CHAPTER VI

CRITICAL EVALUATION OF
THE LEAD BANK SCHEME

INTRODUCTION

The lead Banks have been experiencing a number of problems in preparing and implementing the District Credit Plans in their Lead districts during the last 36 years. They generally have organizational and administrative problems, lack of inputs and indifferent attitude of bankers, poor performance and maintenance of statistical information, non-recovery of loans etc. The most important phenomenon of the constraints of these banks in the lack of co-ordination and monitoring mechanism. In fact the lead banks as the conveners of the District Consultative Committee meetings in their respective lead districts have got merely partial success in providing a monitoring mechanism to review the branch-wise progress of lead bank scheme. As the coordinator banks almost fail to submit their basic statistical return to the lead bank office timely. In this regard a lead bank may be considered as a driver of a bullock cart which has wheels and oxen but does not have their rein in his hands.
Therefore, they will need to have some sort of special power to control and coordinate banks as also to set up an effective monitoring mechanism to review the branch-wise progress of the banks.

Like other lead banks in the country, Lead Bank in the district of Muzaffarnagar. Punjab National Bank, was also required to constitute teams of technical officers for it. District lead bank officer tours the district, block by block and conduct an in-depth study. Having assessed the potentialities of natural resources, economic conditions, employment potentials etc., Lead Bank prepares the block plan after discussion with the Block Development Officer, branch manger of various banks, district officials, various agencies like DIC etc. After preliminary approval, block level plans containing viable schemes, are prepared. District Credit Plans are prepared on the basis of block-plans and got approved by the District Magistrate.

While completing the district plans this way, due weightage is given to government sponsored programmes like IRDP, DPAP and programmes under Five Year Plans etc. The bank does a fairly good job during this exercise. The plan consists of four parts – Agriculture, Allied Activities, Industrial Sector and Tertiary Sector. One great drawback of this second round of preparation
of this district credit plan is the undue delay in getting them prepared. Some problems are being faced in preparing District Credit Plans and Annual Action Plans due to undue delay.

**Delay in Formulation of the District Credit Plan**

The Reserve Bank had advised all the banks to approach various development departments/agencies and ascertain their plans and programmes based on which the projections for district credit plan have to be prepared. However, banks, have been finding it extremely difficult to obtain the required data. Even in cases where the requisite data are available the agencies/departments are not all that cooperative in furnishing the information. Lead Bank Officer of Punjab National Bank complained, that programme data for district block were never made available in time and they had to depend to a large extent on their own estimates. Naturally the quality of the credit plans with these figures can not be considered very good.

1. **Purpose of Constituting Standing Committee Unfulfilled**

In order to ensure that the exercise of district credit plan is a joint effort evoking participation from all concerned, it was contemplated that district level task force consisting of a number of banks, district central co-operative banks, District Planning Official’s etc. should be
constituted. This was later converted into a standing committee. It has to be admitted that the purpose of constituting this committee has by and large, not been fulfilled. The reason for this could be that the committee has not been assigned any specified functional responsibility. The burden of the responsibility for preparation of district credit plan had fallen on the lead bank. In the district under study the standing committee was constituted but the committee members, were not found involving themselves whole heartedly in the preparation of district credit plans, they met only to give a token approval to the final plan.

2. **Lack of Adequate Supporting Staff**

As early as in September, 1979, RBI instructed all the lead banks to appoint one senior official as Lead Bank Officer with adequate supporting staff to oversee the preparation and implementation of the district credit plan. In many cases this requirement has not been fulfilled and in some of the cases some banks have the district credit plan preparation and implementation at Head Office/Zonal Office/Regional Levels. This *remote control* has not been helpful at all.
3. *Anomalies in Estimating Crop Loans*

In the guidelines issued for the preparation of credit plans, it was directed that while estimating the crop loan demand the banks were required to take note of the agricultural situation in a particular district, the schemes drawn by government agencies etc. However, the general discrepancy in estimating the crop-wise scale of finance is that they have not been assessed on a realistic basis. It has also been observed that while formulating the district credit plans, with regard to activities allied to agriculture, some banks have glaringly omitted some important activities so much peculiar to those particular blocks. Similarly, allocation of funds for agriculture were not at all realistic, in some cases. The projections in the plan in these cases have been far below the actual capacity, which can be considered sizeable taking into view that number of existing land under cultivation in these blocks.

4. *Infrastructural Facilities over-looked*

Some banks have not taken into account the infrastructural facilities, repeatedly emphasized by the RBI, which could have a great impact on
the viability of various schemes in the preparation of their district credit plans. RBI wanted all the banks to prepare separate annual action plans at the commencement of each year specifying individual schemes. This is in addition to the main district credit plan. Some banks have not prepared the annual action plan in the form of a separate document but only a mere statistical data was added. This has rendered the district credit plan in effective in many cases. Our lead bank has however, been preparing separate Annual Action Plans.

5. **Absence of Alignment of Bank Business Plan with Annual Action Plan (ACP)**

Each branch of a bank has its own business target fixed by its head office. Taking this and their man power position into account, the district credit plan have to be streamlined. However, it has been found that often, there is no meaningful alignment of branch business plan with the Annual Action commitments.

Problems in formulating and implementing the district credit plans by the Lead Banks are enormous. This however, is not totally unexpected. When the Lead Bank Scheme was mooted nearly 36 years ago, no body even in his wildest dream would have dreamt that such an amount of scientific planning could be possible at the block.
level. It is tribute to commercial banks and RBI in particular, that some concrete results have been achieved through the implementation of Lead Bank Scheme which has a great impact on the country’s economic scene.

6. Failure in Fetching Reasonable Price

The Lead Bank prepares credit plans and Annual Action Plans to provide credit facilities to the selected beneficiaries. The beneficiaries start producing goods with the assistance, but they fail to market their products at reasonable prices due partly to their ignorance and partly to absence of any marketing organization or cooperative marketing society, which can market their goods profitably. They have therefore, to sell their products at whatever price they can fetch. The recycling of funds thus becomes impossible. Credit Plans have to be cut short according to the finances available.

7. Lack of Public Participation

Efforts in the direction of economic development cannot fully fructify if there is no proper response from the people. In the field of small industries, for example, it has been the experience that though banks are prepared to advance finance, there are no entrepreneurs coming
forward. If the banks are also entrusted with the task of identifying
the entrepreneurs it will be too much to expect from them. Low credit
absorption capacity is a characteristic feature of the back areas like
Muzaffarnagar. **It is a fact that public awareness about various
development activities is very poor.** The public representatives
beginning from the Grampanchaya to the higher levels viz., Members
of Legislative Assemblies and Members of Parliament need to
actively associated themselves with the development process. The
implementation of the district credit plans have been regarded as an
isolated responsibility. It should attract involvement of all people,
which is generally lacking in our district. The experts prepare the
plans with the obvious assumption that they will be properly
executed. This aspect is often lost sight of.

8. **Arbitrary Allotment of Schemes to Banks**

The Commercial Banks also encounter a pertinent problem, which
restricts their operations. It is regarding the allotment of schemes to
them. For example in the case of allotment of minor irrigation
schemes there has been a complaint that the majority of schemes are
allotted to the Land Development Banks and there have been cases where the schemes initially allotted to commercial banks, after some time, without any appropriate reason, were transferred to the Land Development Banks. It may be recognized that the role of the commercial banks and Land Development Banks or even the cooperative banks, for that matter, is complementary and not competitive. In view of the business potential available in rural and semi-urban area at present, the commercial banks, need to be given due consideration in the allotment of new schemes. With the expanding net work of ‘Farmers Service Societies’, Regional Rural Banks, Gram Vikas Kendras and Multi-service Agency cells, the commercial banks will be in a position to gain greater ground for their operations if a greater number of schemes are allotted to them.

9. *Delay in Disbursements*

The test of sound rural banking lies in timely delivery of credit for well appraised schemes or individual projects where the amount of financing is adequate to the purpose, and the repayment schedules are realistically drawn up so that the return on investments by itself helps the servicing of bank dues. While this looks simple, it does not always
happen. In fact under-financing and very unrealistically tight repayment schedules, are common errors which rural bank manager make. Supervision of credit utilization is usually wanting, delays in appraisal and disbursal of credit are also quite common despite the exhortations of government and senior banks. Since agriculture is seasonal in character and the timeliness of input availability is crucial, banks need to improve their capacity to plan their operations ahead of time so that credit is not delayed.

10. Lack of Provision for Consumption Finance

The guidelines issued by the Reserve Bank of India for the preparation of District Credit Plans and Annual Action Plans contain no provision regarding consumption finance to the very poor and destitute beneficiaries. In our district we found during our survey that the agriculture and artisans experienced financial paucity in verying degrees for buying tools and equipments and for seeds, manure or marketing. It is also true that most of them require consumption finance because their incomes are too low to make their both ends meet. The District Credit Plans and Annual Action Plans have made no provision for consumption credit. The result is that whatever financial assistance is given to them, it is mostly spent away for
consumption purpose and the schemes remain untouched and without any production. The potential linked plan of NABARD also lacks in this regard.

11. Lack of Consultation with Beneficiaries

The various schemes included in the Credit Plans for the target groups are not generally prepared in consultation with the proposed beneficiaries. These are rather listed out in consultation with the local officers like Block Development Officers or just selected from existing categories of schemes in operation either in that area or elsewhere. As a result, more or less, same schemes are implemented in different areas under different programmes. Such schemes fail to meet the long felt needs of the target groups.

12. Mis-match in Schemes

There is mismatch in orientation of beneficiaries and the area based programmes. The reason could be found in the approaches, which are diametrically opposite. In one case the need of the individual and community has been over emphasized, so much, so that the beneficiary oriented schemes are formulated without considering
resources potentiality of the areas and scope for future development of different sectors. The other extreme situation is where the resource potential is the single guiding factor in programme formulation. The targets so fixed consequently fall short in both the areas.

13. **Lack of Integration of Resources and Actual Requirement**

The allocation of resources is not proportional to actual requirement of different areas. In other words, the emphasis on the multiplicity of programmes and agencies in the same sector has resulted in the operation of various programmes (beneficiary oriented as well as area oriented) in isolation and ultimately the so called integrated area plans aiming at integrated rural development are devoid of an integrated approach to development.

14. **Issuance of Improper Guidelines to Demarcate the Target Group of the Poverty Line**

At various household income level of Rs.3500/- per annum in the 6th plan has been raised to Rs.10500/- as at present. In the case of those who own land, these limits are translated into land ownership viz., one hectares of irrigated land or two hectares of unirrigated land. These measures to decide upon poverty are quite misleading because (a) it is almost impossible in rural context to determine incomes with...
any degree of reliability; (b) rural incomes, which are mainly agricultural, vary widely from year to year; (c) land holding as a proxy for income does not take into account variations in the quality of land and input costs and output prices; and (d) the criterion of household incomes ignores family size, an important determinant of poverty.

At the outset, the basis of guidelines defining the target group is defective due to its inability to ensure that all the poor fall within and only the poor do so. In other words, ab-initio, horizontal and vertical inefficiencies are built into the programme and proper credit plans could not be prepared for the benefit of the poorest among the poor and more particularly the marginal farmers and the farm workers.

15. **Lack of Sound basis in the Identification of Beneficiaries**

Another problem faced in the preparation of credit plans is the wrong identification of beneficiaries of IRDO and other schemes. Most of the beneficiaries selected, being already above the official poverty guideline, and were not eligible to be included in the target group but who had infiltrated into it aided by the incompetence or corruption of officials responsible for identification. According to the principal
evaluation the degree of such infiltrations could be as high as 43 to 49 percent (concurrent evaluation 1985-86 of IRDP) in some states in Muzaffarnagar District it is 40% of the total.

The guidelines require that the beneficiaries should be selected bottom up, starting from the poorest. Here again, various evaluations indicate that it has been impossible in practice to conform to the poorest first principle. It is seen that as a national average only 38 percent of beneficiaries belonged to the lowest income classification and that this proportion was as low as 20 in Uttar Pradesh and 25% in Muzaffarnagar.

16. Fallacy of Composition

The fallacy of composition of various schemes make the credit plan unproductive. The distribution of benefits in many locations has been much in excess of the local demand so that income get reduced across the board; too many bullock carts in a village reduce bullock cart rental incomes for all who own them both old and new owners while helping the non-poor who hire them. For example in our own district in several villages Bhainsa Buggies were given to a number of beneficiaries in the same village resulting in reduction of income and non-payment of loans.
17. Non availability of non-Credit Inputs

Progress of preparation of Annual Action Plans with the scope of District Credit Plans was introduced to take care of new programmes, if any, introduced by the government agencies. Hence, while the credit was provided in Annual Action Plans under such programmes, the achievements, usually remained the targeted level since non credit inputs were not made available in time, by the agencies concerned. This hampered the implementation of the Annual Action Plans.

18. Lack of Commitment to Targets

Under the second and third round of District Credit Plans developmental agencies were given certain specific responsibilities to accomplish backward and forward linkages of basic components for successful implementation of schemes included in the plan enabling financial institutions to fulfill their commitments under District Credit Plan. It has been observed in the District Credit Plan/SLC meetings that they had hardly made any efforts to fulfill their commitments under District Credit Plan/Annual Action Plans.
19. **Lack of Interest among non-Lead Banks**

Most of the non-lead banks have not appointed district coordinators to exclusively look after the issues related to lead bank scheme, pertaining to their branches. In a few exceptional cases where an already overloaded officer has been designated as district coordinator, he was not in a position to discharge his duties effectively particularly in respect of submission of information to the lead bank.

Inspite of Government’s economic policy to divert financial resources from developed areas to backward areas, inadequacy of infrastructure available within the district limited the scope for fresh lending in backward areas.

20. **Paucity of Resources**

While issuing guidelines for formulating of District Credit the Reserve Bank of India laid greater emphasis over formulation of new area specific bankable schemes in order to open new channels of credit expansion. But lead banks were found in low profile in this regard. This was a novel and innovative task that was expected from lead banks. Banks earned low profits in their endeavour to follow the guidelines.
21. Sectoral Credit Flow and Non-Conformity in DCP & AAPs

In Muzaffarnagar District it was observed at the time of mid term review that sectoral credit flow was not in conformity with District Credit Plan/Annual Action Plans allocations indicating that either planners have not properly assessed the potential under each sector or the implementation part was defective. In this context, the Reserve Bank of Indian has rightly pointed out that District Credit Plan/Annual Action Plan is a meaningful document only upto the extent it is actually implemented. In this regard financial agencies cannot exclusively be held responsible for inter-bank and inter-sectoral disparities in target achievement. Mainly it is the result of the absence of any agency to monitor and control the flow of applications in line with District Credit Plan/Annual Action Plan. Even the agencies like Rural Development Agency/District Industries Center, implementing special development programmes are not taking care of this aspect. Thanks to NABARD, which has started preparing PLPs, urging upon banks to prepare District Credit Plan/Annual Action Plan in the light of the potential available in the district.
22. Lack of Effective Monitoring

Existing monitoring system has not proved to be meaningful and effective. The related returns are submitted to the regional offices of the Reserve Bank of India by banks who take a long time in processing and compiling of data for entire district resulting in undue delays in undertaking micro level review of appropriate forums like DCC/SLC. Therefore, existing monitoring system needs urgent attention for review and modification. Thus in the light of the experience gained and difficulties encountered while implementing the previous District Credit Plans and to ensure that ensuring District Credit Plan schedule, which was to commence with effect from April 1st 2006 is effective and meaningful tool for deployment of scarce credit inputs and district development.

Suggestions

(i) District Development Plans should not be over ambitious and unrealistic. They should be synchronized with National/State Five Year Plans. The current development programmes, as well as, those likely to be launched during the plan period and requiring bank credit should be advised to lead banks before the end of June every year. The non financial resource based targets under national
programmes like 20 points programmes, IRDP, BIO GAS plant scheme and self-employment scheme for educated unemployed may also be advised specifically to lead banks.

(ii) The lead bank should **endeavour to win confidence** of all those involved in the implementation of District Credit Plan before allocating shares under various sectors. The draft plan should be a joint exercise carried out by all agencies. Recommendations of Ghos Working Group of Banks role in implementing 20 point programmes should be given due coverage besides other norms related to District Credit Plans. The draft plan so prepared should be circulated amongst all members for their close examination, commitment, suggestions and modifications well in advance.

(iii) State government should issue the instructions for **strict observation of specific role/responsibilities fixed under District Credit Plan for government departments** working at district level. A special cell for monitoring the role played by district functionaries in the implementation of District Credit Plan should be created by state government at state level which should function in close liaison with lead bank officers and keep a watch over working of focal point officers and other departments involved in the process. The person in charge of the special cell should also keep perfect liaison
with state level bankers committee and work as a spokesman of focal point officer identified by the State Government in all district so also in Muzaffarnagar.

(iv) Adequate arrangement for **imparting training** to all key functionaries particularly those directly associated with formulation and implementation of District Credit Plan/Annual Action Plan, should be made in order to make them well equipped to meet the challenge posed by concept of participative planning. The Reserve Bank of India and Lead Banks should jointly evolve a strategy to realize this goal on urgent basis.

(v) The Reserve Bank of India should instruct **lead banks to allocate branch-wise share to all banks in District Credit Plan** documents itself after taking the concerned branch manager into confidence. **It should be ensured that the branch manager adopt sectoral targets as guiding factor for credit disbursal.** Similarly, controlling offices of banks should verify that targets allocated to branches are dovetailed in their performance budgets well in time.

(vi) **The monitoring system of DCC/ACP** should be so devised that schemewise/blockwise review may become possible in DCC/DLRC meeting itself at appropriate time. if found feasible help of computers should be taken for data processing. Schemes found
unsuitable in a specific areas should be deleted from the ensuring District Credit Plan/Annual Action Plan while it is equally important to formulate and dovetail new area specific bankable schemes. NABARD can play a vital role in realization of this goal. A committee should be formed for this purpose constituting lead bank officer, focal point officer, concerned department head at district head quarter and technical experts as its members. This committee should also be assigned the task of testing viability of all schemes at regular intervals and suggesting remedial measures for adoption by related agency. Now a stage has come when the task of formulating new area specific bankable schemes cannot be postponed any more.

(vii) **Appointment of Focal Point Officers:** Focal point officer should be entrusted the task of monitoring flow of applications in line with District Credit Plan/Annual Action Plan allocations.

(viii) The **role of district coordinators** appointed by non-lead banks require to be made more effective and result oriented.

(ix) **A detailed block wise survey** about identification of projects should be carried out by lead bank in consultation with focal point officer and technical experts.

(x) In case credit absorption capacity of a district is found to be greater than financial resources likely to be available for implementing
District Credit Plan/Annual Action Plan. higher C:D ratio should be fix so that implementation of District Credit Plan may not be hampered for want of adequate arrangement for the field staff or conveyance with banks, adequate arrangement for the same should be made well in advance. Similarly, district authorities should ensure availability of essential non-credit inputs at appropriate time in adequate quantities.

(xi) The Reserve Bank of India should rise to the occasion to check tendency of banks to commit financial outlay much below their resource position in areas where District Credit Plan/Annual Action Plan is to be implemented with an intention to show better performance at the end of the plan period, by fixing area-wise statutory requirements in time with potential for credit absorption capacity of area and actual resources in financial as well as manpower available with banks.

(xii) Newly constructed District Level Review Committee as per the recommendation of study group on lead bank schemes, should undertake thread base review of all aspects related to each sector/scheme detailed in District Credit Plan/Annual Action Plan. For this purpose the meeting may be held continuously for more than 3 or 4 days, if needed.
In such meeting identification of non viable projects, approval for new activities, review of sectorwise / bankwise achievements during plan period, progress in creation of supporting facilities, flow of loan applications and review of national programme should specifically be discussed and consensus arrived at.

(xiii) While finalizing targets under District Credit Plan/Annual Action Plan, time schedule for disposal of applications, release of applications, release of subsidy, purchasing of assets, etc. should also be finalized and strictly adhered to.

(xiv) In order to ensure recycling of credit input each bank should strengthen its internal machinery for recovery and government should also extend a helping bank to banks for effectively implementing provisions of act enacted for this purpose as also by organizing credit camps at appropriate time. The issue of setting up a separate legal machinery exclusively for effecting recovery of bank overdues should be finalized and implemented in all the states at the earliest.

(xv) **Strengthening the bond between credit and non-credit inputs:** The bond of coordination between credit and non-credit inputs requires to be further strengthened for making District Credit Plan/Annual
Action Plan a meaningful device for deployment of scarce financial resources according to national priorities.

(xvi) **Incentive Scheme**: An incentive scheme for rewarding agencies showing outstanding performances in the implementation of District Credit Plan/Annual Action Plan should be introduced by the Reserve Bank of India and should take into consideration circumstances under which performances are shown. Some incentive schemes have been introduced by the Reserve Bank of India still more are needed.

(xvii) **Timely release of DCPs**: In order to ensure that the next District Credit Plan is released in time, the Reserve Bank of India should chalk-out and finalise a strategy in the light of suggestions cited above before time. All heads of institutions including state governments likely to be associated in formulation and implementation of ensuring District Credit Plan/Annual Action Plan should be advised specific role and action they are required to fulfill within the prescribed time schedule. Banks are basically commercial organization though they are given some social responsibility while meeting all the social obligations they are expected to be viable. Viability does not necessarily mean operating in a wide ‘spread’. They are expected to be viable even while working on thinner spread and this necessitates a look out for new thinking, new
ideas, new techniques, new concepts and service concept are the ones which merits due attention.