Draft

REPORT OF THE
HIGH LEVEL COMMITTEE
TO
REVIEW THE LEAD BANK SCHEME

Chapter I

Introduction

Lead Bank Scheme

1.1 The genesis of Lead Bank Scheme can be traced to the Study Group, headed by Prof. D. R. Gadgil (Gadgil Study Group) on the Organisational Framework for the Implementation of the Social Objectives, which submitted its report in October 1969. 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 the 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.

1.2 A Committee of Bankers on Branch Expansion Programme of public sector banks appointed by Reserve Bank of India under the Chairmanship of Shri F. K. F. Nariman (Nariman Committee) endorsed the idea of area approach in its report (November 1969). It recommended that in order to enable the public sector banks to discharge their social responsibilities, each bank should concentrate on certain districts where it should act as a 'Lead Bank'.

1.3 Pursuant to the above recommendations, the Lead Bank Scheme was introduced by Reserve Bank in December, 1969. The Scheme emphasized making specific banks in each district the key instruments of local development by entrusting them with the responsibility of locating growth centres, assessing deposit potential, identifying credit gaps and evolving a co-ordinated approach to credit deployment in each district, in concert with other banks and credit agencies.

1.4 The Scheme, significantly, did not envisage a monopoly of banking business by the Lead Bank in the district. The Lead Bank is expected to assume leadership role and act as a consortium leader for co-ordinating the efforts of the credit institutions and accordingly the various districts in the country were allocated among the public/select private sector banks, as the lead bank for the district. As at the end of March 2009, 26 banks (public and private sector) have been assigned lead responsibility in 622 districts of the country. The scheme presently does not cover the metropolitan cities of Mumbai, Delhi, Kolkata, Chennai and certain Union Territories.

1.5 In 1989, the Service Area Approach (SAA) was adopted wherein service area villages were identified and assigned to bank branches based on their proximity and contiguity and by adopting a cluster approach. Credit plans were prepared on an annual basis for the service area of each branch which involved co-ordination between the various developmental agencies and credit institutions. Due to allotment of villages to designated bank branches, the activities of the 'service area branches' were restricted to the allotted villages and they were unable to provide financial assistance outside their service areas, despite being in a position to do so. Similarly, borrowers belonging to these villages were required to approach the 'designated bank branches' for their credit needs and were not in a position to avail of services of any other bank branches, irrespective of whether they were satisfied with the services provided by the designated bank branches or not. The Advisory Committee on Flow of Credit to Agriculture and Allied Activities (Chairman Prof. V.S.Vyas, June 2004) observed that the Service Area Approach, introduced for planned and orderly development of rural areas, had developed rigidities and acted as a bottleneck despite built in measures to provide flexibility. The Committee recommended that this feature of flexibility needed to be preserved and the service area concept made mandatory only for government sponsored schemes. Pursuant to the recommendations of the Committee, the restrictive provisions along with certain other aspects of service area were removed from December 2004, except for the government sponsored schemes.

1.6 Over the almost four decades since the introduction of the Lead Bank Scheme in December 1969, several changes have taken place, especially after 1991. These include Increasing liberalisation and globalisation of the Indian economy and the financial sector. The rates of growth witnessed have been unprecedented. At the same time, there are gaps in growth in agriculture and infrastructure. There has also been a greater level of devolution of expenditure to lower levels of Government. There are several regions of the country and sections of the society lagging in development. Accordingly, there has been a conscious shift towards more inclusive growth and financial inclusion. In banking, the use of Information Technology (IT) and intermediaries has made it feasible to increase outreach, scale and depth of banking services at affordable cost.

1.7 However, during these years, the structure and monitoring mechanisms under the Lead Bank Scheme have remained more or less static. A need was therefore felt for a comprehensive review of the Scheme and its applicability in the changed scenario.

Setting up of the High Level Committee

1.8 Accordingly, pursuant to the announcement in the mid-term review of Annual Policy for the year 2007-08, a High Level Committee was constituted under the chairpersonship of Smt. Usha Thorat, Deputy Governor, Reserve Bank of India with the following Terms of Reference:

Terms of Reference

(I) To review the Lead Bank Scheme with focus on financial inclusion and recent developments in the banking sector, covering, inter-alia, the objectives and scope of the Scheme; structure and functions of various committees/fora under the Scheme, including the role and responsibilities of various functionaries such as Lead District Officers, Lead District Managers, District Development Managers etc.; need for decentralization of norms, systems and procedures to suit local needs and implementation of policy guidelines at local level; need to create/improve awareness of the common persons about banking facilities and schemes available for their benefit ; and information system, reporting and monitoring mechanism under the Scheme.

(II) In the light of the review, to:

- prepare a comprehensive set of objectives and scope of the Lead Bank Scheme;
- make recommendations for rationalization of the various committees/fora and functionaries under the Scheme;
- recommend measures to improve the effectiveness of the Scheme, especially for encouraging greater decentralized approach, dissemination of policies/guidelines, implementation of policies at local level and creation of awareness of banks' products/policies;
- make recommendations relating to timely and consistent information and monitoring system, taking advantage of improved IT capabilities in the banking system; and
- prepare comprehensive guidelines and a manual of instructions based on the above.

1.9 The Committee comprised the following members:

(i) *Smt. Manjula Subramanian, IAS, Chief Secretary, Government of Gujarat,

(ii) Shri R.J.M. Pillai, IAS, Development Commissioner, Government of Bihar,

(iii) Shri Sudhakar Rao, IAS, Additional Chief Secretary & Development Commissioner, Government of Karnataka,

(iv) Shri H. S. Das, IAS, Principal Secretary (Finance), Government of Assam,

(v) Dr. K. C. Chakrabarty, CMD, Punjab National Bank,

(vi) Shri M.V. Nair, CMD, Union Bank of India,

(vii) Shri Anup Banerji, DMD, State Bank of India,

(viii) Shri M. Balachandran, Director, Institute of Banking Personnel Selection,

(ix) Shri B.P. Vijayendra, Regional Director for Rajasthan, Reserve Bank of India, and

(x) Shri G. Srinivasan, Chief General Manager, Rural Planning and Credit Department, Reserve Bank of India, Central Office as Member Secretary.

* (Since replaced by Shri D.Rajagopalan)

Shri U.C. Sarangi, Chairman, NABARD, Shri R.M.Malla, Chairman, SIDBI and Shri Sandip Ghose, Principal, College of Agricultural Banking, Pune were permanent invitees for all the meetings of the Committee.

Approach of the Committee

1.10 The Committee held ten meetings in all at Mumbai, New Delhi, Kolkata, Chennai and Guwahati and had interactions with representatives of State Governments, commercial banks, regional rural banks, Regional Directors of Reserve Bank of India, Chief General Managers of NABARD Regional Offices, and also various other stakeholders including academicians, marketing experts, representatives of microfinance institutions (MFIs) and NGOs. Besides, the Chairperson held detailed discussions on various aspects of the scheme and its implementation with the senior officials of the State Governments/ academicians/ others at Ahmedabad, Lucknow, Dehradun and Bengaluru. Detailed responses were also elicited through a questionnaire circulated to the various State Governments, banks and Regional Offices of the Reserve Bank/ NABARD. Based on the meetings and the responses received to the questionnaire as also discussions among the members, the main findings and recommendations of the Committee are brought out in the succeeding chapters.

Structure of the Report

1.11 The report contains seven chapters. The introductory Chapter I provides a brief background as also the approach adopted by the Committee. Chapter II describes the origin, milestones and the various committees/fora under the Lead Bank Scheme, including the role and responsibilities of various functionaries such as Lead District Officers, Lead District Managers, District Development Managers etc. Chapter III deals with the objectives and scope of the Scheme.

Chapter IV covers the recommendations for revitalising the various fora and strengthening the implementing mechanism, while Chapter V deals with the need for decentralization of norms, systems and procedures to suit local needs and implementation of policy guidelines at the local level and the need to create/improve awareness of the common persons about banking facilities and schemes available for their benefit. Chapter VI focuses on information system, reporting and monitoring mechanism under the Scheme. The various recommendations are enumerated in Chapter VII. A set of comprehensive guidelines and the manual of instructions would be issued separately.

Acknowledgements

1.12 The Committee wishes to place on record its sincere debt of gratitude to Dr. Y.V.Reddy, former Governor, Reserve Bank of India, for entrusting this task of great importance to it. The Committee benefited immensely by his vision, encouragement and guidance. It is also indebted to Dr. Rakesh Mohan, Deputy Governor, for his insightful inputs and for enlarging the Committee's perspectives. Shri V.S.Das, Executive Director, made himself available whenever requested by the Committee and contributed significantly to the deliberations at the meetings held in Mumbai. He also provided his analytical perspectives in the preparation of the Report. The Committee sincerely thanks him for his valuable contribution.

1.13 The Committee specially acknowledges the involvement of Shri U.C.Sarangi, Shri R.M.Malla and Shri Sandip Ghose, Permanent Invitees, in enriching the quality of discussions at the meetings by their wide and varied experience in the field of rural development. Thanks are also due to them for making significant contributions in finalizing the Report.

1.14 The Committee received overwhelming response and feedback to its questionnaire from various agencies and institutions and would like to acknowledge its deep sense of appreciation of their painstaking efforts, which helped it considerably in firming up its views on a large number of issues.

1.15 The Committee also wishes to thank each of the participants at the meetings for their valuable inputs. The Committee expresses its gratitude to the Regional Directors of the Reserve Bank at Mumbai, Shri R. Narayana Rao, New Delhi, Shri R.Gandhi, Kolkata, Shri B.Mahapatra, Chennai, Shri Franklin Joseph, Ahmedabad, Shri B.Srinivas, Bangalore, Ms. Devaki Muthukrishnan, Lucknow, Shri D.P.S.Rathore and Officer-in-Charge, Dehradun, Shri Manoj Sharma as also the Director, Indian Institute of Bank Management, Guwahati, Shri P.K.Mishra, and their officials for arranging the meetings.

1.16 Shri G.Srinivasan, as Member Secretary, laid the foundation for the Committee's work and was closely associated with it till his sudden and untimely demise, when the drafting of the Report was in an advanced stage. The Committee acknowledges his significant and silent efforts and expresses its deep sense of gratitude for his valuable contribution.

1.17 The Committee would like to make a special mention of the dedicated efforts put in by the Secretariat, ably guided by Ms. Rosemary Sebastian, General Manager and comprising Shri Navin Bhatia, Deputy General Manager, Shri S.S.Gaud, Shri R.Sudeep and Shri Sudhanshu Prasad, Assistant General Managers, Shri D.G.Nalawade, Assistant Manager of the Reserve Bank of India, Rural Planning and Credit Department, Central Office, Mumbai as also Shri S.Shankar, Executive Assistant to Deputy Governor, Smt. Usha Thorat. But for their persistent efforts, this work could not have taken the present shape.

1.18 The Committee would also like to thank many others in Reserve Bank and other organizations, too numerous to be mentioned by name, who contributed in one way or the other to its smooth and successful working at various stages.

Chapter II

Lead Bank Scheme and Service Area Approach to Rural Lending

Origin of the Lead Bank Scheme

2.1 Following shortfalls in agricultural output and slowing down of industrial production in 1965-67, the Reserve Bank's credit policy for the slack season 1967 was liberalized on a selective basis with a view, among other purposes, to enlarging the flow of credit to the select sectors such as agriculture and small-scale industries, as also exports. The measures for social control over banks were initiated by the Government of India in 1967-68 for securing a better adaptation of the banking system to the needs of economic planning and also for playing a more active and positive role in aiding sectors like agriculture and small scale industries. The scheme of social control envisaged a purposive distribution of available lendable resources consistent with the basic economic and social objectives as well as a more effective mobilization of savings, besides eradication of certain deficiencies observed in the functioning of the banking system. The origin of priority sector prescriptions for banks in India can also be traced to the Reserve Bank's credit policy for the slack season of the year 1967-68, wherein it was emphasized that commercial banks should increase their involvement in the financing of key sectors, such as, agriculture, exports and small-scale industries, as a matter of urgency. Further, the nationalization of major commercial banks in 1969 also envisaged that no viable productive endeavour should falter for lack of credit support, irrespective of the fact whether the borrower was big or small.

2.2 In pursuance of a decision of the National Credit Council, at its meeting held on July 24, 1968, a Study Group on the Organisational Framework for the Implementation of Social Objectives was constituted towards the end of October 1968, with Prof. D. R. Gadgil as Chairman. The Group was entrusted the task of identifying the major territorial and functional credit gaps and making recommendations to fill them up so that adequate institutional credit, at reasonable terms, could be made available to neglected sectors and areas and weaker sections of the community. The Group noted that the Indian banking system had made significant progress in the last 20 years by expanding its territorial and functional coverage and yet the unevenness of spread of institutional credit facilities to different areas of the country, the urban-oriented organisation of commercial banks, weaknesses of the co-operative system and the non-availability of institutional credit to the weaker sections of the community, still persisted. The Group observed that the main social objective of banking and credit was to more evenly spread institutional credit over unbanked and under-banked areas and to ensure that neglected sectors and the small borrowers, who had to depend on non-institutional credit, also got adequate credit at reasonable terms from banks.

2.3 The concept of 'Lead Bank Scheme' was first mooted by the Gadgil Study Group, which submitted its report in October 1969. The Group was of the view that banking was not developed in India judging by the criterion of population served per bank office. The average population served by a commercial bank office in India was as high as 73,000 as against 4,000 in United Kingdom and 7,000 in USA. In the rural areas, it was found that only one per cent of the total number of villages (5,64,000) were served by commercial banks as at the end of June 1967. Further, there was an uneven spread of bank offices and banking business as between States and population groups. Thus, commercial banks did not have adequate presence in rural areas and also lacked the required rural orientation. Moreover, out of the institutional credit to agriculture sector at 39 per cent of total credit, the share of commercial banks was negligible at one per cent, with the balance being met by the co-operatives. As a result, the banking needs of the rural areas in general and the backward regions in particular, were not adequately taken care of by the commercial banks and particularly the credit needs of rural sector of the economy such as agriculture, small-scale industry and allied services remained virtually neglected. The Group, therefore, recommended the adoption of an 'Area Approach' to evolve plans and programmes for the development of an appropriate banking and credit structure in the rural areas. The Group also observed that the central idea was to assign, depending upon their area of operations and locations, to commercial banks, particular districts in an area where they should act as pace-setters providing integrated banking facilities and thus all the districts in the country needed to be covered. The district was identified as the unit under the Area Approach because the co-operative structure was organised in relation to a district and most statistical and other data were available at the district level.

2.4 The Reserve Bank appointed a Committee of Bankers on Branch Expansion Programme of public sector banks (Chairman: Shri F. K. F. Nariman), which submitted its report on November 15, 1969, endorsing the area approach. It further recommended that in order to enable the public sector banks to discharge their social responsibilities, each bank should concentrate on under banked districts where it should function as a 'Lead Bank', as well as open bank branches to fulfil the target of providing every place designated as a town with a bank branch by the end of 1970.

2.5 Thus, pursuant to the recommendations of the Gadgil Study Group and Nariman Committee suggesting adoption of 'area approach' in evolving credit plans and programmes for development of banking and the credit structure, the Lead Bank Scheme was introduced by the Reserve Bank in December, 1969. The scheme envisaged allotment of districts to banks to enable them to assume leadership in bringing about banking developments in the respective districts.

2.6 Development in the districts was sought to be achieved by making banks the key instruments for local deployment of credit, entrusting them with the responsibility of locating growth centres, mobilising deposits, identifying credit gaps and evolving a coordinated programme for credit deployment in each district, in concert with other banks and credit agencies. In order to enable the banks to assume 'leadership' in an effective and systematic manner, the various districts, except the metropolitan cities of Mumbai, Delhi, Kolkata and Chennai and certain Union Territories in the country were allotted among the public/select private sector banks and each such bank was designated as the Lead Bank for the district concerned. The Lead Bank was also expected to work for expansion of branch banking facilities and assume a major role in the development of banking and credit in the allocated districts.

2.7 The specific functions of the Lead Bank in a district are as follows:

(i) Surveying the resources and potential for banking development in its district;

(ii) Surveying the number of industrial and commercial units and other establishments, and farms, which do not have banking accounts or depend mainly on money-lenders, and increasing their own resources through the creation of surpluses from additional production financed from the banking system;

(iii) Examining the facilities for marketing of agricultural produce and industrial production, storage and warehousing space, and linking of credit with marketing in the district;

(iv) Surveying the facilities for stocking of fertilisers and other agricultural inputs and repairing and servicing of equipments;

(v) Recruiting and training staff, for offering advice to small borrowers and farmers, in the priority sectors, which may be covered by the proposed credit insurance schemes and for follow-up and inspection of end-use of loans;

(vi) Assisting other primary lending agencies; and

(vii) Maintaining contact and liaison with Government and quasi-Government agencies.

2.8 The Lead Bank Officer was given the responsibility to prepare the district credit plan/annual action plan (DCP/AAP) for the district after taking into account the annual estimated commitments of individual financial institutions. The plan document indicated a sectoral, scheme-wise and institution group-wise break-up of the total credit outlays, as also the estimated expectation of Government departments by way of specific action on infrastructure development, supply of inputs, etc. The DCPs/AAPs were to be prepared in consonance with the objectives of the National Plan, viz. removal of unemployment and underemployment and bringing about an appreciable rise in the standard of living of the poorer sections of the population through provision of credit to meet their basic needs. Consequently, the main objectives of the banks' loans envisaged loans for labour-intensive schemes which generated employment, increased productivity of land and other allied sectors so as to reduce underemployment and increase income levels, besides granting loans to the weaker sections of the population for productive purposes as also meeting in part their consumption needs. The DCP/AAP was to be based on the existing pattern of economic activities and potential for development; ensuing five-year plan targets and annual budgetary provisions; performance of financing agencies under the previous plan and their potential in respect of availability of funds as well as man power, in addition to likely demand for credit in respect of specific projects, different sectors and blocks in the district. The allocations of the credit plan amongst the commercial banks, co-operative institutions and other financial agencies operating in the district were to be done at a special meeting of the District Consultative Committee (DCC).

2.9 In pursuance of the recommendations of the Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) (Chairman: Shri B. Sivaraman), the Reserve Bank, in November 1981, had set up a Working Group under the chairmanship of Shri U. K. Sarma to Review the Working of the Lead Bank Scheme in all its aspects. The recommendations of the Group, with some modifications, were implemented. The major recommendations pertained to:

a) Reconstitution of the DCCs and Standing Committees to make them effective fora;
b) Constitution of District Level Review Committees in place of District Level Review Meetings (DLRMs);
c) Status, designation and role of the Lead Bank Officer;
d) Periodicity of DCC, DLRC meetings and their conduct;
e) Effective management information systems under Lead Bank Scheme;
f) Training needs on Lead Bank Scheme for all officials up to the block level in government and officers of rural branches of financing agencies;
g) Strengthening infrastructure of Lead Bank Offices, i.e. provision of jeep, telephone connectivity, etc.

Presently, the Lead Bank Scheme is in operation in all the districts in the country (except the metropolitan cities of Mumbai, Delhi, Kolkata ,Chennai and certain union territories) and covers 622 districts as at the end of March 31, 2009. A list of Lead Banks is given at **Annex**.

Service Area Approach to Rural Lending

2.10 Considerable efforts were made to increase the flow of institutional credit towards agriculture and rural development during the post-nationalisation era, with a view to reducing dependence on informal credit sources. By late eighties, studies undertaken by RBI to assess the impact of bank credit in increasing production, productivity and income levels of the rural population revealed certain weaknesses in the system of dispensation of rural credit, viz. the rural lending of bank branches was haphazard and dispersed in a large number of villages spread over a wide area rendering supervision difficult. Absence of effective local level planning taking into account the potential for development, poor availability of infrastructure and linkages etc. were identified as the contributory factors. It was, therefore, felt necessary to adopt an approach of assigning specific service areas to the bank branches in rural and semi-urban areas, paving the way for 'Service Area Approach' to rural lending.

2.11 Service Area Approach (SAA) basically aimed at planned and orderly development of an identified command area which would enable the branch to have development orientation and concentrate on productive lending, thereby contributing to the development of specific areas assigned to it. The Union Finance Minister in his budget speech for the year 1988-89 had also referred to the proposed dispensation under which each bank branch would have a designated service area. In order to examine the operational aspects involved in the implementation of this approach, a Committee (Chairman: Dr. P. D. Ojha) was set up by the Reserve Bank. On the basis of the recommendation of the Committee, a decentralized planning policy was adopted and Service Area Approach to Rural Lending was introduced with effect from April 1, 1989, involving five distinct stages in its implementation:

(i) Identification of the service area for each bank branch;

(ii) Survey of the villages in the service area for assessing the potential for lending for different activities and identification of beneficiaries for assistance;

(iii) Preparation of credit plans on an annual basis for the service area by each branch;

(iv) Co-ordination between credit institutions on the one hand and field level development agencies on the other on an on-going basis for the effective implementation of credit plans; and

(v) A continuous system of monitoring the progress in the implementation of the plans and individual schemes.

2.12 The above approach to rural lending was intended to bring about a major change in the quality and productivity of rural lending and forge effective linkages between bank credit, production, productivity and increase in income levels. The basic principle of SAA was demarcation of service area and preparation of credit plans for systematic administration of credit in the assigned area. Under the SAA, all rural and semi-urban branches of commercial banks and regional rural banks were allocated specific number of villages (about 15 to 25 villages), generally in geographically contiguous areas and proximity to the branch concerned, the credit needs of which were to be taken care of by the respective service area branches. It was also to be ensured that the designated area of a bank branch was not intercepted by the designated area of another bank branch. In the service areas of RRB branch, the sponsor bank's branch or the nearest branch of any other commercial bank was given the responsibility to finance the non-target group beneficiaries. The service areas were allocated to the branches by a Committee headed by the Lead District Officer of the Reserve Bank of India with Lead Bank Officer of the district and the concerned officer from NABARD as members.

2.13 The prescribed time schedule for the different stages in preparation/implementation of the district credit plan is as follows:

(i) Supply of "Background Paper" by the lead banks/District Development Manager of NABARD to the branches – October, 31

(ii) Preparation of Service Area Credit Plans by co-operative bank branches (SLDBs/PLDBs/DCCBs) – November, 30

(iii) Preparation of Service Area Credit Plans by the branches of commercial banks and RRBs – December, 31

(iv) Finalisation and approval of Service Area Credit Plans by controlling offices – January, 31

(v) Finalisation of Service Area Credit Plans at BLBC and aggregation into Block Credit Plans – February, 28/29

(vi) Aggregation of Block Credit Plans into District Credit Plan – March, 15

(vii) Launching of the District Credit Plan – April, 1

The commercial banks/RRBs/DCCBs/LDBs/non-banking financial institutions were required to prepare village-wise credit plans based on the village profiles and the background paper. The Village Credit Plans, once finalised were to be aggregated at branch level as Service Area Credit Plans. The credit requirements for both the priority and non-priority sectors were required to be indicated therein.

2.14 The proforma of the Annual Credit Plans drawn up for the district under the Service Area Approach comprised five chapters, viz.

(a) Profile of blocks in the district – Chapter I;

(b) Review of performance – Chapter II;

(c) Development programmes of the district – Chapter III;

(d) Arrangements for supporting facilities/services and Agencies/Departments responsible therefor – Chapter IV; and

(e) Bank-wise credit plan for the priority sector lending – Chapter V.

However, in case of Block Credit Plans, such detailed chapter-wise classification was not required to be done. The Block Plans consisted of merely the background paper supplied by the Lead Bank and the service credit plans.

2.15 On allotment of villages to branches, they were required to carry out a survey of the villages and prepare a village profile indicating the types of economic activities undertaken and potentialities for expansion of these activities or for undertaking new activities, the skills of the rural families to take up different activities, the coverage of rural families by credit institutions operating in the area, besides the level of infrastructure facilities and linkages available in the area and those required to be developed to support bank credit. The Service Area Plans drawn up by all branches in the block were to reflect the potentialities and the needs of the service area on the basis of the intimate knowledge gained by the Branch Managers through the survey and the availability of other information. In order to enable branches to prepare the credit plan in a systematic manner, the lead bank was required to prepare a "Background Paper for Branch Credit Plan" on a block-wise basis and make it available to the branches. The service area plans drawn by each branch in rural and semi-urban areas, as finalised at the Block Level Bankers' Committee, were to be aggregated to form the Block Credit Plan for the block and the block plans thus prepared were in turn to be aggregated into the annual credit plans for the district by the concerned lead banks. Thus, the district credit plan was expected to represent the aggregation of two major components, viz. (a) the service area credit plans of the individual branches and (b) the lending programmes for priority sector in the semi-urban/urban centres by the branches located in these centres.

2.16 The performance under Branch Credit Plans were to be monitored at three levels, viz. (a) by the branches themselves for each of the villages in their service area, in relation to the village credit plans, (b) by the controlling offices of the respective banks and (c) by the Block Level Bankers' Committees. While the performance in respect of both priority and non-priority sectors was to be monitored by the branches and their controlling offices, the monitoring at the BLBC was with reference to priority sector lending.

2.17 With a view to improving the quality of credit planning process under the SAA on a realistic basis and strengthening the credit delivery system, NABARD was entrusted the responsibility of being the sole agency to plan, co-ordinate and monitor the credit programmes of banks and co-operatives at the district level. Accordingly, RBI advised NABARD in October 1989 to set up offices at the district level in all the districts. The role and functions of such NABARD offices were as enumerated below:

(i) The district office of NABARD was to be the principal agency at the district level for co-ordinating the agricultural and rural development activities of various credit agencies such as commercial banks including RRBs, district central co-operative banks and land development banks, and liaising with concerned development departments of the Government. The lead bank officer was to work in close co-ordination with the NABARD district office.

(ii) NABARD district office was to prepare, for each district, a potential linked credit plan (PLP) taking into account the agro-economic and other characteristics, infrastructure facilities including forward and backward linkages, extension, training and education as well as district development plan programmes. Such PLPs were also to contain block-wise details, to help in identifying various types of activities and the extent to which they could be taken up by the credit agencies.

(iii) NABARD district office was to provide necessary guidance and support to the DCCBs and LDBs in preparing their credit plans for each service area.

(iv) With a view to improving the flow of necessary inputs, supply of requisite linkages and removal of bottlenecks, NABARD district office was requested to interact with the district level development officers on a continuing basis.

(v) NABARD district office was to monitor the progress of implementation of service area plans. For this purpose, the Lead Bank Officer was to ensure that the information relating to the credit plans of each service area, agency-wise was obtained and furnished to it at prescribed intervals. On the basis of such data, the NABARD district office was to evaluate the performance of each service area credit plan, agency-wise and provide feedback to the concerned branches offices and their immediate controlling offices.

(vi) NABARD district offices were also to prepare a comprehensive review of the performance of each credit agency in the district on a quarterly basis and furnish the information to the Regional Offices of NABARD and RBI (RPCD), which in turn, were to transmit the same to their respective Head Office/Central Office.

(vii) NABARD, as the main co-ordinating agency for all credit institutions at the district level was required to attend all DCC and BLBC meetings.

2.18 Consequent upon implementation of the Service Area Approach, the role of lead banks was reviewed and specified as follows:

(a) The Lead Bank was to collect the various returns from the bank branches;

(b) Prepare the credit plans for the block/district;

(c) Provide appropriate feed-back to the block/district level fora on the performance of banks under the credit plans;

(d) Co-ordinate the activities of banks and government departments;

(e) Obtain active support and guidance from the District Development Managers of NABARD; and

(f) Ensure conduct of regular meetings of DCC, Standing Committees of DCC and DLRC.

It was expected that the lead bank of the district, the DDM of NABARD and the Lead District Officer of Reserve Bank would work in close co-ordination and consultation with each other.

2.19 Due to allotment of villages to designated bank branches as their ‘service area’, the activities of service area branch were restricted to the villages allotted to them and they were not permitted to provide finance outside their service areas. Similarly, the borrowers’ belonging to these villages were required to approach the ‘designated bank branches’ for their credit needs and were not in a position to avail banking services from other bank branches, irrespective of their satisfaction or otherwise with the services rendered by the designated bank branches. On the basis of the recommendations of the Advisory Committee on Flow of Credit to Agriculture Sector and Other Activities from the Banking System (Chairman: Prof. V. S. Vyas), it was decided to dispense with the restrictive provisions of the scheme, while retaining the positive features of the SAA such as credit planning and monitoring of the credit purveyance. Accordingly, the allocation of villages among the rural and semi-urban branches of banks for lending, except under Government sponsored schemes, were dispensed with, from December 2004. Thus, while the commercial banks and RRBs were free to lend in any rural and semi-urban areas, the borrowers were given the choice of approaching any branch for their credit requirements. Resultantly, the requirement of obtaining ‘no due certificate’ from the service area branch for lending by non-Service Area branch was also dispensed with. However, banks at their discretion were expected to take steps considered necessary to avoid multiple financing. These relaxations were introduced with a view to facilitating rural borrowers to have easy access to institutional credit from any bank of their choice at a competitive price and to provide banks, public and private, with a level playing field.

2.20 Consequent upon dispensing with the restrictive provisions of the SAA, the Annual Credit Plan for each district began to be prepared based on Potential Linked Plans (PLPs) drawn up by NABARD. The particulars of the potential available in different sectors (as indicated in the PLPs) were to be communicated by the convenor of Block Level Bankers’ Committees (BLBCs) to all the branches in the block. The branches, in turn, were to prepare branch credit plan based on such communication, and these branch credit plans aggregated by the BLBC convenor bank into block credit plan. The block credit plans were, in turn, to be aggregated into district credit plan, which were to be eventually aggregated into the State Level Credit Plan.

Structure and Functions of various fora/committees under LBS

2.21 Various fora 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. These fora are also helpful for discussing problems in implementing the credit plans and finding out solutions for them, as also monitoring the progress in implementation of the credit plans. A brief description of the various fora and their evolution is given below.

State Level

2.22 At State level, the SLBC, SLCC and Steering Sub Committees were recommended to be formed under the Lead Bank Scheme. A brief description of each of these is as under:

State Level Bankers' Committee (SLBC)

2.23 This is one of the most important fora under the Lead Bank Scheme and has proved highly effective in quickly implementing policy decisions especially under emergent situations like natural calamities. The State Level Bankers' Committees (SLBCs) have been constituted, following instructions from Government of India in April 1977, as an inter-institutional forum for co-ordination and joint implementation of development programmes by all financial institutions operating in a State. It comprises the representatives of commercial banks (including RRBs), State Co-operative Banks (StCB), Land Development Banks (LDB), NABARD, RBI, etc. Representatives of various organizations from different sectors of the economy like retail traders, exporters, agricultural graduates (who wish to start agri-clinics/ agri-business), farmers' unions and some other organizations, who wish to protect the interest of their members, may also be invited as special invitees in SLBC meetings for discussing their specific problems. The meetings are chaired by the Chairman/Executive Director of the convenor bank. The forum reviews the banking developments in the State with special reference to Annual Credit Plans, Government sponsored programmes, flow of credit to priority sector, branch expansion, Credit Deposit ratio, etc. The SLBCs are also expected to take up for consideration, such issues as have been raised by the member banks or by the State Government authorities and questions or inter bank differences of views and approaches remaining unresolved at the District Consultative Committees (DCCs). The meetings of the SLBC are to be held on a quarterly basis.

2.24 While the SLBCs are expected to address the problems, particularly relating to the State concerned, some of the common problem areas are also to figure as briefly enumerated below :

(i) Regional imbalances in availability of banking facilities

(ii) Regional imbalances in deployment of credit
(iii) Liaison with State Government
(iv) Review of functioning of DCC
(v) Review of functioning of District Credit Plans
(vi) Uniformity in terms and conditions of lending
(vii) Review of credit flow to small borrowers in the neglected sectors, pending loan applications and assistance under various Govt. sponsored programmes
(viii) Review of Credit Deposit Ratio, and
(ix) Any other State specific issues, with the permission of the chair

2.25 The areas of concern regarding SLBCs, which need to be addressed, include the following:

(i) On account of the large number of banks and special invitees etc., the number of participants has increased considerably and the size of SLBC has become unwieldy.
(ii) Some of the new private sector banks are reluctant to participate in SLBC meetings as they have very few branches in rural/semi urban areas and also do not want to accept targets under Annual Credit Plan/Govt. sponsored programmes etc.
(iii) Many times, the senior level officials from banks/Government departments do not participate and the important decisions are postponed for want of appropriate level of participation.
(iv) A long list of agenda items, which leaves little time for discussing the significant issues.

2.26 However, the SLBC is a forum which provides a platform to all the participants / members to voice their grievances and to arrive at a systematic redressal to the operational problems. Now, with increasing level of computerization, it has become possible for the SLBC convenor banks to make available useful information to member banks/public in general through websites. Recently, a few SLBCs have launched their own websites where a lot of useful information has been hosted. The SLBC convenor banks have been advised to explore the possibility of putting greater information thereon. In view of these developments, there is a need to make this State level forum compact and more effective.

Steering Sub-Committee of SLBC

2.27 These are functional sub-committees of SLBC to look into specific areas like agriculture, micro, small/medium industries/enterprises, handloom finance, etc. and evolve a course of action for adoption by the full committee and consists of representatives from few major commercial banks/RRBs, RBI, NABARD, StCB, SLDB etc. The steering sub-committee is expected to meet more frequently than the main SLBC.

State Level Co-ordination Committee (SLCC)

2.28 The SLCCs which started functioning from mid-seventies were intended to serve as the main forum for co-ordination between the State Government and financial institutions and for the review of the performance of banks particularly in assisting credit based development programmes taken up by the State Government. Meetings of the SLCC are convened by the Chief Secretary, Director of Institutional Finance, Registrar of Co-operative Societies, etc. They are generally presided over by the Chief Minister/Finance Minister of the State. The members of SLCC consist of representatives from banks, RBI, NABARD, StCBs, SLDBs and the concerned development departments of the Government. The functions of the SLCC are to make in-depth review of banks' performance in the implementation of various credit based development programmes of Government, matters relating to infrastructure and extension facilities, recovery performance including legislative and administrative support from Government, problems of banking development in the State, etc. The periodicity of the SLCC is yearly, though, the Standing Committee of SLCC is expected to meet at quarterly intervals.

It has however, been observed that SLCCs are defunct since long in several States and no meetings are being conducted.

District Level

2.29 At the district level, District Consultative Committees (DCCs), District Level Review Committees (DLRCs) and Standing Committees of DCCs have been constituted as detailed below:

District Consultative Committee (DCC)

2.30 The District Consultative Committees (DCCs), constituted in the early seventies, marked a significant step towards co-ordination of activities of all commercial banks and other financing agencies on the one hand and Government departments on the other. This is conceived to be a common forum for bankers as well as government agencies/departments to come to a common platform to find solutions to the problems arising hindering the smooth functioning of the various developmental activities under the Scheme at the district level. All the commercial banks, co-operative banks including DCCB and SLDB, RRBs, NABARD, etc. and various State Government departments and allied agencies constitute the members of the DCC. The Lead District Manager (LDM) of the lead bank is the convenor of DCC. The Lead District Officer (LDO) of Reserve Bank is also a member of the DCC. The District Collector functions as the Chairman of this committee. Its membership is generally restricted to 20-25 for effective and meaningful discussions in the meeting.

2.31 A small functional sub-committee of the DCC is constituted in the districts for monthly monitoring of the government sponsored schemes. Various important matters concerning DCC which required urgent attention are to be discussed in this forum.

District Level Review Committee (DLRC)

2.32 Apart from convening DCC meetings, one meeting of DCC every year was held as a District Level Review Meeting (DLRM) with a view to evaluating the progress made in the implementation of schemes included in DCP/ACP, identifying problem areas and devising suitable remedial steps. The Working Group to Review the Working of the Lead Bank Scheme, observed that the

DLRMs had not only served as useful forum for bringing together various organisations participating in the lead bank scheme and non-official agencies connected with rural development but also evolved, in a way, into forums for a general review of performance under DCP/AAP so as to ensure regular participation of all concerned agencies including non-officials in the developmental programmes under implementation in the district. The Group recommended that the frequency of these meetings may be increased and be held on a half-yearly basis instead of yearly basis, as also designate this forum as District Level Review Committee (DLRC) to reflect the nature of its functioning.

2.33 Accordingly, DLRM was renamed as DLRC and has been constituted as a separate forum. The follow up of DLRC's decisions is required to be discussed in the DCC meetings. The association of non-officials with DLRC is considered to be useful in getting feedback of well informed public response to the various programmes, the pace and quality of their implementation by both financial institutions and government agencies. All local MPs and MLAs are also to be invited to the DLRC meetings conducted by lead banks with effect from April 1989. It has also been decided to include the representatives of State Minority Commission, SC/ST Corporation etc. for participation in the deliberations. The representatives of the groups of beneficiaries of rural lending have also been included as member of the DLRC.

2.34 During discussions in question hour in the Lok Sabha on August 11, 2000, the Members of Parliament stated that these committees had more or less become defunct because their meetings were not being convened regularly. As these meetings were considered very important, the Hon'ble Finance Minister assured the House that DLRC would be activated so that these meetings were held once in every quarter and that MPs/MLAs and Zilla Parishad Chiefs invited to participate in these meetings. Consequently, the meetings were sought to be convened on quarterly basis and the Lead Banks have been advised to invariably invite MPs/MLAs and Zilla Parishad Chiefs to participate in these meetings. The banks have also been advised to invariably invite MPs and other public representatives to preside over the functions conducted by them in the districts, such as opening of new branches, distribution of Kisan Credit Cards, etc.

Standing Committee (SC) of the DCC

2.35 The Reserve Bank had issued guidelines to banks for formulation of District Credit Plans for 1980-82, on a uniform pattern, which envisaged constitution of a district level task force under the chairmanship of District Collector, comprising representatives from DCCBs, commercial banks having large number of branches in the district and the district planning officials, to assist the credit planning team/Lead Bank Officer. Subsequently, this Task force was converted into a 'Standing Committee' of District Consultative Committee (DCC) so that the same body which was associated with the formulation of the credit plan could also continuously monitor the progress in its implementation. The membership of the Standing Committee has been enlarged to include the representatives from RBI, Agriculture Refinance and Development Corporation (ARDC) (now NABARD), DRDA, co-operative department, LDB, etc. RBI has not stipulated any guidelines on the composition of the Standing Committee except that it should be a compact forum which could meet as frequently as might be necessary. The periodicity of the Standing Committee meetings has also been left to the exigencies of work but it has been recommended that the meetings should be held at least twice in a quarter. With the extension of the IRDP to all the blocks in the country, review of implementation of the Programme had to be undertaken at frequent intervals and accordingly, RBI issued instructions in August 1983 for convening the meetings of the Standing Committees once in a month. The functions of the Standing Committee, inter alia, covered the following:

(i) Regular monitoring of Government Sponsored Schemes, and
(ii) Any other important matter concerning DCC requiring urgent attention.

Block Level

Block Level Bankers' Committee (BLBC)

2.36 On implementation of Service Area Approach to Rural Lending, Block Level Bankers' Committees have been constituted in each block, with the Lead Bank Officer as the Chairman. This forum aims at achieving coordination between credit institutions on one hand and field level development agencies on the other and helps in the effective implementation of credit plans at the block level. All the banks operating in the block including the district central co-operative banks and RRB, Block Development Officer, and other technical officers in the block, such as extension officers for agriculture, industries and co-operatives are members of the Committee. The Lead District Officer of RBI and the officer concerned from NABARD selectively attend the meetings of the BLBCs. The representatives of Panchayat Samitis are also invited to attend the meetings at half yearly intervals so as to share their knowledge and experience on rural development in the credit planning exercise. The main functions of the Committee are as follows:

(i) To discuss the action plans of different bank branches and their aggregation into Block Credit Plan;

(ii) To resolve operational problems in implementation of the credit programmes of banks, particularly in regard to ensuring availability of inputs and linkages;

(iii) To review the progress in implementation of Government-sponsored schemes;

(iv) To review the implementation of the Block Credit Plan and the provision of other inputs required so that bank credit becomes more productive;

(v) Allocation of service area of a new branch to be opened in the block as and when licence for a new branches are issued by the Reserve Bank of India; and

(vi) Hold meetings at least once in a quarter.

Role of the Lead District Manager

2.37 The Lead District Manager who is appointed by the Lead Bank in the District, plays a key role in ensuring the success of the Lead Bank Scheme. The functions of the LDM include the following:

(i) Identification of potential for formulation of bankable schemes for inclusion in the Annual Credit Plan (ACP);

(ii) Finalisation of District Credit Plan/Annual Credit Plan;

(iii) Allocation of shares of DCP/ACP outlays;

(iv) Monitoring overall progress in physical and financial terms in the implementation of ACP & Government Sponsored Programmes etc.;

(v) Reviewing/monitoring of the support forthcoming from the Government departments;

(vi) Reviewing the progress in disposal of loan applications and ensuring that applications are sent in a phased manner and not in bunches in the last quarter of the financial year;

(vii) Identifying problems/bottlenecks in the flow of credit as also of infrastructure inputs etc. and taking steps to overcome them;

(viii) Overseeing and ensuring smooth release of subsidies;

(ix) Monitoring the recovery position of financial agencies and rendering necessary help for recovery of overdues;

(x) Taking up with State Government/SLBC/SLCC, items/issues which could not be tackled at the district level and ensuring proper follow-up thereof, including security arrangements, lack of infrastructural support, etc.;

(xi) Identification of unbanked centres for opening of branches and reviewing the progress in the opening of branches; and

(xii) Evaluation of the ground level implementation of various schemes and benefits accruing there under to the identified beneficiaries.

Role of Lead District Officer (LDO)

2.38 The Lead District Officer of the RBI would

(i) Act as a catalytic agent for developmental activities in the district.

(ii) Clarify position with respect to various policy guidelines issued by RBI, conduct periodic branch visits and participate in various meetings connected with LBS.

(iii) Bring to the notice of the regulator policy issues at the field level that require examination at the apex level which may have wider ramifications.

(iv) Associate with the planning process at the district level.

(v) Facilitate financial inclusion and financial literacy activities in the district.

Role of District Development Manager (DDM)

2.39 The following are the broad areas to be looked after by the DDM of NABARD.

(i) Overall monitoring of the developmental plans in the district, particularly the implementation of the ACP and MAP.

(ii) Close involvement in the planning process at the district level.

(iii) Participation in various meetings associated with the LBS.

(iv) Facilitating financial inclusion and literacy activities in coordination with the concerned agencies.

Chapter III

Objectives and scope of the Lead Bank Scheme

Objective

3.1 The Lead Bank Scheme (LBS) has largely achieved its original objective of bringing about overall improvements in branch expansion, mobilisation of deposits and lending to the priority sectors, especially in rural/semi urban areas. The population per branch in the country has declined from 63 thousand to 16 thousand and in the rural and semi urban areas from 82 thousand to 17 thousand during the period June 1969 to March 2007. Credit to agriculture, SSI and other priority sectors has increased from 14 per cent to 37 per cent of bank credit and represents an annual growth of 21 per cent. Rural and semi urban credit growth clocked an annual growth rate of 19 per cent per annum between 1993 and 2007. The number of savings bank accounts per 100 adult population increased from 7.1 in 1971 to 48.9 in 2007 and the number of loan accounts from 1.3 to 12.4.The LBS has been able to mould itself to meet the emerging needs as perceived by the concerned State Governments and banks in each State. Being the only forum where the top officials of banks and government meet at the State/district level to discuss issues of mutual interest, the utility of SLBC/DCC as a forum of communication and coordination has been its biggest achievement. Based on the response to a questionnaire circulated by the Committee and discussions held with State Governments, banks, academics, NGOs and other stake holders, **the Committee concluded that the Scheme is useful and needs to continue.**

3.2 In the initial years of the LBS, branch expansion in unbanked/ underbanked areas and credit planning was pursued vigorously but over the years there was a significant slowdown in the process with the result that the total number of rural and semi urban branches in the country has remained almost stagnant since 2001.

Branch expansion particulars of scheduled commercial banks:

Year	No. of rural branches	No. of semi urban branches	Total
1969 (June)	1833	3342	5175
1991 (March)	35206	11344	46550
2001 (March)	32562	14597	47159
2005 (March)	32082	15403	47485
2007 (March)	30551	16361	46912

(Source BSR:RBI)

3.3 At present, the various fora under the LBS are generally being used for review of State sponsored credit linked subsidy schemes, trends in credit deposit ratio, recovery performance and other related matters. Over time, the Annual Credit Plans have been based on targets which are derived from extrapolating past achievements and are invariably fixed at modest levels considered acceptable/achievable. In the backdrop of the Lead Bank Scheme primarily being used for review of performance under government sponsored schemes, the Committee observed that the share of Government sponsored schemes in total priority sector lending was only 3.88%, in terms of number of accounts and 0.43% in terms of amount outstanding. In terms of credit to weaker sections, the share was 7.79% and 2.73% respectively. (Annex I indicates the State-wise position). Thus disproportionate time of DCC/SLBC is spent on discussing government sponsored schemes. As lending to priority sectors and weaker sections is significant in securing inclusive growth, **the Committee recommends that the SLBC and the various fora under LBS should focus on addressing the 'enablers' and 'impeders' in achieving greater financial inclusion and flow of credit to the priority sectors and weaker sections, while continuing to use the fora for monitoring implementation of subsidy linked government sponsored schemes.**

3.4 The Committee also noted that the recent data available from various sources showed that large sections of rural population and urban poor still do not have access to banking facilities. Out of nearly 6 lakh inhabited villages in the country, 2.3 lakh villages have a population of over 1000. There are around 47,000 branches of scheduled commercial banks at rural and semi-urban centres. Penetration of banking in several parts of the country is still limited. This has also inhibited the development of payment system in such parts. Central and State Governments are also desirous of making payments only through bank accounts and post offices to ensure better governance and transparency. The underlying thrust of the RBI policy on use of Business Correspondents, mobile payments, POS outlets is to allow "cash in cash out" transactions only at banking outlets. Hence it is critical that banking services is seen as a public good and is accessible to all sections of population and regions of the country at affordable cost. At the same time, the Committee would like to emphasize the role of the State Government in facilitating such financial inclusion. At a deeper level, mere access to banking outlet cannot lead to inclusive growth. The State development machinery has to ensure the availability of backward and forward linkages to ensure that credit is gainfully deployed and income levels enhanced.

3.5 The Committee is of the view that the original objective of the Scheme of achieving greater banking and credit penetration by the formal financial institutions is still valid and should be reiterated. The overarching objective of LBS shall be to enable banks and State Governments work together to achieve inclusive growth.

3.6 The Committee also noted the changes in the external environment that warrant changes in strategies and approaches under the LBS. With the onset of financial sector reform in the 1990s, concerns about controlling NPAs and ensuring business growth and profitability have become key drivers of the initiatives of the banking system. Public sector banks have to compete with private sector banks to attract capital funds for their growth. This makes them sensitive to the impact of various policies on their profits. The share of private sector banks is also growing in the system and there is a need for them to be more involved in the Lead Bank Scheme. Further, urban areas are growing and the extent of financial exclusion in these areas is significant. There is therefore a need to address the issues of banking for inclusive growth in urban areas as well. ICT has brought about a revolution in all aspects of financial services and use of

ICT solutions and mobile banking for furthering the objectives of the LBS will need to be explored sufficiently. The SHG bank linkage scheme and the MFIs have demonstrated their unique ability to deal with the last mile issue and their coverage of low income families through micro finance has been notable. Bank lending through SHGs and MFIs as also using the business facilitator /business correspondent model are developments that need to be brought within the purview of the LBS. Initiatives for financial inclusion, financial literacy and credit counseling, credit information, provision of 'credit plus' services, skill development, establishing linkages to markets, building reliable land records, and building infrastructure for greater physical and digital connectivity are matters that are of critical importance in this context.

3.7 From the side of the Government, the National Rural Employment Guarantee Act (NREGA) scheme and other social security schemes are making available funds to the poor households. Further, under the 73rd amendment to the Constitution of India, greater decentralisation of expenditure to lower levels of governments is envisaged. This will result in large funds flow to Panchayati Raj Institutions, which need to put suitable mechanisms in place to manage these funds, increase credit absorption capacity, etc., besides developing appropriate skills for project and scheme formulation.

Scope

3.8 In the light of the above, **the Committee recommends that the scope of the Scheme may be broadened to specifically cover financial inclusion, role of State Governments, financial literacy and credit counselling, 'credit plus' activities, formulation of time bound monitorable action plans to facilitate 'enablers' and remove /minimise 'impeders' for banking development for inclusive growth and debt settlement and grievance redressal mechanisms.**

Financial Inclusion (FI)

3.9 Many States have already included achieving 100 per cent financial inclusion as an express objective within the framework of the LBS and DCC. As at the end of December 2008, out of 342 districts identified for 100% FI, 158 districts have reported having achieved 100 per cent financial inclusion i.e. all households desirous of opening a bank account have been able to do so. However, the external evaluation studies recently conducted by RBI have revealed that in many cases, these accounts, after having been opened, have not been operated upon, mainly because of the distance to the branch where such account is opened. The distance factor has also inhibited the use of bank accounts for distribution of Government payments such as under the NREGA.

3.10 Considering the overarching need to provide a banking outlet at locations closer to the rural population, the Committee recommends that in every district, a sub Committee of the DCC may draw up a road map to provide banking services through a banking outlet at every village with population of over 2000 at least once a week on a regular basis. Such a banking outlet could be through various forms viz. mobile banking, extension counters, satellite offices as also business correspondents (BCs). By December 2009, the sub committee should come out with a time frame within which this can be achieved but such time frame should not be later than March 2011. In States where the existing penetration is good, the targets could be brought forward appropriately.

3.11 Once such a road map is prepared and is implemented, it should be the endeavour to ensure that 100% financial inclusion is achieved by encouraging the opening of a bank account by all households in the villages with population of over 2000 and nearby villages. The mere provision of no frills account is not sufficient and should be backed by GCC/simple overdrafts. Savings, insurance, loan and remittance products backed by financial education should be a part of achieving deeper financial inclusion.

3.12 A monitoring system may be instituted by the DCC to periodically assess the position regarding achieving the roadmap and report the same in each meeting of the DCC.

IT based Financial Inclusion

3.13 Various options for IT based financial inclusion are now available in the country. These include issuing biometric smart cards, devices with the business correspondent where the account holder's finger print details are stored and banking services are rendered on basis of identification at the specific device or using mobile phones for access to banking services. Hence, in achieving banking penetration, **banks need to take the maximum advantage of available IT solutions. Since State Governments are also keen to disburse NREGA and social security funds through bank accounts, partnerships can be explored between banks and State Governments and leverage the same infrastructure for achieving financial inclusion. The funding arrangements available under Financial Inclusion Technology Fund (with NABARD) or other options such as the support offered for distribution of Government payments by RBI may be explored for this purpose.** RBI has formulated a scheme wherein it would partially reimburse the banks, the cost of opening accounts with bio-metric access at the rate of Rs.50 per account through which payment of social security benefits, NREGA payments and payments under other government benefit programmes would be routed. The incentive package would be dependent on the State Governments willing to pay to the transacting banks, a mutually agreed transaction fee. The reimbursement by RBI would be available for an agreed period. Since the State Governments would in any event have to incur cost for distribution of such payments, they should be willing to reimburse the costs incurred by banks in undertaking the transactions -while the initial cost of opening the account can be partly met through the RBI offer of Rs.50 per account.

Business Correspondent Model

3.14 The BC model has the promise to provide the mechanism to achieve the objective of providing banking facility to every village of population in excess of 2000. Currently, there are some constraints in its operation. The Committee notes that in the Annual Policy Review of 2009-10, Reserve Bank has announced that it will constitute a group to review the eligibility of persons who can act as BCs. While welcoming this, the Committee would highlight the need to take into account the experience of a few large BCs, the need to facilitate recycling of cash, apart from the regulatory and consumer protection perspectives.

3.15 The Self Help Groups (SHGs) which have been successfully linked to the banks and which have matured have proven their ability to manage accounts and handle money. The local flavour of the SHGs and their intimate knowledge of the areas in which they operate as also their association with banks make them a good choice to act as business correspondents. **RBI may consider allowing banks to use mature SHG group leaders as BCs with IT solutions in place to ensure requisite safeguards**.

3.16 Similarly, although permitted, PACS are not being used as BCs, concerted efforts may be made for using PACS as BCs where such PACS are functioning reasonably well.

Upscaling of SHG bank linkage model

3.17 NABARD may make a detailed review of the SHG-bank linkage programme and come up with revised guidelines to facilitate migration of members of mature groups to become micro entrepreneurs and increase the scale of lending through such groups. The group members should be able to access larger loans from banks in their individual capacity while retaining the group solidarity and membership.

Role of State Governments

3.18 Without the active support of State Governments, it is not possible for the banking system alone to achieve the objective of banking development for financial inclusion. State Governments' support is necessary for the following:

(i) Provision of infrastructure

3.19 If the objective of effectively achieving banking penetration in all parts of the country is to be achieved, it is necessary that the State Governments ensure road and digital connectivity to all centres where penetration by the formal banking system is required. The achievement of such connectivity may be monitored by the sub group of the DCC referred to above. Full advantage may be taken of the special scheme offered by Reserve Bank to provide satellite connectivity through small V-SATs in remote areas. RBI has decided that, to begin with, the scheme would be implemented in the North Eastern States. It has also been decided that banks in the North Eastern States availing of this facility with 100% reimbursement for lease rental, shall be required to offer electronic funds transfer facility free of charge to their customers.

3.20 Other infrastructure support includes ensuring conducive law and order situation, providing adequate security, uninterrupted power and water supply and irrigation. In centres where bank branches are required by the State Government for currency, forex and government business, and banks are constrained to open branches due to lack of infrastructure, absence of viability and security concerns, State Governments will need to extend support by providing premises, security etc.

(ii) Role in Government sponsored schemes

3.21 Except programmes where the loan is linked to some preliminary training, there is a disconnect between training programmes and loan eligibility /availability. In the implementation of subsidy linked credit schemes, State Governments may consider the following issues:

- Most of the programmes have an annual timeframe and the current year's (uncovered) trainees do not get any preference for loans in the following year.
- Listing out negative activities for loan purposes is very important. e.g., the loans given under PMRY (now PMEGP) have disproportionately high percentage of loans for small businesses (mainly kirana shops) with no regard to viability (one village may be sanctioned loan for 3-4 kirana shops), while small manufacturing units hardly come up.
- Centralized information on defaulters and recovery status needs to be prepared.

- Sponsoring departments need to ensure adequate due diligence in selection of beneficiaries instead of simply forwarding all the applications to the banks.
- Need to bring in participation by private sector banks in various government sponsored schemes.

(iii) Publicity and promotional efforts

3.22 The State Government machinery may support the efforts made by banks for financial literacy. Towards this, State Government may proactively provide the assistance of the machinery especially at the grass root level such as schools, panchayats, etc., for dissemination of the products and services of the banks.

(iv) Disbursal of government benefits through bank accounts

3.23 Disbursal of government benefits through bank accounts will facilitate active operation of such accounts apart from ensuring that full benefits reach the beneficiaries. In order to reduce use of cash/cheques, State Governments may take initiative to make their bulk payments like salaries, pensions only through mechanisms like ECS as they are cost effective and operationally efficient. In addition, as indicated above, the use of IT solutions for disbursal of NREGA and social security payments such as National Old Age Pension Scheme through bank accounts may be expedited taking advantage of the incentive scheme introduced by RBI for funding a part of the cost of opening such bank accounts.

(v) Credit culture

3.24 If banks have to play their due role in ensuring inclusive growth, Governments will have to ensure that a conducive credit culture is maintained and nurtured. For this, it is critical that rather than focussing just on the quantitative aspects of achieving targets for lending to specified sectors or under various schemes, due emphasis should be given to qualitative aspects of lending. This is possible only where sufficient efforts are made to ensure forward and backward linkages for activities funded under the schemes. There should also be sufficient emphasis in the public policy on regular repayment of bank loans. Schemes for dealing with distress in case of natural calamities and other events are already in existence and can be supported with Government assistance in extreme cases.

The role of the Governments in ensuring a conducive credit culture is critical. Support to banks for recovery drives may be extended by the State Government and the recovery teams may include Government officials. Cases of wilful defaults/ absconding/ misutilisation of loan/subsidy amount in respect of Government Sponsored Schemes, etc. should be treated as an economic offence and dealt with accordingly.

Financial literacy and Credit Counselling

3.25 Each SLBC Office may have a dedicated financial literacy division to promote financial literacy in the State. Lead banks are expected to open a Financial Literacy and Credit Counselling Centre (FLCC) in every district where they have lead responsibility. These issues are covered in detail in Chapter V.

'Credit plus' activities

3.26 The DLCCs/SLBCs may monitor initiatives for providing 'credit plus' services by banks and State Government. These initiatives are aimed at capacity/skill building of prospective small entrepreneurs/borrowers and enhancing the farmers’ capability of absorbing new technology and practices. 'Credit plus' activities such as those providing skills and capacity building to manage businesses and linking to markets are required to be taken up on a much larger scale. The Planning Commission has now approved the proposal of setting up of RSETIs (RUDSETIs) in all districts of the country and a sum of Rs. 100 crore has initially been ear-marked for the purpose. As per the roll out plan, the aim is to establish one RSETI in each district in the country by 2011-12, out of which approximately, 100 would be established in 2008-09 itself. The Ministry of Rural Development has appointed NIRD as 'Nodal Agency' for implementing the scheme. The lead banks would need to take expeditious steps to set up RSETIs as per the plan projections.

As recommended by the Working Group on Rehabilitation of Sick SMEs (Chairman: Dr. K.C.Chakrabarty, April 2008), a scheme for utilising specified NGOs for providing the following services to tiny micro enterprises may be launched by the Government:

a. Training in basic accounting principles and credit management
b. Training on marketing, technology, design development, packaging, quality control etc
c. Creation and development of institutions of borrowers like cooperatives etc
d. Participation in exhibitions and marketing fairs
e. Development of common facilities for a group
f. Providing financial assistance for infrastructure creation

Since the guidelines relating to setting up of RSETIs have already been issued, the Committee recommends that the above services could be provided by RSETIs.

Preparation of Monitorable Action Plan (MAP)

3.27 The present planning process in vogue envisages preparation of PLPs by NABARD for all the districts of the country. There is unanimity that the PLP is a very comprehensive and useful document for rural development. These plans are prepared by October-November every year and provide inputs both to the district planning authorities for preparing their budgetary plans and to the lead banks for preparing the District Credit Plans (DCP) respectively. It is, however, observed that there is a wide divergence between the PLP and the DCP.

3.28 On the one hand, the PLPs need to be strengthened and on the other hand, the district credit planning machinery requires to be made more effective. The PLP should be incorporated into the DCP with the NABARD and Lead Bank Offices taking into account the commitments made by the various Departments of the State Government regarding backward and forward linkages, provision of infrastructure, etc. There is therefore a need to have a Monitorable Action Plan (MAP) which will constitute the agricultural sector in the ACP which may be prepared by NABARD, taking into account the inputs given by the State Government.

3.29 In the MAP, NABARD may also identify strategic investments in agriculture and allied activities depending on the comparative advantage and incorporate schemes that may be taken up by banks for financing. In particular, NABARD may focus on districts identified by the Committee on Financial Inclusion (Chairman: Dr. C.Rangarajan, January 2008) as being financially excluded.

3.30 The Monitorable Action Plans (MAPs), among others, should clearly indicate the proposed coverage for SCs/STs, minorities and promotion of SHGs in the district. The MAP should be available by March of each year. Accordingly, the ACPs should fully reflect the targets/projects/schemes incorporated in the MAP. These should also be incorporated in the branch targets, which should be monitored by Regional Offices of the banks. Specific bankable schemes may be included in the MAPs incorporating assistance from the State Government for vulnerable groups and areas as having large population of financially excluded.

Formulation of Banking Sector Development Plan at the District/ State level

3.31 The Committee recommends formulation of a one time comprehensive State level /District level Banking Sector Development Plan (BSDP) for all districts on the lines recommended for the North Eastern Region by the Committee on Financial Sector Plan for North Eastern Region (NER) (Chairperson: Smt. Usha Thorat: July 2006). These plans at State and district levels will indicate roles and responsibilities of banks, State Government and other stakeholders to ensure banking development for inclusive growth. The primary objective of these plans would be to identify "enablers" and "impeders" for banking development and evolve strategy to facilitate banking development for inclusive growth. These plans would also list action required to be taken and committed to by the stake holders.

3.32 The State level plan may be prepared by a sub committee which could be headed by convenor of SLBC and include officials from the State Government, RBI and NABARD besides the major participating banks. At the District level, the

LDM may be the convenor and prepare such a plan. RBI and NABARD may provide necessary guidance.

3.33 The BSDP for a particular state/ district may, inter alia, cover the following:

- **Financial Inclusion:** The plan should include a definite road map for providing requisite infrastructure and weekly banking outlet at every village of population of over 2000 not later than March 2012, through mobile banking, BC model or any other channel permitted by RBI. As the various evaluation studies have shown, the extent and quality of financial inclusion depends not only upon accessibility to banking outlets, but also on ensuring provision of simple savings, loans, remittance and insurance products. The various IT based solutions may be adopted to bring down costs and improve coverage. A sub committee of SLBC may be set up for adoption of IT solutions for disbursal of government benefits including NREGA payments in each State.
- **Outlets for currency chests, forex and government business**: The plan should identify centres requiring currency chests, branches handling forex business and government business. Where such branches are considered essential by the State government but are not considered commercially viable by banks, and the Government is prepared to extend support for opening of the branches, the names of centres may be forwarded to Reserve Bank's Regional Office concerned to explore how such branches can be opened.
- **Extending outreach of SHGs and MFIs:** NABARD may assess the potential for facilitating formation of SHGs in districts identified as significantly excluded and recommend a plan for formation of SHGs with linkage to nearest branch. Similar assessment could be undertaken by NABARD and SIDBI for mapping the MFIs operating in the area that could be considered by banks for financial support. The details could be circulated by NABARD to the bank branches operating in the district.

- **Devise products appropriate to local ethos:** The plan may take into account specific financial products suited to local conditions and customs, devised by sub-group of SLBC/DCC which could be offered by all banks at as many outlets as possible.
- **Affordable insurance along with no frill accounts and OD/GCC:** The plan may specifically incorporate affordable life, health, livestock and asset insurance as part of menu of products offered by way of 100% financial inclusion. However, there should be no compulsion on the customer in this regard. Representatives of insurance companies could be specifically invited by the sub committee to explain the products and furnish necessary details.
- **Annual sensitisation workshops:** The banking sector development plan may include an annual programme for conduct of sensitisation workshops for bank, government and NGO functionaries in each district for furthering the objectives of the Lead Bank Scheme. LDMs may take initiatives for conducting such workshops.
- **Publicity and awareness:** The plan may include a well chalked out programme with definite timeframe for carrying out publicity and awareness campaign on the objectives of the banking sector development plan, the facilities available to the bank customers under financial inclusion plans and the feedback and redressal mechanism.
- **Financial literacy and counselling centres:** A road map for setting up and monitoring financial counselling centres for each district should form a part of the plan.
- **Micro and small enterprises:** The plan should contain a separate chapter on the key actions to be taken by different players for facilitating credit to the MSE sector. SIDBI can provide methodology for preparation of such plan. The recommendations made by the National Commission for Enterprises in the Unorganised Sector (Chairman: Dr. Arjun Sengupta, November 2007) and the Chakrabarty Working Group may be utilised in preparing the plan for MSE units in each district.
- **Performance monitoring:** A suitable matrix may be devised as part of the BSDP for monitoring the performance of the various stakeholders

under this plan. The parameters should include the commitments made in the plan by banks, government and other stake holders such as RBI, NABARD and others. The matrix devised for the NER report could be taken as an illustration/model **(Annex -II)**

Monitoring and evaluation

3.34 The District Banking Sector Development Plan shall be monitored at quarterly intervals in the DCC meetings, through a core committee convened by District Development Manager of NABARD with Chief Executive Officer of the Zilla Parishad as chairman. The SLBC may evolve a suitable format for monitoring the State Banking Sector Development Plan and monitor the actions entrusted to each stake holder. It may also consider asking external evaluation agencies to carry out specific surveys by adopting standard methodology for ascertaining and giving feedback on the situation at the ground level. Conduct of regular social audits may also be considered in this regard.

Implications of 73rd Amendment to the Constitution of India

3.35 The 73rd amendment to the Constitution of India (1992) focuses on people’s planning and ensures grass root participation in governance. The amendment makes the Gram Panchayats a people's body and entrusts them with the responsibility of various development functions.

3.36 The amendment has introduced a three-tier Panchayati Raj System across the country. Article 243 G of the Constitution, introduced through the above amendment, requires the State Governments to empower the Panchayats to function as institutions of Local Self Governments so that they can prepare and implement plans for economic development and social justice.

3.37 Further, Article 243 ZD provides for the constitution of District Planning Committees (DPC) in each district with at least 80% of the members being elected representatives of Panchayats/Municipalities. DPCs are required to give guidance to the district machinery and local bodies about the direction of development efforts in the district keeping in view (i) the resource endowment of the area (ii) felt needs of the people and (iii) lead sectors of the district economy. The DPC is expected to take lead in development of a long term vision for the district through a process of consultation with experts, elected representatives, officials of line departments, civil society organizations, etc. Based on the vision, five year plans and annual plans are to be prepared which would reflect the sectoral planning for livelihood issues.

3.38 The Planning Commission has decided that the District Planning Process should be an integral part of the preparation of State's Eleventh Five Year Plan and issued detailed guidelines in this regard on August 25, 2006. The Planning Commission has also stipulated that the sum total of the outlay on district plans in a State may be around 40% of the gross State Plan outlay.

3.39 The Committee suggests that while preparing the credit plans under the Lead Bank Scheme, the annual plans/ five year plans prepared under the District Planning Process by the DPC may be referred to for having a dovetailed approach towards the development process as envisaged by the gram panchayats/ municipalities.

Other Aspects

Land records, collateral and recovery machinery:

3.40 As the level of borrowing increases with growth in the priority sector, banks will need greater assurance regarding the recovery laws and machinery in order that these are in consonance with enforcement of contracts. At the same time, it is essential that the process of recovery is transparent and fair and that harsh measures are not adopted. As the land records, tenurial rights and social capital or collateral issue may be different in various States, the Committee suggests that a special Group of each SLBC consisting of bank and Government representatives undertake a detailed analysis of the various land ownership and tenurial systems prevailing in the State and make recommendations for developing a computerised data base on ownership and lease holdings including encumbrances thereon. This would serve as useful information for purposes of facilitating bank credit. The recommendations should cover specific actions that have to be taken to create transferable rights in the land or documents that will certify that the borrower has the right of the usufruct on the land as in case of oral lessees and sharecroppers this often acts as obstacle to bank lending.

3.41 Other ways for providing credit enhancements and guarantees may also be explored and suggestions made by the group. Social capital is found to be effective collateral in lending to the poor. Joint Liability Groups and Self help Groups have worked well. In order that the recovery climate is strengthened, the sub group may also review the recovery laws, machinery and recommend suitable measures for inducing a better recovery mechanism and credit culture. The SLBC may consider the recommendations of the sub group and take suitable follow up action.

Focus on outcomes in case of Government sponsored schemes:

3.42 The committee noted that Government departments give top priority to physical annual targets and expenditure is the measure of performance. The targets for the various schemes close at the end of the year and start afresh every year. The performance of the scheme is generally measured in relation to the physical achievement and the qualitative aspects are often pushed to the background. This goes against the basic tenet of banking where the quality of assets financed through bank finance should get utmost importance and often leads to creation of sub-standard assets, resulting in high NPAs in loans under the Government sponsored programmes.

3.43 It is suggested that banks should involve themselves actively in the selection of beneficiaries and focus on the bankability and viability of the scheme in the overall interest of ensuring better recovery and ensuring that the subsidy is effectively used for the intended purpose. Governments should evaluate outcomes rather than whether the amounts allocated are fully spent.

Involvement of NGOs, Corporates, MFIs and Academics

3.44 The activities of NGOs in facilitating and channelling credit to the low income households are expected to increase in the coming years. Several corporate houses are also engaged in Corporate Social Responsibility activities for sustainable development. Bank's linkage with such NGOs/Corporate houses operating in the area to ensure that the NGOs/Corporates provide the necessary 'credit plus' services can help leverage bank credit for inclusive growth. Success stories could be presented in DCC/SLBC meetings to serve as models that could be replicated.

3.45 Several institutions and academics are engaged in research that has implications for sustainable development in agriculture and MSME sectors. There are others which conduct studies on development issues. Engaging with such research institutes and academics would be useful in bringing in new ideas for furthering the objectives of the Lead Bank Scheme. It would, therefore, be useful if the SLBC/DCC identifies such academics and researchers who could be invited occasionally to the meetings of these bodies, both for adding value to the discussion and also be associated with studies and product formulation for the State/ district. Such experts could also be invited for the meetings of the sub-committees of SLBC/DCC as indicated in Para 4.4, 4.5 and 4.13 of Chapter IV.

Greater role for private sector banks

3.46 There is a general feeling that the Lead Bank Scheme covers only the public sector banks. The major allocations for agriculture and non-farm rural sector as also under government sponsored schemes are predominantly to these banks. Further, attendance by private sector banks in the various fora under the LBS is poor. It was, however, expressed by the participants at the meetings of the Committee that resources are being taken away by the private sector banks who do not participate in any of the Government schemes to benefit the lowest strata of society. In this connection, some State Governments seem to follow a deliberate policy of allocation of funds /deposits under various schemes depending on the performance of banks in ACPs and Government sponsored schemes, which could be replicated in other States.

3.47 The Committee is of the view that State Governments should be able to leverage on the benefits of undertaking government business by banks to incentivize in Government sponsored schemes and programmes which may not always have similar benefits. Hence private sector banks may actively involve themselves with the DCC and Action Plans where they have a presence and extend their services through permitted channels in under-banked and unbanked areas. This will also help these banks in achieve their priority sector targets.

Inclusion of urban areas

3.48 At present, the urban areas are largely outside the Lead Bank Scheme. However, the problems of financial exclusion are quite acute amongst the urban poor. Hence, there is a need for public policy intervention for improvement of financial services in urban areas.

3.49 The unanimous view during the interactions with State Governments and banks in different regions of the country was that LBS should be extended to cover urban areas to address the problems of a large migrant population of urban poor. Urban slums and low income localities need special focus and forum of banks/municipalities and NGOs working in the area. KYC issues tend to inhibit financial inclusion and need addressing, especially in urban areas. The Committee suggests that banks having the largest presence in each city with more than one million population (to start with) may take the leadership in convening a meeting of bankers and allocating responsibility for various wards to different banks, to ensure that all urban households have easier access to bank accounts and banking services. As the issues in rural and urban areas vary widely, this forum will have to function quite differently from those under the LBS. The Regional Directors of RBI at different centres could confer with the major banks and decide who will be the convenor bank for such a forum. As urbanisation is rapidly growing and the extent of exclusion in urban areas is significant, the objective of achieving 100 per cent financial inclusion in urban areas, would have to address issues of KYC, remittances and credit needs of the unorganised sector. In urban areas, the State government machinery may assist in the opening of bank accounts where there are large settlements of households and obtaining proof of address and identity may be difficult. The Committee would urge that RBI and GOI may together work on ways to simplify KYC norms for opening bank account for small value accounts viz. where balances do not exceed Rs.50,000/-, annual credits do not exceed Rs.1,00,000/- on the basis of a affidavit and photograph, as indicated in the Mid-term review of RBI Annual Policy 2005-06. Till such time, banks may take advantage of the simplified norms for KYC for such accounts contained in the RBI circular of August 23, 2005.

Chapter IV

Strengthening of various fora

4.1 The Committee examined the functioning of the various fora/ committees under the Lead Bank Scheme and the following suggestions are made:

Strengthening of the State Level Bankers Committee

4.2 The Committee observed that in States where the Chief Minister or the Finance Minister takes active interest in the SLBC and is present in the meetings, the SLBC has been more effective as a coordination forum. The Committee also observed that even if the Minister is not present, the presence of the Chief Secretary ensures presence of Secretaries of all critical banking related departments thereby ensuring better outcome of such meetings. The Committee, therefore, suggests that the Chief Secretary should co-chair the SLBC with the CMD of the convenor bank. The Chief Minister/ Finance Minister should be invited to attend the meeting and where he/she does so, may be requested to chair the same.

4.3 The agenda for the SLBC has been found to be unwieldy and lacking focus. Disproportionate time is spent in the DCC/SLBC meetings in discussing whether banks have achieved targets under Government sponsored schemes, while other development initiatives are hardly discussed. In Chapter III, the Committee has recommended that the SLBC should formulate a Banking Sector Development Plan focussing on 'enablers' and 'impeders' of banking development for inclusive growth delineating the specific actions to be taken by the various stakeholders viz. banks, government, RBI, NABARD, SIDBI, etc. Hence, the main agenda of the SLBC should be to focus on the implementation of the Banking Sector Development Plan for inclusive growth.

4.4 In view of the large membership of the SLBC, it would be desirable for the SLBC to constitute sub committees for specific tasks. In addition to the sub committees already in existence, these could include IT enabled financial inclusion, action plan for financial literacy, improvement in land records/ other evidence for land ownership/occupation, improving recovery systems, promoting bank/SHG linkage and addressing issues relating to provision of microfinance in the State, etc., which may examine in-depth the specific issues and come out with solutions/ recommendations for consideration of the SLBC. The composition of the sub-committee and subjects/ issues to be deliberated upon will clearly vary from State to State and may be decided by the SLBC. One of these sub-committees should be entrusted with evaluation/impact assessment studies in regard to various development initiatives taken by the Government/ Reserve Bank/ other apex level institutions/ banks in the State.

4.5 The Committee is of the view that in order to keep the SLBC more compact and purposeful, each meeting of the SLBC could focus on a specific issue/theme such as agriculture, needs of migratory population, NREGA, small scale industry (organised) and MSE (unorganised), etc. so that the specific issue selected gets discussed thoroughly and follow up action taken.

4.6 The Committee observes that the various fora at lower levels should give adequate feedback to the SLBC on various issues that needed to be discussed on a wider platform. Important issues/ decisions of the BLBC, DCC and DLCC should be placed before the next meeting of the SLBC, so that these receive adequate attention at the State Level.

4.7 The Committee recommends that secretariat/offices of SLBC should be sufficiently strengthened and the SLBC convenor bank should have a full fledged secretariat for effective discharge of its functions. The secretariat should be well equipped with staff and provided all necessary facilities to help in effectively discharging its duties. As there would be an increased role for the SLBCs in dissemination of instructions, it is important that there are enough personnel and infrastructure.

4.8 An annual conference of Chief Secretaries/Development Commissioners, CMDs of SLBC convenor banks may be convened by the Reserve Bank to discuss important policy issues in the area of financial inclusion and priority sector lending.

4.9 Similarly at the State level, DG/ED of RBI may participate in a special SLBC meeting to discuss State policy issues, atleast once a year.

4.10 Staff at the operational level of banks and government agencies associated with implementation of the Lead Bank Scheme need to be aware of latest developments and emerging opportunities. There is need for staff sensitisation/ training/seminars, etc. at periodic intervals on an ongoing basis. Training institutions of individual banks together with national level training colleges of RBI and NABARD should develop suitable modules for this. CAB,BIRD,NIBM could take initiative in conducting training of trainers (TOTs) for evolving the modules and disseminate to banks training establishments.

4.11 As implementation issues are common across States, best practices and experiences of SLBCs in different States should be shared among themselves on a continuous basis. The websites of the SLBCs may be regularly updated and used for this purpose.

4.12 A small committee, comprising representatives of RBI, Central Office, IBA, and the Regional Director RBI of the State concerned may review the performance of the SLBC Convenor banks and lead banks with a view to recommending the continuance of the assigned responsibility to the respective banks.

Revitalizing of the DCCs

4.13 During the discussions with bankers, etc., the overwhelming view expressed was that the effectiveness of the DCC depends on the dynamism and commitment of the District Magistrates (DM). At some centres, it was felt that there was a disconnect in thinking between the banks and the district level authorities as their priorities are different. The Committee, therefore, recommends training and sensitization programs for the DMs and other State Government functionaries. Adequate training and sensitisation at the induction level may help in resolving this issue. The IAS probationers may be given two to three weeks orientation on Lead Bank Scheme before or immediately after taking charge in the districts; such orientation can be provided by attaching them to

SLBC convenor's office in the State to which they are posted. Similar training may be provided for LDM in State development departments as soon as he is posted as LDM.

4.14 Sub Committee of DCCs may be set up to work intensively on specific issues. For example there could be different sub-committees to deal with role of SHGs/MFIs, IT based financial inclusion, MSE sector, etc.

Improving the effectiveness of the Lead District Manager (LDM).

4.15 The role of LDM should cover the following:

(i) Convening:

- Meetings of the DCC and DLRC.
- Periodical meetings of DDM/LDO/ government officials for resolving outstanding issues.
- Annual sensitisation workshops as envisaged in the banking sector development plan for banks and Government officials where NGOs/PRIs can also participate.

(ii) Facilitating:

- Setting up of Financial Literacy and Credit Counselling Centres (FLCCs) by banks.
- Grievance redressal through organising quarterly awareness and feedback public meetings in districts.

(iii) Credit planning at the district level through preparation of the annual District Credit Plan.

(iv) Monitoring implementation of the annual credit plan. The LDMs to concentrate on core functions of credit planning and monitoring for stepping up credit flow. To reduce the burden of the LDM, the MIS as indicated in Para 6.9 of Chapter VI may be adopted.

Empowering LDM and strengthening his office

4.16 The committee has observed that in several districts of the country due attention was not paid to adequately equipping the Lead District

Managers so as to enable them to discharge their duties effectively. While generally these officers were poorly staffed with limited infrastructural support in the form of telephone connectivity, conveyance facilities, etc. it was also noticed that the staff posted to the office were frequently being utilized for carrying out general branch banking activities by the controlling office of banks to which they were attached. The committee strongly deprecates this phenomenon and makes the following recommendations in this regard:

(i) LDM's office being the focal point for successful implementation of the Lead Bank Scheme, due care should be taken in selecting the incumbent and the posting should be made a coveted one.

(ii) He should be at senior level, preferably in Scale V, but in any case not below Scale IV.

(iii) In order to enable the LDM to discharge his duties in an efficient manner, he should be provided with necessary support staff and infrastructure, commensurate with his role and responsibilities.

(iv) LDM should set up a mechanism for ensuring on-going co-ordination and communication between LDM, LDO and DDM outside the scheduled DCC/DLRC meetings which will, inter alia, also help in redressal of grievances of the users of banking services.

(v) The Regional Directors of the RBI may review the sufficiency of support available to the LDMs and competence of the LDMs in discharging their role and to provide feedback to the controlling offices. This feedback could be an input in the performance appraisal of LDMs.

(vi) LDMs should be sufficiently empowered and delegated with powers to discharge his responsibilities. Exceptional performance should be suitably recognised /rewarded.

Chapter V

Need for decentralization of norms, systems and procedures and the need to create/ improve awareness

5.1 The Committee examined in detail the existing systems and procedures for implementation of various instructions issued under the Lead Bank Scheme. As observed by the Working Group to Examine the Procedures and Processes of Agricultural Loans (Chairman: Shri C.P.Swarnkar), a major problem confronting the farmers desirous of availing bank loans is their lack of awareness about the various schemes available with the banks. The Committee observed that the instructions issued by the Reserve Bank or the Government take considerable time to percolate to the grass root level. It was also observed that in certain cases the intended beneficiary was not even aware of the instructions or guidelines and was totally dependent on what was advised to him/her by the bank branch officials. Many a time, the branch officials themselves received the instructions too late, leaving a wide time gap between the issue of instructions/ guidelines and their implementation by the branches. During the interactions at the field level, the Committee further observed that lack of awareness of Reserve Bank/Government instructions was a major constraint. There is thus a need for appropriate systems and procedures so that the instructions/ guidelines issued reach the grass root level with minimum time gap and the same are made known to the intended beneficiaries. Further, there is also a need to create/ improve awareness of the common persons about banking facilities and schemes available for their benefit, which could be achieved by financial education/literacy initiatives.

Dissemination of instructions

5.2 In order to reduce the time gap between the issue of instructions by Reserve Bank and their implementation, it is essential that the various hierarchical layers are minimized. The Committee suggests that as soon as Reserve Bank instructions are placed on its website, banks may communicate the same to their branches electronically so that the relative instructions come into operation immediately. In other words, the Committee feels that there is no need for the individual banks to issue a separate set of guidelines to bank branches based on the Reserve Bank circular. These circulars are usually issued after consultation with Indian Banks' Association (IBA) /user groups and hence there should not be any need for banks to modify them. In cases considered necessary, separate instructions may follow from the head offices of banks.

5.3 In all DCC meetings, the first item on the agenda could be a presentation in brief of the major guidelines issued since the last meeting by RBI, Government and IBA having a relevance to the objectives of banking development for inclusive growth.

Training and Sensitisation of bank branch staff and Government officials at district/block and panchayat levels

5.4 Bank probationers may be given two to three weeks attachment at Zilla Parishad/Collectorate for familiarization with government's role and functioning with regard to the developmental programmes.

5.5 Exposure visits may be arranged by the Lead Bank for District Collectors, Block Development Officers, bank officials, SHGs at various levels to leverage upon success stories.

5.6 Bank managers should also visit the SHG meeting places to help understand SHGs better.

5.7 Functionaries of PRIs, especially gram panchayats should be familiarized with preparation of bankable schemes, so that budgetary funds for livelihood promotion can be leveraged for promoting financial inclusion and increasing credit absorption capacity. The LDM/ DDM could take initiatives in this regard.

Creating awareness and publicity

5.8 It is also important that the instructions issued are properly disseminated to the common people. For the purpose, the Committee suggests that every SLBC should have its own website where all instructions pertaining to the Lead Bank Scheme as well as other instructions issued by Reserve Bank and Government Schemes for the benefit of common person are made available. The Committee also suggests that the website should carry the instructions in the local language.

5.9 The Reserve Bank's website has a link for the common person where useful information, FAQs, financial education material, etc., can be accessed by the common person. The SLBC's website may also have such a link for the common person where the gist of the instructions issued by the Reserve Bank for the common person are made available. This would help the people to easily comprehend the instructions without going through the entire circulars. This site could also be used for financial education and could carry a FAQ section to answer all possible queries relating to various products and services.

5.10 As part of its financial literacy efforts Reserve Bank may bring out small publications in various local languages in easily comprehensible language on different areas on which instructions are issued by it. These could relate to deposit accounts, safe custody, lending to agriculture, lending to micro and small enterprises, micro-finance, education loans etc., which are required to be known and understood by the common person availing bank services. The publication may be in simple language with extensive use of graphics and placed on its website apart from making sufficient copies for those who want it. The SLBCs may, in turn, make available such material on their respective websites for wider dissemination and request copies from Reserve Bank for distribution as deemed fit.

5.11 Each SLBC may have a dedicated Financial Literacy Division to propagate the various instructions. The SLBC may conduct a periodic publicity drive on different subjects related to banking and the common person and use the local media especially newspapers for issuing advertisements on matters such as procedure for opening bank accounts, Reserve Bank instructions relating to priority sector lending etc., in a language easily understood by the common person. The local media should be encouraged to frequently interact with the Financial Literacy Division and its help taken to reach out to the common persons.

Decentralization of norms, systems and procedures

5.12 The products and services offered by banks across the country may not be universally suitable as there could be several location specific issues and problems. The Committee is of the view that there is a need for increased decentralization of norms, systems and procedures to suit local needs. In this context, it is suggested that the products and services offered by banks may be appropriately modified to suit the local conditions. The SLBCs can identify such needs and offer solutions or products that could be uniformly adopted by the banks in the region.

Quarterly district level meetings on Financial Literacy and feedback

5.13 The Committee recognizes that creating awareness amongst the common persons about the availability of various products and services is as important as providing these services. Many a time, people do not avail of the various financial products and services owing to their ignorance. Increased focus is thus required on financial literacy to help the common persons to make informed choices.

5.14 Banks can make use of various civil society organizations, SHGs, Farmer's Clubs, gram panchayats, NGOs, MFIs, etc., to create awareness among the common persons. It is suggested that every quarter, the lead bank may organize an awareness and feedback public meeting in its district. Wide publicity may be given to these meetings so that people's/media representatives, local leaders as also NGOs/ CSOs working in the district attend these meetings. Such meetings may be chaired by the District Collector or the CEO of Zilla Parishad or any other person considered suitable by the lead bank and should be attended by the Regional Managers/ Controlling Officers of the bank branches and all the branch managers.

5.15 The Reserve Bank LDO should attend these public meetings and give a feedback to the respective Regional Office of the Reserve Bank as also to the Banking Ombudsman in the State on the grievances raised during such meetings and the manner of their resolution.

5.16 The LDM may invite the Banking Ombudsman (BO) for such meetings who may attend the same at his/her convenience. The BO's office could use such fora to hold conciliation meetings based on oral submissions from members of public and explain the rights and responsibilities of bankers and customers.

Credit Counselling Centres

5.17 In rural centres, there is greater need for financial education, credit counselling, generating the need for credit bureau at least at district level initially, to be taken to block/taluka levels subsequently, for improving credit delivery and credit pricing and recovery. In such a set up, the borrowers will be better aware of the banking products suitable to their requirements , and take informed decisions of the facilities availed by them. They will also be in a better position to understand that as borrowers with a good track record the banks can give them upscaled quantum of loans.

5.18 Each lead bank is expected to open a Financial Literacy and Credit Counselling Centre (FLCC) in every district where it has lead responsibility by following the recent guidelines issued by RBI in this regard. Suitable grant may be provided out of the Financial Inclusion Fund (FIF) to set up such centres in districts identified as being financially excluded by the Committee on Financial Inclusion (Chairman: Dr. C.Rangarajan). Necessary action may be taken by NABARD for drawing up a scheme for this purpose.

Chapter VI

Lead Bank Information and Monitoring System

Service Area Monitoring and Information System (SAMIS)

6.1 The data regarding the performance of banks vis-à-vis the targets allotted to them under District Credit Plans (DCPs)/Annual Credit Plans (ACPs) were being collected through a set of returns prescribed under the information system for the Lead Bank Scheme, with effect from the quarter ended December 1980. Subsequently, these returns were modified in the light of the recommendations of the Krishnaswamy Working Group and the Ghosh Working Group on the role of banks in the implementation of the 20-Point Economic Programme, as under:

(i) Return LBS – 1 (quarterly) : Branch level return on outstanding advances to priority sectors and weaker sections;

(ii) Return LBS – 3 (quarterly) : Branch level return on progress achieved in implementing AAP; and

(iii) Return LBS – 5 (Annual) : Branch level return on recovery of advances for the year ending June.

6.2 These returns were being consolidated at the district level by the Lead District Managers in the case of lead banks and by the District Co-ordinators in the case of non-lead banks. The bank-wise returns for each district were ultimately consolidated by the Lead District Managers concerned, who were also responsible for submitting the same to the BLBCs, DCCs, SLBC, District Development Managers of NABARD and the Regional Office of Reserve Bank of India concerned.

6.3 In order to include the planning and monitoring of creation of assets in terms of physical units, in addition to financial outlays as also generation of computerized data and reports, the information and monitoring system was modified with effect from April 1991, as under:

(i) Village/Service Area Credit Plans (LBR–1/LBR–U1) giving the break-up of sector-wise credit targets on a quarterly basis – (The lending programmes in respect of branches with service area allocation are presented in LBR–1, and the lending programmes of all the semi-urban/urban branches in semi-urban/urban areas to priority sectors only are prepared in LBR–U1 similar to LBR-1);

(ii) Service Area Credit Disbursal Scroll (LBR–2/LBR–U2) giving the progress achieved in implementing Annual Credit Plans on a monthly/quarterly basis (The branches with service area allocation submit LBR – 2 return on a monthly basis and the semi-urban/urban branches without service area allocation prepare LBR-U2 on a quarterly basis); and

(iii) Service Area Recovery and Outstanding Statement (LBR–3A, 3B and 3C/LBR—U3A, 3B and 3C) giving the data on outstanding position on deposits and advances on a quarterly basis (3A), outstanding position of sector-wise credit on a half-yearly basis (3B), and recovery position on annual basis (3C) (The branches with service area allocation submit LBR – 3 return and semi-urban/urban branches without service area allocation prepare LBR-U3).

6.4 These returns are required to be submitted by the branches of scheduled commercial banks/RRBs/DCCBs/SLDB/PLDB either directly to the Lead District Managers or through their Controlling Offices/District Co-ordinators/Head Offices to the Lead District Managers for consolidation by them at the district level. The data was to be computerized at district level by the Lead Banks concerned through some computer agency and NABARD was vested with the responsibility to develop the necessary package for processing the LBR data.

6.5 It is widely recognized that SAMIS is a comprehensive information system capable of generating varied information reports, relating to priority sector activities, for decision making. Under SAMIS, loans disbursed are categorized into types of borrowers (small farmers, marginal farmers, SHG, NGO, cooperative society, physically handicapped, minority, etc.), types of loans (short-term agriculture, short-term cottage industries, medium-term loans, long-term loans, etc.), interest rates, types of government programmes, etc. Further, the outstanding advances are reported for all sectors and activities. The statement on recovery and overdue classification is reported sector-wise for agriculture and allied activities and activity-wise for non-farm sector and other priority sectors.

6.6 Over the years, it has been the experience that branches have not been regular in submission of LBRs. This led to problems/difficulties in consolidation of data by Lead District Managers and its presentation in the DCC meetings. This also resulted in clogging of the entire information channel under the Lead Bank Scheme. Although data entry and generation of Reports at LDM level is computerized through SAMRUDDHI (Service Area Monitoring and Reporting Using Developed Data Handling Implements) software package, LBRs submitted by branches (including fully computerized branches) were observed to have been filled up manually. This is because SAMIS returns are different from the internal returns prescribed by Controlling Offices of banks for monitoring credit disbursement. Information required and formats under SAMIS returns are not in-built in the software packages presently in use in banks. Data entry at LDM Office level is thus made from manually filled up returns from branches and this leads to possibility of wrong/inaccurate entries. Moreover there is a duplication of efforts, entry of data first at branch level and then again at the LDM Office level. With banking industry moving forwards 100 per cent computerization, the existing system has been outdated, generating the need for a change.

6.7 On dispensing with the restrictive provisions of SAA, NABARD was requested to review the SAMIS reporting system and to initiate necessary modifications/changes therein. Accordingly, NABARD constituted a Working Group to look into the problem of non-stabilisation of SAMIS and to make it more compatible with the existing MIS system of banks. The Group suggested adoption of BSR coding system as the basis for fixing codes for detailed activities of priority sector (i.e. extension of BSR coding system) to facilitate its integration into the banks' internal information system, which would ensure not only timely submission of the information but also error free report generation. The Working Group decided to develop a standardized information system to take into consideration all information requirements connected with priority sector lending. The Group, inter-alia, recommended for renaming the revised reporting system to be known as **"Priority Sector MIS"** instead of SAMIS.

6.8 Further, NABARD constituted another group headed by its Managing Director and comprising representatives from RBI, IBA and SBI as members, to further examine convergence between SAMIS and RPCD Priority Sector returns and firm up the format of returns. The small Group suggested broad-basing the BSR code list so as to cover various sectors/sub-sectors/activities identified under priority sector, as the existing BSR code list did not provide for data generation on the entire gamut of Priority Sector lending.

6.9 With a view to reviewing the present position regarding receipt and compilation of data by RBI and NABARD on bank credit to various activities under priority sector, especially agriculture and small enterprises sectors, so as to ensure consistency and accuracy, a Working Group (Chairman: Dr. A. K. Ray) on Rationalisation of Returns furnished by scheduled commercial banks to RBI and NABARD was constituted in November 2007. The Group submitted its report in August 2008 and has given various recommendations, which have been accepted by this Committee and which inter-alia, are as follows:

(i) Adoption of a revised SAMIS reporting system, i.e. **Priority Sector Monitoring and Information System (PSMIS),** detailed below, so as to capture account-wise details with additional information.

- (a) PSR-1 : Annual Credit Plan on an annual basis;
- (b) PSR-2 : Disbursement of advances on a quarterly basis;
- (c) PSR-3A : Outstanding advances and deposits on a quarterly basis;
- (d) PSR-3B : Outstanding advances sector-wise on a quarterly basis;
- (e) PSR-3C : Recovery position on an annual basis; and
- (f) PSR-3D : Asset Classification on an annual basis

(ii) There is a need for LDMs to concentrate more on their core functions of credit planning and monitoring for stepping up credit flow as per national priorities, instead of consolidating data from various branches in the districts. In order to streamline the process under SAMIS, avoid duplication of efforts at all levels, technology upgradation and reduce burden on LDMs to enable them to devote more time on their core function, all bank branches should report the above returns with account-wise details to their controlling offices/Regional Offices/District Coordinators, instead of Lead District Managers at present. The Controlling Offices/Regional Offices/District Coordinators will be responsible for consolidation of their bank branches' block-wise and district-wise data and furnishing the same to their Zonal Offices/Head Offices as also to the SLBCs/UTLBCs concerned. The SLBC convenor banks shall consolidate the information received from the concerned controlling offices of banks, and generate bank-wise, block-wise, district-wise, sector-wise, activity-wise reports, as detailed below. Following reports may be generated for submission to LDMs & DDMs concerned.

PSR 1 based:

- Report 1 – Activity-wise / branch-wise credit plan (Annual)
- Report 2 – Activity-wise / block-wise credit plan (Annual)
- Report 3 – Activity-wise / district-wise credit plan (Annual)

PSR 2 based:

- Report 4 – Activity-wise / branch-wise credit disbursement (Quarterly)
- Report 5 – Activity-wise / block-wise credit disbursement (Quarterly)
- Report 6 - Activity-wise/district-wise credit disbursement (Quarterly)

PSR 3 Part 'A' based:

- Report 7 – Branch-wise Deposits & Advances – Outstanding (Half yearly)
- Report 8 – Block-wise Deposits & Advances – Outstanding (Half yearly)
- Report 9 – District-wise Deposits & Advances – Outstanding (Half yearly)

PSR 3 Part 'B' based:

- Report 10 – Branch-wise/Sector-wise Advances – Outstanding (half yearly)
- Report 11 – Block-wise / Sector-wise Advances – Outstanding (half yearly)

- Report 12 – District-wise / Sector-wise Advances – Outstanding (half yearly)

PSR 3 Part 'C' based:

- Report 13 – Branch-wise/Sector-wise Advances – Recovery (Annual)
- Report 14 – Block-wise / Sector-wise Advances – Recovery (Annual)
- Report 15 – District-wise / Sector-wise Advances – Recovery (Annual)

PSR 3 Part 'D' based:

- Report 16 – Branch-wise / Broad Sector-wise Asset Classification (annual)
- Report 17 – Block-wise / Broad Sector-wise Asset Classification (annual)
- Report 18 – District-wise / Broad Sector-wise Asset Classification (annual)

(iii) As the consolidation and segregation of data for the entire State will be done by SLBC convenor banks, there is a need to suitably strengthen the SLBC convenors in terms of manpower and infrastructure.

(iv) In order to eliminate/ minimize the inconsistencies in data reported by banks to RBI/NABARD/DCC/SLBC, etc., data may be captured from one source linked to the base level entity. The branch and its accounts were considered as the base for the purpose.

(v) Adoption of a standard coding structure, based on BSR coding system with suitable modifications and extensions, at the source level for ensuring consistency of data across various groups and sub-group level aggregation.

(vi) Formulation of a 9-digit extended activity/occupation coding structure to be used at the base level, i.e. the branch. The first 2-digits would represent the sub-sector and next 2-digits the purpose/activity for the use of RPCD/ SAMIS. The last 5-digits would represent the concerned BSR activity/occupation code. Thus, for every account at the base level, the proposed basic coding structure would consist of 4-digits code consisting of sub-sector/ purpose, suffixed with appropriate 5-digit BSR occupation code, which would facilitate a proper linkage between the two systems.

(vii) Creation of unique codes for each block in the country so as to generate block-wise reports for monitoring of flow of credit at block level.

(viii) In the medium term, a Central Nodal Agency (CNA), entrusted with the responsibility of designing the appropriate system and procedures, monitoring the implementation at the base level, imparting training and system maintenance, may be created. The CNA should also be responsible for design and creation of a Centralized Data Repository System (CDRS) which would receive all the data from the base level and store it for effective retrieval in the form of any return. The data from the branches would reside in the CDRS and any user, with proper registration with CNA, would be able to extract their required information in the desired format as per his/her requirements.

(ix) Data furnished by controlling offices to SLBCs should always match with the data furnished by them to their zonal offices/head offices.

6.10 In order to ensure an efficient and effective implementation of the proposed system, the Group suggested for implementation in various phases (short, medium and long term targets). In the beginning, there may be multiple sources and gradually the system would move towards convergence on having one unique source and unique target within a span of four years (i.e. with effect from April, 2012). The Central Nodal Agency (CNA), would, therefore, be responsible for designing the appropriate system and procedures, monitoring the implementation at the base level, imparting trainings and system maintenance. The CNA would also be responsible for design and creation of the Centralized Data Repository System (CDRS). Creation of Central Nodal Agency and implementation of a Centralized Data Repository System (CDRS) would ensure convergence towards the rationalisation of returns, with the scheme of one source and unique target.

First phase of implementation (Short-Term)

6.11 In the first phase, the Group has suggested for:

- Continuation of existing returns till the time the data reporting mechanism of one source and unique target is implemented.

- Implementation of the proposed system of Priority Sector Monitoring and Information System (PSMIS), in place of SAMIS, with the revised Priority Sector Returns (PSR).
- Bringing urban co-operative banks and branches of scheduled commercial banks located in the metropolitan cities under the purview of Lead Bank Scheme, as they are also lending to various priority sector, as also the consolidated data at the State level does not match, in absence of data from the urban co-operative banks and branches situated in metropolitan cities, with the data reported by banks to RPCD/NABARD.
- The Central Nodal Agency (CNA) be constituted, which should initiate designing the proposed extended coding system and its implementable plan by holding meeting with experts in different department of the RBI/ NABARD as well as a few selected banks. The CNA should also initiate steps to set up the proposed Central Data Repository System (CDRS).
- Initially the revised system may be implemented in one State and gradually extended to other States preferably from April 1, 2009.

Second phase of implementation (medium term)

6.12 In the second phase, the Group has suggested that:

- CNA should initiate implementation of CDRS in phased manner.
- A secured way of capturing the data from the bank branch to a single target using latest IT initiatives, viz., web-based system should be put in place. The centralized database in the prescribed format would then be furnished to their Head Offices and controlling offices/regional offices/district co-ordinators, which will then send the prescribed returns to RBI/NABARD and SLBC respectively.
- The implementation of the second phase should commence preferably from April 1, 2010.

Final phase of implementation (long-term)

6.13 In the final phase, the Group has recommended that CNA should complete implementation of the Centralized Data Repository System (CDRS), which would receive all the data from the base level and store it for effective retrieval in the form of any return, which would ensure convergence towards the rationalisation of returns, with the scheme of one source and unique target. The branches would submit data in a secured manner, as initiated in the second phase, to the CDRS directly. The data from the branches would be located in the CDRS and any user with access rights would be able to extract their required information in the desired format as per his/her requirements. The last phase of implementation shall be made effective from April 1, 2012.

6.14 The Ray Working Group suggested for integration of the proposed PSMIS (revised SAMIS) reporting system with the banks' internal reporting system to smoothen the reporting process to avoid any inconsistencies in data.

6.15 The Committee took note of the above recommendations/suggestions and was of the opinion that the revised SAMIS reporting system may be implemented on a pilot basis in one/two States and thereafter in other States. The Committee also recommends that Indian Banks' Association may devise a software for consolidation and generation of bank-wise, block-wise, district-wise, sector-wise, activity-wise reports by SLBC convenor banks on an urgent basis.

Chapter VII

Summary of recommendations

1. The Lead Bank Scheme (LBS) is useful and needs to continue. The SLBC and the various fora under LBS should focus on addressing the ‘enablers’ and ‘impeders’ in achieving greater financial inclusion and flow of credit to priority sectors, while continuing to monitor subsidy linked government sponsored schemes.
2. The overarching objective of LBS shall be to enable banks and State Governments to work together for inclusive growth
3. It is necessary to broad base the scope of the scheme to cover initiatives for financial inclusion, role of State Governments, financial literacy and credit counselling as also 'credit plus' activities, formulate action plans to facilitate 'enablers' and remove /minimise 'impeders' for banking development for inclusive growth, develop grievance redressal mechanism, etc
4. In every district, a sub Committee of the DCC may be constituted to draw up a road map to provide banking services through a banking outlet at least once a week at every gram panchayat. In the first instance, a banking outlet may be accessible to each village having population of over 2000, at least once a week on a regular basis. The services may not necessarily be through a brick and mortar branch but can be provided through various forms of branchless banking including through business correspondents (BCs). The sub committee should come out with a time frame within which this can be achieved but such time frame should not be later than March 2011.
5. A monitoring system may be instituted by the DCC to periodically assess the position regarding achieving the roadmap and report the same in each meeting of the DCC
6. State Governments to ensure road and digital connectivity to all centres where penetration by the formal banking system is required. The achievement of such connectivity may be monitored by the sub group of the DCC/SLBC referred to above. Full advantage may be taken of the special scheme

offered by Reserve Bank to provide satellite connectivity through small V-SATs in remote areas.

7. Lead banks are expected to open a Financial Literacy and Credit Counselling Centre (FLCC) in every district where they have lead responsibility

8. The DLCCs/SLBCs may monitor initiatives for providing 'credit plus' services by banks and State Government. The lead banks would need to take expeditious steps to set up RSETIs as per the plan projections. As recommended by the Working Group on Rehabilitation of Sick SMEs (Chairman: Dr. K.C.Chakrabarty, April 2008), a scheme for utilising specified NGOs for providing training and other services to tiny micro enterprises may be launched by the Government .

9. The PLP should be incorporated into the DCP with the NABARD and Lead Bank Offices taking into account the commitments made by the various Departments of the State Government regarding backward and forward linkages, provision of infrastructure, etc. There is a need to have a Monitorable Action Plan based on the converged PLP and DCP which may be prepared by NABARD, taking into account the inputs of the State Government.

10. A one-time comprehensive State level /District level Banking Sector Development Plan (BSDP) for all districts on the lines recommended for the North Eastern Region by the Committee on Financial Sector Plan for North Eastern Region may be formulated indicating roles and responsibilities of banks, State Government and other stakeholders to ensure banking development for inclusive growth. The State level plan may be prepared by a sub committee which could be headed by convenor of SLBC and include officials from the State Government, RBI and NABARD besides the major participating banks. At the District level, the LDM may be the convenor and prepare such a plan. RBI and NABARD may provide necessary guidance.

11. While preparing the credit plans under the Lead Bank Scheme, the annual plans/ five year plans prepared under the District Planning Process by the DPC may be referred to for having a dovetailed approach towards the development process as envisaged by the gram panchayats/ municipalities.

12. The Banking Sector Development Plan shall be monitored at quarterly intervals in the DCC meetings, through a core committee convened by District

Development Manager of NABARD with Chief Executive Officer of the Zilla Parishad as chairman. The SLBC may evolve a suitable format for the purpose and monitor the actions entrusted to each stake holder. It may also consider asking external evaluation agencies to carry out specific surveys by adopting standard methodology for ascertaining and giving feedback on the situation at the ground level. Conduct of regular Social audits may also be considered in this regard

13. It would be useful if the SLBC/DCC identifies academics and researchers engaged in research and development studies who could be invited occasionally to the meetings of these bodies, both for adding value to the discussion and also be associated with studies and product formulation for the State/ district

14. The various fora at lower levels should give adequate feedback to the SLBC on various issues that needed to be discussed on a wider platform. Important issues/ decisions of the BLBC, DCC and DLCC should be placed before the next meeting of the SLBC, so that these receive adequate attention at the State Level.

15. A Sub-Committee of DCC may be formed to work intensively on specific issues. There could be different sub-committees to deal with role of SHGs/MFIs, IT based financial inclusion, MSE sector, etc.

16. The role of LDM should cover convening meetings of the DCC and DLRC, periodical meetings of DDM/LDO/ government officials for resolving outstanding issues, facilitating setting up of Financial Literacy and Credit Counselling Centres (FLCCs) by banks, holding annual sensitisation workshops for banks and government officials where NGOs/PRIs can also participate, grievance redressal, credit planning at the district level through preparation of the annual District Credit Plan, and Monitoring implementation of the annual credit plan.

17. LDM's office being the focal point for successful implementation of the Lead Bank Scheme, due care should be taken in selecting the incumbent and the posting should be made a coveted one. .

18. LDM should be at senior level, preferably in Scale V, but in any case not below Scale IV. In order to enable the LDM to discharge his duties in an efficient manner; he should be provided with necessary support staff and infrastructure, commensurate with his role and responsibilities

19. There is a need for putting in place a mechanism to facilitate greater co-ordination between LDM, LDO and DDM outside the scheduled DCC/DLRC meetings, on an ongoing basis, which will, inter alia, also help in redressal of grievances of the users of banking services. The Regional Directors of the RBI may review the sufficiency of support available to the LDMs and competence of the LDMs in discharging their role. LDMs should be sufficiently empowered and delegated with powers to discharge their responsibilities. Exceptional performance should be suitably recognised /rewarded.

20. In all DCC meetings, the first item on the agenda could be a presentation in brief of the major guidelines issued since the last meeting by RBI, Government and IBA having a relevance to the objectives of banking development for inclusive growth.

21. Exposure visits may be arranged by the Lead Bank for District Collectors, Block Development Officers, bank officials, SHGs at various levels to leverage upon success stories

22. Functionaries of PRIs, especially gram panchayats should be familiarized with preparation of bankable schemes, so that budgetary funds for livelihood promotion can be leveraged for promoting financial inclusion and increasing credit absorption capacity. The LDM/ DDM could take initiatives in this regard.

23. Every quarter, the lead bank may organize an awareness and feedback public meeting in its district. Wide publicity may be given to these meetings so that people's/media representatives, local leaders as also NGOs/ CSOs working in the district attend these meetings. Such meetings may be chaired by the District Collector or the CEO of Zilla Parishad or any other person considered suitable by the lead bank and should be attended by the Regional Managers/ Controlling Officers of the bank branches and all the branch managers..

24. The Reserve Bank LDO should attend these public meetings and give a feedback to the respective Regional Office of the Reserve Bank as also to the Banking Ombudsman in the State on the grievances raised during such meetings and the manner of their resolution. The LDM may invite the Banking

Ombudsman (BO) for such meetings who may attend the same at his/her convenience.

25. Each lead bank is expected to open a Financial Literacy and Credit Counselling Centre (FLCC) in every district where it has lead responsibility by following the recent guidelines issued by RBI in this regard. Suitable grant may be provided out of the Financial Inclusion Fund (FIF) to set up such centres in districts identified as being financially excluded by the Committee on Financial Inclusion. Necessary action may be taken by NABARD for drawing up a scheme for this purpose.

26. State Governments to ensure conducive law and order situation, adequate security, uninterrupted power, water supply and irrigation facilities. In centres where bank branches are required by the State Government for currency, forex and government business, and banks are constrained in open branches due to lack of infrastructure, absence of viability and security concerns, State Governments will need to extend support by providing premises, security etc.

27. In the implementation of subsidy linked credit schemes, State Governments may consider giving preference to the previous year's uncovered trainees for loans in the following year, list out negative activities for loan purposes, prepare a centralized information on defaulters and recovery status, ensure adequate due diligence in selection of beneficiaries and try to bring in participation by private sector banks in various government sponsored schemes

28. The State Government machinery may support the efforts made by banks for financial literacy. Towards this, State Government may proactively provide the assistance of the government machinery, especially at the grass root level such as schools, panchayats, etc., for dissemination of the products and services of the banks

29. In order to reduce use of cash/cheques, State Governments may take initiative to make their bulk payments like salaries, pensions through mechanisms like ECS as they are cost effective and operationally efficient. In addition, as indicated above, the use of IT solutions for disbursal of NREGA and social security payments such as National Old Age Pension Scheme through bank accounts may be expedited taking advantage of the incentive scheme introduced by RBI for funding a part of the cost of opening such bank accounts.

30. Support to banks for recovery drives may be extended by the State Government and the recovery teams may include Government officials. Cases of wilful defaults/ absconding/ misutilisation of loan/subsidy amount in respect of Government Sponsored Schemes, etc. should be treated as an economic offence and dealt with accordingly.

31. The Monitorable Action Plans (MAPs), among others, should clearly indicate the proposed coverage for SCs/STs, minorities and promotion of SHGs in the district. The MAP should be available by March of each year. The ACPs should fully reflect the targets/projects/schemes incorporated in the MAP. These should also be incorporated in the branch targets, which should be monitored by Regional Offices of the banks. Specific bankable schemes may be included in the MAPs incorporating assistance from the State Government for vulnerable groups and areas as having large population of financially excluded .

32. Banks should involve themselves actively in the selection of beneficiaries and focus on the bankability and viability of the scheme in the overall interest of ensuring better recovery and ensuring that the subsidy is effectively used for the intended purpose. Governments should evaluate outcomes rather than whether the amounts allocated are fully spent

33. A special Group of each SLBC consisting of bank and Government representatives may undertake a detailed analysis of the various land ownership and tenurial systems prevailing in the State and make recommendations for developing a computerised data base on ownership and lease holdings including encumbrances thereon. The plan may also include specific actions that have to be taken to create transferable rights in the land or documents that will certify that the borrower has the right of the usufruct on the land as in case of oral lessees and sharecroppers this often acts as obstacle to bank lending.

34. In order that the recovery climate is strengthened, the sub group may also review the recovery laws, machinery and recommend suitable measures for inducing a better recovery mechanism and credit culture. The SLBC may consider the recommendations of the sub group and take suitable follow up action

35. State Governments should be able to leverage on the benefits of undertaking government business by banks to incentivize their involvement in Government sponsored schemes and programmes which may not always have business benefits.

36. Training and sensitization programs for the DMs and other State Government functionaries may be provided. The IAS probationers may be considered for two to three weeks orientation programme on Lead Bank Scheme before taking charge in the districts or immediately thereafter; such orientation can be provided by attaching them to SLBC convenor's office in the State to which they are posted

37. The banks should cooperate fully in opening and operating a weekly banking outlet through any permitted channel for ensuring 100% financial inclusion in the villages of over 2000 population allocated to them by the sub Committee of the DCC. The no frills accounts should be backed by GCC/ simple overdrafts. Savings, insurance, loan and remittance products and financial literacy should be a part of achieving deeper financial inclusion.

38. Banks need to take the maximum advantage of available IT solutions. The funding arrangements available under Financial Inclusion Technology Fund (with NABARD) or other options such as the support for RRBs suggested by the RBI Working Group may be explored for this purpose. Since State Governments are also keen to disburse NREGA and social security funds through bank accounts, partnerships can be explored between banks and State Governments with support offered from RBI and leverage the same infrastructure for enhancing financial inclusion

39. Although permitted, PACS are not being used as BCs. Concerted efforts may be made for using PACS as BCs where such PACS are running well.

40. Bank's linkage with such NGOs/Corporate houses operating in the area to ensure that the NGOs/Corporates provide the necessary 'credit plus' services can help leverage bank credit for inclusive growth. Outstanding cases could be presented in DCC/SLBC meetings to serve as models that could be replicated

41. Private sector banks may actively involve themselves with the DCC and Action plans where they have a presence and extend their services through permitted channels in under-banked and unbanked areas. This will also help these banks achieve their priority sector lending targets.

42. In urban areas, the State government machinery may assist in the opening of bank accounts where there are large settlements of households and obtaining proof of address and identity may be difficult. The Committee would urge that RBI and GOI may together work on ways to simplify KYC norms for opening bank account for small value accounts viz. where balances do not exceed Rs.50,000/-, annual credits do not exceed Rs.1,00,000/- on the basis of a affidavit and photograph, as indicated in the Mid-term review of RBI Annual Policy 2005-06. Till such time, banks may take advantage of the simplified norms for KYC for such accounts contained in the RBI circular of August 23, 2005. Further, banks having the largest presence in each city with more than one million population (to start with) may take the leadership in convening a meeting of bankers and allocating responsibility for various wards to different banks, to ensure that all urban households have easier access to bank accounts and banking services. Regional Directors of RBI at different centres may facilitate the setting up of such a forum.

43. At State level, DG/ED of RBI may participate in the special SLBC meeting to discuss State Policy issues at least once a year.

44. As soon as Reserve Bank instructions are placed on its website, banks may communicate the same to their branches electronically so that the relative instructions come into operation immediately

45. Bank probationers may be given two to three weeks attachment at Zilla Parishad/Collectorate for familiarization with government's role and functioning with regard to the developmental programmes

46. Bank managers should also visit the SHG meeting places to help understand SHGs better

47. NABARD may make a detailed review of the SHG-bank linkage programme and come up with revised guidelines to facilitate migration of members of mature groups to become micro entrepreneurs and increase the scale of lending through such groups

48. The PLP should be incorporated into the DCP with the NABARD and Lead Bank Offices taking into account the commitments made by the various Departments of the State Government regarding backward and forward linkages, provision of infrastructure, etc. There is a need to have a Monitorable Action Plan based on the converged PLP and DCP which may be prepared by NABARD, taking into account the commitment given by the State Government

49. NABARD may identify strategic investments in agriculture and allied activities depending on the comparative advantage and incorporate schemes that may be taken up by banks for financing. In particular, NABARD may focus on districts identified by the Committee on Financial Inclusion (Chairman: Dr. C.Rangarajan, January 2008) as being financially excluded.

50. Staff at the operational level of banks and government agencies associated with implementation of the Lead Bank Scheme need to be aware of latest developments and emerging opportunities. There is need for staff sensitisation/ training/seminars, etc. at periodic intervals on an ongoing basis. Training institutions of individual banks together with national level training colleges of RBI and NABARD should develop suitable modules for this from the current year.

51. The revised SAMIS reporting system may be implemented on a pilot basis in one/two States and thereafter in other States. The Indian Banks' Association may devise software for consolidation and generation of bank-wise, block-wise, district-wise, sector-wise, activity-wise reports by SLBC convenor banks on an urgent basis.

52. The Chief Secretary should co-chair the SLBC with the CMD of the convenor bank. The Chief Minister/ Finance Minister should be invited to attend the meeting and where he/she does so, may be requested to chair the same .

53. The main agenda of the SLBC should be to focus on the implementation of the Banking Sector Development Plan for inclusive growth

54. In view of the large membership of the SLBC, it would be desirable for the SLBC to constitute sub committees for specific tasks. In addition to the sub committees already in existence, these could include IT enabled financial inclusion, financial inclusion in urban areas, action plan for financial literacy, improvement in land records/ other evidence for land ownership/occupation, improving recovery systems, measures to deal with downturn, promoting bank/SHG linkage and addressing issues relating to provision of microfinance in the State, etc., which may examine in-depth the specific issues and come out with solutions/ recommendations for consideration of the SLBC. The composition of the sub-committee and subjects/ issues to be deliberated upon will clearly vary from State to State and may be decided by the SLBC. One of these sub-committees should be entrusted with evaluation/impact assessment studies in regard to various development initiatives taken by the Government/ Reserve Bank/ other apex level institutions/ banks in the State

55. In order to keep the SLBC more compact and purposeful, each meeting of the SLBC could focus on a specific area such as agriculture, migration issues, NREGA, small scale industry (organised) and MSE (unorganised), etc. so that experts on the relative areas can be invited to facilitate out of box thinking

56. The secretariat/offices of SLBC should be sufficiently strengthened and the SLBC convenor bank should have a full fledged secretariat for effective discharge of its functions. The secretariat should be well equipped with staff and provided all necessary facilities to help in effectively discharging its duties

57. An annual conference of Chief Secretaries/Development Commissioners, CMDs of SLBC convenor banks may be convened by the, Reserve Bank to discuss important policy issues in the area of financial inclusion and priority sector lending. In each State, a full day sensitisation workshop may be convened in April/May every year

58. As implementation issues are common across States, best practices and experiences of SLBCs in different States should be shared among themselves on a continuous basis. The websites of the SLBCs may be regularly updated and used for this purpose.

59. Every SLBC should have its own website where all instructions pertaining to the Lead Bank Scheme as well as other instructions issued by Reserve Bank and Government Schemes for the benefit of common person are made available. The website should carry the instructions in the local language. The SLBC's website may have a link for the common person where the gist of the instructions issued by the Reserve Bank for the common person is made available. This site could also be used for financial education and could carry a FAQ section to answer all possible queries relating to various products and services

60. As part of its financial literacy efforts Reserve Bank may bring out small publications in various local languages in easily comprehensible language on different areas on which instructions are issued by it. The publication may be in simple language with extensive use of graphics and placed on its website apart from making sufficient copies for those who want it. The SLBCs may, in turn, make available such material on their respective websites for wider dissemination and request copies from Reserve Bank for distribution as deemed fit

61. Each SLBC may have a dedicated Financial Literacy Division to propagate the various instructions. The SLBC may conduct a periodic publicity drive on different subjects related to banking and the common person and use the local media especially newspapers for issuing advertisements on matters such as procedure for opening bank accounts, Reserve Bank instructions relating to priority sector lending etc., in a language easily understood by the common person. The local media should be encouraged to frequently interact with the Financial Literacy Division and its help taken to reach out to the common persons

62. The products and services offered by banks may be appropriately modified to suit the local conditions. The SLBCs can identify such needs and offer solutions or products that could be uniformly adopted by the banks in the region.

63. Reserve Bank may review the extant guidelines on BCs. The Committee has noted that in the Annual Policy Review of 2009-10, Reserve Bank has announced that it will constitute a group to review the eligibility of persons who can act as BCs. The Committee would highlight the need to take into account the experience of a few large BCs, the need to facilitate recycling of cash, apart from the regulatory and consumer protection perspectives. RBI may consider allowing banks to use mature SHG group leaders as BCs with IT solutions in place to ensure requisite safeguards.

64. Staff at the operational level of banks and government agencies associated with implementation of the Lead Bank Scheme need to be aware of latest developments and emerging opportunities. There is need for staff sensitisation/ training/seminars, etc. at periodic intervals on an ongoing basis. Training institutions of individual banks together with national level training colleges of RBI and NABARD should develop suitable modules for this from the current year

65. A small committee, comprising representatives of RBI, Central Office, IBA, and the Regional Director RBI of the State concerned may review the performance of the SLBC Convenor banks and lead banks with a view to recommending the continuance of the assigned responsibility to the respective banks.

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