Genesis and Progress of the Lead Bank Scheme
INTRODUCTION

The Lead Bank Scheme was introduced in 1969 to guide the Commercial Banks, Regional Rural Banks and Co-operatives for making their activities more effective. They are expected to know the local problems in estimating and meeting the credit needs of the people belonging to weaker sections. Under this scheme, a bank is to be designated as a lead bank in order to assume the lead role in providing integrated banking facilities in the district. The Lead Bank Scheme therefore, is expected to shoulder various responsibilities like, conducting periodical surveys, preparation of credit plans, monitor the progress.

During the last two decades since 1969 the banking scene in India has undergone a rapid transformation in terms of Scale of operation; area coverage and contents issues tackled keeping in tune with the changes that have been taking place in the Social, Political and Economic environment. With the introduction of Lead Bank Scheme and commercial banks nationalisation a beginning was made to make banking sector an important catalytic agent for overall economic development.

The genesis, objectives, functions and the progress of Lead Bank Scheme are reviewed in this chapter.
LEAD BANK SCHEME (GENESIS)

The National Credit Council, which was entrusted with the responsibility of laying down guidelines to be followed by the commercial banks and other financial institutions while determining the quantum of credit to various sectors of the economy in accordance with the National Planning, constituted a study group under the Chairmanship of Prof. D.R. Gadgil, the then Deputy Chairman of the Planning Commission, to probe into the problem of building up of an appropriate "Organisational Frame work for the Implementation of Social Objectives". The study group vividly analysed the most vexatious problem of mal-adjustment between the demand for and the supply of credit by the commercial banks, with a particular reference to the gross negligence of priority sectors like agriculture, small industry, self-employed, trade professionals etc.

The study group, submitted its report in October, 1969. The group drew attention to the fact that commercial banks did not have adequate presence in rural areas and also lacked the required rural orientation. As

1, Reserve Bank of India, Organisational Frame work for the Implementation of Social Objectives, Op. cit., p.87
a result, the banking needs of the rural areas in general and the backward regions in particular, could not be adequately taken care of, and the credit needs of the agriculturist's were neglected by commercial banks. The study group therefore, recommended the 'area approach' for banking industry, to evolve plans and programmes for the development of banking and credit structure. Under this approach commercial banks should be assigned to a particular district in an area where it should act as pace setters, providing integrated banking facilities, and in this way all the districts should be covered. The Planning Commission has rightly stressed this approach in its Fourth Plan Document. This approach would help the commercial banks to know about the local problems and to make suitable arrangements for the problems. Taking into consideration of various problems the Reserve Bank of India appointed a Committee of Bankers headed by F.K.F.Nariman, for rationalising the expansion of branches of nationalised commercial banks. The Nariman Committee submitted its report in November, 1969. It has also emphasised the basic principles of an 'area approach'. It has recommended that, in order to enable

the Public Sector Banks to discharge their social responsibility, each bank should concentrate on certain districts where it should act as a Lead Bank. After considering the recommendations of the study group and the Nariman Committee, the Reserve Bank of India evolved the LEAD BANK SCHEME, towards the end of 1969, based on area approach to banking development. The crucial idea of the lead bank scheme is the allocation of each district to a commercial bank on the basis of its location and its area of operation for assuming a role of pace-setter and path-finder in providing integrated banking facilities in the district and in this process all the districts in the country should be covered, and the commercial banks would be assigned to particular districts not only to provide banking facilities but also to identify and study the local problems and evolve an integrated credit plan for the areas. This is the first and foremost step in making the institutional finance available to neglected areas. The lowest unit under the area approach has to be necessarily identified with the district, as the district is the main administrative unit and most statistical and other data are available at the district

The lead bank scheme therefore, constituted consortium approach on the part of the commercial banks to the problem of banking development based on the 'area approach'. To enable banks to assume their lead role in an effective and systematic manner all districts in the country excepting the metropolitan cities of Bombay, Calcutta, Madras and certain Union Territories were allotted among Public Sector and a few Private Sector banks.

OBJECTIVES OF THE LEAD BANK SCHEME

The Lead Bank Scheme was expected to achieve the following objectives:

(1) To identify the unbanked and underbanked centres in districts and to grasp their profile, physiographic, agroclimatic and socio-economic conditions through economic survey;

(2) To help in removing regional imbalances through appropriate credit deployment;

(3) To extend banking facilities to unbanked areas;

(4) To estimate the credit gaps in the various sectors of economy of each district and to prepare the credit plan for each district;

(5) To identify technically feasible and economically viable bankable schemes;

(6) To survey the resources and potential for banking development in its districts;

(7) To effect structural and procedural changes in banking sector;

(8) To evolve, inter alia methods of exchanging information among themselves about intending borrowers and lending to priority sectors;

(9) To develop co-operation and co-ordination among the financial and non-financial institutions, including the administrative authorities, in the overall development of the district, and

(10) To serve as a clearing house for discussions of problems arising out of financing priority sectors.

FUNCTIONS OF A LEAD BANK

In the light of its objectives the lead banks were assigned various functions, tasks and responsibilities. The following are some of the important functions.

that are performed by Lead Banks during the period of implementation of the Lead Bank Scheme.

(1) Conducting Economic Surveys is the first and foremost function of a lead bank. The lead bank has to conduct a quick survey of the economy of the district, and prepare an economic map identifying the growth centres and indicating the credit potential as well as deposit mobilisation, credit deposit ratios, per capita income, savings pattern, saving-investment ratios, the site and distribution of population in the district, transport, health and medical facilities available in the district, the census of small scale and cottage industries and medium and large scale industries run in the private, public, co-operative and joint sectors.

(2) Preparation of Credit Plans in consultation and co-operation with other commercial and co-operative banks, number of other official and non-official agencies the lead bank has to evolve a credit plan for the district taking into consideration the needs of the various sectors of the economy and the developmental potential of the key areas or growth centres. The lead bank has to give the broad frame
work of the district economic plan while formulating the schemes of supply of credit to various sectors.

(3) The lead bank has to conduct periodical surveys, in order to reap maximum benefits from the scheme. These surveys should cover the changes that are taking place in the economic scene of the district and to locate the areas or centres which will contribute in a substantial manner for the economic growth of the district in future.

(4) The lead bank was to act as a consortium leader for coordinating the efforts of all credit institutions in each of the allotted districts for expansion of branch banking facilities and for meeting the credit needs of the rural economy. The lead bank scheme did not envisage a monopoly of banking business to the lead bank in the district. Another significant role envisaged for a lead bank is providing a dynamic leadership to other banks, constituent member units, in deposit mobilisation (evolving a rational scheme of deposit mobilisation with minimum possible operational costs and not giving any scope for unhealthy competition among the various institutions in the district engaged in the banking

business) and branch expansion programmes. The lead bank should not be eager to grab all the benefits to itself. It should follow a policy of live and let live.

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

(6) 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 among the different banks, governmental and non-governmental agencies working in the district.
(7) The lead bank is 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 this purpose and lay down a broad framework and guidelines to channelise the resources of the commercial banks through co-operatives to agriculturists and other most deserving borrowers in the district.

(8) The lead bank should aim at wiping out the regional imbalances in the development of banking as well as in the economic growth of the lead district.

(9) The lead bank has to act as an innovative leader. It has to guide and act as a path-finder and pace-setter to other banks in the district assigned to it in preparing a large number of plans, schemes, and programmes for the development of priority sectors like agriculture, cottage and small scale industries, provision of employment to the artisans, craftsman, and developing the latent energies and skills of the local skilled workers.

(10) The lead bank should also facilitate the establishment of multi-purpose co-operative societies, farmers service societies etc., for promoting co-operation among local people.
The lead bank should also undertake programmes of educating and informing the masses (particularly the rural masses) about the benefits that will flow from the implementation of the lead bank scheme.

The lead bank should prepare a scheme or plan for the organisation and a thorough overhaul of the entire machinery of banking and other financial institutions in the district in order to see that the banking organisation will avail all the existing facilities and tap all the possible opportunities and facilities to the maximum extent and channelise its credit flow to the most productive sources, areas, centres etc. Thus, the lead bank is entrusted with the responsibility of reorganising and restructuring the entire activity of banking and financing of agriculture and allied activities in the district.

The lead bank should launch appropriate training programmes for the staff members of various commercial and co-operative banks etc., because, it is particularly necessary for bank officers, especially those in rural areas and semi-urban areas as also those working in co-operative institutions, have to develop proper appreciation of the scheme.
IMPLEMENTATION OF THE LBS IN INDIA

One of the important tasks before the lead bank scheme immediately after its introduction was the allocation of districts among various commercial banks started during 1969. Accordingly 338 districts have been allotted among 25 banks. The next step is to identify bankable centres through initial surveys where bank offices can be established with the help of other banks working in the district. These initial surveys have been completed in almost all the districts between 1969 and 1973.7

The second phase came into existence in 1971 with the formation of District Consultative Committees. The formation of district consultative committees in all the districts have been completed by 1973.8

The preparation of Credit Plan was the third phase. District credit plans are being prepared by the lead banks as area specific credit plans, which seek to direct the credit flow evenly into various areas and sectors of the districts according to their developmental needs. In preparing credit plans different banks adopted

8. Ibid, p. 42.
different methodologies. There may be some similarities in this respect but significant deviations were noticed. The well prepared district credit plan, constitutes an important source of information on self-employment opportunities which can be financed by credit institutions.\textsuperscript{9} Each district credit plan will have three aspects viz.,

1) that of establishment of branches or new units at particular places.

2) that of formulating relationships within a structure as between structures, and

3) the formulations of proper policies and procedures.\textsuperscript{10}

The fourth phase of Lead Bank Scheme is the preparation of second round district credit-plans. Preparation of Fourth round of District Credit Plans has also completed during 1985-90. The Reserve Bank of India has asked the lead banks to prepare a time bound programme. A separate cell, viz., Rural planning and credit cell has been set up by the Reserve Bank of India for proper guidance and supervision over the preparation of the credit plans. The period covered under each phase is on the functional basis and not on the chronological basis.


The implementation of the scheme started with the allocation of districts among various commercial banks for assuming the lead role. During the year 1969, 338 districts, with the exception of metropolitan cities and the Union Territories of Delhi, Goa, and Chandigarh have been allotted among 25 banks viz., State Bank of India and its seven subsidiaries, 14 nationalised banks and three private sector banks.

The allocation of districts among 25 banks is guided by several considerations such as i) the size of the bank ii) the contiguity of districts iii) the adequacy of resources of the bank iv) the regional orientation of banks and v) the desirability of each State to have more than one lead bank operating in its territory and of each bank to have lead responsibility in more than one State.11

The number of branches being the indicator of the size, coefficient of correlation is used to verify whether there is any relationship between the number of districts allotted and the number of branches of each bank. The calculated co-efficient of correlation \( r = \pm 39 \)

indicates a very high degree of relationship between these two variables implying that the allocation of districts to various lead banks in the country is in accordance with the criterion of size. The resource position of a bank indicates its ability to take a lead role under the scheme. That is why, it is considered to be one of the important criteria for allotting districts. Assets and liabilities of banks are treated as resources and the co-efficient of correlation has been computed between the number of districts allotted to each bank and its assets/liabilities. The correlation between them turn out to be a highly significant one \((r=+0.92)\), (see Table 3.1).

The allotment of districts to various lead banks is in conformity with the geographical contiguity. For determining geographical contiguity, the nearness of districts allotted to each bank in each state is taken into account. In the case of 266 districts out of 379 districts allotted to various banks in the country, more than 60 per cent are located closest to each other, while in the case of 109 districts about 50 per cent of them are closer. In respect of remaining four districts, there is a wide spread of districts. This implies that 70 per cent of the districts allotted have high geographical
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Note: Where one District is allotted to a particular bank, the nearest of the allotted District to other District where the Lead Bank Scheme is in operation is considered for the purpose of contiguity.

State Bank of Bikaner and Jaipur and the Bank of Rajasthan are jointly operating the scheme in Udaipur District of Rajasthan, the district has been included under only one bank i.e., Bank of Rajasthan.

Due to reorganisation of the districts in various states, the number of districts under the scheme have increased to 397. The following are the number of new districts allotted to various banks in different states.
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**TOTAL DISTRICTS**: 46 32 18 38 17 8 7 9 5 5 1 1 370

A) Site (No of Branches): 1610 1227 762 1311 1165 1277 700 786 584 548 498 176

B) Contingency IX: 43 21 10 29 17 6 1 1 5 5 5 1 288 78 18

C) Revenues Assets/Liabilities: 254 96 2563 34 769 95 2560 47 1872 32 1270 21 1171 08 708 36 689.82 585.97 545 62 115 86 370 189 08

<table>
<thead>
<tr>
<th>STATE/TERRITORY</th>
<th>STATE BANK OF INDIA</th>
<th>STATE BANK OF HYDERABAD</th>
<th>SYMBHAT BANK</th>
<th>UNITED BANK OF INDIA</th>
<th>CAMRAS BANK</th>
<th>TOTAL</th>
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<td>4</td>
<td>4</td>
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<td>1</td>
<td>1</td>
<td></td>
<td></td>
<td>2</td>
</tr>
</tbody>
</table>

| TOTAL          | 9                   | 1                      | 6            | 1                   | 18          |
contiguity and 29 per cent have moderate contiguity, while only 1 per cent of the districts lack contiguity. The fourth criterion viz., Regional orientation of banks has been, by and large, satisfied. However, in respect of the fifth criterion, which envisages that each bank should have a lead role in more than one state and each state should have more than one bank playing the lead role, does not seem to be satisfied fully. For instance, in each of states of Jammu & Kashmir, Meghalaya, Manipur, Nagaland and Tripura, only one bank is playing the lead role. Similarly, certain banks like State Bank of Mysore, State Bank of Travancore, State Bank of Sowashtra, State Bank of Indore, State Bank of Patiala, State Bank of Bikemeer and Jaipur, Bank of Maharashtra, Punjab and Sind Bank and Bank of Rajasthan have the lead role in only one state each. The overall criteria followed at initial stages has not been much disturbed in further allocation of districts.

Re-allocated of Lead Responsibility

The Committee to Review Arrangements For Institutional Credit for Agriculture and Rural Development (CRAFCARD) had suggested a fresh look into the pattern of distribution of districts among the various banks
under the Lead Bank Scheme with a view to assigning lead responsibility to newly nationalised banks. Some of the State Governments have the opinion that banks having a large number of lead districts in a state could not devote adequate attention to all the districts. They have, therefore, suggested that the number of lead districts for any bank in a State should not be too large. This suggestion could be implemented by,

1) bringing more banks under the lead bank group and
2) by suitable re-allocation of lead districts among the existing lead banks.

However, there is obviously a limitation to the number of additional banks which could be entrusted with lead responsibility, since almost all the Public Sector Banks are already in the lead bank group. At best what could be thought of is to induct newly nationalised banks which do not have lead responsibility. The second alternative could result in each lead bank having smaller clusters than at present, but it is also likely to diffuse the lead responsibility, over a larger number of states.

Consequent on the creation of new districts, the lead responsibility in four new districts in 3 states was entrusted to public sector banks. As at the end of
April 1989, the lead bank scheme covered a total number of 445 districts of the country. Table 3.2 presents the number of districts allotted to commercial banks in India as at the end of December 1986. It is evident that out of 437 districts 119 districts (27.23 per cent) have been allotted to State Bank of India and its subsidiaries. The Central Bank of India which accounts for 47 districts with 10.76 per cent to total comes next in importance. Punjab National Bank with 39 districts (8.92 per cent) placed third, while the Bank of India with 36 districts (8.36 per cent) ranks fourth and Bank of Baroda has a share of 31 districts (7.09 per cent). United Commercial Bank with 30 districts (6.86 per cent) comes next.

It shows that a greater share of districts all over India went to the State Bank of India and other Public Sector Banks as against a negligible share of the private sector banks received in the allotment of districts. For bank-wise and state-wise allotment of districts under lead bank scheme as at the end of June 1986 See Appendix-IV.
### TABLE 3.1

**Districts allotted to Commercial Banks in India as at the end of December 1969 & 1986**

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Bank</th>
<th>No. of Dist. allotted</th>
<th>% to Total allotted</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>State Bank of India and its 7 subsidiaries</td>
<td>89</td>
<td>26.33</td>
</tr>
<tr>
<td></td>
<td></td>
<td>119</td>
<td>27.33</td>
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<tr>
<td>2</td>
<td>Allahabad Bank</td>
<td>11</td>
<td>3.25</td>
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<tr>
<td></td>
<td></td>
<td>10</td>
<td>2.29</td>
</tr>
<tr>
<td>3</td>
<td>Bank of Baroda</td>
<td>30</td>
<td>8.89</td>
</tr>
<tr>
<td></td>
<td></td>
<td>31</td>
<td>7.09</td>
</tr>
<tr>
<td>4</td>
<td>Bank of India</td>
<td>30</td>
<td>8.87</td>
</tr>
<tr>
<td></td>
<td></td>
<td>36</td>
<td>8.36</td>
</tr>
<tr>
<td>5</td>
<td>Bank of Maharashtra</td>
<td>5</td>
<td>1.48</td>
</tr>
<tr>
<td></td>
<td></td>
<td>6</td>
<td>1.37</td>
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<tr>
<td>6</td>
<td>Canara Bank</td>
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<tr>
<td></td>
<td></td>
<td>19</td>
<td>4.35</td>
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<tr>
<td>7</td>
<td>Central Bank of India</td>
<td>39</td>
<td>11.54</td>
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<td></td>
<td></td>
<td>47</td>
<td>10.76</td>
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<tr>
<td>8</td>
<td>Dena Bank</td>
<td>9</td>
<td>2.66</td>
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<td>10</td>
<td>2.29</td>
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<td>Indian Bank</td>
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<td>2.05</td>
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<td>10</td>
<td>Indian Overseas Bank</td>
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<tr>
<td></td>
<td></td>
<td>9</td>
<td>2.05</td>
</tr>
<tr>
<td>11</td>
<td>Punjab National Bank</td>
<td>28</td>
<td>8.28</td>
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<tr>
<td></td>
<td></td>
<td>39</td>
<td>8.92</td>
</tr>
<tr>
<td>12</td>
<td>Syndicate Bank</td>
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<td>4.70</td>
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<td>Andhra Bank</td>
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<td>17</td>
<td>Punjab &amp; Sindh Bank</td>
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<td>2</td>
<td>0.45</td>
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<td>18</td>
<td>Corporation Bank</td>
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<tr>
<td>19</td>
<td>Vijaya Bank</td>
<td>-</td>
<td>0.45</td>
</tr>
<tr>
<td>20</td>
<td>New Bank of India</td>
<td>-</td>
<td>0.46</td>
</tr>
<tr>
<td>21</td>
<td>Jammu &amp; Kashmir Bank</td>
<td>-</td>
<td>0.46</td>
</tr>
<tr>
<td>22</td>
<td>State Bank of Sikkim</td>
<td>-</td>
<td>0.46</td>
</tr>
<tr>
<td>23</td>
<td>Bank of Rajasthan</td>
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<td>0.46</td>
</tr>
<tr>
<td></td>
<td></td>
<td>0</td>
<td>0.46</td>
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</table>

|        | 338 | 437 | 100.00 | 100.00 |

Note: @: District Udaipur has been allotted jointly two banks State Bank of Bikaner and Jaipur and Bank of Rajasthan. The latter has no other district as lead district.

Initial Surveys

One of the highly impressive tasks under the Lead Bank Scheme was the conducting of initial surveys in all the 338 districts in 1969-70, with a view of assessing the potentialities of the districts and understanding the district profiles relating to their agro-climatic, physiographic and socio-economic conditions. The ultimate use of the surveys was to identify the unbanked and under banked centres where branches would be opened and to identify viable and bankable schemes that would be financed by the banks.

The pattern and proforma of initial surveys in general was more or less uniform. To ensure uniformity of all the surveys in the country the Reserve Bank has given a common basic proforma for the use of banks, which will elicit statistical information in detail relating to the district economy, development and functioning of credit institutions and other infra-structural facilities available in the district. Bank Officials (who are directly in-charge of District Surveys work) conference was convened by the Reserve Bank on April 24, 1970 and the scope and purpose of the surveys were explained to them at the meeting.\textsuperscript{12}

The surveys were mostly general in nature rather than technical. Statistical data pertaining to various geographical aspects such as, area, climate, rain-fall, land utilisation, soil, water resources, mineral resources etc., demographic aspects like population, sex-ratio, occupational distribution of population, literacy etc., and economic aspects including cropping pattern, progress of agriculture, trade, industry, service, co-operation and banking have been collected and analysed. The potentialities for the various sectors have been identified and the projections were made for further progress. Appropriate schemes and programmes for development of various sectors in the districts were also suggested.

While estimating the overall credit needs of the important sectors of the economy in the districts, the schemes to be financed by Government were ignored, as the banks would provide finance for development schemes in the private sector only. With regard to the estimation of the short term credit needs of agriculture, different methods were used.

Methodology of Estimating the Credit Requirements

The panel of Economists headed by M.L. Dantwala adopted two approaches for arriving at the probable credit needs of agriculturists.
Credit requirements were assumed to bear a certain relationship to the value of agricultural produce. In other words, calculating the ratio of borrowings to the value of net agricultural produce.

Method-2: Under this method, per acre borrowings were multiplied by the estimated net acreage under cultivation after giving due consideration to the increase in Prices. Under each of these methods two sets of estimates were made. In one, the entire borrowings for household expenditure was taken into account in addition to the borrowings for current expenditure in farm and non-farm business, while in the other only 75 per cent of the borrowings for the household expenditure were taken into account in addition to those for farm and non-farm business.

Gadgil study group Method-I: This is not a separate method and only a modification of the methods of the panel of economists adopted by the Study Group. Under this method credit requirement for 1967-68 were estimated taking into account,

a) only borrowings for current farm expenditure and three-fourths of those for household expenditure (which is mentioned under panel of economist method)
b) and relating them to national income in that year, (which is arrived after giving due consideration to increase in prices of agricultural commodities and increase in production) a ratio was arrived.

**Gadgil Study Group Method-II**: Under this method the amount of borrowing per acre was multiplied with the acreage under both high-yielding varieties and local varieties, after giving due consideration to the increase in prices in the economy.

**Gadgil Study Group Method-III**: Under this method, the standards estimated by the Reserve Bank of India in 1965-66 in certain I.A.D.P. areas were followed.

**Rural Credit Review Committee Method**: Under this method, scales of finance were suggested for high yielding varieties and local varieties in irrigated and unirrigated areas.

**Crop Loan Method**: Based on scales of finance prescribed by the District Co-operative Central Banks the short term credit requirements of agriculture were estimated. The medium term loan requirements were assumed to be 10 per cent of the short term loan requirements.

15. Reserve Bank of India, Report on the All India Rural Credit Review Committee, Bombay, 1969, Table-4, p.88.
**In-depth Surveys**

It was also envisaged that the Lead Bank should conduct follow-up In-depth Survey in different regions of the districts allotted to them, to assess the local conditions and potentialities for evolving programmes and strategies of development suitable to the needs and resource endowments of the regions. In-depth studies for the blocks in the lead districts are meant for evolving schemes comprising technically feasible and economically viable which can be implemented by the commercial banks and financial agencies operating in the area within the existing or marginally strengthened framework of infrastructure. If the schemes in these action plans are to facilitate the development of rural areas, it is necessary to select centrally situated growth points amidst clusters of villages, where basic services such as distribution centres for seeds, fertilisers, pesticides, agricultural implements and essential consumption articles, extension services, processing units, facilities for extension of credit and marketing etc., can be located, so as to be within easy reach of the dependent villages. Moreover, the banks are required to select in their in-depth studies of community development blocks, only growth centres of the lowest order viz., the central villages and that too with the limited objective of locating
therein the bankable schemes.

**Credit Planning**

Credit Planning unknown to Indian Banking in the past, clearly defines the system of objectives on the basis of which, overall business strategy can be framed for promoting the realisation of the goals defined in the context of the historical role that the commercial banks are required to play in the development of country's economy. It is essentially an attempt for working out a rational solution to problems, an attempt to co-ordinate means and ends.

The role of the Lead Bank is to be viewed and assessed in the perspective of credit planning, through which it is expected to estimate credit gaps existing in the various sectors of economy of the districts and to evolve schemes for filling these gaps in co-operation and co-ordination with other financial institutions and banks that are operating in the district.

**Credit Planning and Regional Planning**

While credit allocation at the bank level forms the basis of the macro credit plan of the bank in the context of its resources strength, at the regional level
micro credit planning is dependent on the support of various credit agencies. The lead bank scheme aims at an integrated approach towards an effective micro credit planning for Regional Planning and introducing a co-ordinated programmes of credit assistance, taking the district as a convenient unit to be adopted for development planning.

The concept of planning at the district level for credit and banking development suggested by Gadgil study group has also recommended the adoption of district which constituted the main administrative unit as the base unit for the purpose, because all the statistical data are available only at the district level. After identifying this the banks have prepared the micro plans at district levels, taking into account various inputs like natural resources, growth and habits of the local population and such other factors, as also the infra-structural facilities and strength of the co-operative sector and estimation of the credit needs.

Credit Planning-National Planning

As indicated by Narasimham credit planning at a national level in a mixed economy covers two stages of operation

(1) at the planning stage - the objectives of credit policy in relation to other plan objectives have to be determined and the estimates of increased credit in the context of the national plan worked out, and

(2) at the implementation stage - allocation of credit to be made in a selective manner in terms of productive plans and investment purposes.

When according to national policy all our activities have necessarily to be geared up to the Socio-economic objectives of the country, credit planning by the commercial banks has also to be related with regard to purpose and period to the total national planning.

Credit Planning Process has two stages. The first stage covers the assessment of credit available to various sectors and regions out of estimated resources after providing for pre-emptive uses in terms of statutory and conventional obligations. The second stage is that of allocation of credit in its qualitative and directional aspect among various sectors and regions. More attention should be taken in the second stage of the process, as the regional economic development is the main objective of credit planning.
The cardinal principles of allocation of credit planning are:

(1) to channelise the bank's resources in a more equitable manner between different sectors of the economy, keeping in view the socio-economic objectives and the needs of the priority sectors, and

(2) to arrange for the removal of imbalances of credit allocation in a phased manner in different regions so that maximum social benefit flows.

Credit Plan

A credit plan is a development plan for an area consisting of technically feasible and economically viable schemes, which can be financed by financial institutions. On the basis of a strategy of development that is suitable for the area, the credit plan should be drawn up, taking into account its natural endowments, principal economic activities and their potential for development, current and ensuing projects and felt needs of the people. It is comprehensive and integrated in the sense that it includes various schemes and projects covering all the major sectors of the economy viz., Agriculture and allied activities, Industry and Services depending upon their natural linkages. Further, the schemes should be such that they can be immediately taken up for
implementation, within the existing or marginally strengthened framework of available infra-structural and other facilities. Lack of such facilities hamper the effective implementation of the plan. Hence, they should be specifically pin-pointed in the plan, so that appropriate authorities can take immediate action to provide such facilities.

The district credit plan is a plan of a bank for allocation of its available resources among the various types of borrowers in conformity with the planning priorities. Credit plan is a blue print for action by banks and other financial institutions in the district. An operationally meaningful credit plan can be prepared only after intensive studies of small areas such as community development blocks, which enable the banks to evolve a programme of action, based on a strategy of development suitable to the needs and resource endowments of the blocks, which then should be aggregated for the district as a whole.

Credit Plan and Development Plan

As stated above, the credit plan is a plan which can be taken up by financial institutions for meeting the credit needs. A district credit plan may therefore be regarded as the financial framework of a district development plan. An important distinction between a district
development plan and a district credit plan is that whereas in the district development plan, location of infra-structure and other facilities is decided on grounds such as population threshold, centre-place theory, growth-centre concept, felt needs of the people etc., in the credit plan, need for these facilities to implement investment and production programmes determines the location. Another difference between the two types of plans is that whereas district development plan should go by the social cost and benefit analysis, the credit plan should necessarily go by the cash in flows and outflows reflecting the private costs and benefits. The credit plan should necessarily go by the economic viability of the schemes. Therefore, it is a plan for economic development. Only such schemes and programmes which are economically viable and technically feasible should be included in the credit plan because from the point of view of the lending, credit allocation should be on the basis of schemes which have the capacity of generating surpluses for repayment of the loans with interest. Obviously, such schemes should be grounded in the resources endowment of the district and should be capable of implementation on the basis of available infra-structure and other service facilities of the district. A necessary part of formulating the credit plan is
therefore to study the resource endowments of the district and the infra-structure facilities already established. On the other hand, even programmes which are implemented within the existing framework of infra-structure facilities may create demand for supplementary expansion of such facilities. These would be called the infra-structural gaps of any particular credit plan, the Government authorities would be enabled to realise the need for allocating funds for such purposes. A credit plan, therefore, will enable resource allocation for an effective growth. This directional element of the credit plan is a greater contribution to the total district planning exercise.

Despite the influence of credit plan on the district development plan mentioned above, the basic position is that the district development plan determines the credit plan.

Methodologies

Though the nature and contents of various district credit plans prepared by different banks concerned are similar, there have been significant, differences in the methodologies adopted by them. The following are some of the methods followed by banks while preparing the district credit plans.
Method-1: In this method, data would be collected block-wise mostly from the district authorities. Based on this data, the changes which are going to be occurred in future were projected for preparing the credit plans. This practice was followed with a view to giving the branches an idea of the credit gaps to be bridged in their areas. The credit plan has not included the details of the schemes. The estimates of the plan have covered block-wise and year-wise break-up details for a five year period. The contributions of co-operatives and commercial banks were also incorporated in the credit plan.

Method-2: This method is based on the first hand information collected through block-wise surveys, on natural resources, socio-economic conditions, infrastructural facilities etc. The district plan has covered the schemes formulated on the basis of discussions with district officials and other important persons. The details of the schemes were worked out in the plan. The credit plan also included a separate list of projects based on the infrastructural facilities under "perspective plan". It may be regarded as an aggregation of block-wise annual estimates for a period of three years.

Method-3: This method included the information for the district covering the existing and potential levels of
development of various sectors and the credit trends of various commercial bank offices located at strategic centres of the district. This is supplemented by the information collected through the discussions held with the Government Officials, Managers of Commercial banks, Agriculturists, Industrialists, Traders etc., by making personal visits to various centres for collecting the information and identifying growth centres. Though the clear-cut methodology was not mentioned, estimate of credit gaps were worked out for various sectors while preparing the credit plan, but stress was laid on performance of the commercial banks rather than on the credit gaps. Accordingly, it was divided into two parts covering a) Sector-wise estimates for the entire district and b) Bank-wise estimates for the existing offices. First part is devoted to the total credit requirement of the district. The period covered by the credit plan was three years. This also could not furnish the economics of the various schemes mentioned. The peculiarity of this category is that the lead bank has been entrusted with major responsibilities in all the spheres due to the various facilities at its disposal.

Method-4: This method was the preparation of the estimates for each bank office covering a smaller geographical area
within a radius of about 8 Km, rather than for the whole district. The villages in the area were surveyed and information about various characteristics of the economy of the district was collected from district authorities. While formulating the credit plan, consideration was given to the existing infrastructural facilities, principal economic activities and potentialities, quality of human resources, constraints etc. The plans were finalised for each office, block-wise, centrewise and year-wise for a period of three years. The expectation was that 30 per cent of the targets would be achieved in the first year, 40 per cent in the second year, and the remaining 30 per cent in the third year. The credit plan, in this category could provide neither the economics of various schemes, nor the basis for their estimates. Further, it is ambiguous whether the targets were exclusive of margin or not.

Method-5: In this method, the necessary information for the preparation of district credit plan was obtained from the Government Officials and a sample of knowledgeable persons selected without adopting any scientific method. And in some cases it was entrusted to some consultants. Thus, this category of plans could not furnish accurate estimates of the credit gaps and developmental schemes.
Method-6: The credit plan of this category covered the depth studies of all the blocks in the district with an emphasis on the viability and feasibility from the point of resource potentiality. Of course the available information drawn from the official records, individual discussions, and expert opinions were also taken into consideration. The targets were exclusive of margin. The plan covered the period of the Fifth Plan with an year-wise break-up. The economics of various schemes were also discussed in the credit plan. The bank-wise targets were also provided in the plan.

Method-7: This category attempted to undertake an intensive survey in three blocks of the district, selected at random. This was supplemented with the basic data provided by the district officials. Credit estimates were made sector-wise and year-wise. The estimates were exclusive of margin. The economics of the schemes incorporated were not given fully though, the rational of the schemes was provided briefly. The plan was prepared for 5 years synchronising with the Fifth Five Year Plan.

Method-8: This was based on the intensive study of a small area like a community development block. It was viewed that such depth studies would not only give a
comprehensive and integrated plan covering all the major sectors of the district showing their natural linkages but also a blueprint for the specific action by all the financial institutions in the district. For this purpose a few representative blocks were chosen on the basis of natural divisions for undertaking the in-depth studies (by dividing the district into various homogeneous regions, and from each region one block was chosen which had the dominant characteristics of the region). In addition to this, other information available from the block and district headquarters was obtained and used. The credit plans were finalised by aggregating the various block estimates. The superiority of this type was that the economics of the schemes were incorporated in the plan. It was also clear that the estimates were exclusive of margin. The speciality of this methodology was that while estimating the credit needs of a project, the escalating effects were also taken into consideration in addition to the existing absolute needs. The credit plan period was synchronised with the Fifth Five Year Plan, but the year-wise and bank-wise break-up details were not indicated in the plan. They were to be decided by the District Consultative Committee. The plan included the list of central villages and focal points in the representative blocks where departmental studies were
conducted. It also mentioned the financial and human resources gap and the infra-structural gap for the successful implementation of the plan. The developmental activities and schemes subject to the improvement of the infra-structural facilities were elaborated in the "Perspective Plan". This method could introduce innovative methodological approaches with the necessary modifications to suit the requirements of the district which are situated in hilly terrains and dense forests.

Implementation of District Credit Plans

The first set of District Credit Plans was finalised and launched by 1978 throughout the country. These plans, however reflected significant differences among themselves in regard to approach, methodology etc. Though considerable efforts were put in by Lead Banks in their preparation, the district credit plans could not fully serve the purpose. The major gain in this exercise, however, was the awareness of the problems of credit planning that it created amongst all concerned.

The first round of district credit plans was terminated by Reserve Bank of India at the end of 1979 and fresh guidelines were issued for the second round of district credit plans 1980-82 indicating the objectives,
contents, methodology for the estimation of credit needs, modalities to be followed, etc. With the shift in emphasis to the block as a unit of planning the need for block level credit planning and adoption of blocks as focal points became necessary. Accordingly, it was envisaged in the new guidelines in March, 79 that the credit outlay should be presented in the district credit plan not merely sector-wise, scheme-wise and bank-wise but also block-wise.

Keeping in view the experience gained and suggestions received from various quarters, the Reserve Bank of India issued fresh guidelines in February, 1982 for the third round of District credit plans for 1983-85. The fourth round of District credit plans envisaged preparation of plans for a period of 3 years from January, 1988 to December, 1990.

Though credit planning under the Lead Bank Scheme has contributed to a co-ordinated approach to some extent on the part of the lending agencies in meeting the credit requirements, for the effective grassroot level implementation of development schemes, the need has arisen to translate the District credit plan into micro plans for smaller units.
Annual Action Plans

A system of preparing Annual Action Plans under District Credit Plan was also introduced and the first such plan was launched in 1980. On the basis of credit plan, the lead bank of each district prepares an Annual Action Plan for the district. This formed the basis for the integration of block development plans with credit plan. In the course of this process, the beneficiaries under various schemes including SFDA, SC and BC Corporation etc., were identified by the block development authorities and entrusted to various banks for financial assistance.

The second round of Action Plans covering the period up to March 1990 were introduced as a measure of improving the operational efficiency of banks. Banks have taken various measures to implement these plans. The progress in the implementation is reviewed quarterly with the concerned Chairman and Senior Executives of Public Sector Banks. As a result of these plans there has been a perceptible improvement in various areas like customer service, house-keeping, organisational and control arrangements, credit administration, profitability and staff productivity.
Recent development of Introduction of Service Area Approach of bank branches for rural development by Reserve Bank of India has brought a new dimension in relation to micro-level credit planning. This represents another effort towards decentralisation of credit planning for the rural sector.

This approach aims at Planning from below i.e., the village level and forging an improved link between bank credit in the rural sector and its objectives, namely increasing production, productivity and income levels of the rural population. Each bank branch will be assigned 15-20 villages specified areas where they are expected to impart a developmental orientation and to enable it to concentrate on productive lending, leading to the development of the assigned area. A Block Level Bankers Committee were also formed to co-ordinate the activities of the banks and the government officials. This committee would be required to consider the credit plans of all the branches and their aggregation into a block credit plan and to review the progress of implementation of block credit plan and the performance of each branch in relation to its branch credit plan.

The block credit plans were expected to be finally aggregated into the district credit plans.

PERFORMANCE BUDGETING

The task of ensuring lending programmes to be in consonance with the commitments under the district credit plan, requires a well defined internal planning. The performance budgeting is a tool available for the banks to have this internal planning to achieve the desired objectives. The term 'budgeting' means that it is an expected plan of various activities, wherein the branch is playing a vital role. It may either be a long term or a short term budgeting. The long-term budgeting is known as perspective plan and it is drawn with a view to assessing the growth centres so as to enable the organisation to strengthen and provide adequate support to the varied areas of operations. And also induce new innovations at the branches, so as to realise the national objectives and bring home the benefits to the common man. The short term plan is an annual plan spelling out what the branch is going to do during the next one year period. To be in a nut shell, the performance budgeting enables the banks to translate their business plan into short-term action programmes and ensure their attainment. The performance budgeting will take care of the following commitments
made under district credit plan viz., 18

(1) The targets under crop loan and short-term loans under Agriculture would be the total amount to be disbursed in the terminal year of the plan.

(2) The targets under term loans would be the total amount to be disbursed during the plan period.

(3) The targets under working capital loans would be the total limits to be in force at the end of the plan period.

If the performance budgeting fails to take care of the commitments made under District Credit Plan, fixing up of the responsibilities of implementing the District Credit Plan commitments to the individual branches and the proper phasing out of the commitments will not be possible.

SUMMARY

With a view to keeping in tune to the changes in the socio-economic and political spheres 'area approach', suggested by the Study Group, resulted in a scheme called the Lead Bank Scheme in 1969. It was endorsed by the

18. B.S.Damodar, District Credit Plan and Performance Budgeting, PIGMY ECONOMIC REVIEW/NOV, 1979, p.50.
Nariman Committee. The Lead Bank Scheme was designed to enable banks to assume the lead role in all the districts in the country except the metropolitan centres. The scheme was expected to identify the unbanked centres, assess the credit gaps and absorption capacity, formulate viable and bankable schemes to effect structural and procedural changes in banking sector and to develop co-operation and co-ordination among the financial and non-financial agencies including district administration. In the light of the avowed objectives various functions have been assigned to a bank designated as lead bank in the district. They include:

1. Conducting economic surveys;
2. Preparation of credit plans;
3. Conducting periodical surveys;
4. Co-ordinating the efforts of all credit institutions in the district;
5. Providing dynamic leadership to other constituent member units;
6. Exchange of information on mutual interest;
7. Establishing guidelines, wiping out the regional imbalances in the banking development, and
8. Act as innovative leader etc.
As a first phase all the (338) districts in the country (at present 445) have been allotted to 25 banks in 1969. In order to provide organisational structure the D.C.Cs were began to form in 1971, in the second phase. The preparation of District Credit Plans was started in the 3rd phase and in the 4th and 5th phases the second, third and fourth rounds of District Credit Plans with their Annual Action Plans. The allocation of districts was based on the considerations such as the districts, the adequacy of resources etc. The allotment of districts to various lead banks was in conformity with the guidelines suggested. The initial surveys were conducted with a view to assessing the potentialities of the districts from their agro-climatic, physiographic and socio-economic conditions. Besides, the surveys also attempted to arrive at the credit needs of agriculturists by adopting three Gadgil study group methods, Rural Credit Review Committee method and crop loan method, followed by the indepth surveys for evolving programmes and strategies of development on the basis of local conditions and potentialities. One of the main tasks under the lead bank scheme was 'Credit Planning'. It was expected to estimate the credit gaps existing in the economy of the districts and to evolve schemes for filling these gaps in co-operation and co-ordination of other financial
institutions. The preparation of credit plan has varied significantly due to the differences in the adoption of methodologies by different banks. The analysis of different credit plans prepared by the lead banks shows a wide variation in the methodologies adopted by them. However, every credit plan was expected to be dovetailed with district development plan and also with the performance budget.