Chapter I

Introduction and Research Methodology

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Chapter I
Introduction and Research Methodology

1.1 Introduction

This chapter discusses the genesis of lead bank scheme, role of lead bank scheme and research methodology used for the present study. It explains objectives of study, sample design, data collection and limitations of study.

Banks are playing a vital role for the economic development of a nation. After Nationalization of the banks, more emphasis was given to lending according to national priorities, particularly in the favour of neglected and weaker sections of the community so as to help them in their productive endeavours. Further, with greater emphasis on agriculture, integrated rural development of small and tiny industries. The banking system played a crucial role by redirecting the flow of credit on priority basis towards the rural areas. Also, the banks accepted the challenge of spreading banking to remote areas of the country and bridging the gap between backward and non-backward regions by introducing innovative programmes like the Service Area Approach and the Lead Bank Scheme.¹ Thus, strong and sustained efforts were made by the banks in discharging their social responsibilities in other sectors too. On the whole the Indian banking system during the entire period of last two and a half decades, it has made an impressive and creditable progress.

1.2 Origin of the Lead Bank Scheme

The Reserve Bank’s credit policy for the slack season 1967 was liberalized on a selective basis with a view, among other purposes, to enlarging the flow of credit to the select sectors such as agriculture and small-scale industries, and also exports.² The measures for social control over banks were initiated by the Government of India in 1967-68 for securing a better adaptation of the banking system to the needs of economic planning and also for playing a more active and positive role in aiding sectors like agriculture and small scale industries. The scheme of social control envisaged a purposive distribution of available lendable resources consistent with the basic economic and social objectives as
well as a more effective mobilization of savings, besides mobilization of savings, besides eradication of certain deficiencies observed in the functioning of the banking system. The origin of priority sector prescriptions for banks in India can also be traced to the Reserve Bank’s credit policy for the slack season of the year 1967-68, wherein it was emphasized that commercial banks should increase their involvement in the financing of key sectors, such as, agriculture, exports and small-scale industries, as a matter of urgency. Further, the nationalization of major commercial banks in 1969 also envisaged that no viable productive endeavour should falter for lack of credit support, irrespective of the fact whether the borrower was big or small.

In pursuance of a decision of the National Credit Council, at its meeting held on July 24, 1968, a Study Group on the Organizational Framework for the Implementation of Social Objectives was constituted towards the end of October 1968, with Prof. D. R. Gadgil as Chairman. The Group was entrusted the task of identifying the major territorial and functional credit gaps and making recommendations to fill them up so that adequate institutional credit, at reasonable terms, could be made available to neglected sectors and areas and weaker sections of the community. The Group noted that the Indian banking system had made significant progress in the last 20 years by expanding its territorial and functional coverage and yet the unevenness of spread of institutional credit facilities to different areas of the country, the urban-oriented organization of commercial banks, weaknesses of the co-operative system and the non-availability of institutional credit to the weaker sections of the community, still persisted. The Group observed that the main social objective of banking and credit was to more evenly spread institutional credit over unbanked and under-banked areas and to ensure that neglected sectors and the small borrowers, who had to depend on non-institutional credit, also got adequate credit at reasonable terms from banks.

The Reserve Bank appointed a Committee of Bankers on Branch Expansion Programme of public sector banks (Chairman: Shri F. K. F. Nariman), which submitted its report on November 15, 1969, endorsing the area approach. It further recommended that in order to enable the public sector banks to discharge their social responsibilities, each bank should concentrate on under banked districts where it should function as a ‘Lead Bank’, as well
as open bank branches to fulfill the target of providing every place designated as a town with a bank branch by the end of 1970.

The recommendations were accepted by Reserve Bank of India and the Lead Bank Scheme was formulated by the end of 1969. Under the scheme banks were assigned particular districts for the purpose of developing integrated banking facilities and each bank was designated as the Lead Bank of the district allotted to it. The Reserve Bank clearly mentioned that the Lead Bank is expected to assume the major role in development of banking and credit in the allotted districts. At the same time, there is clearly no intention that the Lead Bank should not have a monopoly of the banking business in a district. The bank assigned the lead role and thus expected to act as the consortium leader and after identifying, through survey, areas requiring branch expansion and areas suffering from credit gaps, it should involve the co-operation of all banks and other financial institutions operating in the district for opening branches as well as for meeting credit needs.

Thus, pursuant to the recommendations of the Gadgil Study Group and Nariman Committee suggesting adoption of ‘area approach’ in evolving credit plans and programmes for development of banking and the credit structure, the Lead Bank Scheme was introduced by the Reserve Bank in December, 1969. The scheme envisaged allotment of districts to banks to enable them to assume leadership in bringing about banking developments in the respective districts.

1.3 Role of the Lead Bank:

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 current needs of credit and prepare a phased programme to meet it.

e) To undertake the survey for banking potential, for deposit mobilization and credit extension.
f) To identify potential area of agricultural and small industrial development and to encourage local entrepreneur in agriculture and small industries.

g) To advise such schemes of deposits and financial investments as would prove attractive and effective for the local people for mobilizing deposits as well as raising the rate of saving in the district.

h) To reduce regional imbalances in banking development.

i) To help in forming DCC for the purpose of co-ordination of the efforts of financial agencies and government authorities and to act as its convener.

1.4 Objective of the Lead Bank Scheme

The basic objective of the ‘lead bank scheme’ has been “one of orienting banking development in the country towards an ‘Area Approach’ and thus ensuring that the developmental needs of all regions and all sections of the community are served by the banking system in conformity with national priorities.”

1.4.1 The objectives of the Lead Bank Scheme are as follows:

1. It appears necessary to make detailed plans for the development of credit and banking in the country on the basis of local conditions. To adopt an ‘Area Approach’ to evolve plans and programmes for the development of banking and credit structure. The area approach is inherent in the cooperative system. Commercial banks should be assigned particular districts in an area where they should act as pace setters, providing integrated banking facilities and in this way, all the districts in the country should be covered.

2. The district should be the lowest unit under an area approach because it is the unit in relation to which the cooperative structure is at present organized and most statistical and other data are available at the district level.

3. In formulating and implementing plans of development of credit and banking in each district, it is necessary to bring together all concerned elements e.g. commercial banks, central cooperative banks and the cooperative land development banks.

4. Each district plan to be formulated will have three aspects:
i) That of establishment of branches or new units at particular places.

ii) That of formulating relationships within a structure or as between structures, and

iii) The formulation of proper policies and procedures.

5. The lead bank should act as the operational one of formulating dynamic interrelationships.

6. The credit plan for a district should pay attention to integration of credit and banking business with other activities. Within the credit structure itself, the long and short term institutions should be brought together more meaningfully.

1.5 The Reserve Bank of India has spelt out the functions of “lead bank”

The Reserve Bank of India has spelt out the functions of “lead bank” as follows: ⁷

1) Surveying the resources and potential for banking development in its district.

2) Surveying the number of industrial and commercial units and other establishments and farms which do not have banking accounts or depend mainly on money lenders, and increasing their owned resources by the creation of surpluses from the additional production financed by the banking system.

3) Examining the facilities for the marketing of agricultural produce and industrial production, storage and warehousing space, and the linking of credit with marketing.

4) Surveying the facilities for the stocking or fertilizers and other agricultural inputs and repairing and servicing of equipments.

5) Recruiting and training staff which would offer advice to small borrowers and farmers in the priority sectors.

6) Assisting other primary lending agencies and

7) Maintaining contacts and liaison residually with government and quasi government agencies.

1.5.1 The main function assigned to lead bank scheme

The main function assigned to lead bank scheme may be as follows: ⁸
1. Lead Bank is entrusted with a vital responsibility of conducting a survey of the infrastructure of the economy of the district and preparing an economic map, identifying the growth centers, the credit potential as well as deposit mobilization-savings pattern, saving investment ratio, the size and distribution of population in the district, transport, health, medical facilities available in the districts, the census of small scale, cottage and medium and large scale industries, run in the private/public co-operative and joint sectors.

2. One of the foremost functions entrusted to lead bank is to conduct periodical survey of the economy of the district in order to sense the changes that are taking place in the economic scene of the district and to locate the spot centers or areas which will contribute in a substantial manner for the economic growth of the district in the future.

3. The lead bank is also expected to facilitate a constant dialogue, debate, discussion and mutual exchange of views and opinions on the problems of banking (credit expansion, credit planning, deposit mobilization, branch expansion, improving the customer’s services, improving the operational efficiency of the constituent member banks appraisal of the performance, establishing sound and effective communication times with the government, sister credit institutions, business and industry and public at large etc.) and the problems of economy of the district at large and a number of other allied problems.

4. Another significant role envisaged for a lead bank involved by the RBI is providing a dynamic leadership to the other banks (constituent member units) as in credit creation (quantitative and qualitative aspects) deposits mobilization (evolving a rational scheme of deposit mobilization with minimum possible operational costs and not giving any scope for unhealthy competition among the various institutions in the districts engaged in the banking business) and branch expansion etc.

5. The lead bank should establish the guidelines, norms, principles and evolve a logical rational and feasible programme of action aimed at achieving maximum possible co-operation and co-ordination between the different banks government and non-governmental agencies working in the district.
6. Another equally vital role envisaged for a lead bank in the scheme formulated by the RBI is to act as a consortium leader among the various financial institutions (commercial and co-operative banks, state finance corporation, Industrial development banks and other special financial institutions etc.) operating in the district.

7. The lead bank should strive at wiping out the regional imbalances in the development of banking as well as the economic growth area assigned to it there in the entrusted with the task of providing a lead.

8. Under the lead bank scheme, the lead bank expected to show the proper place for the non-lead banks also in the rural credit scene. The lead bank has to evolve a suitable mechanism for the purpose and lay down a broad framework and guidelines to channelize the resources of the commercial banks through the agency of the co-operatives to the agriculturists and other most deserving borrowers in the district.

9. Another function of a lead bank is to innovate a variety of scheme for the development of agricultural and other allied activities which have been accorded a priority and a preferential treatment in the overall strategy of the district economic development.

10. The lead bank should also facilitate the establishment of multi-purpose co-operative societies and farmers service societies etc., by liberalizing its policy of credit sanction to these institutions and subscribing there capital debentures and loans floatation schemes.

11. Installing appropriate training programme for the staff members of the various commercial and co-operative banks etc., and the employees of the government participating in the lead bank.

12. Undertaking on a massive scale programmes of educating and performing the masses (particularly the rural area) about the benefits that will flow from the implementation of the lead bank scheme in another important function assigned to the lead bank.

1.6 Allotment of Lead Responsibility:
On the basis of the recommendations of both the Gadgil Study Group and the Banker’s committee RBI introduced the “lead bank scheme” towards the end of 1969. To enable banks to assume their lead role in an effective and systemic manner, all districts in the country (excepting the metropolitan cities on Bombay, Calcutta and Madras and certain Union Territories) were allotted among the public sector banks and a few private sector banks.  

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

### 1.7 Principles behind allotment of district to lead banks

The Report of the Committee of Bankers allotted the following principles.

1. There should be a broad correspondence between allocation of responsibility (in terms of number of districts) and the resource base of banks concerned.
2. Allotting the ‘lead bank’ districts the factor of contiguity defined as clusters of districts was born in mind.
3. As far as possible the existing regional orientation of banks was to be taken into account.
4. The reallocation provided that in each state, barring certain exceptions, there would be at least two more lead banks etc.

Thus the lead banks were entrusted with the responsibility of development of certain areas i.e. districts, while doing this:

1. The resource base of the banks was considered.
2. The existing network of branches.
3. The number of branches.
4. The locations of branches were considered.

According to these principles the lead banks are introduced in all the states. In each state there are at least two or more lead banks and nearly all banks have been allotted
districts in more than one state. These lead banks were asked to spread the branch
network in the district and were to identify areas of credit gaps for the purpose of
evolving an integrated credit plan for the financing of various sections.

1.7.1 The criteria adopted in making the allocation of district to each bank were:
The criteria adopted in making the allocation of district to each bank were as follows.  
i) The size of the bank and the adequacy for handling the volume of work.
ii) The contiguity of districts so that “Clusters” of lead districts could emerge.
iii) The regional orientation of bank.
iv) The desirability of each state to have a particular lead bank operating in its
territory and, desirability of each bank to operate in more than one state.

1.8 Financial Sector Reform in India

A retrospect of the events clearly indicates that the Indian Financial Sector has come far
away from the days of nationalization. The Narasimham Committee laid the foundation
for the reformation of the Indian Financial Sector, constituted in 1991; the Committee
submitted two reports, in 1992 and 1998, which laid significant thrust on enhancing the
efficiency and viability of the Financial Sector. As the international standards became
prevalent, banks had to unlearn their traditional operational methods of directed credit,
directed investments and fixed interest rates, all of which led to deterioration in the
quality of loan portfolios, inadequacy of capital and the erosion of profitability. However, the Financial Sector reforms have provided the necessary platform for the
Indian banks to operate on the basis of operational flexibility and functional autonomy,
thereby enhancing efficiency, productivity and profitability. The reforms also brought
about structural changes in the financial sector and succeeded in easing external
constraints on its operation, i.e. reduction in CRR and SLR reserves, capital adequacy
norms, restructuring and recapitulating banks and enhancing the competitive element in
the market through the entry of new banks. The reforms also include increase in the
number of banks due to the entry of new private and foreign banks, increase in the
transparency of the banks’ balance sheets through the introduction of prudential norms
and increase in the role of the market forces due to the deregulated interest rates. These have significantly affected the operational environment of the Indian Financial Sector.

1.8.1 Scope of the Financial Sector reforms:

The financial sector reforms includes the following things:\textsuperscript{13}

(a) Measures for liberalization, like dismantling the complex system of interest rate controls, eliminating prior approval of the Reserve Bank of India for large loans, and reducing the statutory requirements to invest in government securities;

(b) Measures designed to increase financial soundness, like introducing capital adequacy requirements and other prudential norms for banks and strengthening banking supervision;

(c) Measures for increasing competition like more liberal licensing of private banks and freer expansion by foreign banks. These steps have produced some positive outcomes. As the real sector reforms began in 1992, the need was felt to restructure the Indian banking industry. The reforms measures necessitated the deregulation of the financial sector, particularly the Financial Sector. The Financial Sector reforms highlighted the weaknesses in the Indian banking system and suggested reforms measures based on the Basle norms.

The main recommendation of the committee:-

1. Reduction of statutory liquidity ratio to 25 percent over a period of five year.
3. Deregulation of interest rates so as to reflect emerging market condition.
4. Phasing out of directed credit programmes and redefinition of the priority sector.

1.9 Lead Bank in Kolhapur District

Bank of India, the Lead Bank of Kolhapur district (Maharashtra) has been playing a vital role in the development of the district since the Lead Bank Scheme came into force after nationalization of banks. This bank is helping to development the agriculture, industrial and trade of Kolhapur district.
1.10 Objectives of the study:

1. To study the profile of Kolhapur District.
2. To study the working of Lead Bank Scheme.
3. To study the role of Lead Bank in Kolhapur District.
4. To study the progress of Lead Bank Scheme in India.
5. To find out extent of supply, utilization and recovery of loans.
6. To focus on the problems of Lead Bank Scheme in Kolhapur District.
7. To make suggestions for improving Lead Bank Scheme.

1.11 Hypotheses

1. Lead Bank Scheme has accelerated the growth financial resource of priority sector in Kolhapur District.
2. The Lead Bank Scheme has achieved 100% Loan target in Kolhapur District.

1.12 Research methodology

For the present study the both primary and secondary data was collected.

1.12.1 Data sources

I) Primary Data

The researcher had conducted discussions with the authority concerned with Lead Bank Scheme of different bank.

II) Secondary data

The secondary data was collected from various Lead Bank reports, Government reports, committee reports, articles, books, magazines, newspaper and various websites.

1.12.2 Statistical techniques for data analysis

Keeping the objectives of the study some appropriate statistical techniques such as; Correlation of Variation (CV), Compound Growth rate (CGR), Standard deviation
(SD), percentage share etc. was used in analyzing the data. The researcher had found conclusions with the help of Excel and SPSS.

1.12.3 Scope of the Study

As far as the scope of the study is concerned this study was cover and examines all the aspects relating to Lead Bank Scheme and its working mechanism in Kolhapur District. The conclusion derived from this study is useful to government policy maker who are directly and indirectly related to Lead Bank Scheme.

1.12.4 Need of Research

In this research the concept of lead bank scheme was needed to evaluate the performance of Lead Bank. A progress of priority sector and non priority sector through the help of lead bank. To study the obstacles before the working of Lead Bank and make suggestions for further development.

1.12.5 Limitation of the Study

Geographical Limitation: The present study of the related to the Lead Bank Scheme in Kolhapur District only.

1.12.6 Chapter Scheme of study:

The chapter scheme of the study is as under;

Chapter-1: Introduction and Research Methodology.

Chapter-2: Review of literature.

Chapter-3: Profile of Kolhapur District.

Chapter-4: Historical Background of Lead Bank Scheme.

Chapter-5: Working of Lead Bank Scheme in Kolhapur District.

Chapter-6: Data Analysis and Interpretation.

Chapter-7: Findings, Conclusions and Suggestions.
References


5. **Reserve Bank of India**, report of the study group working on the working of the lead bank scheme in Gujarat and Maharashtra. Bombay, December 1975


13. Ibid.