Rural Banking Policy, India

Timely & Effective Use Of Technology And FI & FIT Funds Needed

Dr Amrit Patel

With the nationalization of banks in 1969 & 1980, establishment of Regional Rural Banks in 1975 and National Bank for Agriculture and Rural Development in 1982 by the Government of India, the policies evolved by the RBI laid a strong foundation for establishing *"Rural Banking System"* to act as a catalyst and lubricate the process for accelerating the agricultural growth and rural development, generation of self-employment opportunities, poverty alleviation, and minimizing regional & sectoral imbalances in particular. These policies sharply focused on branch expansion in rural areas, Lead Bank Scheme, credit planning exercise at district/block level through formulation of District Credit Plans and subsequently Service Area Credit Plans at village level, Service Area Management Information System, defining and broadening the concept of priority sector lending and allocation of credit under its three segments to meet changing socio-economic needs, increasing the flow of loanable funds through liberalizing reserve requirements & refinance facilities from NABARD, differential interest rate scheme, mainstreaming scheduled castes/scheduled tribes/minority communities, innovations like Micro-finance, Rural Infrastructure Development Fund, Kisan Credit Card, General Credit Card, no-frill accounts, financing small/marginal farmers and share croppers/tenant farmers for purchase of land for agricultural purpose, redemption of debt from moneylenders, simplifying lending procedure, prudential norms & deregulating interest rate structure to ensure operational viability & financial sustainability of banks etc. Timely commitment to implement these policies by commercial banks enabled them to disburse agricultural credit amounting to Rs.2,85,146 crore during 9th Five Year Plan, which substantially increased to Rs.6,85,146 crore [240%] during 10th Five Year Plan. The estimated disbursement is of Rs.19,59,524 crore during 11th Five Year Plan to support implementation of a plethora of schemes, plans and programs being introduced by the Government of India and State Governments to achieve 4% annual growth rate in agriculture.

While cooperative credit structure is in the process of being recapitalized and regional rural banks are being amalgamated, the commercial banks have significantly improved their performance during the 10th Five Year Plan in all respects, such as disbursements of crop loans and investment credit, loans outstanding, recovery of dues, share in adjusted net bank credit, deposits, credit and credit-deposit ratio in rural areas, opening of "no-frills " accounts, SHG-Bank-Linkage program etc, which had suffered during the post-financial sector reform period. This has invigorated the agricultural growth process in particular as well as contributed to create rural infrastructure under RIDF for a sustainable agriculture and rural development, which could not be attended to by State Governments for years together, though it falls within their domain.

With a view to enabling banks to increasingly involve in the area of rural banking during 11th Five Year Plan the Government of India and RBI have further committed to new innovations, such as [i] establishing financial literacy/credit counseling centers [ii] technology adoptions [iii] establishing Financial Inclusion Fund [FIF]& Financial Inclusion Technology Fund [FITF][iv] Micro-finance Development and Equity Fund [MfDEF]. It is in this context, an attempt is made here to appreciate the [i] impressive role played by commercial banks during 10th Five Year Plan and [ii] need for timely and effectively use of Technology, FIF, FITF & MfDEF established by the Government & RBI to correct some specific deficiencies noticed and meet new challenges of financial inclusion in the area of rural banking by 2015.

Table No.1

Targets and Disbursements to Agriculture by Banks [Rs. crore]

Agency	2004-05 T/D	2005-06 T/D	2006-07 T/D	2007-08 T/D#	Total T/D#
Com.. Banks	57,000 [81,481]	87,200 [1,25,477]	1,19,000 [1,64,488]	1,50,000 [1,56,850]	4,13,200 [5,28,296] [128%]
Coop. Banks	39,000 [31,231]	38,600 [39,786]	41,000 [42,480]	52,000 [43,684]	1,70,600 [1,57,181] [92%]
RRBs	8,500 [12,404]	15,200 [15,223]	15,000 [20,435]	23,000 [24,814]	61,700 [72,876] [118%]
Total	1,04,500 [1,25,116]	1,41,000 [1,80,486]	1,75.000 [2,27,403]	2,25,000 [2,25,348]	6,45,500 [7,58,353][117%]

Data Provisional ; Figures in parentheses indicate Disbursements; ** Indicates % achievements

Disbursements: Data presented in Table No.1 revealed that Banking system disbursed loans of Rs.7,58,353 crore to agricultural sector as against targets of Rs.6,45,500 crore during 2004-05 to 2007-08 showing 117% achievements. Commercial banks' achievements were the highest at 128%[Rs.5,28,296 crore] as against targets of Rs.4,13,200 crore, followed by 92% [Rs.1,57,181 crore] achievements by cooperative banks against targets of Rs.1,70,600 crore, and 118% achievements [Rs.72,876 crore] by RRBs as compared to targets of Rs. 61,700 crore. Share of CBs was 69.7% followed by 20.7% by cooperatives and 9.6% by RRBs. Public sector banks provided Rs.22.14 crore to 5,173 farmers, followed by RRBs [Rs.7.05 crore to 2,826 farmers] and by cooperative banks [Rs.2.22 crore to 283 farmers] to enable them to redeem their debt from moneylenders. Under the scheme for financing purchase of land for agricultural purpose to small and marginal farmers, share croppers/tenant farmers, bank loan of Rs.50.83 crore was disbursed for 1,468 units spread in States of Andhra Pradesh, Haryana, Karnataka, Kerala, Tamil Nadu, Madhya Pradesh, Maharashtra, Punjab, Rajasthan and West Bebgal with refunance of Rs.41.76 crore for 1,216 units during 2007-08.

Table No.2

Targets & Disbursements under Special Agricultural Credit Plans [Rs.crore]

Year	Public Sector Banks' Target	Public Sector Disbursements	Private Sector Banks' Target	Private Sector Disbursements
2004-05	55616	65218[117.3]**		
2005-06	85024 [52.9]*	94278[110.9]**	24222	31199[128.8]**
2006-07	118160 [39.0]*	122443[103.6]**	40656[67.8]*	44093[108.5]**
2007-08#	152133 [28.7]*	111543[73.6]**	41427[1.9]*	45906[110.8]**
Total	410933	393482[95.7]**	106305	121198[114]**

Data provisional * Indicates % increase over previous year ** Indicates % achievements

Special Agricultural Credit Plans: Disbursements under special agricultural credit plans by public sector banks were Rs.2,81,939 crore against the targets of Rs.2,58,800 crore during 2004-05 to 2006-07, showing 109% achievements [and 95.7% achievements including provisional data for the year 2007-08], whereas that of private sector banks were Rs.1,21,198 crore as compared to targets of Rs.1,06,305 crore during 2005-06 to 2007-08.exhibiting 114% achievements. Public sector banks had targets & disbursements more than 25% over the previous year as required by RBI.

Table No.3

Sub-sector-wise Ground Level Credit Flow for Agriculture & Allied Activities [Rs. Crore]

Sector	2003-04	2004-05	2005-06	2006-07	Total
1.Crop loans [Short-Term]	54,977	76062 [38.3%]*	105350 [38.5%]*	138455 [31.4%]*	374844

2.Term loans [Medium &long]	32,004	49247 [53.9%]*	75136 [52.6%]*	90945 [21.0%]*	247332[100%]
Minor irrigation	2,730	4186	8663	8566	24145 [9.8%]**
Land development	579	840	1749	2285	5453 [2.2%]**
Farm mechanization	3986	4555	9695	10113	28349[11.5%]**
Plant& Horticulture	1436	1720	4481	5266	12903 [5.2%]**
Animal husbandry	2928	3097	7341	8045	21411 [8.6%]**
Fisheries	1142	1301	1019	1424	4886 [2.0%]**
Hi-tech agriculture	4017	6648	9737	21498	41900[16.9%]**
Others$	15186	26900	32451	33748	108285[43.8%]**
Total 1+2	86981	125309	180486	229400	622176

* Percentage increase over the previous year ** Percentage share in total Term Loans

Flow of Credit: Crop loans disbursed increased progressively from Rs.54.977 crore in 2003-04 to Rs.76,062 crore [138.3%] in 2004-05, to Rs.1,05,350 crore[138.5%] in 2005-06 and to Rs.1,38,455 crore [131.4%] in 2006-07, while investment credit rose from Rs.32,004 crore to Rs.49,247 crore [153.9%], to Rs.75,136 crore [152.6%] and to Rs.90,945 crore [121.0%] during the respective years. Ground level disbursements of crop loans during 2003-04 to 2006-07 were Rs.3,74,844 crore and that of investment credit of Rs.2,47,332 crore showing 60% and 40% share respectively in the total. Share of investment credit [irrigation, land development, farm mechanization] to support seasonal credit operations was, however, quite low. In fact, investment credit by banks needed to be well supported by Government's public investment efforts.
Of the total investment credit, hitech agriculture accounted for 16.9% followed by farm mechanization [11.5%], minor irrigation [9.8%], animal husbandry [8.6%], plantations & horticulture [5.2%], land development [2.2%] and fisheries [2.0%] whereas others, which included RIDF, storage structures, market yards, forestry, wastelands development, bullocks & bullock carts had as high as 43.8% share.

Refinance: Refinance provided by NABARD for investment purposes increased from Rs.8,622.37 crore in 2005-06 to Rs.9,046.27 crore [105%] in 2007-08. Refinance disbursed to small farmers for minor irrigation, land development and diversified purposes was Rs.3,768.37 crore showing 53% of the total refinanced amount of Rs.7,155.95 crore. This was fairly good share. During the year 2007-08, refinance disbursed under non-farm sector stood at Rs.2,747.95 crore, of which Rs.876.41 crore [32%] was for rural housing.

Table No.4

Outstanding Agricultural Advances by Banks [Rs.crore]

As on March	Public Sector Banks	Private sector Banks	Total
2002	58,142 [14.8%]	6,581 [8.5%]	64,723
2003	70,501 [14.5%]	9,924 [10.9%]	80,425[24%]*
2004	84,435 [15.1%]	14,730 [12.7%]	99,165[23%]*
2005	1,09,917[15.3%]	21,636 [12.3%]	1,31,553[33%]*
2006	1,55,220 [15.3%]	36,712 [13.6%]	1,91,932[46%]*
2007	2,02,614 [15.4%]	52,034 [12.7%]	2,54,648[33%]*
2008	2,48,685 [17.4%]	57,702 [15.4%]	3,06,387[20%]*

Figures in parentheses indicate % to Net Bank Credit

* Indicates percentage increase over the previous year

Outstanding Credit: Outstanding credit of public sector banks to agriculture sharply shot up from Rs.58,142 crore in 2002 to Rs.2,48,685 crore in 2008 exhibiting 14.8% and 17.4% of net bank credit, whereas that of private sector banks increased from Rs.6,581 crore to Rs.57,702 crore indicating 8.5% and 15.4% of net bank credit during the period, which was less than mandated 18% requirement .
It may, however, be appreciated that total agricultural advances as per cent to Adjusted Net Bank Credit or credit equivalent of OBE, which ever is higher, was 18.3 for State Bank Group [SBG] and 18.2 for nationalized banks, which was higher than stipulated 18% as on March 2008. Among 20 nationalized banks including IDBI Bank Ltd. only seven banks, viz Allahabad Bank [20.4%], Andhra Bank [21.8%], Bank of India [18.5%], Indian Bank [22.1%], Indian Overseas Bank [18.9%], Punjab National Bank [18.9%] and Syndicate Bank [19.9%] had ratio higher than 18%, whereas rest had between 6.7% and 17.9%. In case of eight banks of SBG, as many as six banks had ratio higher than 18%, viz SBI [18.6%], SBBJ [22.1%], SBH [18.1%], SB of Indore [19.1%], SBM [18.1%], and SBS [19.5%], whereas other two had 14.7% and 15.7%. Out of 28 private sector banks, only six had achieved the stipulated ratio of 18%, while the rest had between 5.38% and 17.92% as compared to the average at 15.4% as on March 2008.

Deposit/Credit Accounts: While 13,17,23,000 deposit accounts with outstanding deposits of Rs.1,39,431 crore as on 2001 in rural branches increased to 14,96,63,000 accounts [113.6%] with outstanding deposits of Rs.2,53,014 crore [181.5%] as on 2007, the borrowal accounts numbering 2,25,11,000 with outstanding credit of Rs.68,882 crore shot up to 3,10,29,000 accounts [137.8%] with outstanding credit of Rs.2,35,704 crore [342.2%] during the period. The credit-deposit ration was 49.4% as on 2001 as compared to 93.2% as on 2007. Deposit and credit per account was Rs.10,585 and Rs.30,599 as on 2001, which increased to Rs.16,906. and Rs.75,962 respectively as on 2007, showing increase by 59.7% and 148.2% in respect of deposit and credit amount respectively. The ratio of borrowal accounts to deposit accounts was 17% in 2001, which improved to 21% in 2007.

No-Frills Accounts: In view of RBI's directives to commercial banks and RRBs in November 2005 to make available a basic banking "no-frills" account with nil or low minimum balances as well as charges that would make such accounts accessible to vast sections of the population, number of 'no-frills" accounts increased from 3,32,878 in 2006 to 58,65,419 in 2007 and further to 1,39,25.674 in 2008 from 58,65,419 in 2007 and 3,32,878 in 2006 in case of public sector banks and from 1,56,388 to 8,60,997 and 18,79,073 in case of private sector banks during the successive years. However, efforts needed to facilitate clients to operate banking accounts regularly.

Table No.5

Public Sector Banks : Recovery of Direct Agricultural Advances [Rs.crore]

30th,June	Demand	Recovery	Over dues
2004	33544	25002 [74.5%]	8542
2005	45454	35733 [78.6%]	9721
2006	46567	37298 [80.1%]	9269
2007#	73802	58840 [79.7%]	14958

Data provisional ;

Figures in parentheses indicate recovery % to demand

Recovery: Recovery of direct agricultural advances as percentage of collection to demand increased from 74.5 in 2004 to 78.6; 80.1 and 79.7 in the following three years. Amount recovered during the period was Rs.25,002 crore, Rs.35,733 crore, Rs.37,298 crore and Rs.58,840 crore as against demand of Rs.33,544 crore, Rs.45,454 crore, Rs.46,567 crore and Rs.73,802 crore respectively showing significant improvement in containing over dues.

Kisan Credit Cards: The KCC scheme was introduced in 1998-99 to enable farmers to purchase agricultural inputs and draw cash for their production needs in a hassle free and cost effective manner. As on March 31,2008 total number of KCCs issued by all banks were 760.68 lakh of which 28 commercial banks had a share of 41.1%, whereas 385 cooperative banks and 90 RRBs had 45.7% and 13.2% respectively. Banks have also introduced a General Purpose Credit Card [GCC] facility in the nature of revolving credit up to Rs.25,000 without insisting on security or purposes at deregulated interest rates in rural and semi-urban branches. Fifty percent of banks' loans of GCC loans are treated as part of banks' priority sector landing [indirect finance to agriculture]. Banks needed to guide clients for making use of cards frequently.

SHGs: As on March 2008, cumulative number of SHGs linked with banks were 40.85 lakh with loan amount disbursed of Rs.22,196 crore, exhibiting Rs.54,335 per SHG. NABARD provided refinance of Rs.7,062 crore accounting for 31.8%. During 2006-08, number of SHGs linked with banks were 18,46000 and loan amount disbursed was Rs.10,798 crore. Share of commercial banks was [8,84,000] 47.9% followed by 33.7% [6,22,000] of RRBs and 18.4% [3,40,000] of cooperative banks. In terms of loan amount disbursed [Rs.10,798 crore], their share was 55.3% [Rs.5,962 crore], 33.7% [Rs.3,643 crore] and 11.0%[Rs.1,185 crore] respectively.

Models: Of the three models under the SBLP the model II [SHGs promoted by NGOs/Government agencies and financed by banks] was the most dominant one, followed by model I [SHGs promoted, nurtured and financed by banks] and model III [SHGs promoted by NGOs and financed by banks using NGOs /formal agencies as financial intermediaries]. As on March 2006, model II accounted for a lion share of 73.6% [16.46 lakh SHGs] of total 22.39 lakh SHGs and 80.7% [Rs.9,200 crore] of total bank loans of Rs.11,398 crore, where as model I and III had share of 20.1% [4.49 lakh SHGs] of total SHGs with 14.4% [Rs.1,637 crore] of total bank loans and 6.4% [1.43 lakh SHGs] of total SHGs and 4.9% [Rs.561 crore] of the total bank loans respectively.
During 2006-07, commercial banks provided loans of Rs.1,151 crore to 327 MFIs, whereas RRBs disbursed loans of Rs.20 lakh to seven MFIs. As on March 31,2007 commercial banks had outstanding loans of Rs.1,584 crore with 541 MFIs followed by RRBs' outstanding loans of Rs.20 lakh with eight MFIs and that of cooperative bank's outstanding loan of Rs. one lakh with one MFI.

Savings: As on March 2007, 41,60,584 SHGs maintained savings and had savings of Rs.3,512.71 crore with banks as against credit disbursements of Rs.6,570.39 crore to 11,05,749 SHG borrowers. As many as 32,71,239 SHGs[78.6%] were women SHGs having savings of Rs.3,025 crore [86.1%] showing Rs.9,247 per women SHG as against Rs.8,443 per SHG in general.

Recovery: As on March 2007, out of 290 reporting banks [36 commercial banks, 73 RRBs & 181 cooperative banks], 107 i.e 36.9% [11CBs, 20 RRBs & 76 Coops] had recovery of bank loans from SHGs above 95%, followed by 105 i.e 36.2% [15 CBs, 35 RRBs & 55 Coops] between 80% & 94% whereas, 58 i.e 20% [10 CBs, 13 RRBs & 35 Coops] between 50 %&79% and 20 i.e 6.9% [5 RRBs & 15 Coops] less than 50%.

Table No.6

Sector-wise Number of Projects & Amount sanctioned under RIDF [Ito XIII]

As on March 2008 [Rs.crore]

Sector	No. of Projects	Amount sanctioned	Amount disbursed*

Irrigation	1,32,079 [47.1]	25,009.1 [33.8]	15,621.13 [74.4]
Rural roads	61,385 [21.9]	24,597.0 [33.2]	21,166.36 [75.9]**
Rural bridges	11,381 [4.1]	7,032.15 [9.5]	
Social sector	50,859 [18.1]	8,592.19 [11.6]	4,412.30 [63.6]
Power projects	731 [0.3]	1,651.07 [2.2]	1,124.80 [74.3]
Others	23,792 [8.5]	7,191.90 [9.7]	3,270.26 [58.8]
Total	2,80,227 [100]	74,073.41 [100]	45,594.85 [72.5]

Figures in parentheses % to total; * Indicates % to phased amount
** Indicates total of rural roads & bridges

RIDF: There are 31 RIDF related projects as approved by Government of India, that can be categorized broadly under [i] *Agriculture* [micro/minor/medium/major irrigation, community irrigation wells, soil conservation, watershed development, reclamation of waterlogged areas, forest development, seed/agriculture/horticulture farms, plantation & horticulture, [ii] *Rural roads & bridges* [iii] *Power sector* [mini/small hydel projects, [iv] *Social sector* [drinking water, drainage, flood protection, infrastructure for rural education and public health institutions[including mobile health clinics], construction of toilet blocks in existing schools, "Pay & Use" toilets in rural areas, village knowledge centers desalination plants in coastal areas and infrastructure for Information Technology in rural areas, construction of Anganwadi centers[v] *Animal husbandry & fisheries* [fishing harbor/jetties, riverine fisheries, animal husbandry, modern abattoirs].[vi] *Others* [market yards, godowns, apna mandi, rural hatts and other marketing infrastructure, cold storage [public/joint sectors] at various exit points, grading and testing/certifying laboratories, and setting-up of Rural Industrial Estates/Centers.

As on March 2008, number of projects and amount sanctioned under RIDF [trench I to XIII] in respect of broad based six sectors comprised, such as [i] irrigation, 1,32,079 projects with Rs.25,009.1 crore [ii]rural bridge, 11,381 with Rs.7,032.15 crore [iii] rural roads, 61,385 with Rs.24,597 crore [iv] social sector, 50,859 with Rs.8,592.19 crore [v] power sector, 731 with Rs.1,651.07 crore and [vi] others, 23,792 with Rs.7,191.9 crore.

Total number of projects were 2,80,227 and amount sanctioned was Rs.74,073.41 crore. Disbursements were Rs.15,621.13 crore [74.4%], 21,166.36 crore [75.9%], 4,412.30 crore [63.6%], 1,124.80 crore [74.3%] and 3,270.26 crore [58.8%] under irrigation, rural roads & bridges, social sector, power and others respectively exhibiting total disbursement of Rs.45,594.85 crore i.e 72.5% of the phased amount of Rs.62,857.80 crore.

Table No.7

Performance Indicators of Regional Rural Banks As on 31st March, 2005-07 [Rs crore]

Particulars	2005	2006	2007 [P]
No. of RRBs	196	133*	96*
Branch Network	14,484	14,494	14,520
Share capital	195.93	196.00	196.00
Share capital deposit	2,166.82	2,180.03	2,188.43
Reserves	3,818.52	4,270.56	4,901.54
Deposits	62,143.00	71,328.83	83,143.55
Borrowings	5,524.32	7,302.59	9,775.80
Investments	36,767.66	41,182.45	45,666.14
Loans & Advances Outstanding	32,870.03	39,712.57	48,492.59
Loans issued	21,082.47	25,426.97	33,043.49
RRBs earning profit	166	111	81

Amount of profit [A]$	902.60	807.79	926.40
RRBs incurring losses	30	22	15
Amount of losses [B]	154.49	190.66	301.25
Net Profit [A-B]	748.11	617.13	625.15
Accumulated losses	2,715.01	2,636.85	2,759.49
RRBs with accumulated losses	83	58	39
Recovery	79.85	79.80	80.49
NPAs as % to loans outstanding	8.53	7.28	6.55
Net Worth	3,466.26	4,009.74	4,526.48

* After amalgamation $ Before Tax P: Provisional

***RRB*s**: Following the amalgamation of RRBs, from 2005-06 onwards, the number of RRBs has been reduced from 196 to 96 with the operating network of 14,520 branches covering 534 districts in 26 States as on March 2007. Their reserves, deposits, investments and loans issued increased from Rs.3,818.52 crore; Rs,62,143.00 crore; Rs.36,767.66 crore and Rs.21,082.47 crore in 2005 to Rs.4,901.54 crore; 83,143.55 crore; 45,666.14 crore and Rs.33,043.49 crore respectively in 2007.

As on March 2007, there were 81 RRBs earning profit of Rs.926,40 crore and 15 RRBs incurring losses of Rs.301.25 crore exhibiting net profit of Rs.625.15 crore. Thirty nine RRBs had accumulated losses of Rs.2,759.49 crore. NPAs to loans outstanding declined progressively from 8.53% in 2005 to 7.28% in 2006 and 6.55% in 2007. Recovery as percentage to demand increased

Agriculture: Production of food grains [paddy, wheat, coarse cereals & pulses] increased from 198.4 million tons in 2004-05 to 230.7 million tons [116.3%], against the target of 221.5 million tons in 2007-08 and horticulture [fruits & vegetables] increased from 152.0 million tons in 2002-03 to 186.9 million tons [123.0%] in 2006-07. Growth rate in agriculture & allied sector, which was negative in 2004-05 increased to 6.0% in 2005-06, 3.8% in 2006-07 and 4.5% in 2007-08.

Gross Capital Formation [GCF] in agriculture [at 1999-2000 prices] shot up from Rs.44,833 crore in 2003-04 to Rs.60,762 crore [135.5%] in 2006-07 exhibiting ratio of GCF in agriculture to Agricultural GDP having increased from 10.2% to 12.5% and that of total GDP from 1.9% to 2.15 respectively during the period.

Agricultural Insurance: Under the National Agricultural Insurance scheme being implemented since 1999-2000, till rabi 2006-07, 9.71 crore farmers have been covered with claims amounting to Rs.9,855 crore and benefiting 270 lakh farmers.

Areas of Concern

While commercial banks' favorable response to the implementation of policies and programs has yielded positive results, following are the areas, which need priority attention of banks and Governments.

The branch expansion program for rural areas got significant momentum till 1990s as a result of which Population per rural branch steeply declined from 82,000 in 1969 to 14,000 in 1991 to facilitate rural households to access financial services. However, with the amalgamation and upgrading of 4500 rural branches the population served per rural branch increased to 16,000 in 2001and further to 17,000 in 2007, which would reduce their accessibility to financial services at a time when they need *"most and often*".

The Committee on Financial Inclusion has identified 256 districts in 16 States & one Union Territory where population served per branch is over 19,000 and *credit gap* [proportion of adults having no bank account] is estimated to be more than 95%.

Number of accounts with credit limit up to Rs.25,000 were 62.5 million in 1992 accounting for as high as 95% of the total [65.9 million] declined to 38.6 million [61.7%]accounting for 40.9% of the total 94.4 million in 2007. In sharp contrast to this, there were 2.8 million accounts with credit limits between Rs.25,000 and Rs.2,00,000 accounting for 4.3% of the total in 1992, which increased steeply to 45.7 million [1632%] accounting for 48.4 %of the total in 2007.

Amount involved in accounts with credit limits up to Rs.25,000 was Rs.29,945 crore in 1992 accounting for 21.9% of the total amount of Rs.136,706 crore increased to Rs.45,903 crore [153.3%] accounting for 2.4% of the total amount of Rs.1,947,100 crore in 2007. As against this, amount of Rs.18,393 crore involved in accounts with credit limits between Rs.25,000 and Rs.2,00,000 accounting for 13.5% of the total in 1992, sharply increased to Rs.232,992 crore [1266.7%] accounting for 12% of the total amount in 2007.

The ratio of deposit accounts as on March 31, 2004 to total adult population as per 2001 census was only 59%. The ratio varied across States ranging from 89% in Kerala to 21% in Nagaland. Almost 40% of the adult population of the country, comprising mainly those living on low incomes and those without owned collaterals is unable to access mainstream financial products such as bank accounts and loans. These households depend heavily on informal credit markets often on exploitative terms including exorbitant interest rates.

In India, 45.9 million [51.4%] farmer households out of 89.3 million are financially excluded from both formal and informal sources and 31.6 million [73% of remaining 43.3 million] farmer households do not access formal sources of credit. Exclusion is most acute in Eastern and NE region with 64% of all financially excluded farmer households. Majority of low income groups [mostly comprising marginal farmers, landless laborers, oral lessees, urban slum dwellers, migrants, ethnic minorities, socially excluded groups, senior citizens & women] and self-employed and unorganized sector enterprises for their micro and small enterprises need easy, reliable access to financial services at affordable cost, such as savings, credit, insurance, payments/remittances. These clients have to pay high transaction costs. Withdrawal of funds is not always easy. Accessing loans is difficult since it has a long processing time. Securing minimum amount of loan is very costly and is a low priority for banks as banks are geared to serve high-income groups.

The relatively increased reliance of households with low income on non-institutional sources could be due to factors such as their requirements generally include borrowings for purposes for which loans are not readily available from banks, as well as inability to provide collaterals. According to NSSO data, the share of non-institutional sources in the outstanding households debt increased sharply in 2002 as compared to 1991 because of significant increase in the current farm expenditure and household expenditure, especially in rural areas which included expenditure incurred on purchase of residential plot; purchases; construction, addition/alteration of building for residential purposes; purchases of durable households assets, clothes, among others on medical treatment, education, marriages, and social/religious ceremonies etc for which banks do not provide loans. Survey of IIMS 2007 also support this, as financial emergencies, medical emergencies and social obligations accounted for 53% of loans availed by indebted earners and 60% of the earners. . While banks need to motivate, assist and facilitate to form SHGs, which can be linked with banks for accessing credit their income generating activities, housing, consumption, social & religious ceremonies, debt swapping etc and develop customized financial products [savings, credit, insurance, remittances] to meet their needs, the Government has role to legalise the formation of SHGs and regulate and supervise the MFIs

The Committee on Financial Inclusion expects at least 55.7 million of the excluded rural households to be brought within banking fold by 2012 and the remaining by 2015.

The Government of India and State Governments should consider making all payments under National Rural Employment Guarantee Scheme, Social Security schemes and payment of subsidies being provided under their schemes & programs, through banks to ensure timely payment and transparency.

The World Bank and Asian Development Bank have in their studies world over have identified several factors that affect access to financial services. Of these, while factors concerning gender

issues, legal identity and limited literacy need Government's priority attention, other factors, such as age factor, place of living, psychological and cultural barriers, bank charges, terms and conditions, level of income, type of occupation need priority attention of banks including developing innovative and attractive financial products.
The micro-finance through 142 out of 160 MFIs and NABARD's SHG Bank Linkage program together reached over 33.5 million clients providing micro-credit of around Rs.232,720 million by March 2008. However, outreach is modestly covering less than 5% of India's rural poor and therefore, SHG Bank Linkage along with other MFIs need to be strengthened organizationally, managerially and financially to meet the challenging task.

Enabling Measures

With a view to ensuring poor households' access to financial services, several countries including India have initiated some of the measures, which include [i] nationalizing private banks [ii] branch regulations [iii] promoting specialized banks including national savings banks [iv] directives on portfolio composition [v] interest rate ceilings on credit to low income households and provision of credit at subsidized rates to priority sectors [vi] voluntary charter or codes developed by banks themselves [vii] enactment of legislation defining the right of access to formal banking services [viii] setting up of empowered and dedicated agencies by Government [ix] running specialized and sponsored schemes including those sponsored by Government and banks themselves using a blend of innovations, reforms in the existing structures of credit delivery and the existing infrastructure like post offices and passport accounts [x] countering the operations of moneylenders and [xi] community based savings and credit societies and mutual savings banks, which in a way can be seen as precursors of the modern micro-finance movement. While these measures have no doubt yielded positive results in India in particular, the Government of India and RBI have now been committed to following new innovations in order to seek increasing involvements of banks in the area of financial inclusion and rural banking.

Financial Literacy and Credit Counseling Centers [FLCCs]

The NCAER research in January 2007, covering 930 bank branches across the country from 30 States/Union Territories and 9,300 depositors and 13,950 borrowers, on the quality of services rendered by branches of commercial banks to their customers in rural and semi-urban areas revealed that "*prompt service delivery at the counter and professional attitude of the bank staff in reaching out to the customers emerged as key determinants for customer satisfaction in rural and semi-urban areas"*. In response to this, the Government of India has aptly considered to establish" *Financial Literacy and Credit Counseling Centers [FLCCs*] at block/district level.
The objectives of these centers are to provide free financial literacy/education and credit counseling, viz [i] to make the rural households fully aware of the advantages of being connected with the formal financial sector and educate them thoroughly in respect of full details of various financial products and services being provided by banks including the procedure to avail them [ii] to provide face to face financial counseling services so as to clarify all their doubts/misgivings and understand their banking requirements [iii] to formulate a realistic debt restructuring plans for borrowers in distress, fully in consultation with them through proper dialogue and understanding of the pressing needs, in light of extant instructions and guidelines issued by the RBI and recommend the same to formal financial institutions for consideration [iv] to take up any such activity that promotes financial literacy and amelioration of debt-related distress of an individual. Debt / credit counseling can be both preventive and curative. In case of preventive counseling, the center would provide awareness regarding cost of credit and availability of backward and forward linkages to ensure technical feasibility and financial viability of the loan proposal. This should facilitate borrower to repay the loan with interest on time. In the case of curative counseling the clients may approach the center to help them work out effective debt restructuring plans in consultation with the bank.

Since technology applications are widely encouraged in rural, semi-urban and unbanked areas to provide financial services to one and all through Financial Inclusion program these centers have great role and responsibility to make prospective clients/customers fully aware of all kinds of these new technology so as to facilitate them to use the services properly and efficiently.
Centers would be equipped to deal with requests received in person, by phone, e-mails, post, etc. They would have a toll free line, e-mail and fax facilities for easy contact.
For ensuring adequate transparency/disclosure of information banks would display on their websites full particulars of all fees, interest rates, yield and other features of standard products offered by them.
In order to manage these centers adequate and effective organizational/administrative set-up along with communication and networking facilities would be put in place. Full time & adequately qualified/trained counselors would be recruited and the functioning of the centers would be effectively monitored.
The need is to increase the use of information kiosks to disseminate information not only about banking products, but also about output/input prices, insurance products, health services etc. Similar model [e-chopal] has already been implemented by the private sector for providing ready information in local language on weather, market prices, scientific farm practices and risk management. This model presently covers more than 31,000 villages and could be utilized for promoting financial literacy in association with private agencies.

Technology Applications:
Technology enables the rural financial institution to go where the customer is, instead of the other way. Technology can play an important role in reducing operating cost of providing banking services, particularly in the rural areas and to low-income groups. The technology, if blended appropriately with the *right business model and policy*, holds the key to extending affordable, viable and sustainable access to finance for the population at large. The recent developments in banking technology and expansion of telecommunication network in the hinterlands of the country have provided the perfect launch pad for extending banking outposts to remote locations without having to open bank branches in the area where customer is. Following are a few, out of a plethora of successfully demonstrated technological innovations, which surely suggest that banks, in coordination with the Government and private sector can consider leveraging technology to open up channels beyond branch network and create the required banking footprints to reach the unbaked areas so as to extend banking services similar to those dispensed from branches.
There are three broad types of technologies that have been identified to drive the growth of financial services. These are [i] pro-poor new information and communication technology, primarily low-cost cell phones [ii] ATMs and other point of sales devices and [iii] smart plastic card.
The centralized data processing system and the non-conventional methods on computer systems, which do not require uninterrupted electric supply and radio frequency network, can significantly reduce the cost of extending financial services. There are a number of cases where banks have expanded the coverage of banking services to remote and un-banked areas with affordable infrastructure, while keeping operating costs low with the use of appropriate technology. Technology has the potential to lead new delivery mechanisms and business models. For instance, technology will allow branchless banking and establishment of new partnerships between financial service providers and a range of other service providers, that was not feasible before, to provide services to clients in remote areas and low-population density areas.
Banks in India have initiated pilot projects utilizing smart cards/mobile technology to increase their outreach. Biometric methods for uniquely identifying customers are also being increasingly adopted. Banks are also increasingly adopting technological solutions for delivery of credit at affordable price and to a wider section of the population. State Bank of India initiated a project called the SBI Tiny Card Accounts [SBITCAs] recently in Aizwal. The SBITCAs are based

through new generation mobile phones based on near-field communication [NFC] technology, enhanced with fingerprint recognition software and attached to receipt printer. The card allows activation of transfer of funds for the purpose of micro-savings, cash deposits and withdrawal, micro-credit, money transfer [account-to-account within the system], micro-insurance, cashless payments to merchants, SHG Savings-cum-credit accounts and attendance systems, disbursements of Government benefits like the national rural employment guarantee scheme, for equated monthly installments, utility payments, coupons, vouchers, tickets, automatic fare collection systems, etc.

The Corporation Bank adopted a branchless banking model in August 2007. After evaluation of different technologies ranging from palm-tops, simputers, hand-held storage devices and diverse communication channels, the bank opted for a branchless banking model based on Business Correspondents [BCs] and use of a small hand held device. This technology enabled bank to reach out the villagers by offering them savings and loan products at their door steps there by saving of customers time and cost of travel to branch. The bank is able to reach out to the hitherto unreached segments and mop up rural savings at lower transaction costs.

The appropriate technology combined with an effective use of banking correspondents has the potential of creating a banking outpost/ATM in every village, as has been demonstrated in the case of Andhra Pradesh, which has successfully implemented mobile phone technology for providing banking services in remote areas in coordination with Reserve Bank and IDRBT.

In the Philippines, two cell phone companies [Smart and Globe Telecoms] offer innovative cell phone based facilities, also called electronic wallet, to transfer money, pay bills, and make payments for purchases from stores, among other things, called Smart Money and G-Cash, respectively.

In South Africa, banking institutions, together with mobile phone companies, have begun to expand access to financial services targeting low-income customers with an interest-bearing bank account accessible through mobile phones and debit card with which they can make purchases at retail outlets and deposit or withdraw money at ATMs. Customers can use their mobile phones to make person-to-person payments and transfer money.

There are pilot projects in use of IT for extending the banking outreach for the “excluded”. These projects are premised on technology, which uses hand-held devices and connectivity with host computers through General Packet Radio Services [GPRS]/Global System for Mobile Communications [GSM]/Code Division Multiple Access [CDMA]/ landline networks. The devices come in several forms like Simputers [Simple Inexpensive Multi-lingual Computers]/ personal digital assistants, programmed mobiles, etc. There are also rural bio-metric ATMs which have been introduced by banks and found to be popular among rural masses. Some major banks are also introducing low cost rural ATMs for cash dispensing and other services in rural areas.

As the technological capability for achieving outreach has been satisfactorily proved in the ongoing projects in Andhra Pradesh, Karnataka , Mizoram, banks may consider to scale up the projects all over the country. Banks can absorb operating cost, as the increase in the business volumes will justify the absorption of incremental operating costs. Also, the costs of the models can be lowered substantially if the infrastructure is shared.

Financial Inclusion Fund [FIF]

The Government has established the “ *Financial Inclusion Fund [FIF]”* with an overall corpus of Rs.5000 million. The objectives of the FIF are to support developmental and promotional activities with a view to securing greater financial inclusion, particularly among weaker sections, low-income groups and in backward regions/hitherto unbanked areas.

The eligible activities, among others, cover [i] funding support for capacity building inputs to Business Facilitators and Business Correspondents [ii] funding support for setting up of Rural Credit Bureaus for credit rating of rural customers [iii] supporting pilot projects for development of innovative products, processes and prototypes for financial inclusion [iv] providing promotional support to institutions such as resource centers, farmers' service centers, and rural development and self-employment training institutes to enable them to provide improved technical and financial services [including counseling] aimed at increasing technology adoption, effective management of assets, nurturing entrepreneurial capacity and increasing financial education and literacy [v] providing funding support for promotion, nurturing and credit linking of Self-Help-Groups

Financial Inclusion Technology Fund [FITF]

The Government has also established the *Financial Inclusion Technology Fund* [*FITF]"* with an overall corpus of Rs.5000 million.The objectives of the FITF are to enhance investment in Information Communication Technology [ICT] aimed at promoting financial inclusion, stimulating the transfer of research and technology in financial inclusion, increase the technological absorption capacity of financial service providers/users and encourage an environment of innovation and cooperation among stakeholders.

The eligible activities, among others, cover [i] encouraging user friendly technology solutions [ii] providing financial support to technological solutions aimed at providing affordable financial services to the disadvantaged sections of the society [iii] creating a common technology infrastructure with comprehensive credit information [iv] funding support to technologies facilitating the documentation for processing of loans [v] providing viability gap/pilot project funding for unproven but potential technological interventions [vi] conduct of studies, consultancies, research, evaluation studies relating to technological interventions for financial inclusion [vii] promoting seminars, conferences and other mechanisms for discussions, dissemination relating to financial inclusion technological interventions [viii] publication of financial inclusion technology literature and publicity material [ix] Capacity building of persons of banks, post offices, State Government departments, MFIs, NGOs, Voluntary Associations and other stakeholders.

Micro Finance Development and Equity Fund [MFDEF]

The Government has already established *Micro Finance Development and Equity Fund [MFDEF*] in 2005 with a view to facilitating and supporting the orderly growth of the micro-finance sector through diverse modalities for enlarging the flow of financial services to the poor, particularly to women and vulnerable sections of the society consistent with sustainability.

Broadly the activities being supported out of the MFDEF relate to capacity building [SHGs, MFIs, staff, NGOs, Government etc]; funding support [contributing equity/other forms of capital support to MFIs/service providers] management information services, regulatory and supervisory framework, studies and publications etc.

Voluntary mutual code of conduct

In 2007, Sa-Dhan on behalf of its member-MFIs considered and issued a *voluntary mutual code of conduct* applicable to all the categories of member MFIs.

The objectives are that the member institutions agree to promote and strengthen the micro-finance movement in the country by bringing the low-income clients to the mainstream financial sector.

They also agree to build progressive, sustainable and client-centric MFIs in the country to provide integrated financial services to the clients.

Their aim should be to promote cooperation and coordination among MFIs and other agencies to achieve higher operating standards and avoid unethical competition in order to serve the clients better.

The Voluntary Mutual Code of Conduct for member-MFIs sharply and elaborately focus on integrity, transparency, fair practices, governance and feedback/grievance mechanisms.

Since the country has adopted "Multi-Agency Approach" for providing financial services in rural areas through two-tier cooperative credit structure, public and private sector commercial banks, regional rural banks, local area banks it is most important that these financial institutions among them adopt this *voluntary mutual code of conduct* in their own interest in particular and for the larger benefit of rural households in general. Demand for financial services in rural areas has indeed not been genuinely created [clients are served as and when they approach] through creating enabling environment by the Government, rural financial institutions and private sector business community. As a result, at present there is in reality no competition. However, there is need for healthy competition, for obvious reasons, among rural financial institutions, which need to voluntarily adopt this mutual code of conduct.

Conclusion

With the evolution of Rural Banking Policy by the RBI slowly, steadily systematically and in a planned manner, the commercial banks in India showed impressive performance during 10th Five Year Plan. During 11th Plan the banks may need to commit themselves to serve progressively all households in a village, initiate steps to establish Financial Literacy and Credit Counseling Centers, adopt Technology Applications, make timely and judicious use of Financial Inclusion Fund and Financial Technology Fund and voluntarily adopt Mutual Code of Conduct. In the process, the Government may consider creating enabling environment and building rural infrastructure to facilitate rural financial institutions to serve all the rural households by 2015.