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## *Lead Bank Scheme*

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Compiled by Smt Puja Sharma, AGM & Member of Faculty, CAB, Pune . She may be reached at [pujasharma@rbi.org.in](mailto:pujasharma@rbi.org.in)

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### 1. Background

Financial inclusion of underprivileged /excluded sections of the society is crucial for economic stability and progress. In India, the earliest attempts made towards Financial Inclusion include introduction of the Lead Bank Scheme and priority sector lending guidelines. Under the Lead Bank Scheme each district is assigned a bank (initially it was a public sector bank), known as Lead Bank of the district. The Scheme aims at coordinating the activities of banks and other developmental agencies through various fora in order to achieve the objective of enhancing the flow of bank finance to the priority sector and other sectors and to promote banks' role in the overall development of the rural sector. 'Lead Bank' is responsible for coordinating the activities in the district. It is expected to assume a leadership role for coordinating the efforts of the credit institutions and the Government. Each state is also assigned a nationalized bank, known as Convenor Bank, to coordinate the efforts of all the Lead Banks of that state. It is not far-fetched to state that the LBS is expected to be the Main Vehicle for achieving the objectives of bank nationalisation. In other words, the role of the lead bank is three dimensional.

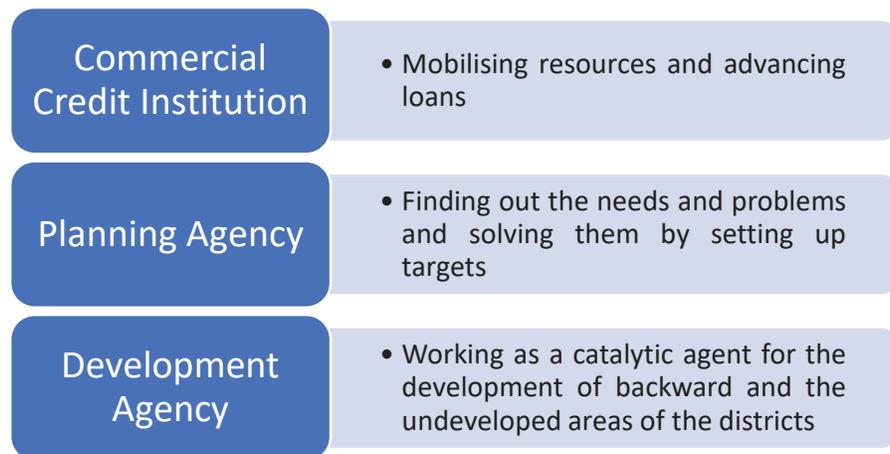


Figure 1

At the same time, there is clearly no intention that the Lead Bank should have a monopoly of banking business in a district. The bank which is assigned the lead role, is expected to act as the consortium leader and identify areas requiring branch expansion and areas suffering from credit gaps. It should invoke the co-operation of other banks operating in the district, for opening branches as well as for meeting credit needs.

**1.1 Genesis of the Scheme:** The genesis of Lead Bank Scheme (LBS) can be traced to the Study Group headed by Prof. D. R. Gadgil on the organizational framework for 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. It was found by the Group that the Commercial Banks had penetrated only 5000 villages as of June 1967 and their share in institutional credit to agriculture was only 1 % out of the total 39%, the balance being met by cooperatives. This showed that the banking needs of rural areas in general and backward areas in particular were

not being taken care of by the commercial banks, which included credit needs of agriculture, SSI and allied activities (priority sectors as defined by RBI at that time). 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.

Another Committee of Bankers on Branch Expansion Programme of public sector banks was appointed by RBI under the Chairmanship of Shri F. K. F. Nariman which endorsed the idea of area approach in its report (November 1969) recommending 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'. Pursuant to the above recommendations, the Lead Bank Scheme was introduced by Reserve Bank of India in December 1969. As on March 31, 2022, 12 public sector banks and one private sector bank have been assigned Lead Bank responsibility in 734 districts of the country.

Over the four decades since the introduction of the LBS, several changes have taken place in the country, especially after 1991 with the beginning of globalization and liberalization of the Indian economy. The reforms have encompassed all sectors including the financial sector. A few of the major reforms worth mentioning are –

- a) One of major development was introduction of **The Service Area Approach (SAA)** in 1989. It was adopted based on the recommendations of a committee headed by PD Ojha. He observed that the LBS was not effective throughout the districts as the development was not uniform across the villages. Under SAA, 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 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 many a times 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.
- b) Later, 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 should be made mandatory only for Government-sponsored schemes. Pursuant to the recommendations of the Committee, the Service Area Approach is now applicable only for the Government-sponsored schemes w.e.f December 2004.
- c) The commercial banks were focused on their financials and had improved their competitiveness and efficiency. Their capital adequacy ratios and provisioning standards were in line with the best international practices. Although priority sector obligations have continued to be in force for both private sector and public sector banks, attention has increasingly been drawn to the fact that large sections of the

population remain outside the formal banking structure and the real and financial sectors continue to lag behind in certain regions. While policies were in place to facilitate flow of credit to the more vulnerable sectors/sections of society, there was a need to ensure greater dissemination and implementation of these policies at the grass root level, besides getting timely information and better assessment of outcomes. A need was, therefore, felt for a comprehensive review of the Scheme. Accordingly, a High Level Committee was constituted by RBI in 2008 with Smt Usha Thorat, Deputy Governor, as Chairperson to review the LBS with focus on financial inclusion and the recent developments in the banking sector. The Committee held wide ranging discussions with various stakeholders viz. State Governments, banks, development institutions, academicians, NGOs, MFIs, etc. and noted that the Scheme has been useful in achieving its original objectives of improvement in branch expansion, deposit mobilisation and lending to the priority sectors, especially in rural/semi urban areas. There was overwhelming consensus that the Scheme needs to continue. The Lead Bank machinery was found to be critical for ensuring that banks and the State Governments work together to achieve inclusive growth focusing on sustainable development.

- d) In view of all the changes that had taken place in the financial sector since 2009, when the last review was conducted by the Committee headed by Usha Thorat, a **“Committee of Executive Directors” of the RBI** was constituted by RBI to study the efficacy of the Scheme and suggest measures for improvement. The Committee of EDs submitted their report in 2018 and the recommendations were discussed with various stakeholders. On the basis of the feedback received, revised instructions under LBS were issued on April 6, 2018 which included inter alia the following.
- Streamlining functioning of the State Level Bankers’ Committees (SLBCs) by bifurcating policy and operational issues whereby operational issues would be addressed by specific sub-committees and a steering subcommittee would decide on the primary agenda items for the SLBC;
  - In cases where the Managing Director/Chief Executive Officer/Executive Director of the SLBC Convenor Bank is unable to attend SLBC Meetings, the Regional Director of the RBI shall co-chair the meetings along with the Additional Chief Secretary/Development Commissioner of the State concerned.
  - The corporate business targets of banks may be aligned with the Annual Credit Plans (ACP) under the Lead Bank Scheme to ensure better implementation. To ensure this, the Controlling Offices in each state should synchronize their internal business plans with the ACP.
  - A standardised approach to manage websites of the SLBCs including direct collection of data through respective CBS of all participating banks.
  - Strengthening of BLBC forum which operates at the base level of the Lead Bank Scheme by ensuring that all branch managers attend BLBC meetings and enrich the discussions with their valuable inputs. Controlling Heads of banks may also attend a few of the BLBC meetings selectively.
  - Rural Self Employment Training Institutes (RSETIs) should be more actively involved and monitored at various fora of LBS particularly at the DCC level.
  - Focus should be on development of skills to enhance the credit absorption capacity in the area and renewing the training programmes towards

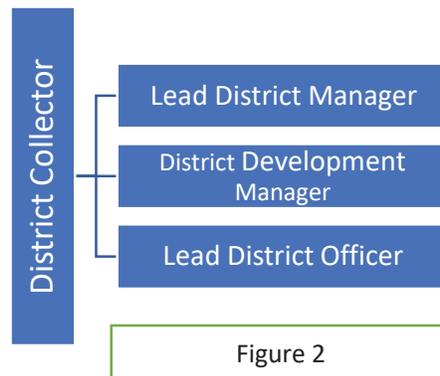
sustainable micro enterprises. RSETIs should design specific programmes for each district/ block, keeping in view the skill mapping and the potential of the region for necessary skill training and skill up gradation of the rural youth in the district.

- A revised agenda for SLBC meetings was given by RBI for more focused reviews on setting up of CBS-enabled banking outlets at the unbanked rural centres (URCs); operations of BCs; digital modes of payments including connectivity; Direct Benefit Transfer (DBT); financial literacy initiatives; digitisation of land records; and discussion on improving rural infrastructure/credit absorption Capacity.

## 2. Administration of the Scheme:

a) **Allocation of Districts** - The assignment of lead bank responsibility to designated banks in every district is done by Reserve Bank of India following a detailed procedure formulated for this purpose. The Bank which has been assigned the lead responsibility is called Lead Bank and such districts shall be termed as lead districts.

b) **Organizational Setup** - Lead Bank Scheme involves the participation of Lead Bank, other commercial banks (Non lead banks), Regional Rural Banks (RRBs), Co-operative banks, other financial institutions like state financial corporation, Khadi and Village Industry Board (KVIB), RBI, NABARD and other developmental agencies of the Government. The organizational set up of Lead Bank Scheme is illustrated below.



- The District Collector sways a command over the entire machinery of the district and plays the pivotal role under the scheme.
- The LDM is a representative of the Lead Bank and ensures effective implementation of the Scheme with supportive role of the Lead Bank's Regional/Zonal Office and participating institutions including the Line departments of various Governmental agencies. Keeping in view the criticality of LDM, it is ensured that the office of LDM is sufficiently strengthened with appropriate infrastructural support.
- The representative-officer of NABARD under the scheme is designated as DDM. He / she is entrusted with the responsibilities, inter alia, the preparation of Potential link Plan (PLP) and attending of various meetings conducted under the scheme.
- The officer from RBI representing RBI in the meetings is called LDO. He is entrusted with various responsibilities as a Developmental Agent of the District.

The Lead Bank Scheme has laid down the functions and duties of LDM, DDM and LDO and the Objectives of the Scheme clearly. To read the Scheme in detail you may refer to the Master Circular FIDD.CO.LBS.BC.No.02/02.01.001/2022-23 dated April 01, 2022 available on RBI website.

3. **Forums of Co-ordination:** Rural lending is properly tied to well-designed programmes of developments. This calls for effective co-operation and co-ordination not only between various credit institutions but also between the credit institutions and the government concerned and other development agencies in the district. Appropriate forums therefore had to be created where these two agencies can meet periodically to discuss various issues. Forums which are presently set up at the District and State level for the implementation of schemes evolved by both Government and the banks are as follows –

**(i) At the State Level - State Level Bankers Committee (SLBC)**

It is an apex inter-institutional forum to create adequate coordination for development of the State. The SLBC meetings are held on quarterly basis. Since SLBC is primarily a committee of bankers at State level which plays an important role in the development of the State, illustrative guidelines on the conduct of State Level Bankers Committee (SLBC) meetings have been issued by RBI under the Lead Bank Scheme.

SLBC is chaired by the CMD of the convenor bank/Executive Director of the convenor bank. It comprises representatives of commercial banks, RRBs, State Cooperative Banks, RBI, NABARD, heads of Government departments including representatives from National Commission for Scheduled Castes/Tribes, National Horticulture Board, Khadi & Village Industries Commission etc. and representatives of financial institutions operating in a state, who come together and sort out coordination problems at the policy implementation level. Representatives of various organizations from different sectors of the economy like retail traders, exporters and farmers' union etc. are special invitees in SLBC meetings for discussing their specific problems, if any.

**(ii) At the District Level - District Consultative Committees (DCC)** is a common forum at district level for bankers as well as Government agencies/departments towards coordination of activities in implementing various developmental activities under the scheme. The District Collector is the Chairman of the DCC meetings. RBI, NABARD, all the commercial banks in the district, co-operative banks including District Central Cooperative Bank (DCCB), RRBs, various State Government departments and allied agencies are the members of the DCC. The LDO represents the Reserve Bank as a member of the DCC. The LDM convenes the DCC meetings. The Director of Micro Small and Medium Enterprises Development Institutes (MSME-DI) is an invitee in districts where MSME clusters are located to discuss issues concerning MSMEs.

The constitution of this forum was done at the instance of Banking Commission (1972) and it came into existence more or less voluntarily because of the need felt for consultation in the matter of district development schemes. Over the years, it has evolved as an integral part of the LBS. The various issues to be discussed in this meeting on a regular basis are stipulated

under LBS. Small functional sub-committees of the DCC are also constituted in the districts for focussing on specific issues.

**District Level Review Committee (DLRC)** – A quarterly forum for 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 this forum had not only served as useful 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 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 members of the DLRC. As these meetings are considered very important, it has been decided to convene them on quarterly basis and the Lead Banks have been advised to invariably invite MPs/MLAs and Zila 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.

**iii) At the Block Level – Block Level Banker's Committee (BLBC)** is a forum for achieving coordination between credit institutions on one hand and field level development agencies on the other. The forum prepares and reviews implementation of Block Credit Plan and also resolves operational problems in implementation of the credit programmes of banks. LDM of the district is the Chairman of the BLBC. All the banks operating in the block including the DCCB and RRB, Block Development Officer, technical officers in the block such as extension officers for agriculture, industries and co-operatives, etc., are members of the Committee. BLBC meetings are held at quarterly intervals. The LDO of RBI attends the meeting selectively and the DDM of NABARD should attend all the meetings of the BLBC. 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.

#### **4. Implementation of Lead Bank Scheme**

- 4.1 Preparation of credit plans** - Planning plays an important role in the implementation of the Lead Bank Scheme and a bottom-up approach is adopted to map the existing potential for development. Under LBS, planning starts with identifying block-wise/ activity-wise potential estimated for various sectors. Potential Linked Credit Plans (PLPs) are a step towards decentralized credit planning with the basic objective of mapping the existing potential for

development through bank credit. PLPs take into account the following parameters of the District–

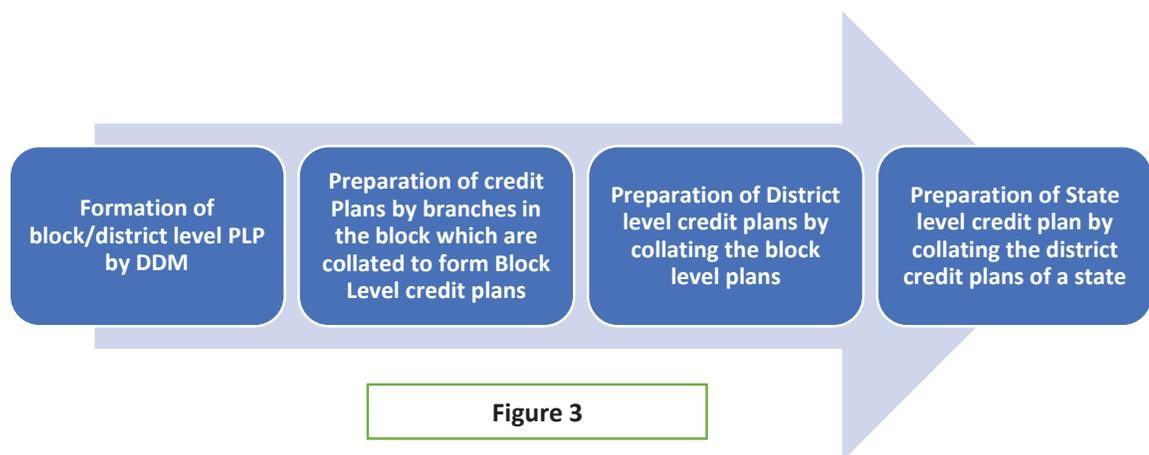
- long term physical potential,
- availability of infrastructure support
- marketing facilities
- policies/programmes of Government etc.

DDM from NABARD ensures that PLPs should be more focussed and implementable so that banks can utilize them more gainfully while preparing the Branch Credit Plan. PLPs should emphasise on promotion of sustainable agricultural practices suitable to local conditions. While preparing the PLPs, the focus must be on identifying processes and projects that:

- a. reduce the carbon foot-print
- b. prevent the overuse of fertilizers
- c. ensure efficient utilisation of water
- d. address agricultural pollution issues.

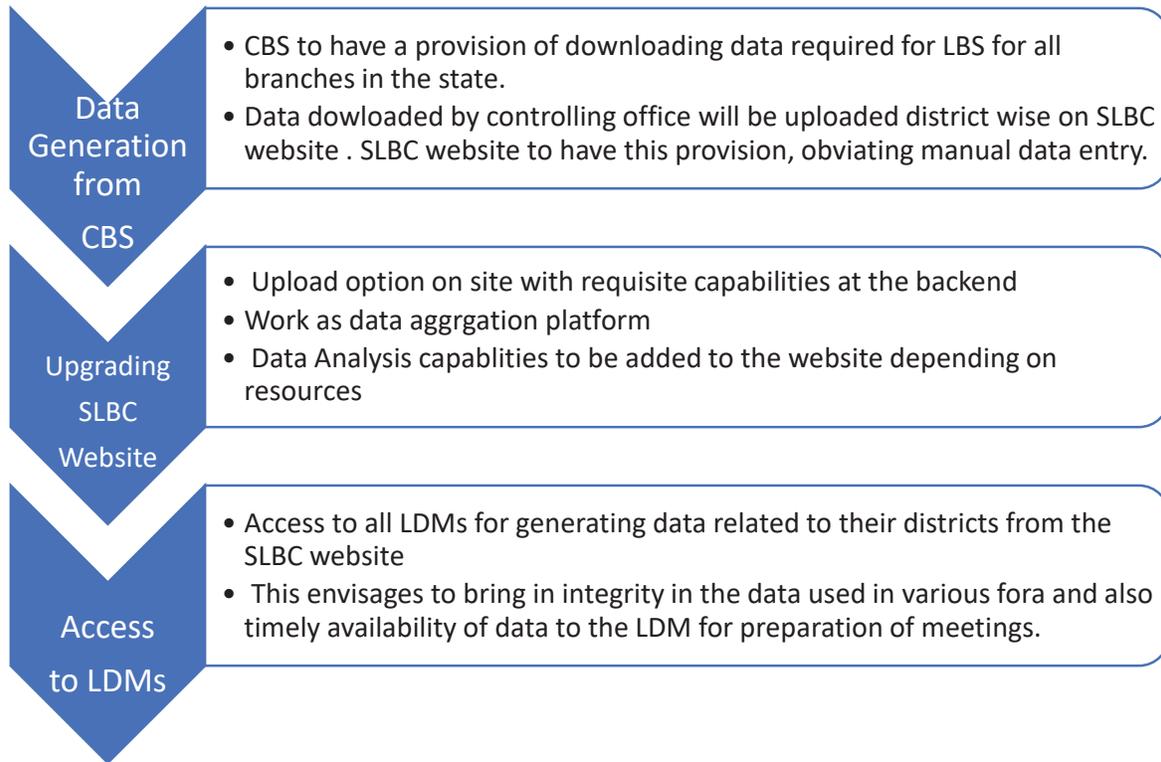
The plans must also focus on promoting innovative farming systems such as organic farming, bio dynamic farming, permaculture and sustainable small-scale farming, as also promoting Farmer Producer Organisations (FPOs) and Farmers' Markets. Such initiatives must be supported by appropriate investments and project finance frameworks.

On the basis of the block wise/credit wise PLP, which is shared by DDM with the Controlling offices of the banks in the district, the banks are advised to prepare annual credit plans at branch level which are compiled to prepare a district level plan and the district plans are then compiled to prepare a state level plan. This makes the credit planning exercise a bottoms-up approach.



**4.2 Data Flow for Effective Implementation of the Scheme** - In the quarterly meetings of the various LBS fora viz. SLBC, DCC and BLBC, all discussions are focussed primarily on performance of banks in the disbursement of loans vis-a-vis the allocated target under the Annual Credit Plan. The integrity & timeliness of the data submitted by banks for the purpose has been a challenge since the inception of the Scheme since a significant portion of this data is manually compiled and entered into the Data Management Systems of the SLBC Convenor Banks. The extent to which this data corresponds with the data present in the Core Banking Solution (CBS) of the respective banks also varies significantly. Therefore, it was recommended

by the ED Committee that a standardized system be developed on the website maintained by each SLBC to enable uploading and downloading of the data pertaining to the Block, District as well as the State. The relevant data must also be directly downloadable from the CBS and/ or MIS of the banks with a view to keeping manual intervention to a minimal level in the process. The procedure relating to the envisaged intervention in this area is clearly laid down in the Lead Bank Scheme, which is depicted in the following illustration.



**Figure 4**

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