yearly review of implementation of credit plans. The proforma is quite comprehensive and can cover normally all the schemes in the credit plan. In compilation of this return the commercial banks have to collect scheme-wise details of financing under the plan. Since the credit plan is composed of schemes, monitoring without reference to the schemes, is not useful. Furthermore, many credit plans are based on linkages of various economic activities and any imbalance may have repercussions on the viability of other related activities. Therefore, monitoring of the credit plans has necessarily to be related to the bankable schemes. With the shift of emphasis to block level planning, collection of data regarding the implementation of credit plan on block-wise basis, has become inevitable. For area-wise monitoring of the performance of credit plans block-wise figures of plan implementation is useful.

3.5.3 Problems in implementation :

The need for collaboration between credit agencies and official agencies is all the more greater in the implementation of credit plan than its formulation.
The actual process of implementation of credit plan is throwing up a number of problems. These difficulties vary in kind as well as in degree from district to district.

a) Share allocation and awareness of commitments :-

The sharing of the outlays between banks pose a problem in district where the pattern of branch expansion is lopsided. Then, the Lead Bank has to assume major responsibility for agricultural lending. In such cases banks operating in urban and semi-urban areas can lend support to the Lead Bank. In interior areas of the district where the branch managers are not very much aware of the details of the credit plan, it is suggested that the Regional Manager should allocate the banks commitment to the credit plan among the branches and ensure that the shares are incorporated in the performance budgets.

b) Problems of organisation of Commercial Bank :-

Since a substantial proportion of credit plan is agricultural credit, the bank branches have to strengthen the staff to cope up with the responsibility. But the banks have not posted additional staff. This is considered to be one of the major constraints in plan implementation. As a result the plan implementation has suffered. The situation can be improved only by increasing awareness with regard to commitments to various credit plans.

c) Weakness of Co-operative movement :-

In many districts the co-operative sector is very weak. The co-operative societies are not effective in the implementation of the credit plans. Consequently, the credit components allotted to the co-operative movement remain unfulfilled. The poor recovery performance of the co-operative societies stands in the way of further credit flow to their members. As such a substantial portion of the credit plan remains unimplemented. It is mainly because co-operatives are not often consulted
at the same time of either formulation or allocation of the plan, and yet a substantial share is given to them. Co-operatives have their own problems of organisation and overdues which prevent them from taking up their full load.

d) Problems of co-ordination between banks:-

There are also problems in area demarcation between bank branches and in village adoption. Many banks adopt certain villages but do not do any substantial loaning in the villages or confine their loaning only to some commercial crops, ignoring other credit needs of farmers. At the same time, they do not like other banks loaning in their adopted villages. In certain districts, no systematic area demarcation has been made between banks. This often leads to overfinancing of certain good areas and neglect of the more backward areas. There are problems over issue of 'No due certificate', sharing of information about the borrowers etc. The attitude of the Non-Lead Bank is also not very much encouraging. They are treating the credit plan as if it is the Lead Bank's plan. They consider implementation of credit plan as the primary responsibility of the Lead Bank. The result is that commitments under the plans are treated lightly and not being properly followed up. As such there is only partial implementation of credit plans. It is therefore suggested that banks should accept the principle of accountability for accepted commitments. It is also suggested, that the Reserve Bank representative should monitor whether the Non-Lead Banks are following this in the right spirit or not.

3.6 Government and Credit Plan :-

For the successful implementation of credit plans there should be proper collaboration between credit agencies and Government agencies. Credit is one of the important inputs. The basic objective of the credit plan which is economic development of the district, can be realised only when there are adequate infrastructure facilities such as better roads, good communication system, rural electrification,
irrigation etc. Thus Government has to play a vital role in the implementation of credit plan.

a) Input supply :-

Scientific cultivation needs supply of modern inputs like high yielding variety seeds, fertilisers, pesticides etc., and assured water supply. Without adequate credit supply the medium and small farmers cannot undertake cultivation. Similarly without supply of other inputs use of credit is limited. Hence, the extension agency at the village level, must co-ordinate these activities and see that both credit and input supply are provided together. When crop campaigns are organised by district authorities, the loaning operations of financial institutions and inputs supply may be synchronised.

b) Infrastructure and other service :-

Construction and maintenance of proper roads is crucial to the success of the credit plan. This is to ensure, uninterrupted supply of vital inputs to all the villages in the block. Certain vital road connections are necessary to connect pockets of intensive development with market centres. Better roads facilitate adoption of more villages by the bank. In dairy development, for example, supply of animals of proper breed, timely veterinary services, arrangement for collection, transportation and purchase of milk from the dairies are absolutely necessary. Unless the Government agencies connected with the development of these services synchronise their operations, implementation of credit schemes is rendered difficult. Similarly good communication, extension of irrigation facility and rural electrifications are also imperative for successful implementation of credit plan. To avoid lack of development of infrastructure becoming a hindrance to the flow of credit it is suggested, that the district authorities should discuss the priorities of infrastructure development and include them in the annual budgets of the respective Government departments.
c) **Extension work :-**

Extension work is of crucial importance from the point of view of flow of credit to the neglected sectors. The credit plan contains several schemes for the benefit of the weaker sections. Identification and motivation of the potential borrowers and collection of the requisite information about them regarding their size of land holding, other assets, income etc., are necessary for evaluating their credit worthiness. This is possible, only when the extension staff of the various departmental agencies and commercial banks work as a team. If the beneficiaries are identified jointly by the official agency and the financial institution, the task of advancing loans to weaker sections can be easily fulfilled.

**d) Industrial Development :-**

The credit plans contain several schemes for industrial development. The information about these schemes must be widely disseminated among the intending entrepreneurs. Now the District Industries Centres have taken up the industrial development programmes. They carry out studies to identify the potential for development of industries in the district. Their programmes facilitate the Lead Bank's task of credit planning in the field of industrial development.

The Lead Bank Scheme contains certain inherent areas of contradictions. However, it has helped in bringing together financial institutions and Government agencies on a common platform to co-ordinate their activities according to certain acceptable norms and programmes. As far as banks were concerned, conducting surveys under the scheme was a new experience for most of the commercial banks. The exercise gave an opportunity to banks to train a cadre of their officials in the collection and interpretation of economic data to prepare credit schemes relevant to the needs of their Lead districts. The Lead Bank Scheme has integrated growth of rural banking with the development needs of the rural areas. Thus, it has imparted development orientation to the operations of commercial banks and given a sense of direction to the priority sector lending to the rural areas. However, co-ordination among financial
institutions and government departments in the matter of provision of agricultural inputs, extension services, strengthening of infrastructure necessary for implementing the credit plan is often lacking. Government agencies are also not extending organisational support to commercial banks for disbursement, follow up and recovery of credit. Extension services needed for financing rural areas should be given priority by Government agencies. Bankers also should adopt rural and developmental outlook to fulfil their accepted commitments. These commitments should be incorporated in the performance budgets of the branches.

Credit, though important, is only one of the inputs. It is wrong to expect that credit alone can solve all the problems. Banks being suppliers of credit, no doubt are in a privileged position to initiate development efforts. With extensive organisational and financial resources at their command, banks are in a better position to plan for integrated rural development. India is a country, where such a gigantic task of rural development is undertaken, on such a massive scale in an integrated manner with the help of the banking system and through collaborative efforts of the Government and financial agencies.
REFERENCES

1. The statement on social control over banks was made by the Deputy Prime Minister Mr. Moraji Desai in the Lok Sabha in December, 14 1967. Subsequently the Banking Laws (Amendment Bill) was passed in 1968. Vaswani, T.A ; "Indian Banking System" - Lalwani Publishing House, Bombay, 1973, pp 269-275.

2. The National Credit Council was established by means of a Lok Sabha resolution on December 22, 1967. Ibid, p 274.

3. The group was composed of the following : Dr. R. Gadgil (Chairman) N.M. Chokshi, P.N. Damry, B.K. Dutt, M.Y. Chorpade Arvind, N. Mafatalal, P. Natesan, T.A. Pai (Member), B.N. Adarkar (Convener) other members associated with the working group - P.C. Barooah, R.R. Morarka Maganbhai R. Patel. Reserve Bank of India, "Organisational frame work for the implementation of Social objectives - Report of the Study group of the National Credit Council, "Bombay, October, 1969 - Introduction p IX.

4. Ibid p X.

5. In 1967 for example commercial banks provided 40% of the credit needs of the large and medium industries whereas it was only 5.3% of the total credit requirements of Agricultural Sector. Ibid p 34.

6. State Bank of India had Lead responsibility in maximum number of districts (72) followed by Central Bank of India (46), Punjab National Bank (41), Bank of India (32) and Bank of Baroda (30). For other banks see Annexure-I. Reserve Bank of India, "Lead Bank Scheme - concepts and problems". Bankers training college, Bombay, May 1979, p 3.


17. 1. Removal of Unemployment and Underemployment.

2. Appreciable rise in the standard of living of the poorest section of population and


21. For instance the scale of finance recommended for Second Credit Plan Period (1980-82) by the technical committee is given below:

<table>
<thead>
<tr>
<th>Name of crop</th>
<th>Kind</th>
<th>(Per Acre)</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Cash Rs.</td>
<td>Total Rs.</td>
<td></td>
</tr>
<tr>
<td>Paddy (High yielding and local varieties)</td>
<td></td>
<td>50</td>
<td>250</td>
<td>150</td>
</tr>
</tbody>
</table>


22. Format prescribed by Government of India, Letter F.No. 11 (2) 76, Der. dated November 15, 1976, Department of Economic Affairs, Banking Division, New Delhi.

23. The awareness level was low mostly in case of officials in interior areas. State Bank of India, "Reports of the study team on the implementation of Gorakhpur District Credit Plan, Bombay 1977, p 11, and Kalahandhi District Credit Plan, Bombay 1978, p 27.