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Banking & Finance Bytes

- Master Circular Consolidating the Lead Bank Scheme Guidelines.
- Foreign Investment in India - Reporting in Single Master Form.
- Encouraging formalisation of the MSME sector.

Reserve Bank of India

Lead Bank Scheme.[1]

-Akshay Ramesh, Associate.

The Reserve Bank of India has issued a number of guidelines/instructions on Lead Bank Scheme from time to time. This Master Circular consolidates the relevant guidelines/instructions issued by Reserve Bank of India on Lead Bank Scheme up to June 30, 2018.

i) The genesis of the Lead Bank Scheme (LBS) can be traced to the Study Group headed by Prof. D. R. Gadgil (Gadgil Study Group) on the Organizational 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. 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.

(ii) A Committee of Bankers on Branch Expansion Programme of public sector banks appointed by the Reserve Bank of India under the Chairmanship of Shri F. K. F. Nariman (Nariman Committee) endorsed the idea of an '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'.

(iii) Pursuant to the above recommendations, the Lead Bank Scheme was introduced by the Reserve Bank of India in December 1969. 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.

For coordinating the activities in the district, a particular bank is assigned 'Lead Bank' responsibility of the district. The Lead Bank is expected to assume a leadership role for coordinating the efforts of the credit institutions and the Government.

[1] https://rbi.org.in/scripts/NotificationUser.aspx?Mode=0&Id =11321.

(iv) In view of the several changes that had taken place in the financial sector, the Lead Bank Scheme was last reviewed by the High Level Committee headed by Smt. Usha Thorat, Deputy Governor of the Reserve Bank of India in 2009.
(v) The High Level 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 sector, especially in rural/semi urban areas. There was overwhelming consensus that the Scheme needs to continue. Based on the recommendations of the Committee, guidelines were issued to SLBC Convenor banks and Lead Banks for implementation.

(vi) Envisaging greater role for private sector banks, Lead Banks were advised to ensure that private sector banks are more closely involved in the implementation of the Lead Bank Scheme. Private sector banks should involve themselves more actively by leveraging on Information Technology bringing in their expertise in strategic planning. They should also involve themselves in the preparation as well as implementation of the District Credit Plan.

(vii) In view of the changes that have taken place in the financial sector over the years, the Reserve Bank of India had constituted a "Committee of Executive Directors" of the Bank to study the efficacy of the Scheme and suggest measures for its improvement.

Based on the Committee's recommendations and feedback received from various stakeholders, certain 'action points' were issued to SLBC Convenors/Lead Banks and NABARD on April 6, 2018.

Fora under Lead Bank Scheme is divided into three:

1) Block Level Bankers' Committee (BLBC)

2) District Consultative Committee (DCC) and;

3) State Level Bankers' Committee (SLBC)

The master circular also explains about Implementation of Lead Bank Scheme, Assignment of Lead Bank Responsibility, Banking Penetration, Credit Deposit Ratio (CD Ratio), Direct Benefit Transfer, Service Area Approach (SAA), Doubling of Farmers' Income by 2022.

Foreign Investment in India - Reporting in Single Master Form.[2]

-Akshay Ramesh, Associate.

As announced in the First Bi-monthly Monetary Policy Review dated April 5, 2018, Reserve Bank, with the objective of integrating the extant reporting structures of various types of foreign investment in India, will introduce a Single Master Form (SMF). The SMF would be filed online.

Single Master Form would provide a facility for reporting total foreign investment in an Indian entity {as defined in Foreign Exchange Management (Transfer or issue of security by a person resident outside India) Regulations 2017, dated November 7, 2017}, as also investment by persons resident outside India in an Investment Vehicle.

Prior to the implementation of the SMF, Reserve Bank would provide an interface to the Indian entities, to input the data on total foreign investment in a specified format. The interface

[2]https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11297&Mode=0.

will be available on RBI website[3] from June 28, 2018 to July 12, 2018. Indian entities not complying with this pre-requisite will not be able to receive foreign investment (including indirect foreign investment) and will be non-compliant with Foreign Exchange Management Act, 1999 and regulations made thereunder.

The final form, when hosted, will be available in the Master Direction-Reporting under FEMA, 1999.

AD Category-I banks may bring the contents of this circular to the notice of their customers / constituents concerned.

The directions contained in this circular have been issued under sections 10(4) and 11(1) of the Foreign Exchange Management Act (FEMA), 1999 (42 of 1999) and are without prejudice to permissions / approvals, if any, required under any other law.

Encouraging formalisation of the MSME sector.[4]

-Akshay Ramesh, Associate.

Having regard to the input credit linkages and ancillary affiliations, it has now been decided to temporarily allow banks and NBFCs to classify their exposure, as per the 180 days past due criterion, to all MSMEs, including those not registered under GST, as a 'standard' asset, subject to the following conditions:

The aggregate exposure, including non-fund based facilities, of banks and NBFCs to the borrower does not exceed □ 250 million as on May 31, 2018. The borrower's account was standard as on August 31, 2017.

The payments due from the borrower as on September 1, 2017 and falling due thereafter up to December 31, 2018 were/are paid not later than 180 days from their original due date.

The dues payable by GST-registered MSMEs from January 1, 2019 onwards, the 180 days past due criterion shall be aligned to the extant IRAC norms in a phased manner. However, for MSMEs that are not registered under GST as on December 31, 2018, the asset classification in respect of dues payable from January 1, 2019 onwards shall immediately revert to the extant IRAC norms. The other terms and conditions of the circular dated February 07, 2018 remain unchanged.

[3] https://firms.rbi.org.in.

[4] https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11289&Mode=0.