



A Special Study on Lead Banks in India

KEYWORDS

Lead Bank, Commercial Bank, Rural Bank, NABARD-LBRs, LBS and RBI

Dr. M.PARAMESHWARI

Assistant Professor, Department of Commerce with Computer Application, Sasurie College of Arts & Science, Vijayamangalam, Thirupur. Tamilnadu, India

Dr. M.SARAVANAN

Assistant Professor in commerce, Annamalai University, Annamalaiagar, Tamilnadu, India.

ABSTRACT

The Lead Bank Scheme (LBS) provides and ensures the flow of credit to the core sectors of the rural economy. It has not only created awareness for better credit planning but has also resulted in better understanding of mutual problems at the grass roots level both for banks and various government departments. Under the scheme, all the nationalized banks and a few private sector banks were allotted specific districts and were asked to play the "Lead role". The allotment of districts of the various banks was based on such criteria as the size of the bank, the adequacy of its resources for handling the volume of work. At present the whole country has come under the LBS; except the metropolitan cities like Mumbai, Kolkata and Chennai. The Lead Bank Scheme did not have a proper start due to inadequate understanding and misunderstanding of the scope and objectives

INTRODUCTION

Banking is an indispensable institution in a modern society. It plays a pivotal role in the economic development of a country and forms the core of the money market. Banking was initially an urban-oriented and its rural orientation began in 1956 after the nationalization of the Imperial Bank of India and the establishment of State Bank of India which was given a mandate to go to rural area. Even after the introduction of social control over Commercial Banks in 1967, they were not providing adequate credit to rural borrowers. The commercial banks are the oldest institutions having a wide network of branches, commanding at most public confidence and having the major share in the total banking operation.

A study group on "Organisational Framework for the Implementation of Social Objective" had recommended an "Area Approach" to be followed by commercial banks to promote economic development of backward areas in the country. The Committee of Bankers (Known as the Nariman Committee) appointed by the Reserve Bank of India in 1969 accepted the "area approach" and gave a practical shape to it under the title "Lead Bank Scheme".

PARTICIPANTS

Participants of Lead bank Scheme in every district is Commercial Banks, RRBs, Co-operative Banks and Other Financial Institutions such as RBI, NABARD and Development Agencies of the Government.

NECESSITIES OF LEAD BANKS

The development of rural economy has been accepted as an integral part of the main strategy in the Seventh Five Year Plan.

The basic importance of Lead Bank Scheme is that individual banks should adopt particular district for intensive development.

The lead bank acts as a leader for coordinating the efforts of all credit institutions in the allotted districts to increase the flow of credit to agriculture, small-scale industries and other economic activities.

REFORMS OF LEAD BANKS

In the changed context of financial sector reforms, the validity of the LBS is being questioned in some quarters of the

banking circle.

RBI in consultation with NABARD devised the Lead Bank Returns (LBRs) in the year 1991 which replaced the Lead Bank Statements (LBS) prescribed for Banks under the Lead Bank Scheme.

STATEMENT OF THE PROBLEM

The Lead Bank Scheme did not have a proper start. From the very beginning, there was inadequate understanding and serious misunderstanding of the scope and objectives of the Lead Bank Scheme.

The Lead Banks can identify credit gaps and offer facilities, making advance in the unbanked areas. But, it cannot take the role of 'Planning Commission' of the district. There is a lack of understanding of the scope, objectives and significance of the LBS on the part of people and institutions involved in the formulation and execution of the district credit plan.

The central & state Government has evolved several schemes for the rural poor for improving their living standards. Most of these schemes are well conceived but not implemented properly. Many of the Lead Banks could not develop the "Personal feel" for local problems and deposit potential. Lead Banks are not at all suited to the formidable task of making techno-economic survey of the district.

The problem of recovery has become a grave concern for all bankers, weakening the rural credit structure and making the rural credit delivery system less efficient. Private Banks are not in a position to extend finance in rural areas due to SAA restrictions. Non-SAA branches wait for "no-objection" certificate from the SAA branch.

OBJECTIVES OF THE STUDY

The main objectives of this paper are as follows:

1. To study the organisational structure and to review the Lead Bank Scheme in India.
2. To assess the effectiveness of the functioning of Lead Bank in India

STRUCTURE AND REVIEW OF LEAD BANKS

The Lead Bank Scheme (LBS) was introduced by Reserve Bank in 1969 when designated banks were made key instru-

ments for local development and entrusted with the responsibility of identifying growth centers, assessing deposit potential and credit gaps and evolving a coordinated approach for credit deployment in each district in concert with other banks and other agencies. As at March 2009, there were 26 banks, mostly in the public sector, which have been assigned lead responsibility in 622 districts of the country. The following table.1 highlights the ranking of lead banks about 622 districts.

Table.1 Ranking of Lead Banks

S.NO	LEAD BANKS	NO.OF DISTRICTS	RANK
1	State Bank of India	168	
	Subsidiary Banks	36	
	Total of SBI and its Subsidiaries	204	1
2	Punjab National Bank	57	2
3	Bank of India	49	3
4	Central Bank of India	48	4
5	Bank of Baroda	43	5
6	UCO Bank	34	6
7	Canara Bank	25	8
8	Union Bank of India	14	9
9	Syndicate Bank	25	8
10	Indian Bank	14	10
11	Andhra Bank	6	13
12	Indian Overseas Bank	13	11
13	Dena Bank	13	11
14	Oriental Bank of Commerce	3	14
15	Allahabad Bank	17	9
16	P & S Bank	3	14
17	Vijaya Bank	3	14
18	Corporation Bank	3	14
19	United Bank of India	30	7
	Total of Nationalised Banks	400	
20	Bank of Maharashtra	6	13
21	Jammu and Kashmir Bank Ltd.	12	12
	Total of Private Banks	18	
	TOTAL	622	

Source: [http:// www.rbi.org.in](http://www.rbi.org.in)

BANKING PENETRATION

The Committee noted that despite the branch expansion over the past forty years, there were several pockets of the population and regions that were still un-banked and under-banked and do not have easy access to formal financial services. A sub-committee of the DCC may be constituted in every district to draw-up the road map and allocate villages to banks and submit its plan by March 2010. The time frame to cover all village population of more than 2000 with a banking outlet should not be later than March 2011. A monitoring system may be instituted and the position reviewed by the DCC at each meeting.

LEAD BANK SCHEME –A REVIEW

The Study 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 a result, the banking needs of the rural areas in general and the backward regions in particular, could not be adequately taken

care of by the commercial banks and credit needs of rural sector of the economy, particularly agriculture, small-scale industry and services sectors remained virtually neglected. The study group therefore recommended the adoption of an "Area Approach" to evolve plans and programmes for the development of an adequate banking and credit structure in the rural areas.

FUNCTIONING OF LEAD BANKS IN INDIA

Lead bank is based on the principle of "one among all". A particular bank should act as a group leader for all the banks in the selected district. The LBS has not only created awareness for better credit planning but has also resulted in better understanding of mutual problems at the grass roots level both for banks and various government departments. It provides an appropriate organizational framework to ensure increased flow of credit to the core sectors of the rural economy. Under the scheme, all the nationalized banks and a few private sector banks were allotted specific districts and were asked to play the "Lead role".

LBS was introduced to plan and implement credit programmes at district level. The first District Credit Plans (DCPs) was implemented by the banks in their lead districts in 1974. DCPs have been prepared and implemented by various lead banks in their respective districts.

The various issues identified and discussed relate to the generation of data, estimation of credit gap and funds availability, allocation of loan funds, disbursement of loans, monitoring and recovery. During 1978-79, the government introduced the Integrated Rural Development Programmes (IRDP). Under the directions of the government of India, commercial banks adopted from April 1989. As on March 2009; the lead bank scheme covered 622 districts of the country. All the public sector banks are actively involved in the implementation of lead bank scheme (LBS).

The new guidelines issued by the Reserve Bank of India to the Lead Banks for preparing the District Credit Plans in March, 1979, taking into account the objectives of the Five Year Plan 1978-83. The fresh District Credit Plan in 1979 has to take the need based estimates of credit requirements block-wise, sector-wise, scheme-wise and bank-wise.

CONCLUSION

The National Credit Council Study Group under the chairmanship of Prof. Dr.Gadgil first recommended the "area approach" to nationalized banks. The Committee of Bankers (Known as the Nariman Committee) appointed by the Reserve Bank of India in 1969 accepted the "area approach" and gave a practical shape to it under the title "Lead Bank Scheme".

National level, SBI and its subsidiaries holding a top position in assuming lead bank responsibility in 204 districts. Next to SBI, the Punjab National Bank is holding the second position in assuming lead bank responsibility in 57 districts. The Bank of India, The Central Bank of India and the Bank of Baroda are holding third, fourth and fifth positions respectively in assuming lead bank responsibility. Various forums have been created at the block level, district level and the State level, under the Lead Bank Scheme for co-ordination of activities of commercial banks and other financing agencies on the one hand and Government departments on the other. All the commercial banks, co-operative banks including DCCB and SLDB, RRBs, NABARD and various State Government departments and allied agencies constitute the members of the DCC.

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