Chapter – 4
Role of Commercial Banks

This Chapter briefly traces the historical and contemporary imperatives to provide financial services to the rural poor in India and the institutional responses to the same.

Evolution of the Financial Landscape

4.01 In post-independence India, in order to facilitate improvements in agricultural production and attain food self-sufficiency, the stance of policy was to ensure sufficient and timely credit at "reasonable" rates of interest to as large a segment of the rural population as possible (Rangarajan 1996). The strategy to achieve this was threefold: expansion of the institutional base, directed lending to disadvantaged borrowers, and credit provision at concessional rates of interest. The latter was justified in terms of the perceived mismatch between the longer term returns of farm investment in relation to cultivator households' short term consumption needs and requirements to service the loans.

4.02 Fisher and Sriram (2006) identify three post-independence phases in rural credit provision. First, the 1950's up to the mid-1960's when cooperatives were the institutional vehicles of choice; second, the 1970's and 1980s when attention shifted to commercial banks and RRBs and third, the reform period in the early 1990's which saw the re-structuring of the banking system, the emergence of SHGs and a growing number of MFIs.

4.03 In terms of scale, spread, costs, risks, and the inter-temporal nature of credit markets, financial institutions and agents in India face formidable challenges in meeting the diverse financial service needs of the country's rural population.

4.04 The present rural financial infrastructure comprises a wide variety of formal, semi-formal and informal financial service providers, with distinctive cultures and characteristics. The number of organisations and agents is very substantial : 33,553 rural and semi-urban branches of commercial banks, 13,932 rural and semi-urban branches of Regional Rural Banks, 1.09 lakh primary cooperatives, 1,000 NGO-MFIs and around 20 MFIs registered as companies (Section 25) and nearly three million SHGs. Even more numerous are the myriad of informal agents constituting a great range of financial service providers across the country.

4.05 Different segments of the financial infrastructure have not developed uniformly or simultaneously, and their relative standing in terms of government policy and intervention has changed over time. Moreover, financial institutions have themselves influenced government policy (Jones 2006). In the following paragraphs, an attempt is made to trace the forces and compulsions that have led to the development of particular rural financial institutions in the country, to outline the changing fortunes and shares of these different systems, to show the present gap between rural financial needs and provisions, and to assess policy options to reduce this gap through institutional development, linkages and reform.

Evolution of Commercial Banks

4.06 The foundation for building a broad base of agricultural credit structure was laid by the Report of the All-India Rural Credit Survey (AIRCS) of 1954. The provision of cultivator credit in 1951-52 was less than 1% for commercial banks. In the report it was observed that agricultural credit fell short of the right quantity, was not of the right type, did not fit the right purpose and often failed to go to the right people. With a view to give an impetus to commercial banks, particularly, in the sphere of investment credit, the nationalization of the Imperial Bank of India and its redesignation as the State Bank of India (SBI) was recommended.

Growth in Outreach 1951-91

4.07 From the position prevalent in 1951-52, commercial banks came a long way with a substantial spread of 32,224 branches in rural and semi-urban areas comprising 68% of their total outlets as on 31 March 1991. The outstanding deposits of such branches at Rs.67,855 crore as on the same date constituted around 35% of their total deposits, while loans outstanding at Rs. 43,797 crore comprised 36% of outstanding credit. The agricultural advances of the commercial banking system aggregated Rs. 16,687 crore and constituted 14% of total advances in March 1991. The rural and semi-urban branches of commercial banks covered 17.6 crore deposit accounts while the number of loan accounts serviced aggregated 3.7 crore.

Growth during 1991-92 to 2003-04

4.08 The period since 1991-92 has seen a fairly rapid expansion of credit to agriculture. Available data indicate that the flow of credit to agriculture by commercial banks and RRBs taken together increased to Rs. 60,022 crore in 2003-04. This implies a compounded annual growth rate of 22.2%. In fact, as compared with commercial banks (including RRBs), the flow of credit from the cooperative sector was much slower through this period. The compounded annual growth rate of credit for agriculture from cooperative institutions was only 13.7%. Further, the proportion of agriculture credit to total credit came down because of the rapid growth in non-agriculture credit.

4.09 The Government took some major initiatives during the period to boost agriculture production and productivity through enhanced credit flow and by way of building agricultural infrastructure, particularly irrigation and connectivity in rural areas.

4.10 Special Agricultural Credit Plan (SACP) was introduced by RBI for Public Sector Commercial Banks in 1994-95. Credit growth for agriculture and allied sectors under this caption reflected a CAGR of 36.45% during 2001-02 to 2005-06. SACP has since been extended to Private Sector Commercial Banks from 2005-06.

4.11 The SHG – Bank Linkage Programme was started as a pilot project by NABARD in 1992. It led to the evolution of a set of RBI approved guidelines to banks to enable SHGs to transact with banks. Initially there was slow progress in the programme up to 1999 as only 32,995 groups were credit linked during the period 1992 to 1999. Since then the programme has been growing rapidly and the cumulative number of SHGs financed increased from 4.61 lakhs on 31 March 2002 to 10.73 lakhs on 31 March 2004 and further to 29.25 lakh groups as on 31 March 2007.

4.12 Rural Infrastructure Development Fund (RIDF) was set-up in NABARD by GoI during 1995-96 with an initial corpus of Rs.2000 crore, to accelerate the completion of on-going projects of rural infrastructure. Banks which did not fulfill the priority sector credit requirement and agriculture credit mandate were required to contribute to this Fund. The fund has been strengthened every year with additional allocations in the Union Budget. A large number of irrigation and rural connectivity projects could get completed under RIDF.

4.13 RBI scaled down its contribution to the Rural Credit funds with NABARD to a token amount of Rs.1 crore per annum since 1993-94. However to enable NABARD to have reasonably strong leverage for accessing market funds, the share capital of NABARD was strengthened and increased to Rs.2000 crore (paid up) from Rs.100 crore at the time of its formation in 1982. Contributions to enhanced share capital have come from GoI and RBI. By prudent funds management, the institution has also built a strong base of reserves and has been using it in its business operations judiciously to keep lending rates to rural financial institutions at significantly lower than market costs.

Developments – Post 2003-04

4.14 Since 2003-04, there has been a substantial increase in the flow of credit to agriculture through commercial banks. Disbursements have increased from Rs. 52,441 crore in 2003-04 to Rs. 1,16,447 crore in 2005-06, reaching an annual growth of 43% each year. As envisaged in the GoI's strategy for "doubling of credit", 95 lakh new farmers have been brought under the institutional fold and 1,383 agri-clinics opened. Commercial banks have also played a major role in the promotion of the SHG - bank linkage movement with more than 11.88 lakh groups being linked to banks for provision of credit. Reforms in the commercial banking system include removal of procedural and transactional bottlenecks including elimination of Service Area Approach, reducing margins, redefining overdues to coincide with crop cycles, new debt restructuring policies, one time settlement and relief measures for farmers indebted to non-institutional sources.

The Task Ahead

4.15 Commercial banks are now slowly coming to appreciate the business potential in financial inclusion and also the need for better involvement. RRBs who are expected to function with the social heart of cooperatives and financial acumen of commercial banks have a significant role to play in financial inclusion, especially in the post-amalgamation scenario. The vast postal network, leveraging on their immense outreach, could also be an effective vehicle for purveying financial services.

4.16 While, there is evidence that commercial banks have been cognizant of their social responsibility in regard to small farmers, their focus on marginal and sub-marginal farmers, tenants, share croppers, oral lessees and non-cultivator households, viz., the very poor and disadvantaged sectors has been found wanting. In the circumstances, there is a need to evolve conscious strategies for providing easier access to affordable credit to the marginal, sub-marginal and other disadvantaged groups in the rural sector. Such strategies should combine using a variety of delivery channels, intermediaries and IT solutions apart from the traditional brick and mortar branch network.

4.17 The **specific recommendations** of the Committee for achieving targets under the NRFIP by leveraging the existing commercial bank branch network in rural areas are as follows :

Targets for rural / semi-urban branches

4.18 Currently, there are 33,478 commercial bank branches in rural and semi-urban centres in the country. Out of these, there are about 12,340 branches in the rural and semi urban areas of the Central, Eastern and North-Eastern Regions, where the majority of the financially excluded population live. It is understood that each branch of Grameen Bank in Bangladesh services at least 4,000-5,000 borrowers, with 6-7 field officers per branch. Given the existing staff strength, it should be possible for commercial banks (including RRBs) to provide access to credit to at least 250 hitherto excluded households per annum at each of their existing rural and semi-urban branches. For this, banks will have to strengthen their staff and use a variety of delivery mechanisms.

Targeted Branch Expansion in identified districts

4.19 In several districts, the population per branch office is much higher than the national average, particularly in rural and semi urban areas. The list of such districts has already been circulated by RBI among banks. The DLCCs in these districts may identify centres for opening branches by commercial banks and RRBs. in the next three years.

4.20 For the North-Eastern Region, the financial sector plan has already identified such centres and branch expansion plan as laid out therein may be implemented. SLBC may monitor the branch expansion plan for each State.

Product Innovation

4.21 The excluded segments of the population require products which are customized, taking into consideration their varied needs. Their banking requirements being small, the issue of servicing and delivery in a cost-effective manner assumes significance. The need for savings by these groups require special attention, e.g. for meeting life cycle needs, creating assets, repaying high cost borrowings, meeting emergencies etc. The saving products offered at present do not effectively meet these needs. The services offered are also not suitable because of the spatial spread of the excluded people and also the small quantum of finance involved.

(a) Savings : Savings products to meet the specific requirements of the poor need to be evolved. One way of meeting this would be to utilize SHGs for tapping the small savings by providing incentives to the SHGs with suitable back-end technology support. The banks can develop medium and long term savings instruments by issue of pre-printed deposit receipts to the SHGs which in turn can be sold to the SHG members. Banks could be given the freedom to develop their own products, suiting local requirements and felt needs of the poor.

(b) Credit : With regard to credit products, the savings linked financing model can be adopted for these segments. The approach should be kept simple which should guarantee the beneficiaries a credit limit, subject to adherence to terms and conditions. The credit within the limit can be made available in 2-3 tranches, with the second and subsequent tranches disbursed based on repayment behaviour of the first tranche. This is to ensure that the vulnerable groups do not get into a debt trap; it also ensures good credit dispensation.

(c) Insurance : Banks can play a vital role in this regard – by distributing suitable micro-insurance products.

Incentivising Human Resource – Measurable performance indicators

4.22 Lending to low income groups and increasing financial inclusion need motivated bank staff. Such motivation is a function of attitudes and beliefs as also a system of incentives / disincentives put in place by the bank's management for special efforts / failures to achieve desired levels of financial inclusion.

4.23 The Committee debated the issue of creating a separate cadre of rural bank employees. While the arguments in favour were supported by the large proportion of rural branches, quantum of deposits and credit, the arguments against were the high costs involved and compulsions regarding rotation of staff. It was, therefore, felt that existing staff posted to rural branches can be incentivised within a framework of performance parameters including covering of new households through deposit and loan accounts, increase in business in existing and new small loan / deposit accounts, increase in number of SHGs / Joint Liability Groups (JLG) formed and credit linked, efforts put in for promotion of asset management skills and developing linkages to promote credit absorption.

Funding

4.24 The Committee recognized that there is a cost involved in providing credit plus services and technology applications. Such costs may come down over a period of time with the resultant business expansion. Banks are expected to meet a part of the costs. However, in the initial stages some funding support thru' specially constituted Funds may be extended to them. This funding support, envisaged as a mechanism to reduce costs, may be provided to the banks on two counts - (i) promotional and developmental initiatives that will lead to better credit absorption capacity among the poor and vulnerable sections and (ii) application of technology for facilitating the mandated levels of inclusion.

Financial Inclusion Funds

4.25 The Committee proposes the constitution of two funds – the Financial Inclusion (Promotion & Development Fund), with NABARD, for meeting the cost of developmental and promotional interventions indicated below and the Financial Inclusion Technology Fund, with NABARD, to meet the costs of technology adoption. Each Fund will have an initial corpus of Rs. 500 crore, with a start-up funding of Rs. 250 crore each, to be contributed in equal proportion by GoI / RBI / NABARD and with annual accretions thereto. Banks will be eligible for support from the Funds on a matching contribution of 50% from the Fund in regard to districts other than tribal districts and 75% in case of branches located in tribal districts identified under the Tribal Sub Plan.

Financial Inclusion Promotion and Development Fund

The Financial Inclusion Promotion and Development Fund will focus on financing the following interventions :

<u>Farmers' Service Centres (FSC)</u> :

4.26 With the creation of and support to FSCs a host of financial and farm advisory services are to be provided to the new / hitherto excluded customer segments. The Centres will network on the technology front with Agricultural Universities / KVKs, farmers clubs, the formal extension machinery of the State Governments, technical staff of banks, portals of national level commodity exchanges etc. Such FSCs can be financed by the banks on the pattern of agri clinics. In the initial stages, it may be necessary to provide them some support by way of viability gap funding.

Promoting Rural Entrepreneurship :

4.27 Commercial banks may consider setting up institutions like farmer training centres and Rural Development and Self Employment Training Institutes (RUDSETI) for developing skills among farmers / rural entrepreneurs for effectively managing the assets financed.

Self-Help Groups :

4.28 The process of financial inclusion can be greatly facilitated through the medium of linking SHGs with the formal sector. It has been observed elsewhere in the Report that the SHG movement is yet to catch up on a big scale in regions manifesting high levels of exclusion (Central, Eastern and North-Eastern Regions). The funding support for promotion, nurturing and credit linking of SHGs can be extended.

Developing HR – Addressing attitudinal issues thru' training :

4.29 Various studies have confirmed that lending to the poor raises a number of issues ranging from sources and reliability of their incomes to lack of suitable bank projects for them to the elitist approach of the formal institutional credit delivery apparatus. These factors are the outcome of attitudes towards the poor, as generally not viable and profitable customers of the bank. Experience indicates that the poor, if guided properly, not only succeed as entrepreneurs, but are also good "repayers". However, changing this attitude or mindset is a challenge.

4.30 In a study conducted in Madhya Pradesh, it was found that attitudes of branch managers shape the branch lending behaviour. Two other important findings which emerged were that a majority of the branch managers held negative attitudes towards lending to the poor and about themselves, their work roles and situations and exhibited a general lack of motivation and confidence. Secondly, there was a positive correlation between the training received by the branch managers and their overall attitudes. Branch managers felt that in terms of frequency, and relevance to their work, training was inadequate, too theoretical, inappropriate for rural assignment, outdated and in some case a mere formality (Jones, Williams & Thorat).

4.31 Keeping in view the impact that training has on attitudes, a training module has been developed and tested for commercial banks and RRBs in the College of Agricultural Banking, Pune. The Committee recommends that banks use / adapt this programme for bringing about the right mindset amongst their branch staff posted to districts having a high share of population excluded from access to financial services.

Resource Centres

4.32 Resource Centres, apart from facilitating members of mature SHGs to graduate to micro-enterprises, also helps in ensuring long term sustainability of SHGs. The cost of setting up such centers can be met out of this Fund and / or the MFDEF. This is discussed in detail later in the report.

Federations

4.33 As indicated later in the report, funding support may also be extended from this Fund and / or MFDEF for voluntary establishment of federations.

Capacity building of BFs/BCs

4.34 Funding support, on priority basis, to be extended to specialized institutions which provide capacity building inputs to BFs/BCs, as discussed later in the Report.

Financial Inclusion Technology Fund

Technology Applications for Greater Financial Inclusion :

4.35 Extending outreach on a scale envisaged under NRFIP would require the application of low-cost technology solutions, which have been discussed in greater detail elsewhere in the Report. This may also call for certain levels of funding support for rolling out such IT-based inclusive financial sector plan.

Guidelines for operationalising the Funds

4.36 NABARD, in consultation with RBI, may prepare detailed guidelines based on consulatations with commercial banks and technology service providers for operationalising both the Funds.

Procedural Changes

Simplifying Mortgage Requirements

4.37 The Talwar Committee had recommended acceptance of a simple declaratory charge as equitable mortgage. Enabling legislation has been passed in some States. This may be done by all the State Governments as it would simplify documentation processes considerably.

Exemption from Stamp Duty for Loans to Small and Marginal Farmers:

4.38 Stamp duty adds to transaction costs incurred by farmers. Non-availability of stamps in required denominations results in borrowers paying higher than the prescribed stamp duty. The Committee recommends waiver of stamp duty requirements for loan documents of small / marginal farmers and tenant cultivators.

Saral Documentation for Agricultural Loans

4.39 NABARD, in cooperation with a core group of bankers, has prepared a one page document for agricultural loans up to Rs.1 lakh. This document has been circulated among the scheduled commercial banks (including RRBs) with the approval of the Indian Banks' Association. The Committee recommends that this simplified document be adopted by all banks with a view to deepening credit outreach among the disadvantaged sections of the rural poor.

Nodal Branches (ADB Model)

4.40 Taking cognizance of the fact that the marginal and sub-marginal farmers require credit plus services in the form of extension services, in all districts identified as having the largest number of excluded people, the Committee recommends that one branch of the lead bank or the bank having the largest presence at the block / taluka level may be identified as the nodal branch to address the issue of exclusion. Lead banks or banks having the largest presence may strengthen these nodal branches with technical staff to provide agricultural / business development services in the farm and non-farm sectors respectively, comprising of technical inputs and extension services to the banks / farmers. These could either be provided by regular officers of the bank or local consultants / practitioners / agri-business clinics on a retainer basis. As the services of the nodal branch would be available to all other branches in the vicinity, an appropriate cost sharing arrangement may be worked out between various banks.

4.41 It is possible that in some districts the dominant presence is of the RRBs in which case sponsor banks may assist the RRBs in putting in place arrangements for technical staff for providing credit plus services for facilitating financial inclusion. NABARD may defray the cost of such technical staff, particularly, in the North-Eastern Region.

Business Facilitators / Business Correspondents (BF/BC)

4.42 With the objective of ensuring greater financial inclusion and increasing the outreach of the banking sector, the RBI has permitted banks to use the services of NGOs / SHGs, MFIs and other civil society organisations as intermediaries in providing financial and banking services through the use of BF and BC Models vide their Circular of 25 January 2006.

Business Facilitator Model

4.43 Under the BF Model, banks may use intermediaries such as NGOs, farmers' clubs, cooperatives, community based organisations, IT-enabled rural outlets of corporate entities, post offices, insurance agents, well functioning Panchayats, village knowledge centres, agri-clinics / agri-business centres, Krishi Vigyan Kendras and KVIC / KVIB units for providing facilitation services. It has been clarified that such services may include :

- Identification of borrowers and fitment of activities,
- Collection and preliminary processing of loan applications,
- Creation of awareness about savings and other products, education and advise on managing money and debt counseling,
- Processing and submission of application to banks,
- Promotion and nurturing of SHGs / JLGs,
- Post sanction monitoring,
- Monitoring and hand holding of SHGs / JLGs / credit groups / others, and
- Follow-up for recovery.

Business Correspondent Model

4.44 Under the BC Model, NGOs / MFIs set up under the Societies / Trust Act, Societies registered under Mutually Aided Cooperative Societies Acts or the Cooperative Societies Acts of States, Section 25 Companies, Registered NBFCs not accepting public deposits and post offices may act as BCs. Banks have been advised to conduct due diligence on such entities and ensure that they are well established, enjoy good reputation and have the confidence of local people.

4.45 In addition to the activities listed under the BF Model, the scope and activities to be undertaken by BCs will include

- Disbursal of small value credit,
- Recovery of principal / collection of interest,
- Collection of small value deposits,
- Sale of micro-insurance / mutual fund products / pension products / other third party products, and

- Receipt and delivery of small value remittances / other payment instruments.

4.46 The activities to be undertaken by the BCs would be within the normal course of the banks' business, but conducted through the entities indicated above at places other than the banks' premises.

Operating Norms

4.47 Banks have been permitted to pay reasonable commission / fees to the BFs / BCs, the rate and quantum of which is to be reviewed periodically. Such costs have to be borne entirely by the banks. Initially, it may affect operational margins, but over time, on account of the incremental business brought in, the arrangement is expected to become viable and self-sustaining. Further, banks have been advised that the agreement with the BCs should specifically prohibit them from charging any fee to the customers directly for services rendered by them on behalf of the bank. It has been clarified that the arrangements with the BCs shall specify :

- Suitable limits on cash holding by intermediaries as also limits on individual customer payments and receipts,
- The requirements that the transactions are accounted for and reflected in the banks' books by end of the day or next working day,
- All agreements / contracts with the customer shall specify that the bank is responsible to the customer for acts of omission and commission of the BF / BC.

4.48 It was explained to the Committee that notwithstanding the dispensation given to banks, the response of the banking system was somewhat low key and that the model is yet to be fully grounded.

4.49 Discussions with a cross section of bankers revealed that the muted response was in part due to :

- Disinclination on part of banks to absorb the costs involved on grounds of its impact on viability of operations,
- Lack of clarity regarding certain procedural complexities.

4.50 Taking the totality of circumstances into account, specially the need to facilitate greater financial inclusion, the Committee makes the following **recommendations** insofar as the BF/BC Model is concerned:

Business Facilitators

4.51 Originally, only individuals who were insurance agents could act as BFs while no individuals could be placed as BC. This was later on widened to include retired officials, viz., Government servants like postmasters, school teachers and headmasters, who were considered eligible by RBI to act as BF. These people have a standing in the local community and provide the needed comfort level to the banks. The banks may make use of this relaxation and use individuals as indicated above as BF.

4.52 Ex-servicemen in rural areas have the comforting support, not only of the institutionalized ex-servicemen's fraternity but also of their Regional Centres. These Centres act as guide and monitor both serving and retired armed forces personnel. During discussions with the Committee, it was indicated that ex-servicemen would volunteer to act as BCs in selected districts having a high concentration of ex-servicemen. The Committee is of the view that, initially, banks may appoint ex-servicemen and retired bank staff as their BFs.

4.53 Further, after identification and placement of BFs, the banks should ensure that the banking awareness created and potential identified by BFs get translated into business propositions by providing suitable banking services in the area. This could be attempted thru' mobile outlets, which could visit the various locations, as per a scheduled programme, so as to purvey banking services to the excluded.

4.54 To facilitate easy roll-out of this mobile banking model, banks should simplify and rationalize back-end processes and front-end procedures so that banking operations are made more customer-friendly.

Business Correspondents

4.55 With increasing competition, banks are getting to be quite wary of the reducing margins available to them on financial intermediation. Banks are, therefore, hesitant to opt for increasing their physical presence in upcountry/ remote locations entailing considerable capital/ operating costs. Under the present dispensation, small value clients (depositors) in remote locations get very little preference in accessing financial services. It is, therefore, imperative to have in place an arrangement which can cater to a large number of clients having irregular and low value transactions ensuring at the same time full protection of the interests of depositors. Such an arrangement is possible only by having a BC touchpoint in each of the 6 lakh plus villages serving as a customer interface at the front-end and backed by appropriate technology for its integration with the mainframe banking at the bank level. Keeping this in view, the following **recommendations** for the BC Model are made :

4.56 In addition to the institutions presently allowed by RBI to function as BCs, individuals like locally settled retired Government servants like postmasters, school teachers, ex-servicemen and ex-bank staff whose relationship with the banking system, through a pension account, has already been established, may be permitted to act as BCs.

4.57 Further, MF-NBFCs may be allowed to act as limited BCs of banks for only providing savings and remittance services.

4.58 The Committee recognizes the fact that technology has to be an integral part in sustaining outreach efforts thru' the BC model. Ultimately, banks should endeavour to have a BC touch point in each of the six lakh villages in the country. This is discussed in detail later in the Report.

4.59 With a view to encouraging the BCs to widen their client-base, a suitable incentive mechanism may be formulated by the banks, appropriately linked to the number of accounts opened / transactions put thru' by the BCs . This will go a long way in stabilizing the arrangement between the Banks and the BCs. Further, banks may consider identifying BCs even in areas where they have their own branches, so as to supplement their efforts in widening outreach and addressing access issues.

4.60 The Committee also observed that certain banks have already put in place intermediaries in the form of loan agents, who are akin to the BCs, (for undertaking loan disbursements and recovery) but in addition, also partake a certain element of risk / responsibility in case of loan defaults. In the intial stages, the BC model as envisaged by RBI could be implemented widely. In due course, when the BCs reach a higher level of turnover, they should bear commensurate financial responsibilities.

4.61 Banks may, at their discretion, appoint any individual/ institution of its choice as Business Correspondent, after exercising due diligence. This will facilitate greater acceptance of the BC Model by banks.

4.62 Funds may be provided to specialized institutions which provide capacity building inputs to BCs. Such funding support could be extended on priority basis to most excluded areas/ sectors of the society and met out of the Financial Inclusion Promotion & Development Fund.

4.63 SLBC convener banks may initiate discussion with their respective State Governments regarding routing government payments through BCs using the smart card or other relevant technology on a pilot basis.

4.64 SLBCs may undertake a study to identify organisations having the capacity to serve as customer service points and BC. In States like Andhra Pradesh and Kerala the VOs and Kudumbashree structures already exist and these can be used as customer service points.

4.65 Training modules for BFs/BCs may be prepared in vernacular and in culture sensitive pictorial forms.

Role of Commercial Banks in microfinance

4.66 Deepening the outreach of the microfinance programme is an effective way in reaching out to the excluded segments. Commercial Banks have played a very important role in the SHG-Bank Linkage Programme. As at the end of March 2007, as many as 50 Commercial Banks are involved in the programme, having linked 15.95 lakh SHGs, forming more than 54% of the total SHGs credit-linked in the country. This programme should be strengthened and carried further, playing a key role in financial inclusion.

Financing poor farmers

4.67 Joint Liability Groups (JLGs) of the poor such as landless, share croppers and tenant farmers is another innovative mechanism towards ensuring greater financial inclusion. This mechanism has already been operationalised in a few regions under a Pilot Project of NABARD. Commercial Banks can actively promote such groups for effectively purveying credit and other facilities to such clients. RBI may encourage banks to adopt the JLG model for lending to SF/MF, tenant cultivators, share croppers and oral lessees.

Making Marginal Farm Holdings Viable and Enabling their Financial Inclusion

4.68 The Committee examined the credit absorption capacity among marginal farm holdings and is of the view that :

- Farm aggregation models including contract farming fully protecting the interests of farmers could be an option for enhanced viability. Credit-marketing linkage can also be effected through appropriate agreements.
- Access to irrigation will make a substantial difference on viability of small farms. A massive programme for financing minor irrigation structures (wherever ground water levels are safe and surface water potential is available) may be undertaken specifically targeting marginal farm households.

- Supplementary activities like dairy, small poultry, sheep-rearing, etc. have to be specifically targeted for marginal farmers, tenants and non-cultivator households. In this context, the Committee notes that against an estimated production of 91 million tons of milk in 2004-05, the demand for milk in 2021-22 would increase to 172 million tons as per estimates of the Planning Commission. To meet the demand, milk production should continue to grow at 4% per annum for the next 15 years. The growth of milk production could be augmented through a two pronged approach focusing on improving production in major milk producing areas and expanding infrastructure for procurement, processing, marketing and quality assurance. A National Dairy Plan (NDP) has been prepared to target production enhancement in 323 potential districts. Under the NDP the following has been envisaged :

  - ❖ Financing dairy animals and dairy infrastructure to individuals, SHGs, cooperative societies, corporates, NGOs, etc after ensuring input and marketing linkages.
  - ❖ Establishment and encouragement of viable institutional structures through grants for institutional development, incentivising reforms by cooperatives.
  - ❖ Reform of existing dairy cooperatives.
  - ❖ Study of low potential districts to assist State Governments for developing dairy activities and evolving suitable plans.
  - ❖ Development of road and power infrastructure and watershed development in the identified areas under the NDP through RIDF loans to state governments.
  - ❖ The NDP would be implemented through a consortium of NABARD, the National Dairy Development Board (NDDB) and the National Cooperative Development Corporation (NCDC). The funds required for breeding, nutrition and milk handling are estimated to be Rs. 18,500 crore over the next three five-year plan periods. The assistance from the GoI would be Rs. 225 crore for the first year (2007-08).
  - ❖ It is recommended that similar initiatives may be considered for other sectors also like poultry, horticulture, etc.
  - ❖ Technical counseling and farm advisory services have to be extended to such farms which are provided finance for undertaking the above activities.

Towards Branchless Banking - A New Operating Model

Developed by Corporation Bank

A project implemented by Corporation bank at select locations across four Southern States has used modern ICT applications at remote rural locations. The project uses biometric card based authentication devices, which are used by the bank's Business Correspondents at the villages. The Bank is providing basic banking services to the rural people through these low cost devices, without the concomitant costs associated with setting up of an Extension Counter/ATM or a Branch and thus aiming to bring down significantly the transaction costs in rural banking. This model reportedly brings in a win-win situation for both the Bank and its rural customer. The services are made available close to their homes, obviating the need to spend time and money on transport to reach the branch. The roll out and maintenance costs of this model are only a fraction of running a conventional branch.

The Bank developed the new operating model to cover a large number of un-banked villages. The various steps taken by the Bank in this regard were:

- A village survey was conducted to assess the present level of household income generation and the potential of credit requirements in future;
- The household survey report served as an enabling tool to arrive at a total economic view of the families surveyed, potential for savings and the extent of credit that can be delivered;
- While conducting the survey, the Bank observed that many of the villages were reluctant to visit the bank branches for various reasons like long distance to be travelled, time lost, difficulty in following procedures and reluctance to visit branches for small value transactions.
- The Bank adopted a branchless banking model in select locations in four Southern States using a small Point Of Transaction (POT) device developed by two local vendors using a bouquet of locally available ICT applications.
- The adoption of new technology facilitated basic identification of the customer based on the survey details, eliminated procedural hassles like filling up challans, cheques, etc. for depositing/withdrawing money, provided automated voice guidance to the users in local language, etc. The device adopted was sturdy with a battery back-up to supplement long hours of power outage and could be connected to a car battery. The device was installed at the premises of the Business Correspondent at the village and the customers at village could visit the Business Correspondent at their convenience to carry out cash deposit or cash withdrawal. To facilitate transactions at the Business Correspondent's level, biometric cards containing the photograph and the basic KYC details of the customer were provided to identified villagers.
- The Bank has recently introduced on a pilot basis a loan product which would facilitate loan withdrawals and repayments involving small sums at the Business Correspondent level.
- The Bank is also planning to introduce remittance products for the card holders and factor in Government payouts such as pension, NREGP payments, etc. through the card holder's account.
- The Bank plans to commence a project to disburse group loans through the Business Correspondent to SHGs.
- The Bank intends to provide ancillary services like Utility Payments, Mobile bill payments, etc., through this account.