CHAPTER – III

THE LEAD BANK SCHEME

INTRODUCTION

In 1969 the number of commercial banks serving the country was very small. Only 617 out of 2700 towns and 5000 out of 6 lakh villages in the country were served by commercial banks in 1969\(^{36}\). Regional disparities were so glaring that in 63 districts per capita credit was less than Rupee one as compared to the national average of Rs.96.31. Some districts in the country had credit deposit ratio of less than 5 where as credit deposit ratio for the nation as a whole was 69 out of 336 districts in the Union of India. Offices of commercial banks did not exist in 13 districts till the end of 1969. Average population served by an office was about 2 lakh in 88 districts as against the national average of about 70,000.

There were sectoral imbalances in granting advances besides regional imbalances. Where as priority sector advances accounted for 13.9% of the total bank finance, the share of agriculture, excluding plantation advances was less than 1%. Retail traders got less than 2% of the total bank credit. The share

of large-scale industry, wholesale trade and commerce in the total bank finance was as high as 80%.

**GENESIS OF THE LEAD BANK SCHEME**

In October 1969, the study group on Organizational Framework for the implementation of social objectives appointed by the National Credit Council, under the chairmanship of Prof. Dr. Gadgil, was set up. It examined in detail the ‘gaps’ in the supply of credit and the manner of uneven distribution of credit amongst various states and sectors and it was virtually not available to weaker sections. The study Group recommended the adoption of area approach for the development of credit and banking in the country on the basis of local conditions. For this purpose, it suggested that commercial banks should be assigned particular districts where they should act as pace steers in providing integrated banking facilities and in this way, all the districts should be covered\(^{37}\). The Study Group also observed that the Development Project and Intensive Agricultural Development Programmes did not yield the expected results for want of finance and modernization of agriculture. As such, the Gadgil Committee felt that “detailed plans for the development of credit and banking in the country on the basis of local conditions” were

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essential. In August 1969, the Reserve Bank of India appointed “A Committee of Bankers” under the chairmanship of F.K.F. Nariman mainly for ensuring adequate banking facilities in the under-developed districts in the country. It also endorsed the above views and felt that for assisting in the process of regional development, each bank should concentrate on certain districts. The Reserve Bank of India accepted these recommendations and formulated the Lead Bank Scheme towards the close of 1969.

*In its circular letter dated December 23, 1969 on the Lead Bank Scheme the Reserve Bank said:*

“The Lead Bank is expected to assume the major role in the development of banking and credit in the allocated districts. At the same time, there is clearly no intention that the Lead bank should have a monopoly of banking business in a district. The bank, assigned the lead role, is 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 invite the co-operation of all banks and other financial institutions operating in the district for opening branches as well as for meeting credit needs.”

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38. Ibid, para 167, p.61.
Under the LBS, district is the basic unit 336 districts in the country were allotted among the 22 public sector banks (State Bank of India, 7 subsidiaries of State Bank of India and 14 nationalized banks) and 3 private sector banks (Andhra Bank Ltd., Bank of Rajasthan Ltd. and Punjab & Sind Bank Ltd.) when the scheme was initially introduced by the Reserve Bank of India. While allotting districts to the banks, following points were taken into consideration:

- Resource base of the bank concerned;
- Districts were allotted in clusters to facilities control;
- The then existing regional orientation of banks; and
- In each state two or more than two banks were allotted lead district responsibility and each bank was allotted districts in more than one state.

As per the scheme each commercial bank has been allotted few districts and it is the responsibility of this bank, known as Lead Bank, to look after the economic development of the district concerned. “Lead Bank is expected to develop banking business and other resources in the district in co-operation and in consultation with other development agencies. This is to be done by conducting economic surveys of the districts and identifying growth centres for opening new branches and developing credit, more particularly to the
priority sector. For this purpose, lead banks draw district credit plans with the help of District Consultative Committees, district authorities and the State Government. The Lead Bank also formulates bankable schemes and acts as consortium leader for financing various schemes sponsored by various departmental agencies.”

OBJECTIVES

The Lead Banks were prescribed the following objectives:

(i) To identify the resources and potential for banking;

(ii) To identify the industrial/consumer units and other establishments and farmers which/who do not have the banking facilities and therefore, depend upon the moneylenders solely. The lead banks were to help financing the above;

(iii) To examine the facilities of warehousing marketing etc. of the industrial output and agricultural produce;

(iv) To survey the facilities for stocking the agricultural input;

(v) To assist the other lending facilities;

(vi) To maintain liaison with Government and Quasi-Government agencies; and

(vii) To meet with the credit needs of priority sectors.
FUNCTIONS OF LEAD BANK

The following are the main functions of the Lead Banks\(^4\) :

(i) To identify and specify the suitable areas where new branches may be opened;

(ii) To make a programme in a phased manner for expansion of banking facilities for the entire area covered i.e. the district over a given period of time;

(iii) To specifically pin point the potential area for promoting priority sector advances by inducing local entrepreneurs;

(iv) To find out the major causes and constraints hindering the infrastructural development of the district and to approach and impress upon the appropriate agencies for taking up suitable remedial measures.

WORKING GROUP ON LEAD BANK

The working group on Lead Bank Scheme (LBS) was appointed in November 1981 under the chairmanship of Mr.R.C. Mody, Chief Officer of RBI to review the scheme and to study the following in particular.

- Review of the Lead Bank Scheme vis-à-vis district credit plans;
- Setup of District Consultative Committee;

Allocation of Lead Bank responsibility particular to banks nationalized on April 15, 1980; and

To study defects in information system.

The group submitted its report in December 1982, found that LBS has come a long way and acquired new dimensions since its introduction in 1969. Some of the Important recommendations made by the group are as follows:

(1) There is no distinct advantage in drawing up comprehensive Annual Action plans undertaking all the activities possible and envisaged in the district. It should be confined to more important activities with immediate relevance to government programmes and potential otherwise available;

(2) State Governments should make necessary arrangement to provide data as required to make District Credit Plans and Annual Action Plans realistic;

(3) There should be uniform period for Annual Action Plans and performance budgets of banks preferably calendar year;

(4) Lead bank officer posted in district should not be a rank lower than that of manager of district head quarter branch, LBO should directly report to controlling authority who supervises the branches in the district. LBO’s tenure in a particular district should be for a
reasonable period, say, three years and should not be burdened with administrative and operative nature of work;

(5) Standing Committee of State Coordination Committee (SLCC) should be set up to provide a compact forum of coordination for financial agencies and government departments. Chief Secretary of Finance Secretary should preferably chair this Committee. The total strength of LSCC members should not exceed twenty;

(6) A pool of expert staff by RBI should be created to provide LBOs should spend about a week every month in the allotted districts. The visits should be spaced in such a manner that each LBO covers all of rural and semi-urban branches over a period of three years.

The report was accepted by the Reserve Bank of India with a few modifications on the lines suggested by the High Power Committee on the Lead Bank Scheme. Commercial Banks and State Government were directed to initiate action on the various recommendations made in the report. They were asked to give particular attention towards reconstitution of District Consultative and standing committees to make them effective forums. Necessary instructions were given to constitute District Level Review Committee, the status, designation and role of the Lead Bank.
Officer and appointment of separate district coordinators in non-lead districts.

Earlier the banks were directed to prepare the first Annual Action Plan of the third round District Credit Plans for 15 months i.e. January 1984 to March 1985 to make them co-terminate with sixth plan. Now keeping in view the recommendations of the working group, the lead banks were asked to prepare two Annual Action Plans for the calendar years 1984 and 1985 so that the same match with the performance budgets of the banks by having uniform periods. As far as the position of preparation of District Credit Plans is concerned the District Credit Plans for the period 1983-1985 had already been launched in all districts including Muzaffarnagar district in the country.

With regard to the training which was considered important in order to give thrust on the implementation of the 20 point programme and specially IRDP, a scheme for conducting 104 training programme all over the country had been evolved. The responsibility to coordinate the programme was given to National Institute of Bank Management.

**ORGANISATIONAL SET-UP**

Even as the surveys are in progress, banks have to give thought to the type of organizational set-up both in the head office and at the district /
regional level that would facilitate the actual implementation of “leadership”. The team discussed with the Custodians/senior officials of each of the banks, the existing arrangements and their ideas in this regard. While not attempting to impose on all banks any uniform pattern of organization, the need was pointed out for having an official in each district, or small cluster of districts, in overall change of the development of the area without being excessively burdened with actual administration. It is essential that this official should be more senior in status than all the other agents in the area, so that his ideas could be put into practice by his colleagues and listened to with respect by other bankers in the district. This regional organization should be matched by a strong development department at the head office which should be in the charge of a sufficiently senior official who should be able to bring about the necessary co-ordination with the various specialized departments such as those concerned with agricultural finance and small-scale industries. The association of the economic department with the development wing should be continuous, since the survey work, as envisaged, is not completed with the preliminary survey but should continue, even as familiarity with the districts grows. The assessment of survey results and potential for development in a district should be undertaken at the head office, in co-ordination with the various specialized departments).

**Lead Bank**

When the lead bank scheme was first introduced, no specific organizational set-up was envisaged for the lead bank or other banks either at the district level or other levels. With the increasing importance of lead bank scheme, it was found necessary to have a certain minimum organizational set-up for the lead bank at the district level. RBI accordingly advised lead banks to position, at the headquarters of each lead district, one officer designed as Lead Bank Officer (LBO) who would exclusively look after the work relating to the lead responsibilities and to extend necessary support to this officer.

**Organizational Requirements**\(^\text{42}\)

For effective functioning certain minimum organizational requirements are a must for the lead bank as mentioned below:

(i) **Lead Bank Officer** : He should preferably be of Middle Management III category and in any case, senior enough to ensure that his bank’s branches in the district discharge their functions effectively under the lead bank scheme under his guidance and supervision. He should have had adequate experience as branch manager, with particular reference to rural financing and also possess the necessary aptitude for the work. He should have received orientation in the lead bank scheme.

(ii) **Supporting Staff** : At least one junior officer, field officer (agriculture) and necessary clerical and other support should be provided to LBO.

(iii) **Establishment** : Separate office and where this is not possible, a separate establishment should be provided to LBO in case his office is situated in the district headquarters branch or some other office.

(iv) **Other Facilities** : Telephone, conveyance (jeep) and some discretionary allowance to take care of incidental expenses, etc. should be provided to LBO\(^{43}\).

**Non - Lead Bank**

In each district, apart from the lead bank, there are other banks, some of which are lead banks in other districts. For the sake of convenience, all these banks are termed as non-lead banks without in any way signifying a diminished role for them under the lead bank scheme. The participation of non-lead banks in DCC meetings and the lead bank scheme was thus not adequate. With the introduction of New Information System (NIS), under which the consolidation of data was to be done by the controlling/regional offices of banks, it became apparent that the officials representing the non-lead banks, it became apparent that the official representing the non-lead

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banks were neither aware of the progress made by other branches in the submission of returns nor were they in a position to ensure that the branches expedited the matter.

**District Coordinator**

Prior to the introduction of NIS, the lead bank itself used to consolidate the returns prescribed for monitoring the implementation of DCPs. Other banks generally designated one of their officials (usually, the branch manager at the district headquarters) as “District Coordinator” who was entrusted with the task of collection, consolidation and submission of data regarding his bank. In course of time, the district coordinator came to be regarded as the agency for representing the bank in all matters relating to lead bank scheme in the district. However, the district coordinator by himself was unable to perform the job without necessary staff support, especially when there was a sizeable branch network in the district. RBI, therefore, advised the banks to nominate one officer in each district as the district coordinator and also to constitute a lead bank had more than five branches. Banks accordingly designated district coordinators, but the pace of constituting the lead bank cells was tardy. The feedback received by the Group also indicates that the district coordinators **was not able to function**
in an effective manner in the absence of authority over other branches of
this bank.

Role of Zonal Offices of Banks

In many banks there are zonal offices which control several regional/divisional offices, but they have not been adequately involved in overseeing the performance of the branches in their jurisdiction under the lead bank scheme. The group suggests that the organizational set-up at the zonal offices to look after the bank’s role under the lead bank scheme should be strengthened suitably and the zonal offices should review, by periodical visits by senior executives as well as returns, the actual performance of the branches of the bank in the whole area and report to the Head Office.

Role of Head Offices

Banks should review the organizational set-up in their Head Offices to deal with all aspects of the lead bank scheme and DCP/AAP. The Group understands that in many banks review of the bank’s performance under DCP/AAP is limited to the performance in their lead districts. It is necessary that the performance in all the districts vis-à-vis the shares in DCP/AAP accepted by the bank is reviewed. In order to ensure that due attention is paid to the role played by the bank under the lead bank scheme, the group
recommends that this function should be under the charge of a very senior executive preferably General Manager.

**Regional Rural Banks**

In the case RRBs, it should be possible to create a small cell or department at the Head Office under the charge of an officer having requisite experience and aptitude for the type of work envisaged. This department/cell should be in overall charge of the branches in all aspects relating to lead bank scheme such as representing the RRB in DCC, Standing Committee and DLR, active participation in the formulation of DCP and AAP, allocation of AAP shares to and overseeing the implementation of AAP by the branches, liaising with the lead bank, RBI, other financial agencies and government departments etc.

**Co-operatives**

Apart from commercial banks and RRBs, the major financial agencies which participate in the implementation of DCP are co-operatives. There has been an increasing appreciation of the role of co-operative banks in financing agriculture and village/cottage industries. Accordingly, they are being consulted and involved more and more in the various stages of formulation of DCP/AAP. In order that the co-operatives play an active role vis-à-vis the lead
bank scheme, it is necessary to have some organizational set-up for the purpose.

*Providing Lead Bank’s Technical Expertise to Other Banks*

Related to the organizational set-up in the banks is the recommendation of CRAFTICARD that the lead bank may provide an adequate technical set-up in its lead districts and make available the services of such staff to the other financing agencies on payment basis for specific items of work. This recommendation was made by CRAFTICARD in the context of the question as to whether elaborate technical set-up for each bank in each district was necessary and if so, whether it was feasible. CRAFTICARD envisaged a gradual change in the role of lead bank from one of competition with other lending agencies in the credit to that of servicing in the form of formulating area-specific credit schemes in collaboration with the district administration and other banks and preparing banking plans for each scheme. The requirements of technical services for schemes to be financed by banks may be broadly classified under the following categories:

(i) Identification and formulation of bankable schemes;

(ii) Internal review/appraisal, where necessary, of viability of schemes;

(iii) Scrutiny of individual applications;
(iv) Follow-up and supervision of the advances given, including recovery.

**District Consultative Committee (DCC)**

The formation of District Consultative Committee in the early seventies was the next important development in the evolution of lead bank scheme. It was a significant step as it envisaged coordination of activities of all commercial banks and other financial agencies on the one hand and the financial agencies and the Government departments on the other.

The Collector is the Chairman of the DCC. The RBI representatives, main coordinators of lead banks and districts level Government officials like Additional District Magistrate (Development), General Manager, District Industries Centre, District Coordinators of non-lead Banks, District Live-Stock Officer, Lead Bank Officer, Project Officer (Agriculture), Executive Engineer (UBDC), District Statistical Officer etc. are its members. The lead bank should have close liaison with other banks, financial institutions, Government Departments/agencies and non-official organizations concerned with the development of the district. The district coordinators of non-lead banks do not enjoy sufficient administrative
powers to control the working of their branches in the district to make him more responsible to the DCC. The DCC reviews the data presented to it concerning District Credit Plan. The banks should, therefore, submit correct and in time, the data for implementation of District Credit Plan to the lead bank. This will help the banks to take timely corrective measures in the programme in respect of particular activity of bank, if not satisfactory.

The DCC meeting are held on a quarterly basis and are attended by the District Magistrate, RBI representatives, main bankers and other district level Government Officials. Such meetings are the forum for the bankers and government official to come together and discuss the issues of mutual interest. However, it has been observed in the past that these meetings are not generally attended by the higher officials of most of the banks and sometimes not even by their district coordinators. The District Coordinators have no administrative control over their branches operating in their district and therefore, they fail to take on the spot decision on various issues. Further, most of the banks do not supply the data on the implementation of Annual Action Plan in time to the lead bank. Due to this, the lead bank fails to present the consolidated figures in the DCC meetings and proper monitoring and
review of the plans is not possible. Head Office of each bank should take the desired steps for meaningful decision on implementation of credit plan.

**Standing Committee of District Consultative Committee**

The guidelines issued by the Reserve Bank of India introduced the concept of participative planning by all agencies concerned by setting up a task force, comprising of representatives of District Cooperative Central Banks (DCCBs), Commercial Banks having good number of branches in the district and the district planning officials to assist the lead bank in the preparation of District Credit Plans and Annual Action Plan. This was done to make the plans operationally meaningful. With a view to ensuring that this agency was also associated with the implementation of the loans formulated by it, Reserve Bank of India subsequently advised that the task force should be converted into a standing committee of the DCC and its composition enlarged so as to include the Lead District Officer of Reserve Bank of India, the representative of NABARD, the Chief Executive Government departments etc. This committee has been working well in our district and doing its job efficiently.
**District Level Review Committee (DLRC)**

The main function of the DCC is to review and monitor the main data presented to it on implementation of District Credit Plan of Annual Action Plan by the lead bank. In our district, Punjab National Bank (Lead Bank) puts the data before the DCC. The DCC in its turn appointed a DLRC to review the progress made half yearly. The second meeting of DLRC was held on 04-12-1987. The main action points emerged and decisions made in the meeting are as under:

1. It was decided to raise the matter in SLRC for including cost of stamp duty towards margin in case of agricultural advance;

2. In case of small/marginal farmers for crop loan not involving mortgage of land, banks were requested to sanction the loan on the basis of BDO’s certificate regarding particulars of land holding. Such cases should immediately be referred to district administration who in turn shall provide revenue record within 3 months;

3. This was informed by DRDA that in future subsidy for free boring scheme should be provided to banks in advance;

4. District administration was requested to ensure timely release of subsidy in case of bio-gas plants;
5. District Magistrates are to advice the Tehsildars to mark the bank lien in original land record in the case involving mortgage of land;

6. Revenue officials were requested by the banks to provide the copies of land records to the farmers promptly;

7. District Live Stock Officer was requested to ensure supply of high breed pigs at all focal points;

8. It was suggested to amend the provisions of Indian Motor Vehicles Act to cover:
   
i. Temporary License
   
ii. Fitness of Vehicle
   
iii. Acceptance of Road Tax

9. District Industries Centre was requested to evolve system for data collections regarding monitoring of various schemes to ensure effective follow up with banks.

   From the above details it can be easily understood what functions does the DLRC undertake. It is, as a matter of fact, a specialized body taking review of various schemes, taking decisions, making recommendations and then reviewing how far the recommendations have been accepted and instructions carried out.
District Level Consultative Committee (DLCC)

District Level Consultative Committee (DLRC) is a crucial forum for the implementation of the District Credit Plan. The district controller is the ex-officio chairman of the DLCC. It will not be out of context here to mention certain bare facts about the functioning of the DLCC.

First, though district development has been given top priority, the DLCC meetings are conducted rather casually. They are notoriously irregular. The District Collectors are perhaps yet to be made aware of their crucial role. It is a common experience of the lead banks that they do not find it convenient to obtain the consent of the Chairman for deciding upon the date. And even if dates are fixed, the Chairman’s representative presides over the meetings in quite a large number of cases. It is here that the efficiency of the DLCC gets impaired. The presence of the District Collector in the meeting makes a significant difference as also the importance of the gathering gets due recognition in the development effort of the district. Moreover, it the human psychology that one feels encouraged to do something extra-ordinary, when the magnitude of the situation is given serious thought and the efforts are well rewarded or appreciated. So unless a feeling of having
achieved something is not given due recognition, the zeal to perform can not be expected.

The District Collectors, it seems, feel that the entire task of District Development is to be performed by the commercial banks. It is a sad state of affairs and a matter of concern that at times the collectors pass sweeping and objectionable remarks about the commercial banks. As coordinator of the DLCC, it is essential that the District Collectors soften their attitude and appreciate the difficulties of the bankers also. There is no denying the fact that the banks sticking their responsibility be given due treatment but at the same time the approach of the district collectors also needs to be a bit different from that of a bureaucratic supreme administrative head of the district. If the DLCC meetings are convened with regularity and with performance oriented intentions, there should be no reason why the district credit plans can not be effectively implemented. If the DLCC meets in the first week of every quarter of the year it will significantly add to effectiveness of the implementation of the District Credit Plans.

Public Participation

Efforts in the direction of economic development cannot fully fructify if there is no proper response from the people. In the field of
small scale industries, for example, it has been the experience that though banks are prepared to advance finance, there are no entrepreneurs coming forward. If the banks are also entrusted with the task of identifying the entrepreneurs it will be too much to expect from them. Low credit absorption capacity is characteristic feature of the backward district like Muzaffarnagar. In the areas inhabited by tribals this is common phenomenon, various schemes may be prepared by the banks or other institutions but unless they are accepted by the people and actually adopted, no significant results would be expected. It is a fact that public awareness about various development activities is very poor. The public representatives beginning from the Gram Panchayat to the higher levels, viz., Members of legislative Assemblies and the Members of Parliament need to actively associate themselves with the development process.

Statistics are the eyes and ears of the planners. Also, if the DLCC function effectively it must collect correct statistical data, analyze and tabulate it and derive useful conclusions from it.

**District Rural Development Agency (DRDA)**

District Rural Development Agency is a registered society and funds received by it are carried forward from year to year without
lapse. The agency has full time project administrative services. The agency has Assistant Project Officer, specialists in agriculture, animal husbandry or other appropriate discipline. The agency also requires the services of planning team consisting of an economist, a credit planning officer and a Rural Industries Officer. There are officers to take care of monitoring as well as accounts. Almost all the State Government, including U.P. have constituted DRDA to implement the IRDP programme and other rural development programmes.

In the Muzaffarnagar district the DRDA consists of the following District Magistrate; Additional District Commissioner (Development); All MLAs in the District; All MPs and MLCs (Members of Parliament and Members of Legislative Council); Three Block Pramukhs (nominated by the Minister incharge of 20 points programme); General Manger Milk Producers’ Union; General Manager District Industries Centre; District Cane Officer; District Panchayat Raj Officer; Land Protection Officer; Executive Engineer Rural Extension Service; Upper Chief Officers, District Board; Director Social Forestry; Director Live Stock Officer; Project Officer (Agriculture)’; Assistant Engineer (M.I.); Lead Bank Officer; Executive Engineer (Canal); Assistant Registrar
Cooperatives; Principal, Extension Training Centre; Project Director DRDA (will work as Secretary) District Statistical Officer.

The DRDA has been constituted to implement the programmes. Different formats are being used for this purpose. However, it was observed during our investigation that there is no effective system of qualitative monitoring of the IRDP and other programmes at DRDA and state levels. The state is collecting data as much as is required by the department of Rural Development or required by some other central ministry for various purpose.

**Mechanism for Subsidy Distribution**

According to the recent guidelines, the DRDA has opened Savings Bank Accounts with one principal branch of each nationalized bank associated with implementation of IRD and other programmes at the District Level or in as many branches of the bank as considered feasible and deposit funds based on the annual financing programme of the branches of the banks. The banks would be authorized to adjust the subsidy by debiting the account of the Agency and crediting the subsidy amount to the account of the beneficiary. In what follows are general procedure for the administration of the subsidy for the DRDA and the commercial banks.
Procedure at DRDA

The following principles/procedures are adopted in the administration of subsidy for strict observance by all the DRDAs so also in Muzaffarnagar:

(a) In order to avoid delay in the remittance of subsidy and the locking up of funds with banks, the DRDA should keep in the savings accounts adequate amounts based on the lending programme accepted by the bank. These saving bank accounts may be opened in the principal district branch of the bank or in as many branches of the banks as considered feasible with an authorization to the effect that subsidy due may be debited against this account under intimation to the DRDA. It should be ensured that the operation to the accounts is in conformity with the saving bank account rules of the bank. The DRDA, however, should take care to see that the amount in its account does not fall short of the requirements of the subsidy claims. This should be ensured by regular weekly reconciliation of accounts. Though there will be an authorization with the bank to debit the savings bank account to the extent of the
subsidy due, in order to enable the DRDA to verify completely subsidy claims and to ensure that the benefit goes only to a beneficiary identified by it, the bank may give a notice of 15 days, to the agency after the sanction of the loan and before carrying out the actual adjustment. If within this period, no reply is received from the DRDA, the financing institution may adjust the subsidy against the saving bank account as mentioned in the intimation of actual disbursement of the aforesaid loan.

(b) Subsidy should be released by DRDA, to the financing institution in proportion to and with specific reference to the loans sanctioned or likely to be sanctioned of the latter. Since, cluster wise branch wise action plans are now being formulated; it should be possible to assess the quantum of loan likely to be sanctioned by a bank;

(c) Only that portion of the subsidy, which has actually been adjusted in proportion to the loan disbursed, should be reflected as expenditure in the account of the DRDA;

(d) There should be no delay in the acceptance of the subsidy component as the DRDA’s liability after the loan is
sanctioned by the bank and the intimation to this effect must be given to the DRDA. Once the subsidy amount is available to the financing institution in the DRDA’s savings bank account, for adjustment at the time of the actual disbursement of loan, the beneficiary has to bear interest only on the amount of loan, after deduction of subsidy component:

(e) In the case of items like minor irrigation works, chilling plants, etc. which are not onetime transactions but involve a number of stages for completion, the subsidy should not be released in lumpsum. It should be released in suitable installments linked to specific stages in the progress of work, in proportion to installment of loan funds disbursed;

(f) There should be close follow up at least once a month with the financing institutions to watch the adjustment of subsidy against the loan sanctioned by the banks;

(g) While it will not be feasible to earn any interest from banks on amount, it should be ensured that if, for fault of the banks, the subsidy is not adjusted in time, the excess
interest charged by the banks from the beneficiaries is also refunded. RBI has accepted this proposition.

**Schedule for Monitoring and Evaluation of the Credit Plans by DRDA**

Schedule-I and Schedule-II have been suggested for collection of basic data and monitoring of the programmes to be financed under district Credit Plans.

**Schedule-I**

Schedule-I gives basic data of block/DRDA. The block officials should fill it up once in a year in the months of April/June indicating information upto the preceding year. The block will send these filled up schedules to DRDAs by 31st July. The DRDAs will consolidate eth schedule-I for the district as a whole and send to the State Government by 31st August. The state government will send the consolidated Schedule-I to the Central Government by 30 September. The blocks/DRDA officials will give the copies of the filled up schedule-I to the officers visiting the district and the blocks whether whenever they come for inspection.
Schedule-II

Schedule-II is used by the Inspecting Officers during their field visits. The Inspecting Officers fill up the Schedule-II on the basis of their discussion with the IRDP beneficiaries.

The DRDA prepare a consolidated report on quarterly basis on the basis of data collected through schedule-II. The qualitative indices covering adequate quantum of assistance, repayment schedule, project viability and linkages etc. are incorporated. The consolidated report is circulated to concerned BDOs. The DRDA also reviews the quantitative aspects of the programme at least in one meeting quarter. The DRDA takes necessary corrective follow up action. The report is also placed in the governing body meetings of the DRDA along with the summary of comments on salient points from the concerned Block Development Officers. The report is discussed in the SLCC/DLCC meetings.

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The DRDA sends a consolidated report on schedule-I and II to the State Government and also follow up action is taken by them by the end of month succeeding the quarter. At the state level, quarterly meetings are organized for the review of the findings from qualitative monitoring of the programme. All, the Chairmen of the DRDA and Project Directors, are invited in such meeting. These are also revised in the SLCC meetings etc.

The Government has instructed all District Magistrates and State Government Officers concerned with the implementation of the programme to take up qualitative monitoring immediately and have a realistic number of schedules printed and circulated to the Inspecting Officers for use as prescribed time table.
**Regional Level Consultative Committee (RLCC)**

At the Regional level, Consultative Committee (RLCC) comprising of a group of states have been formed for discussing and framing the technique and evolving policies for the integrated development through the medium of institutional credit agencies and the government agencies. Each RLCC covers two or more states in a region. It is presided over by the Union Finance Minister and is attended by the Chairman of all financial institutions and Chief Minister/Finance Ministers of concerned states in the region, Governor/Deputy Governor of Reserve Bank of India and representatives of NABARD etc.

**High Power Committee**

High power committee is the apex level committee set up the Reserve Bank of India to monitor the functioning of the Lead Bank Scheme, DLCC and SLCC and to initiate steps to enhance their utility. It is convened by the Reserve Bank of India and Deputy Governor of RBI is the Chairman of this committee. The members of the High Power Committee are the high level Government officials, Chairman of banks and Senior Officers of development departments
and also posts of Lead District Officers, as discussed earlier to look after the implementation of the Lead Bank Schemes.

**Workshops**

The High Power Committee felt that there was an immediate need to create a better understanding of the scheme amongst various coordinating agencies in order to monitor the functioning of the Lead Bank Scheme and its credit Plans and initiative corrective action. For evolving a systematic strategy for this purpose, the matter was referred to the National Institute of Bank Management, which in turn proposed three-tier system of conducting workshops viz., District, State and National Level workshops. The district level workshops are conducted by lead banks of the district and the state level workshops are conducted by the Governor of SLCC to bring together various financial institutions and other development agencies involved in the implementation of credit plans with a view to creating better understating as well as better coordination amongst themselves. This has helped in solving the grass root level problem as most of them arose due to non-coordination.
DISTRICT CREDIT PLAN

Evolution of DCP

The concept of planning at the district level for credit and banking development can be traced to the Gadgil Study Group’s report which advocated an area approach to the development of banking and credit structure. It also recommended the base unit for the purpose. That statistical and other data are not available at sub-district levels, the co-operative structure functions mainly with the district as the base and the total number of districts is operationally manageable also weighed as factors favouring the district-wise approach.

The Banking Commission in its Report (1972) pointed out the difficulties inherent in the preparation of credit plans by lead banks, in the absence of proper development plans. The Commission also emphasized that the realm of development planning belonged properly to government and that carrying out techno-economic surveys, district by district, could not be the legitimate responsibility of commercial banks.  

DCP Formulation by Lead Bank

Some of the lead banks had no their own, commenced the work of preparation of DCPs in 1973. The earliest DCPs were those for

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Gorakhpur-U.P. (SBI), Rai Bareilly-U.P (Bank of Baroda), Seoni-M.P. (Central Bank of India) and Ujjain-M.P. (Bank of India). The pace of preparation of DCPs was slow in the beginning since the lead banks were new to this type of work. The report of the Study Groups on the Working of the lead bank scheme in Gujrat and Maharashtra recommended that with the establishment of adequate branch network of banks, the stage was set for the formulation and implementation of district credit plans covering activities in the priority sectors. RBI accordingly advised the lead banks to prepare credit plans for all lead districts. By July 1978, credit plans had been prepared for most of the districts.

**Suggestions of Gujrat and Maharashtra Study Group**

The report of the Maharashtra and Gujrat Study Group made detailed suggestions in regard to the nature and scope of DCPs to be prepared by lead banks. These suggestions may be summarized as under ⁴⁵:

(i) Elaborate surveys or in-depth studies may not necessarily be suitable to the stage of development of all districts in the country. The emphasis should be not so much on methodological excellence in the academic sense, but on the expeditious preparation of

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technologically feasible and economically viable schemes and their collective implementation by all financial institutions;

(ii) The credit plan should cover only activities for which bankable schemes can be evolved. The schemes which constitute the plan will have to be drawn up with a sense of realism, taking account of the over all resources of the financial system;

(iii) Schemes should be based, as far as possible, on existing infrastructural facilities. In some cases, extra facilities of a secondary nature may be found necessary;

(iv) Lead banks need not necessarily await the progress of planning for the formulation of bankable schemes. A credit plan is not, however, a substitute for the district development plan;

(v) Each lead bank may follow the method best suited to its own resources and the conditions in the district concerned. Reliance on outside agencies for formulating the credit plan should be avoided so that the banks could gain a real feel of the area of operation;

(vi) Although availability of resources would be an important criterion for determining the overall size of the schemes, this need not be an
overriding constraint especially in backward districts where the
deposit levels might be low\(^{46}\).

**RBI Guidelines**

A study of the first round of DCPs prepared by the lead banks revealed
certain major deficiencies such as lack of uniformity in coverage, contents and
period, failure to align the plans with the development programmes of
government and inadequate attention to agricultural and allied activities. The
need was, therefore, felt that RBI should give a direction to district credit
planning so that institutional credit flowed smoothly to priority sectors, in
accordance with national priorities.

Accordingly, RBI advised the lead banks to terminate the existing credit
plans as of December 1979 and formulate new DCPs for the years 1980-82
and action plans for each calendar year. Detailed guidelines were issued by it
in March 1979 which, inter alia, covered the objectives, contents,
methodology and modalities of preparation of plans. It was emphasized in the
guidelines that the main objectives of bank lending under DCP should be (a)
to finance labour intensive schemes which generate employment; (b) to assists
weaker sections of the population for productive purposes to the maximum
extent possible and (c) to help increase productivity of land and other allied

\(^{46}\) Ibid, p -12.
sectors so as to reduce unemployment and increase income levels. The essential features introduced by the guidelines were as follows:

(i) The lead banks should ensure alignment of the credit plan with credit based development schemes, both ongoing and potential, of government and other development agencies operating in the district;

(ii) With the shift in emphasis to the block as the unit of planning DCPs should be prepared on a block wise basis;

(iii) Credit planning should be participative, involving all concerned agencies through the mechanism of the district level Task Force;

(iv) Since the availability of district development plans was not certain, RBI devised certain formats in which essential data for the purposes of DCP could be provided by state governments. To Planning Commission has also advised state governments to furnish information in these formats to the lead banks;

(v) Only those programmes requiring bank assistance which are considered technically feasible and bankable should figure in DCPs;

(vi) To ensure participative nature of the exercise, the need for active involvement of the Standing Committee of the DCC, DRDA, DIC, etc. in the formulation process has been emphasized;

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47. Ibid, p-12 & 13.
(vii) Not only are the states required to indicate specifically the infrastructural support and other assistance they would provide for making various development programmes indicated by them feasible but banks are also required to specify in DCP documents the implementing agencies in each case so as to facilitate monitoring of the progress;

(viii) Emphasis has been laid on special programmes viz, 20-Point Programme including IRDP, Special Component Plan for SC/ST etc. In respect of IRDP, the physical and financial outlays are to be indicated separately to facilitate monitoring of this important programme.

The guidelines have imparted a broader perspective to DCP which is expected to cover all feasible schemes in the priority sectors for the period. While DCP is virtually a perspective document regarding the direction to be given to the lending activities of the financial institutions in the district, AAP indicates the short-term annual operational goals to be achieved.

**Present Position of Credit Plans**

Uniformity has been achieved to a large extent in the presentation of DCP and AAP. The parameters laid down in the guidelines for measurement of credit outlays envisaged and credit to be
provided there under have helped in bringing about a large amount of homogeneity in the plans. In regard to block level planning, however, not much progress has been achieved. Though the Sixth Five Year Plan emphasizes the need for creation of a planning machinery at the block level, it is understood that implementation thereof, being a gigantic task, would take quite some time. formulation of district development plans has also to made much headway except in isolated districts and district-wise disaggregations of sectoral allocations of public outlays made at the state level are also available after considerable delay. Lead banks, in the circumstances have had to proceed on an inadequate data base in preparing DCPs/AAPs.

LEAD BANK SCHEMES IN DISTRICT MUZAFFARNAGAR

It’s a liasoning office between banks and Government Department agencies. It’s main objective is to prepare and implement Annual Credit Plan of the District through banks by incorporating various Government sponsored schemes.

Location : Punjab National Bank, Lead Bank Office, New Mandi, Muzaffarnagar-251001, ph.0131-2403718, Fax no.0131-2405096, E-mail-PNB RO MZN@NDE.VSNL.IN
Head of the Department: Lead District Manager

Number of Projects/Schemes

Annual Credit Plan Rs.213.89 crore has been envisaged for the District, Muzaffarnagar for the financial year 2005-2006. As the annual credit Plan has to be in tune with the plans of government developmental agencies, due emphasis has been laid on various government sponsored schemes viz. SGSY, PMRY, SCP, Khadi Gramodhyog schemes etc. The successful implementation of plan is possible only through the active co-ordination amongst the various financial institutions and govt. development departments. It also requires the timely and constant monitoring of progress by controlling offices of the individual banks as also through the forum of BLBC/DCC/DLRC.

Achievement under Annual Credit Plan 2005-2006 was Rs.201.29 crores as against the target of Rs.180.05 crores. As on 31-03-2006 the total bank branches looked after by Lead Bank are 224. Out of these 122 are rural, 57 are semi-urban and 45 branches are urban. The total deposits of these branches as on 31-03-2006 were Rs.1509.68 lacs and total advances were Rs.613.57 lacs out of which Priority Sector Advances were Rs.428.34 lacs\textsuperscript{48}.

\textsuperscript{48} Annual Credit Plan, Muzaffarnagar- 2004-05, p-4 & 5.
Table 3.1

Annual District Credit Plan of District Muzaffarnagar (2005-2006)

(Amount in thousand)

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Swarn Jayanti Gram Swarojgar yojana (SGSY)\textsuperscript{49}

**Eligibility**: Person belonging to BPL families already identified & approved by gram sabha. Financing will be done through self help groups. One person from each BPL family can become member of SHGS.

- **Age Group**: Minimum age – 18 years
- **Maximum Amount**: No investment ceiling other than the unit cost i.e., investment requirement worked out for the project duly approved by district level committee.
- **Interest Rate**: Upto 2 lakh – PLR of the concerned Bank. (interest rates are subject to change are per RBI instructions issued by from time to time).
- **Margin**: Nil
- **Security**: Assets created out of bank loan would be hypothecated for individual loans up Rs.50,000/- and group loans upto Rs.3 lakh. Above that mortgage of land/third party guarantee.

- **Repayment**: All SGSY loans are to be treated as medium term loan with minimum repayment period of five years.

\textsuperscript{49}. Annual Credit Plan, Muzaffarnagar, 2005-06, p-4 & 5.
**Capability Subsidy** : 30% of the project cost, subject to maximum of Rs.7500/-. For SC/ST, disabled it will be 50% of the project cost subject to a maximum of Rs.10,000/-. For groups, the subsidy would be 50% of the project cost, subject to per capita subsidy Rs.10,000/- or Rs.1.25 lakh whichever is less. Subsidy is back ended.

**Pradhan Mantri Rojgar Yojana (PMRY)**

- **Eligibility** : Educated unemployed youth with minimum qualification of 8th standard passed. Neither the income of the beneficiary along with the spouse nor the income of the parents of the beneficiary shall exceed Rs.40,000/- p.a. Group Financing can also be done.

- **Age Group** : 18 to 35 years (45 years for SC/ST/Ex-serviceman/Ph. Handicapped & wome).

- **Maximum Amount** : Composite loan upto Rs.2 lakh for other then business sector. For business sector upto Rs.1 lakh.

- **Interest Rate** : Upto 2 lakh – PLR of the concerned Bank. (interest rates are subject to change are per RBI instructions issued by from time to time).

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50. Ibid, p- 4 & 5.
Margin : 5% to 16.25% of Project Cost so as to make the total of subsidy & margin money equal to 20% of the project cost.

- **Security** : Hyp. of assets. No collateral security for projects upto Rs.1 lakh.

Repayment : 3 – 7 years with grace period of 6 – 18 months.

- **Capability Subsidy** : 15% of the project cost, subject to ceiling of Rs.7500/-.

**Special Component plan (SCP)**

Eligibility : SC/ST families, annual family income below poverty line.

- **Age Group** : Minimum age – 18 years

Maximum Amount : Rs.12,000/- to Rs.7 lakh Average Cost Rs.25,000/-.

- **Interest Rate** : Upto 2 lakh – PLR of the concerned Bank. (interest rates are subject to change are per RBI instructions issued by from time to time).

Margin : Margin money loan provided by corporation is to be treated as margin.

- **Security** : Hy. of assets/ Third Party guarantee/ collateral security.

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51. Ibid, p-4 & 5.
Repayment : 3-5 years.

- **Capability Subsidy** : 50% of the project cost with a ceiling of Rs.10,000/-.

**Swarna Jayanti Swarojgar Yojana (SJSY\textsuperscript{52})**

**Eligibility** : Under employed and unemployed urban youth whose annual family income is below the poverty line & who have got education upto 9\textsuperscript{th} standard (three will be no minimum educational qualification for beneficiaries) Beneficiaries will be identified listed on the basis of survey. Residency in the town for at least 3 years.

- **Age Group** : Minimum age – 18 years

**Maximum Amount** : Project upto Rs.50,000/- is under the scheme in case of individual 95% of the project cost would be sanctioned as composite loan by bank.

- **Interest Rate** : Upto 2 lakh – PLR of the concerned Bank. (interest rates are subject to change are per RBI instructions issued by from time to time).

**Margin** : 5% of project cost.

- **Security** : Hy. of Assets.

- **Repayment** : 3 – 7 years with grace period of 6 – 18 months.

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\textsuperscript{52} Ibid, p- 4 & 5.
Capability Subsidy: 15% of the project cost, subject to ceiling of Rs. 7500/-.

Ambedkar Goat Rearing Scheme\textsuperscript{53}

- Eligibility: Young persons above poverty line selected through selection committee.
- Age Group: Minimum age – 18 years
- Maximum Amount: 28,000/-
- Interest Rate: Upto 2 lakh – PLR of the concerned Bank. (interest rates are subject to change are per RBI instructions issued by from time to time).
- Margin: For SC/ST – 17%. For General 25%.
- Repayment: 3 years.

Capability Subsidy: For SC/ST - 33%. For General 25%.

Saghan Mini Dairy (SMD)\textsuperscript{54}

- Eligibility: Any unemployed/Semi-employed who is a person member of any milk society or is becoming member in near future.

\textsuperscript{53} Ibid, p – 4 & 5.
\textsuperscript{54} Ibid, p – 4 & 5.
Having land of one acre for general & half acre for SC/ST beneficiaries.

**Age Group**: Minimum age – 18 years

- **Maximum Amount**: For 2 animal unit Rs.39,900/-. For 4 animal unit Rs.79,800/-.  
  
  **Interest Rate**: Upto 2 lakh – PLR of the concerned Bank. (interest rates are subject to change are per RBI instructions issued by from time to time).

- **Margin**: NIL (Subsidy is to be treated as margin).

**Security**: Hy. of Assets. Land mortgage if loan amount above Rs.50,000/- & tripartite agreement between bank borrower and milk society.

- **Repayment**: 5 years.

- **Capability Subsidy**: For SC/ST - 33%, maximum Rs.10,000/-
  
  For General 25%, maximum Rs.7,500/-.

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