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## **THE LEAD BANK SCHEME**

The Lead Bank Scheme was evolved by the Reserve Bank of India soon after nationalization of commercial banks with a view to enable the nationalized banks to work effectively as catalytic agents in economic development. Soon after commercial banks in India started operating in the field of direct agricultural lending, it was recognized by them that one of the most important strategies to tackle the problems in this new field would be to follow the Area Approach. The idea of area development was first put forward by a study group of the National Credit Council on “Organizational Framework for the Implementation of Social Objectives” headed by the late Prof. D. R. Gadgil. The Group had suggested the adoption of an “Area Approach” to evolve plans and programmes for the extension of banking and credit in the country. The quintessence of the recommendation was that commercial banks should be assigned particular districts in which they should work as a consortium leader and pace-setter in providing integrated banking and credit facilities.

The Group had suggested that the administrative units or ‘District’ be taken as the nucleus of this approach, especially since most statistical data in India was collected on a district basis. Subsequently, the committee of bankers headed by Shri. F.K.E. Nariman appointed by the Reserve Bank of India to evolve a coordinated programme for branch expansion, also felt that for ensuring

sufficient spread of banking facilities throughout the length and breadth of the country each bank should concentrate on selected districts.

On recommendations made by these two committees, the Reserve Bank of India introduced the "Lead Bank" towards the end of 1969. Under this scheme 398 district in the country were allotted to the public sector banks and a few private sector banks. They were supposed to play the role of leaders in banking development. In short, each lead bank is a leader, coordinator and guide in the district allotted to it. In other words, under the Scheme "Lead Banks could be allotted specific districts, where they would take the lead in surveying the potential for banking development in extending branch banking after identifying growth centers and in extending credit facilities after locating potentially viable propositions and mobilizing deposits out of rising levels of income."

The Lead Bank Scheme was to give a concrete shape to the idea of the area approach for development of credit banking facilities.

Its two-fold objectives were massive mobilization of rural deposits and stepping up of banks lending to the weaker sections in India. Another aspect of the scheme is the "formulation of dynamic relationship between nationalized and non-nationalized banks, between commercial banks and cooperative credit institutions and between short and long-term lending institutions."

Under this scheme districts where allotted to the State Bank group, fourteen nationalized bank and three private Indian banks were asked to play the role of lead bank. The lead bank acts as leader to bring about the coordination of cooperative banks, commercial banks and other financial institutions in their

respective district to bring about rapid economic development. By March 1994, the lead bank scheme covered a total number of 493 districts of the country.

### **OBJECTIVES OF THE BANKS**

- (i)* To specify suitable areas for branch expansion;
- (ii)* To formulate a phased programmed for expanding the branch offices with the object of providing banking facilities to the entire area covered;
- (iii)* To earmark the potential area for promoting agricultural and small-scale industrial schemes while inducing local entrepreneurs;
- (iv)* To assess the major constraints in the development of the districts and to induce the appropriate agencies for taking up, the follow-up remedial actions and
- (v)* To experiment with financial schemes which can help in promoting deposits and financial investments among the local people.