CHAPTER - I

LEAD BANK SCHEME -- EVOLUTION AND GROWTH

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CHAPTER-I

LEAD BANK SCHEME - EVOLUTION AND GROWTH

1.1 INTRODUCTION

The role of commercial banks as pace setter for economic development is of recent origin. In the developed countries the financial institutions are closely related to the industrialisation. But in developing countries the picture is altogether different. In these developing countries, the commercial banks' main task is to mobilise deposits from the communities for the purpose of employing them for economic development in conformity with the national plans. In a developing country large amount of resources has to be set aside for the priority sectors like small scale industries, agriculture and allied activities. Agriculture, in this context, should not only be taken as the supplier of food but also be taken as the supplier of raw materials for other sectors. So, the commercial banks should not only go for the direct agricultural loans but should also assist the agricultural credit co-operatives. Apart from this, the commercial banks should give financial assistance to those persons who are engaged in other allied activities. In a developing country the commercial banks should also provide medium and long term credit to the industries and specially to the small scale industries if they are found to be viable projects.
1.2 COMMERCIAL BANKS' ROLE IN INDIA:

Although the Indian Banking Industry made considerable progress since independence, there were still large areas and people who were outside the purview of banking facilities. Though the commercial banks were expected to achieve much in line with the national plans, it was seen that they had failed to give importance to the agriculture and other allied activities and also the development of small scale industries and the weaker sections. Of course, in the absence of national plans these commercial banks were not expected to play the vital role in economic development. In course of time we witnessed the amalgamation of three Presidency Banks into the Imperial Bank of India in 1921 and then the establishment of the Reserve Bank of India (RBI) in 1935. But the promotional role of the commercial banks were visualised only after the national plans came into existence. Thus, the credit needs of the priority sectors were expected to be met by financial institutions. But in the period prior to nationalisation, it was only 2 per cent of total bank credit which were allotted to agriculture, not considering the fact that agriculture alone provided almost 50 per cent of the national income. Though the commercial banks were more concerned about their profitability, it was felt that it should come up with wider network of branches not only in the urban areas but also in the rural areas to cater to the needs of the rural people.
In order to remove the disparities the banks were thought to be brought under direct social control measures. The idea of a social control of banks was a compromise worked out at the Faridabad session of the Indian National Congress in April, 1968 and the social control of Banks was given effect to by legislation in February, 1969. The term social control refers to a greater participation of banks with effective state guidance in the deposit mobilisation and the credit distribution in the socially desirable sectors of the economy. This involved the prevention of the exclusive use of bank credit by big business houses and a wider dispersal of credit in order to direct the flow to the priority sectors. Keeping these in view, the National Credit Council was entrusted to identify the credit gaps and also the small borrowers. The problems of the weaker sections, small scale industries and the rural credits could get an attention of the Council. But measures like shifting credit policies, reconstitution of the Board of Directors and other measures failed to achieve the objectives.

Therefore, the idea of social control was abandoned and a drastic step was taken up for nationalisation of commercial banks. To have a direct hold over these commercial banks, 14 major commercial banks with deposits exceeding Rs.50 crore each were nationalised on 19th July, 1969. The
ordinance claimed that the nationalisation was intended "to serve better the needs of development of the economy in conformity with national priorities and objectives."

Subsequently, on April 15th, 1980, six more commercial banks were nationalised whose individual demand and time deposits exceeded Rs.200 crore. When the first 14 banks were nationalised, the Government had direct control over 83.7 per cent of aggregate deposits and 83.6 per cent of aggregate banks credit.

Thus we see that the nationalisation of the commercial banks was a step further in involving the commercial banks in the economic development programmes set by the national plans.

1.4 THE LEAD BANK SCHEME (LBS):

Evolution:

Lead Bank Scheme can claim to be a tremendous step taken in Indian banking industry. The Study Group of the National Credit Council on organisational framework for the implementation of social objectives under the chairmanship of the then Deputy Chairman of planning Commission, Prof. D.R. Gadgil, set up in October, 1968, submitted its report in October 1969. This report touched with the concept of the lead bank. One of the main observations of this group was that different states and also different sectors of the
The economy were not getting bank credit uniformly. There existed a very wide gap in bank credit as the assistance did not reach, to a large extent, to the small scale industries and the weaker sections.

The Study Group focussed on the uneven spread of the bank offices between different states and also between different areas in the same state. The banks' activities were mostly urban oriented. At the end of the year 1969, five states viz, Tamilnadu, Maharashtra, Mysore, Uttar Pradesh and Gujarat accounted for about 54 per cent of the total bank offices in the country. As far as average population served per bank office was concerned, Kerela was in the best position followed by Tamilnadu and Gujrat in the order. In April, 1969, out of a total of 2,700 towns in the country as many as 617 towns were not covered by commercial banks. Again out of about 6 (six) lakh villages in the country, only about 5000 villages were estimated to have been served by commercial banks. Altogether in 13 districts of the country bank office did not exist at all. The poor banking infrastructure can be seen from the fact that the average population served per bank branch for UK, USA and Japan were only 4,000, 7,000 and 15,000 respectively while in our country it was a high 65,000 at the end of June, 1969.

According to the Study Group, commercial banks did not serve the village and small scale industries despite the fact that these were the sources of employment. Moreover, the
Study Group revealed that the programmes launched by Community Development Project and Intensive Agricultural Development Programmes did not achieve the desired result due to the lack of finance. The Study Group opined that to remove these disparities in bank credit "detailed plans for the development of credit and banking in the country on the basis of local conditions were essential". The Study Group hence came up with its first recommendation of adoption of an 'Area Approach' for the evolution of plans and programmes for change and development of banking and credit structure in the economy. The idea behind this approach was that "depending upon the area of operation and location, commercial banks should be assigned particular districts in an area where they should act as pace setters" providing integrated banking facilities and this way all the districts of the country should be covered.

The group further suggested that each bank should take the lead bank role for particular districts for which the bank will conduct survey and formulate schemes with a view to make the area economically developed. The Study Group suggested a link between the commercial banks and the Co-

2. Ibid, P.61.
operative Credit Institutions and also between term lending institutions and the Government machineries particularly in the district level.

Keeping in view of these developments, the Reserve Bank of India appointed a Committee of Bankers under the Chairmanship of the then Chairman of Union Bank of India Mr. FKF Nariman in August, 1969. The formulation of a co-ordinated programme for branch expansion, in order to provide adequate banking facilities in the districts where the banking facilities have not been provided till then, was the main task of the Committee. The Nairman Committee, after adopting the 'Area Approach', recommended a Lead Bank Scheme. The genesis of the Scheme was to allot specific districts to banks for which they would make surveys for the viability of opening of new branches and also extending the credit facilities to the districts. After analysing the recommendation of the Gadgil Study Group and also the Nairman Committee's suggestion, the Reserve Bank of India came up with concrete shape of the 'Lead Bank Scheme' in December, 1969.

Aims and functions:

Under the Lead Bank Scheme the basic aim is to ask the individual banks to adopt particular district or districts where they will try to mobilise adequate resources for the purpose of deployment in the rural areas with a view...
to achieve economic development of the country and thus reduce the disparities and regional imbalances. Therefore, the main functions of a lead bank may be categorised and summarised as follows:

(a) The Lead Bank has to identify the growth centre for the purpose of branch expansion.

(b) The Lead Bank has to prepare the programmes for the implementation of branch expansion.

(c) The Lead Bank has to ascertain the credit need of all the sectors and then formulate the strategy for meeting the credit needs through all the financial institutions.

(d) The Lead Bank has to find out schemes for agriculture and small scale industry which are technically feasible and economically viable.

(e) The Lead Bank has to formulate other schemes for the district and also take necessary steps for the improvement in the savings potentiality and thereby mobilise deposits.

While carrying out these functions, the Lead Banks cannot have the monopoly in the district but merely act as a consortium leader in the districts.

1.5 **ALLOCATION OF DISTRICTS**:

After the formulation of the Lead Bank Scheme, all the 373 districts in the country with the exception of the
metropolitan areas of Bombay, Calcutta, Madras and Union territories of Chandigarh, Delhi and Goa were distributed among the State Bank of India, its 7(seven) subsidiaries, the 14(fourteen) nationalised banks and 2(two) non nationalised scheduled banks to play the lead role in their respective districts.

While allocating the districts, the RBI has kept in view a number of important factors such as the contiguity of districts for ensuring viability of operations, provision of control points for development work and branch supervision as also a broad correspondence between the responsibilities allocated in terms of number of districts and resource base of banks concerned.³

The different banks and the districts allocated to them were as follows.⁴

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4. Lead Bank Scheme And Regional Development - Markandeya Jha, P.63.
### TABLE 1.1

**ALLOCATION OF DISTRICTS UNDER LBS**

<table>
<thead>
<tr>
<th>Name of the Bank</th>
<th>No of Districts Allocated</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. State Bank of India</td>
<td>64</td>
</tr>
<tr>
<td>2. State Bank of Hyderabad</td>
<td>7</td>
</tr>
<tr>
<td>3. State Bank of Mysore</td>
<td>3</td>
</tr>
<tr>
<td>4. State Bank of Travancore</td>
<td>2</td>
</tr>
<tr>
<td>5. State Bank of Saurashtra</td>
<td>6</td>
</tr>
<tr>
<td>6. State Bank of Patiala</td>
<td>3</td>
</tr>
<tr>
<td>7. State Bank of Bikaner and Jaipur</td>
<td>8</td>
</tr>
<tr>
<td>8. State Bank of Indore</td>
<td>3</td>
</tr>
<tr>
<td>9. Central Bank of India</td>
<td>46</td>
</tr>
<tr>
<td>10. Bank of India</td>
<td>31</td>
</tr>
<tr>
<td>11. Bank of Baroda</td>
<td>30</td>
</tr>
<tr>
<td>12. Punjab National Bank</td>
<td>41</td>
</tr>
<tr>
<td>13. United Commercial Bank</td>
<td>24</td>
</tr>
<tr>
<td>14. Canara Bank</td>
<td>17</td>
</tr>
<tr>
<td>15. United Bank of India</td>
<td>17</td>
</tr>
<tr>
<td>16. Dena Bank</td>
<td>10</td>
</tr>
<tr>
<td>17. Syndicate Bank</td>
<td>17</td>
</tr>
<tr>
<td>18. Union Bank of India</td>
<td>8</td>
</tr>
<tr>
<td>19. Allahabad Bank</td>
<td>9</td>
</tr>
<tr>
<td>20. Indian Overseas Bank</td>
<td>7</td>
</tr>
<tr>
<td>21. Indian Bank</td>
<td>9</td>
</tr>
</tbody>
</table>
Table 1.1 Continued...

<table>
<thead>
<tr>
<th>Name of the Bank</th>
<th>No of Districts Allocated</th>
</tr>
</thead>
<tbody>
<tr>
<td>22. Bank of Maharashtra</td>
<td>5</td>
</tr>
<tr>
<td>23. Andhra Bank</td>
<td>5</td>
</tr>
<tr>
<td>24. Bank of Rajasthan (sharing Udaipur district of Rajasthan with the State Bank of Bikaner and Jaipur)</td>
<td>1</td>
</tr>
<tr>
<td>25. Punjab and Sind Bank</td>
<td>1</td>
</tr>
</tbody>
</table>

The execution of the Lead Bank scheme was carried out in a phased manner. Branch expansion programme was taken in the first phase. The first task for this purpose was undertaking the survey work by the lead banks in each of the lead districts with a view to identify the credit gaps, assess the deposit potentials and also locate the growth centre. The lead banks were required to conduct impressionistic surveys of the districts allocated to them. The survey report contains the statistical profiles of the districts. Thus, these profiles should form the basis of the banks' planning for business expansion.

But though almost all the banks had completed the survey, they were totally confused about the use and merely stopped at sending the reports to the Reserve Bank of India.

In order to remove these misunderstandings, a team was constituted with three officers from the Reserve Bank of
India and the Ministry of Finance. The team had discussion with the custodian and senior officials of each of the banks.

The survey work was somewhat a success considering the fact that most of the banks were not equipped with man-power who were technically suitable to this scheme. But since the survey work was going to be a continuous process, it was felt necessary to have a core of staff having proper knowledge and expertise to carry out these responsibilities. Depending on this survey, the lead bank as well as the other banks operating in a given district should concentrate on opening new branches in those unbanked areas which have already been identified as growth centres.

The Reserve Bank of India's Study Group appointed in August, 1975 to suggest guidelines for effective implementation of the Lead Bank Scheme observed in its report that the first task of the Lead Bank Scheme was concerned with ensuring swift and wide branch expansion reaching into the rural areas and in this, the scheme has been a great success. This programme of massive branch expansion, particularly in the backward areas, were mainly possible due to the identification of the growth centres in the survey report.

1.6 DISTRICT CONSULTATIVE COMMITTEE (DCC):

The very success of the Lead Bank Scheme depends on the co-ordinated action among the banks, the financial
institutions and the Government authorities. Keeping this in view, the Reserve Bank of India asked the lead banks to constitute a useful forum for bankers and administrators to meet and discuss subjects of common interest by setting up District Consultative Committee (DCC) in their respective districts. At present the evaluation of a District Credit Plan (DCP)/Annual Action Plan (AAP) is done periodically at the DCC.

The Committee consists of the following:  

(a) District Collector/Deputy Commissioner : Chairman.
(b) Designated representative from the RBI
(c) The lead bank representative : Convener
(d) Representatives (District Co-ordinator/ Regional Manager/ Divisional Manager as the case may be) from the participating credit institutions in the district.
(e) Representative from the various government departments at the district level.
(f) Representatives at district level from the developmental agencies like the National Bank for Agriculture and Rural Development (NABARD), the District Industries Centre (DIC), etc.
(g) Representatives from the principal group of beneficiaries as decided by the other members of the committee.

(h) Any other member as per the requirements of the agenda.

This forum will primarily be concerned with the discussion and designing of strategy for fulfilling the objectives of the Lead Bank Scheme.

As per the direction of the RBI, the DCC is to meet once in a quarter. The meeting in the third quarter should be convened as a two day review meeting known as District Level Review Meeting (DLRM) where the progress of the Scheme is discussed and the problems faced in implementing the Scheme are analysed. The DCC makes way for better co-ordination among the financial institutions, Government and development agencies.

The various important functions of the DCC are

1. To identify unbanked centres for the opening of bank branches in consultation with the Government authorities and in line with the RBI guidelines regarding branch expansion.

2. To discuss and finalise DCP/AAP/Integrated Rural Development Programmes (IRDP)/block plans, etc and allocate shares in DCP/ AAP to individual agencies.

3. To review/monitor the overall progress, in physical and financial terms, the implementation of the credit plans.

4. To identify problems faced by the financial institutions and development agencies in the implementation of
various programmes and to take step to overcome these difficulties.

5. To evolve the method of implementation of schemes meant for the grass root level for increasing assistance to the priority sector and specially to the weaker section.

6. To serve as a joint forum for discussing various developmental programmes and projects in the district for upliftment of rural poor.

1.7 DISTRICT CREDIT PLAN (DCP):

The second phase of the Lead Bank Scheme was concerned with the preparation of DCPs. The DCPs are the plans in conformity with the development plans in which technically feasible and economically viable schemes are taken up for financing by financial institutions. The DCPs are prepared by the lead banks in consultations with the other banks and the development authorities operating in the particular district. Apart from the block and district profiles, the DCP should contain the details of developmental programmes of the government and other development agencies during the plan period and also the credit demand estimation of various sectors. In this regard, the DCP should spell-out the resource availability, bank-wise and block-wise, for implementing the programmes and for this the responsibilities of individual agencies should be allocated. Thus, the plan takes into account not only the priority sectors such as
agriculture, allied activities to agriculture, small scale industries, road transport, retail trade, self employed professionals, etc., but also the needs under the government's educational and housing schemes and the consumption credit in the specified area.

The Study Group on the working of the Lead Bank Scheme in Gujarat and Maharashtra (1975) had prescribed detailed guidelines for preparation of the DCPs. It was clearly spelt-out that the schemes should be technically feasible and economically viable and collectively implemented by all financing institutions. By July, 1978 we had seen the preparation of DCP for almost all the districts. But in absence of specific guidelines from the RBI, it was found that these DCPs lacked uniformity and also in some cases while the data collected was at the block level the programme was meant for the district. Therefore, this credit plan was terminated in December, 1979. In order to remove these discrepancies in the adoption of methodology for preparation of DCPs by different lead banks, the RBI issued a set of guidelines to the lead banks for the preparation of fresh DCPs for the various districts covering the period 1980-82. In the implementation of the fresh DCP (1980-82) the RBI suggested the formulation of Annual Action Plan (AAP). These AAPs are within the ambit of DCP and prepared for each calender year of the DCP. The RBI further set guidelines for the third round of DCPs for the period 1983-85. In this
round, the importance given was on the programmes like IRDP and the schemes under Differential Rate of Interest (DRI) and for SC/ST beneficiaries.

    The guideline for the preparation of credit plans have gone under tremendous changes after the adoption of Service Area Approach in 1988. At present the credit plans are prepared by the bank branches themselves. The method of preparation of the new pattern of credit plans and other details of the credit plans, now prepared, are discussed in the subsequent chapters.

1.8 STANDING COMMITTEE OF DCC :

    In order to assist the DCC as well as the lead bank with expert knowledge, a task force was created by RBI within the DCC in the year 1980 (and onwards) known as Standing Committee (SC). This committee meets regularly at monthly intervals and acts as a sub-committee to ensure better functioning of the DCC. Among other things, the committee also studies the impact of IRD Programmes in the district. The Standing Committee comprises of the following :

    (i) District Collector/Deputy Commissioner as Chairman.

    (ii) Lead Bank Representative (LBO).

    (iii) The RBI Representative (LDO).

    (iv) The DRDA Representative.
(v) The NABARD (ARDC earlier) Representative.
(vi) Representative from the District Planning wing.
(vii) Representative from Co-operative Department.
(viii) Representative from the District General Co-operative Bank.
(ix) Representative from the Grameen Bank, if any.
(x) Representative from Commercial Bank which has a large net-work of branches in the district (other than the Lead Bank).
(xi) Representative from other developmental agencies.

1.9 OTHER FORUMS

At the State Level:

As per the instruction of the Department of Revenue and Banking, Government of India, the State Level Bankers Committee (SLBC) was formed. In addition to this, there was State Level Co-ordination Committee (SLCC) and State Level Review Meeting. These forums discuss the implementation and review of credit plans.

In all these above forums normally the bank with greater net-work of branches in the state is considered to be the State Banker and is allowed to act as the convener.
At the block level

For better awareness at the ground level, the Block Level Consultative Committee (BLCC) was formed throughout the country. This committee, besides other things, discusses the implementation of various programmes like IRDP, etc. and is convened by the Block Development Officer (BDO). However, with the Service Area Approach, a new forum called the Block-level Bankers’ Committee (BLBC) has been formed to coordinate the activities of the banks and the government officials.

1.10 CONCLUSION:

Very few aspects of Indian Banking are as striking and as imaginative as the Lead Bank Scheme. The scheme has envisaged the fulfilment of social objectives of bank nationalisation and brought the concept of retail banking and mass banking. It is the framework which can bring coordinated development of banking at the grass root level. Of late, the importance of LBS has increased due to the increased importance on the implementation of 20-Point programmes and other anti-poverty programmes. In this light, the banks are closely marked on the role they play in making the scheme a success. The major problems faced by the banks in the state of Meghalaya are the hindrances provided by difficult terrains, adverse climatic conditions, inadequate transport and communication and also low level of
consciousness among the tribal people to come out from the age-old tradition. Therefore, an attempt will be made in the subsequent chapters to analyse these drawbacks and try to find out the ways and means to break the ice for the successful implementation of the Scheme in Meghalaya in general and the East Khasi Hills District in particular.