

IV

CREDIT DELIVERY

IV.1 During 2007-08, the Reserve Bank continued with its endeavour to improve credit delivery, particularly to the agriculture and small enterprises sectors, by creating a conducive environment for banks. The Reserve Bank also emphasised the need for promoting greater financial inclusion and financial literacy. In order to improve credit delivery and promote financial inclusion, a number of initiatives were taken during 2007-08. These included revision of guidelines on lending to the priority sectors with emphasis on enhanced flow of credit to those sectors of the economy which impact large segments of the population and are employment intensive; strengthening of the rural co-operatives; and restructuring of regional rural banks, which cater predominantly to the rural areas. The Reserve Bank also continued with its policy of encouraging multiple channels of lending such as self-help groups (SHGs), micro-finance institutions (MFIs), adoption of business facilitator (BF)/ business correspondent (BC) model; and emphasising the simplification of the procedures and processes for lending to the agriculture and micro, small and medium enterprises (MSME) sectors. In order to provide banking and financial services available to hitherto excluded sections of the population at affordable cost, the Reserve Bank encouraged the banking sector to adopt information and communication technology (ICT) solutions that would enable them to achieve greater outreach and reduce the transaction cost.

IV.2 In the above backdrop, this Chapter delineates the initiatives taken by the Reserve Bank for improving the credit flow to the needy sectors of the economy¹; encouraging micro-finance; and promoting financial inclusion, financial literacy and credit counseling. Revised guidelines were issued by the Reserve Bank on lending to the priority sector, whereby targets are computed over a broader base (comprising net bank credit and investments in non-SLR bonds held in HTM category) from April 30,

2007. The underlying principle of these guidelines is to ensure adequate flow of bank credit to the priority sector. The Chapter also delineates the various initiatives taken by the Reserve Bank and the Government of India for facilitating credit to the agricultural sector. The various relief measures for the farmers, including the scheme of agricultural debt waiver and debt relief announced in the Union Budget 2008-09, are also discussed. Progress made in the flow of credit to the micro and small enterprises is set out along with the status of credit to sick micro and small enterprises. Micro finance activity and the role played by the banks under the self-help group-bank linkage programme are also discussed along with the initiatives taken to improve transparency in maintaining the accounts by the SHGs. The progress achieved in making available basic banking 'no-frills' accounts towards achieving 100 per cent financial inclusion is covered. Broad features of Financial Inclusion Fund (FIF) and Financial Inclusion Technology Fund (FITF), the constitution of which was announced in the Union Budget 2007-08 for meeting the cost of developmental and promotional interventions for promoting financial inclusion, and the cost of technology adoption, are also covered. Several other initiatives currently underway for furthering financial inclusion such as setting up of various financial literacy and credit counseling centres on a pilot basis, launching of a national financial literacy campaign, forging linkages with informal sources with suitable safeguards through appropriate legislation, evolving industry wide-standards for IT solutions to facilitate low cost remittance products, are also included in this Chapter.

PRIORITY SECTOR LENDING

IV.3 Based on the draft Technical Paper submitted by an Internal Working Group on Priority Sector Lending (Chairman: C.S. Murthy) in September 2005 and the feedback received thereon from the Governments, banks, financial institutions,

¹ For discussion on sectoral/industry-wise deployment of credit, see Chapter II.3.

non-banking financial companies, association of industries, media, public and the Indian Banks' Association, the guidelines on lending to priority sector were revised with effect from April 30, 2007. The guiding principle of the revised guidelines on lending to the priority sector has been to ensure adequate flow of bank credit to those sectors of the society/economy that impact large segments of the population and weaker sections, and to the sectors that are employment-intensive such as agriculture, and tiny and small enterprises. The priority sector lending targets were retained at 40 per cent and 32 per cent for the domestic and foreign banks, respectively. However, from April 2007 these are calculated as a percentage of adjusted net bank credit (ANBC) (net bank credit plus investments made by banks in non-SLR bonds held in HTM category) or credit equivalent amount of off-balance sheet exposures (OBE), whichever is higher, as on March 31 of the preceding accounting year, instead of as a percentage of net bank credit earlier. The outstanding FCNR (B) and NRNR deposits balances are no longer deducted for the purpose of computation of ANBC for priority sector lending.

IV.4 According to the extant guidelines on priority sector, domestic scheduled commercial banks (SCBs) are required to lend 10 per cent of ANBC or credit equivalent amount of OBE, whichever is higher, to weaker sections. It was, however, noted that most of the banks were not achieving this sub-target for lending to weaker sections. In order to ensure that the sub-target of lending to the weaker sections is achieved, the Reserve Bank advised banks that the shortfall in lending to weaker sections will also be taken into account, for the purpose of allocating amounts for contribution to the Rural Infrastructure Development Fund (RIDF) maintained with NABARD or funds with other financial institutions, with effect from April 2009.

IV.5 Consequent upon the announcement made in the Reserve Bank's Annual Policy Statement for the year 2008-09, like SCBs, the RRBs have also been allowed to sell loan assets held by them under priority sector categories in excess of the prescribed priority sector lending target of 60 per cent.

IV.6 Public sector banks achieved the overall target for priority sector lending as on the last reporting Friday of March 2008. Although private sector banks and foreign banks as groups, achieved the overall target for priority sector lending as on the last reporting Friday of March 2008, two out of 23 private sector banks and four out of 28 foreign banks did not achieve the overall priority sector lending target of 40 per cent and 32 per cent, respectively (Table 4.1).

IV.7 Lending to agriculture by banks, both in the public and private sectors, continued to fall short of the stipulated target of 18 per cent. However, the outstanding advances to agriculture, as percentage of net bank credit, in respect of both public and private sector banks increased steadily in the last few years. The targets have been linked to ANBC or

Table 4.1: Priority Sector Advances

(Amount in Rupees crore)

As on the Last Reporting Friday of March	Public Sector Banks	Private Sector Banks	Foreign Banks
1	2	3	4
2002	1,71,484 (43.5)	24,184 (38.4)	9,936 (34.6)
2003	1,99,786 (41.2)	36,648 (44.1)	14,555 (33.1)
2004	2,44,456 (43.6)	48,920 (47.3)	17,960 (34.1)
2005	3,07,046 (42.8)	69,886 (43.6)	23,843 (35.3)
2006	4,09,748 (40.3)	1,06,586 (42.8)	30,439 (34.4)
2007	5,21,376 (39.7)	1,44,549 (42.9)	37,831 (33.4)
2008*	6,08,963 (44.6)	1,63,223 (47.5)	50,301 (39.5)

* : Data are provisional.

Note : 1. Figures in parentheses are percentages to the net bank credit, except for March 2008 which are percentages to ANBC or credit equivalent of OBE, whichever is higher, in the respective groups.
2. The target for aggregate advances to the priority sector are 40 per cent of the net bank credit for domestic banks and 32 per cent of net bank credit for the foreign banks. The targets have been linked to ANBC or credit equivalent of OBE, whichever is higher, with effect from April 30, 2007.

credit equivalent of OBE, whichever is higher, with effect from April 30, 2007 (Table 4.2).

IV.8 Even though the share of agriculture in GDP has declined over the years, the number of people dependent on agriculture for their food and livelihood has remained unchanged. Therefore, a number of measures were taken by the Reserve Bank and the Government of India for facilitating increased credit flows to the agriculture sector. Under the Special Agricultural Credit Plan (SACP), the banks are required to fix self-set targets for achievement during the year (April-March). The targets are generally fixed by the banks about 20 to 25 per cent higher over the disbursements made in the previous year. With the introduction of SACP, the flow of credit to agricultural sector increased significantly from Rs.8,255 crore in 1994-95 to Rs.1,22,443 crore in 2006-07 which were higher than the projection of Rs.1,18,160 crore. As against the target of Rs.1,52,133 crore for the financial year 2007-08, disbursements to agriculture by public sector banks under the plan were Rs.1,11,543 crore (provisional). As recommended by the Advisory Committee on Flow of Credit to Agriculture and Related Activities from the Banking System (Chairman: Shri V.S. Vyas), the Mid-Term Review of Annual Policy for 2004-05 made the SACP mechanism applicable to private sector banks from the year 2005-06. Disbursements to

agriculture by private sector banks under SACP during 2006-07 aggregated to Rs.44,093 crore against the target of Rs.40,656 crore. As against the target of Rs.41,427 crore for the financial year 2007-08, disbursements to agriculture by private sector banks aggregated Rs.45,905 crore (provisional) (Table 4.3).

IV.9 With a view to doubling credit flow to agriculture within a period of three years and to provide some relief to farmers affected by natural calamities within the limits of financial prudence, the Union Finance Minister announced several measures on June 18, 2004. Accordingly, the Reserve Bank and NABARD issued necessary operational guidelines to banks. From the very beginning, the actual disbursements exceeded the targets for each of the last four years (Table 4.4). As against the target of Rs.2,25,000 crore for 2007-08, all banks disbursed Rs.2,25,348 crore (provisional). During 2007-08, 7.29 million new farmers were financed by commercial banks and RRBs as against the target of 5 million farmers fixed by the Union Finance Minister for the year. The Finance Minister, in his Budget Speech for the year 2008-09, urged the banks to increase the level of credit to Rs.2,80,000 crore during the year 2008-09.

Table 4.2: Outstanding Agricultural Advances

(Amount in Rupees crore)

As on the Last Reporting Friday of March	Public Sector Banks		Private Sector Banks	
	Amount Outstanding	Per cent of Net Bank Credit	Amount Outstanding	Per cent of Net Bank Credit
1	2	3	4	5
2002	58,142	14.8	6,581	8.5
2003	70,501	14.5	9,924	10.9
2004	84,435	15.1	14,730	12.7
2005	1,09,917	15.3	21,636	12.3
2006	1,55,220	15.3	36,712	13.6
2007	2,02,614	15.4	52,034	12.7
2008*	2,48,685	17.4	57,702	15.4

* : Data are provisional.

Note : The target for advances to agriculture is 18 per cent of net bank credit for the domestic banks. The targets have been linked to ANBC or credit equivalent of OBE, whichever is higher, with effect from April 30, 2007.

Table 4.3: Disbursement under Special Agricultural Credit Plans

(Amount in Rupees crore)

Year	Target	Disbursements	Achievement of Target (per cent)	Growth (y-o-y) in Disbursements (per cent)
1	2	3	4	5
Public Sector Banks				
2004-2005	55,616	65,218	117.3	54.5
2005-2006	85,024	94,278	110.9	44.6
2006-2007	1,18,160	1,22,443	103.6	29.9
2007-2008*	1,52,133	1,11,543	73.3	
Private Sector Banks				
2005-2006	24,222	31,199	128.8	
2006-2007	40,656	44,093	108.5	41.3
2007-2008*	41,427	45,905	110.8	

* : Provisional.

Table 4.4: Targets and Actual Disbursement to Agriculture by Banks

(Amount in Rs. crore)

Agency	(2004-05)		(2005-06)		(2006-07)		(2007-08)*	
	Target	Disbursement	Target	Disbursement	Target	Disbursement	Target	Disbursement
1	2	3	4	5	6	7	8	9
Comm. Banks	57,000	81,481	87,200	1,25,477	1,19,000	16,64,486	1,50,000	1,56,850
Coop. Banks	39,000	31,231	38,600	39,786	41,000	42,480	52,000	43,684
RRBs	8,500	12,404	15,200	15,223	15,000	20,435	23,000	24,814
Other Agencies		193						
Total	1,05,000	1,25,309	1,41,000	1,80,486	1,75,000	2,29,401	2,25,000	2,25,348
RRBs : Regional Rural Banks.		* : Provisional						
Source : NABARD								

Kisan Credit Cards (KCC)

IV.10 The Kisan Credit Card (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. During 2006-07, public sector banks issued 4.8 million KCCs for limits aggregating Rs.26, 215 crore. During 2007-08 public sector banks issued 4.6 million KCCs covering limits aggregating Rs.59,582 crore (provisional). The cumulative number of KCCs issued by public sector banks aggregated 31.22 million (provisional) up to March 31, 2008 involving an amount of Rs.1,54,294 crore.

Rural Infrastructure Development Fund (RIDF)

IV.11 The domestic scheduled commercial banks, both in the public and private sectors, which fail to achieve the priority sector and/or agriculture lending targets are required to deposit into RIDF such amounts as may be allocated to them by the Reserve Bank. The Fund has so far completed 13 years of operation. Pursuant to the announcement made by the Union Finance Minister in his Budget speech for the year 2007-08, RIDF – XIII was set up with NABARD with a corpus of Rs.12,000 crore along with a separate window with a corpus of Rs.4,000 crore for the rural roads component of the Bharat Nirman Programme, with contributions from domestic banks, which had not achieved their target in lending to the priority sector and/or agriculture as on the last reporting Friday of March 2007.

IV.12 The total allocation under RIDF (I to XIII), including separate windows under RIDF for rural roads component under Bharat Nirman, was of the order of Rs.80,000 crore. Cumulative sanctions to State Governments and National Rural Road Development Agency (NRRDA) under various tranches of RIDF (I to XIII) were at Rs.74,159 crore and Rs.8,000 crore, respectively, as on May 31, 2008. The cumulative disbursements to various State Governments under various tranches of RIDF (RIDF I to XIII) were at Rs.46,601 crore, as on the same date. In addition, a loan of Rs.4,500 crore has so far been disbursed to NRRDA for funding the rural roads component of Bharat Nirman. During 2007-08, various State Governments were sanctioned loans aggregating to Rs.12,795 crore. The disbursements under the various tranches of RIDF during the year 2007-08 amounted to Rs.8,035 crore.

IV.13 The Union Finance Minister announced in the Union Budget 2008-09 setting up of RIDF XIV, with a corpus of Rs.14,000 crore, and a separate window under RIDF XIV for the rural roads component under Bharat Nirman, with a corpus of Rs.4,000 crore with NABARD for the year 2008-09. The Union Finance Minister also announced that certain other funds will be setup with NABARD/SIDBI/NHB during the year 2008-09 from contributions to be made by scheduled commercial banks which failed to achieve their priority sector lending targets. These funds were set up in June 2008 and the corpus allocations were revised in August 2008. The revised

corpus allocations are:- Rs.10,000 crore for RIDF XIV and Rs.5,000 crore for short-term Co-operative Rural Credit (STCRC) (refinance) Fund with NABARD; Rs.1,600 crore for Micro, Small and Medium Enterprises (MSE) (refinance) Fund and Rs.1,000 crore for MSE (risk capital) Fund with SIDBI; and Rs.1,000 crore for Rural Housing Fund with NHB. The corpus allocation under the separate window of RIDF XIV for rural roads component of Bharat Nirman Programme during the year 2008-09 remains unchanged at Rs.4,000 crore.

IV.14 During 2008-09, twelve State Governments have been sanctioned loans aggregating Rs.2,572 crore under RIDF XIV, which include Rs.277 crore sanctioned to the distressed districts of two States. *viz.* Andhra Pradesh and Maharashtra, identified in the Prime Minister's Relief Package for mitigation of distress farmers. The disbursements under RIDF XIV during the year 2008-09 amounted to Rs.58 crore.

IV.15 The recovery of direct agricultural advances of public sector banks in relation to demand has increased in recent years (Table 4.5). The recovery as a per cent of demand has improved after 2003-04 and remained close to 80 per cent.

Relief Measures for Farmers

IV.16 During the year, several measures were initiated to mitigate the hardships of farmers. Pursuant to the announcement made by the Union Finance Minister in the Budget Speech for the year 2006-07, commercial banks were advised to grant relief of two percentage points in the interest rate on the principal amount up to Rs.1 lakh on each crop

loan granted by banks during *Kharif* and *Rabi* of 2005-06, and credit the relief so granted to the borrower's account before March 31, 2006. Furthermore, consequent upon the announcement made by the Union Finance Minister in his Budget Speech for the year 2006-07, public sector banks and regional rural banks were advised that with effect from *Kharif* 2006-07, Government would provide interest rate subvention of 2 per cent per annum to them in respect of short-term production credit up to Rs.3 lakh provided to farmers. Government of India provided Rs.1,100 crore for reimbursing the claims submitted by banks in this regard.

IV.17 The Government also decided to provide additional subvention, as a one time measure, for the period April 1, 2007 to June 30, 2007 in respect of those farmers/borrowers in the Vidarbha region, who could not pay on the due date, *i.e.*, March 31, 2007 but repaid/would repay before June 30, 2007. The extended subvention up to June 30, 2007 was done in respect of repayment of *Kharif* loans. The Government announced in the Union Budget for the years 2007-08 and 2008-09 that the two per cent subvention scheme for short-term crop loans would also continue for the years 2007-08 and 2008-09.

IV.18 Avian Influenza (bird flu) broke out in some areas of the country. Keeping in view the loss of income that had occurred due to culling of birds as well as steep fall in the demand for poultry products and their prices, the Reserve Bank advised the banks to consider (i) converting principal and interest due on working capital loans as also instalments and interest on term loans which have fallen due for payment on/after December 31, 2007 but remained unpaid, into term loans and recovering such loans in instalments over a period up to three years with an initial moratorium of up to one year; (ii) rescheduling remaining portion of term loan with a moratorium period up to one year depending upon the cash flow generating capacity of the unit; (iii) reschedulement/conversion to be completed on or before April 30, 2008; (iv) treating the rescheduled/converted loans as current dues. Banks were also advised that the borrower will be eligible for fresh need based finance and the relief measures may be

Table 4.5: Public Sector Banks - Recovery of Direct Agricultural Advances

(Amount in Rupees crore)

Year ended June	Demand	Recovery	Overdues	Percentage of Recovery to Demand
1	2	3	4	5
2004	33,544	25,002	8,542	74.5
2005	45,454	35,733	9,721	78.6
2006	46,567	37,298	9,269	80.1
2007@	73,802	58,840	14,958	79.7

@ : Provisional data.

extended to all accounts of poultry industry, which were classified as standard accounts as on December 31, 2007.

IV.19 The Union Budget, 2008-09 announced (i) a scheme of agricultural debt waiver and debt relief for farmers with the total value of overdue loans being waived estimated at Rs.50,000 crore; and (ii) a one-time settlement (OTS) relief on the overdue loans at Rs.10,000 crore for the implementation by all scheduled commercial banks, RRBs and co-operative credit institutions. The modalities of the scheme were finalised by the Government of India in consultation with the Reserve Bank and the NABARD, and the scheme was notified on May 23, 2008. The Union Finance Minister further announced on May 23, 2008 that the cost of the scheme is likely to be in the order of about Rs.71,680 crore. Accordingly, the Reserve Bank advised all scheduled commercial banks, including local area banks, to take necessary action towards implementation of the Scheme at the earliest. According to the guidelines issued, the implementation of the Scheme was required to be completed by June 30, 2008. NABARD issued similar guidelines to RRBs and co-operatives (Box IV.1). The mode of financing the scheme reveals that the Central Government would reimburse to the lending institutions on the basis of duly certified and audited claims through the respective nodal agencies (Reserve Bank and NABARD, as the case may be) in instalments.

IV.20 The Reserve Bank had constituted a Working Group (Chairman: Shri C. P. Swarnkar) to examine Procedures, and Processes for Obtaining Agricultural Loans. The Group submitted its report in April 2007. In order to obviate the need for obtaining 'no dues' Certificate (NDC) by the farmers, all scheduled commercial banks (including RRBs) were advised to dispense with the requirement of NDC for small loans up to Rs.50,000 granted to small and marginal farmers, share croppers and the like and, instead, obtain a self-declaration from the borrower. Further, in order to overcome the problem of producing identification/status documents by the landless labourers, share croppers and oral lessees, banks were advised to accept certificates provided by local

administration/*panchayati raj* institutions regarding the cultivation of crops in case of loans to these categories of borrowers.

IV.21 The Committee on Agricultural Indebtedness (Chairman: Dr. R. Radhakrishna) constituted by the Government of India submitted its report, which, *inter alia*, addressed issues relating to creation of credit absorption capacities, need for risk mitigation practices, introduction of cyclical credit system, dispute resolution mechanisms and setting up of a debt redemption fund. Consequent upon the announcement made in the Mid-Term Review of the Annual Policy Statement for the year 2007-08, an internal working group was constituted (Chairman: Shri V. S. Das) to examine the recommendations of the Radhakrishna committee that were relevant to the banking system in general and the Reserve Bank in particular. The internal group submitted its report in April 2008. Based on the recommendations of this Group, it was announced in the Annual Policy Statement for the year 2008-09 that each domestic commercial bank, including RRBs, would be asked to select one district for introduction, on a pilot basis, of a simplified cyclical credit product for farmers to enable them to continuously utilise a core component of 20 per cent of the credit limit. This arrangement should ensure minimum year-round liquidity as long as the interest is serviced. It was also announced to introduce a simplified procedure for crop loans to landless labourers, share croppers, tenant farmers and oral lessees whereby banks could accept an affidavit giving details of land tilled/crops grown by such persons for loans up to Rs.50,000 without any need for independent certification. Banks could also encourage the Joint Liability Group (JLG)/SHG mode of lending for such persons. The modalities for implementation of the announcements are being finalised.

Flow of Credit to Micro and Small Enterprises

IV.22 Micro and small enterprises constitute an important and crucial segment of the industrial sector. The small enterprises have been accorded high priority in industrial policy on account of the vital role they play by value addition, employment generation,

Box IV.1

AGRICULTURAL DEBT WAIVER AND DEBT RELIEF SCHEME (ADWRS), 2008

The Finance Minister, in his Budget Speech for 2008-2009, announced a Debt Waiver and Debt Relief Scheme for farmers. The Scheme covers direct agricultural loans extended to 'marginal and small farmers' and 'other farmers' by scheduled commercial banks, regional rural banks, cooperative credit institutions (including urban cooperative banks) and local area banks.

Under the scheme, '*direct agricultural loans*' include short term production loans and investment loans provided directly to farmers for agricultural purposes, including such loans provided directly to groups of individual farmers (for example, self-help groups and joint liability groups), provided banks maintain disaggregated data of the loan extended to each farmer belonging to that group or such data are maintained at the level of the SHG (having reflected in its books of accounts to the satisfaction of the lending institutions). '*Short term production loan*' was defined as a loan given for raising of crops which is to be repaid within 18 months. It includes working capital loan, not exceeding Rs. 1 lakh, for traditional and non-traditional plantations and horticulture. '*Investment loan*' includes credit for direct agricultural activities extended for meeting outlays relating to the replacement and maintenance of wasting assets and for capital investment designed to increase the output from the land; and credit for allied activities extended for acquiring assets in respect of activities allied to agriculture. Under the scheme '*co-operative credit institution*' is defined as co-operative society that provides short-term crop loans to farmers and is eligible for interest subvention from the Central Government; carries on banking activities regulated or supervised by the Reserve Bank or NABARD; or is part of the short-term co-operative credit structure or long-term co-operative credit structure in a State or Union Territory. The farmer who cultivates (as owner or tenant or share cropper) agricultural land up to 1 hectare (2.5 acres) was mentioned as '*marginal farmer*', whereas a farmer cultivating (as owner or tenant or share cropper) agricultural land of more than 1 hectare and up to 2 hectares (5 acres) was categorised as '*small farmer*'. Similarly, a farmer cultivating (as owner or tenant or share cropper) agricultural land of more than 2 hectares (more than 5 acres) was treated as '*other farmer*'.

In the debt waiver scheme, a farmer, who had obtained investment credit for allied activities where the principal loan amount did not exceed Rs. 50,000, was classified as 'small and marginal farmer' and where the principal amount exceeded Rs. 50,000, was to be classified as 'other farmer', irrespective in both cases of the size of the land holding, if any. In the case of a short-term production loan, the amount of such loan (together with applicable interest) and in the case of an investment loan, the instalments of such loan that are overdue (together with applicable interest on such instalments), was eligible for debt waiver or debt relief, as the case may be, if the loan was (a) disbursed up to March 31, 2007 and overdue as on December 31, 2007 and remained unpaid until February 29, 2008; (b) restructured and rescheduled by banks in 2004 and in 2006 through the special packages announced by the Central

Government, whether overdue or not; and (c) restructured and rescheduled in the normal course up to March 31, 2007 as per applicable Reserve Bank's guidelines on account of natural calamities, whether overdue or not.

The debt waiver scheme was announced to waive the entire 'eligible amount' in the case of a small or marginal farmer. In the case of 'other farmers', the scheme announced a one-time settlement (OTS) scheme under which the farmer will be given a rebate of 25 per cent of the 'eligible amount', subject to the condition that the farmer pays the balance of 75 per cent of the 'eligible amount'. In the case of 237 revenue districts covering Drought Prone Area Programme (DPAP), District Development Programme (DDP) areas and the Prime Minister's Special Relief Package districts (listed in Annex-I of the Scheme), for 'other farmers' the scheme made provision to give OTS rebate of 25 per cent of the 'eligible amount' or Rs. 20,000, whichever is higher, subject to the condition that the farmer pays the balance of the 'eligible amount'.

A farmer classified as 'small farmer' or 'marginal farmer' in the scheme was also made eligible for fresh agricultural loans upon the eligible amount being waived. In the case of a short-term production loan, the 'other farmers' were made eligible for fresh short-term production loan upon paying one-third of his share, while in the case of an investment loan (for direct agricultural activities or allied activities), the 'other farmer' will be eligible for fresh investment loan upon paying his share in full.

The scheme did not cover any advances made against pledge or hypothecation of agricultural produce other than standing crop. It also does not cover agricultural finance to corporates, partnership firms, societies other than cooperative credit institutions as defined in the Scheme, and any other similar institution. Moreover, the loans disbursed by a lending institution prior to March 31, 1997 (except those which are restructured and rescheduled under special packages of 2004 and 2006, and RBI guidelines on natural calamities) was not covered under this scheme.

For implementation of the scheme, the Reserve Bank is the nodal agency in respect of scheduled commercial banks, urban co-operative banks and local area banks. NABARD is the nodal agency in respect of regional rural banks and rural co-operative credit institutions.

Every lending institution is responsible for the correctness and integrity of the lists of farmers eligible under this scheme and the particulars of the debt waiver or debt relief in respect of each farmer. Every lending institution is required to appoint one or more grievance redressal officers for each State (having regard to the number of branches in that State). The grievance redressal officer shall have the authority to receive representations from aggrieved farmers and pass appropriate orders thereon, which shall be final. If any doubt arises on the interpretation of any provision under the scheme, Government of India (GOI) shall resolve the doubt and the decision of the GOI shall be final.

equitable distribution of national income, regional dispersal of industries, mobilisation of capital, improvement in entrepreneurial skills and contribution to export earnings. Bank credit to small scale industrial (SSI) sector (now micro and small enterprises) constitutes a major segment of credit to the non-farm sector. The total outstanding credit provided by public sector banks to micro and small enterprises sector as on the last reporting Friday of March 2008 was Rs.1,48,651 crore, constituting 10.9 per cent of adjusted net bank credit (ANBC) and 24.4 per cent of their total priority sector advances (Table 4.6). The total credit provided by private sector banks to small enterprises sector as on the last reporting Friday of March 2008 was Rs.46,069 crore, constituting 13.4 per cent of ANBC and 28.2 per cent of their total priority sector advances. Public sector banks were advised to operationalise at least one specialised SME branch in every district and centre having cluster of SME units. At the end of March 2007, 636 specialised SME bank branches were operationalised by the banks. The share of loans to MSE to the total bank credit for the public sector bank has declined since 2002. However, the latest trend up to March 2008 has indicated a turnaround.

IV.23 Based on the recommendations of the Working Group on rehabilitation of sick SSI units (Chairman: Shri. S.S. Kohli), the Reserve Bank issued

Table: 4.6: Bank Credit to Micro and Small Enterprises by Public Sector Banks

(Amount in Rupees crore)

As on the Last Reporting Friday of March	Outstanding advances to SSI	Percentage to NBC
1	2	3
2002	54,268	13.8
2003	52,646	10.8
2004	58,311	10.3
2005	68,000	9.5
2006	82,434	8.1
2007	1,02,550	7.8
2008 (provisional) @	1,48,651	10.9*

* : As percentage of ANBC or credit equivalent of off balance sheet exposure, whichever is higher.

@ : With effect from April 30, 2007, SSIs have been redefined as MSEs.

detailed revised guidelines to banks in January 2002 for detection of sickness at an early stage and taking remedial measures for rehabilitation of sick small enterprises identified as potentially viable. As per these guidelines, the rehabilitation package should be fully implemented within six months from the date the unit is declared as viable/potentially viable. Although the total number of sick small enterprises declined, the amount of credit outstanding against them in the books of scheduled commercial banks increased at end-March 2007 in comparison with end-March 2006 (Table 4.7)

IV.24 While reviewing the position of rehabilitation of sick SSI/SME units in the 8th meeting of the Standing Advisory Committee on flow of institutional credit to SME sector held on January 16, 2007, it was observed that there was considerable delay in rehabilitation/nursing of the potentially viable units. It was clarified that in many of these cases, the delay in rehabilitation/nursing of the units was due to the inability of the promoters to bring in additional contribution. As indicated in the Mid-Term Review (2007-08), a Working Group, was constituted (Chairman: Dr. K. C. Chakraborty) to look into the issues and suggest remedial measures so that potentially viable sick units could be rehabilitated at the earliest. The Group submitted its report in April 2008 which was placed on the Reserve Bank's website and the comments received thereon are under examination.

IV.25 The Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 came into effect from October 2, 2006. The Act classified enterprises broadly into (i) manufacture/ production of goods and (ii) providing and rendering of services. The enterprises are further classified into micro enterprises, small enterprises and medium enterprises, depending upon the level of investment in plant and machinery and equipment, respectively. The definition of micro and small enterprises as defined in the Act was incorporated into the revised priority sector guidelines issued on April 30, 2007. Consequent upon the announcement made in the Annual Policy Statement for the year 2007-08, all SLBC convener banks were advised on May 8, 2007

Table 4.7: Credit to Sick, Micro and Small Enterprises

(Amount in Rs. crore)

End-March	Total Sick Units		Potentially Viable		Non-Viable		Viability yet to be Decided		Units put Under Nursing	
	No. of Units	Amount Outstanding	No. of Units	Amount Outstanding	No. of Units	Amount Outstanding	No. of Units	Amount Outstanding	No. of Units	Amount Outstanding
1	2	3	4	5	6	7	8	9	10	11
2004	143,366	5,773	2,406	551	138,081	4,937	2,938	266	729	281
2005	138,041	5,380	3,922	435	132,153	4,884	1,966	61	2,080	260
2006	126,824	4,981	4,594	498	117,148	4,141	5,082	342	915	234
2007	114,132	5,267	4,287	428	109,011	4,757	834	82	588	269

to review their institutional arrangements for delivering credit to the MSE sector, especially in 388 clusters identified by United Nations Industrial Development Organisation (UNIDO) spread over 21 states in various parts of the country.

IV.26 The Banking Codes and Standards Board of India (BCSBI) constituted a Working Group comprising members drawn from select banks, Indian Banks' Association and the Reserve Bank to formulate a banking code for MSE customers. After discussions with industry associations, banks, SIDBI and Government agencies, the Working Group finalised the code on March 11, 2008. The 'Code of Banks' which represents commitments to customers of Micro and Small Enterprises (MSE) was released by the Union Finance Minister on May 31, 2008. This is a voluntary code, reflecting the banks' positive commitment to its MSE customers to provide easy, speedy and transparent access to banking services in their day-to-day operations and in times of financial difficulty. The code was introduced with multiple objectives, including to provide a positive thrust to the MSE sector through easy access to efficient banking services, encourage fair banking practices, enhance transparency, improve business understanding through effective communication, encourage market forces to achieve higher operating standards, promote a fair and cordial relationship and foster confidence in the banking system.

Export Credit Subvention

IV.27 The Government announced a package of measures on July 12, 2007 to provide relief for a

temporary period in terms of interest rate subvention of 2 percentage points per annum on rupee export credit availed of by exporters in nine categories of exports, viz., textiles (including handlooms), readymade garments, leather products, handicrafts, engineering products, processed agricultural products, marine products, sports goods and toys and to all exporters from SME sectors defined as micro enterprises, small enterprises and medium enterprises. Accordingly, the Reserve Bank advised banks to charge interest rate not exceeding BPLR minus 4.5 percentage points on pre-shipment credit up to 180 days and post-shipment credit up to 90 days on the outstanding amount for the period April 1, 2007 to December 31, 2007 to all SME sectors and the nine sectors as defined above.

IV.28 On October 6, 2007 the Government of India partially modified the interest rate subvention to exporters to extend the scheme by three months up to March 31, 2008 and increased the coverage of the scheme to include jute and carpets, processed cashew, coffee, tea, solvent extracted de-oiled cake, plastics and linoleum.

IV.29 On November 30, 2007 the export credit subvention was further extended by an additional 2 percentage points (in addition to the 2 percentage points subvention offered earlier) in pre-shipment and post-shipment export credit for the following sectors, viz., leather and leather manufacturers, marine products, all categories of textiles under the existing scheme, including readymade garments (RMG) and carpets but excluding man-made fibre

and handicrafts. Banks, therefore, were required to charge interest rates not exceeding BPLR minus 6.5 percentage points on pre-shipment credit up to 180 days and post-shipment credit up to 90 days on the outstanding amount in respect of the above-mentioned sectors. However, the total subvention was subject to the condition that the interest rate, after subvention, would not fall below 7 per cent which is the rate applicable to the agriculture sector under priority sector lending. The above dispensation was valid from November 1, 2007 to March 31, 2008. The above interest subvention scheme on export credit was extended for one more year from April 1, 2008 till March 31, 2009. Subsequently, the Government of India has decided to bring the scheme of interest rate subvention on rupee export credit to a close with effect from September 30, 2008 which was communicated by the Reserve Bank on August 1, 2008, so that exporters get adequate time to make necessary adjustments.

IV.30 In view of the global and domestic developments during August-September 2007 and with a view to giving an opportunity to small and medium enterprises to manage the challenges in the global markets, the Reserve Bank, in consultation with Government of India, permitted all exporters from October 6, 2007 to earn interest on Exchange Earner's Foreign Currency (EEFC) accounts to the extent of outstanding balances of US \$ 1 million per exporter in the form of term deposits up to one year maturing on or before October 31, 2008. The rate of interest in this scheme is determined by the banks themselves. The Reserve Bank in consultation with the Government of India, however, has decided subsequently to withdraw this facility from November 1, 2008. Accordingly, effective November 1, 2008 all EEFC accounts can only be permitted to be opened and maintained in the form of non-interest bearing current accounts.

Internal Working Group to study the Recommendations of the Report on Conditions of Work and Promotion of Livelihoods in the Unorganized Sector (Arjun K. Sengupta Committee)

IV.31 The National Commission for Enterprises in the Unorganised Sector (Chairman: Dr. Arjun K.

Sengupta) submitted a comprehensive report on 'Conditions of Work and Promotion of Livelihood in the Unorganised Sector', to the Central Government. The report suggested a package of measures for addressing some critical issues relating to the farm and non-farm sectors. Consequent upon the announcement made in the Mid-Term Review of the Annual Policy Statement for the year 2007-08, an internal working group (Chairman: Shri. K.U.B. Rao) was constituted within the Reserve Bank to study the various recommendations of the report of the Sengupta Committee relevant to the financial system and to suggest an appropriate action plan for implementation of acceptable recommendations. The internal group's report has been placed in public domain.

Lead Bank Scheme

IV.32 As announced in the Mid-Term Review of the Annual Policy Statement for the year 2007-08, a High Level Committee (Chairperson: Smt. Usha Thorat) with members drawn from financial institutions, banks, chief secretaries of selected States etc, was constituted to review the Lead Bank Scheme and improve its effectiveness, with a focus on financial inclusion and recent developments in the banking sector. The Committee has conducted ten meetings (up to June 20, 2008) with select banks, senior officers of certain State Governments, representatives of MFIs/NGOs, academicians of reputed educational institutions and others. The committee forwarded a questionnaire covering various aspects of the Lead Bank Scheme to all State Governments and major banks. The Committee is expected to submit its report shortly.

Revival of Rural Co-operative Credit Structure: Status

IV.33 Based on the recommendations of the Task Force on Revival of Rural Co-operative Credit Institutions (Chairman: Prof. A.Vaidyanathan) and in consultation with the State Governments, the Government of India approved a package for revival of the short-term rural co-operative credit structure. So far, 25 States (Andhra Pradesh, Arunachal Pradesh, Assam, Bihar, Chhattisgarh, Gujarat, Haryana, Jammu and Kashmir, Jharkhand,

Karnataka, Madhya Pradesh, Maharashtra, Manipur, Meghalaya, Mizoram, Nagaland, Orissa, Punjab, Rajasthan, Sikkim, Tamilnadu, Tripura, Uttarakhand, Uttar Pradesh and West Bengal) have executed Memoranda of Understanding (MoUs) with the Government of India and the NABARD, as envisaged under the package. Eight States carried out necessary amendments to their Co-operative Societies Acts. An aggregate amount of Rs.3,348 crore has been released by the NABARD as the Government of India's share. Seven State Governments have released their shares to the tune of Rs.338 crore for recapitalisation assistance of primary agricultural credit societies (PACS). Implementation and monitoring of the revival package are being overseen by the National Implementing and Monitoring Committee (NIMC) set up by the Government of India. Furthermore, a study of the long-term co-operative credit structure was entrusted to the same Task Force by the Government of India, which submitted its report in August 2006. It was announced in the Union Budget 2008-09 that the Central Government and the State Governments have reached an agreement on the content of the package for revival of the long-term cooperative credit structure. The cost of the package was estimated at Rs.3,074 crore, of which the Central Government's contribution would be Rs.2,642 crore.

Special Task Force in North-East Region

IV.34 Consequent upon the discussions between the Governor, Reserve Bank and the Chief Ministers and other officials of North-Eastern States, in May 2008, a Special Task Force (STF) was constituted (Chairperson: Smt. Usha Thorat) to obtain a list of centres for opening new branches, currency chests and extension of foreign exchange and Government business facilities, from the State Governments in the North Eastern Region, perceived as necessary by public policy. It will also work out a mechanism of cost sharing among banks, State Governments and the Reserve Bank for extension of the aforesaid facilities at centres which were not found to be commercially viable by banks. The task force has since decided to initially take up one State and

Meghalaya has been identified for implementation of its decisions.

Government Sponsored Schemes

IV.35 Under the *Swarna Jayanti Gram Swarozgar Yojana* (SGSY), a total number of 1,432,701 *swarozgaris* received bank credit during the year 2007-08, amounting to Rs.1,272.5 crore (and Government subsidy amounting to Rs.465.2 crore). Of the *swarozgaris* assisted, 338,169 (23.60 per cent) were scheduled castes and scheduled tribes (SC/ST); 711,653 (49.67 per cent) were women and 11,433 (0.79 per cent) were physically handicapped.

IV.36 Disbursements under the *Swarna Jayanti Shahari Rozgar Yojana* (SJSRY) amounting to Rs.236.84 crore were made in 67,234 cases (out of 135,042 applications received) during 2007-08. Of this Rs.60.3 crore were disbursed to 18,106 SC/STs, Rs.62.5 crore to 16,801 women and Rs.3.6 crore to 780 disabled persons during the year 2007-08.

IV.37 Under the Scheme for Liberation and Rehabilitation of Scavengers (SLRS), in all 9,402 applications were received for financial assistance during 2007-08. A total amount of Rs.16.5 crore was sanctioned and Rs.14.3 crore was disbursed to 6,009 beneficiaries. Of this, Rs.12.4 crore were disbursed to 5,065 SC/ST beneficiaries (84.3 per cent of total disbursements) and Rs.1.2 crore to 632 OBCs beneficiaries (10.5 per cent of total disbursements) during the year. During 2007-08, Rs.4.5 crore were disbursed to 1800 women (30.0 per cent).

IV.38 Assistance under the Prime Minister's Rozgar Yojana (PMRY) scheme as on March 2008 amounted to Rs.1,746 crore for 234,165 beneficiaries. The Government of India decided to merge PMRY with Rural Employment Generation Programme (REGP) to form a new scheme .viz., Prime Minister's Employment Generation Programme (PMEGP). Accordingly, all implementing banks were requested on March 5, 2008 to take necessary steps to achieve the various targets under the programme

year 2007-08 and also programme year 2006-07 (if any) and forward their final subsidy requirement for the programme year 2007- 08, if any, latest by March 31, 2008. The Government has since announced the new scheme on August 15, 2008.

IV.39 In the 11th meeting of the Central Level Coordination Committee (CLCC) of SGSY held on February 8, 2008, the representatives of the commercial banks and State Governments agreed that the training institutes like Rural Development and Self-employed Training Institutes (RUDSETIs) need to be established for assisting the beneficiaries of SGSY in capacity building and skill upgradation to ensure sustainability of the benefits of the Scheme to the rural poor. Accordingly, all State Level Bankers Committee (SLBC)/Union Territory Level Bankers Committee (UTLBC) Convener banks were advised in April 2008 to set up at least one RUDSETI in each of the districts under their jurisdiction.

Self Employment Scheme for Rehabilitation of Manual Scavengers (SRMS)

IV.40 The Government of India has approved a new and improved scheme named "Self Employment Scheme for Rehabilitation of Manual Scavengers" (SRMS) in place of the Scheme for Liberation and Rehabilitation of Scavengers (SLRS). The new Scheme is aimed at rehabilitating the remaining scavengers and their dependents by March 2009. The approved scheme contains provisions for capital subsidy, concessional loans and capacity building for rehabilitation of manual scavengers in alternative occupations. Accordingly, public sector banks were advised on April 15, 2008 to implement the scheme.

MICRO FINANCE

IV.41 Although the branch network of the formal financial institutions expanded rapidly beginning the early 1970s, a large segment of the population remained outside the banking fold, especially for its credit requirements. This led to the search for alternative policies and mechanisms for reaching out to the poor to satisfy their felt needs. In this context, micro finance interventions were recognised all over the world as an effective tool that could raise

incomes, contribute to individual and household security and change social relations for the better.

IV.42 Though there are different models for purveying micro-finance, the SHG-bank linkage programme has emerged as the major microfinance programme in the country. It is being implemented by commercial banks, RRBs and co-operative banks. As on March 31, 2007, 2.89 million SHGs were bank linked with outstanding bank loans of Rs.12,366 crore. While commercial banks accounted for 71 per cent of the outstanding loans, RRBs and co-operative banks accounted for 23 per cent and 6 per cent, respectively (Table 4.8). During 2006-07, banks financed 1.1 million SHGs, including repeat loan to existing SHGs to the tune of Rs.6,570 crore. As on March 31, 2007, the number of SHGs maintaining savings bank accounts with the banking sector was 4.2 million with outstanding savings of Rs.3,513 crore, thereby covering more than 58 million poor households under the SHG-Bank linkage programme. The commercial banks had the maximum share of the SHG's savings (53.9 per cent), followed by RRBs (32.9 per cent) and co-operative banks (13.2 per cent). Out of 290 reporting banks, 73 per cent of banks had more than 80 per cent recovery rate on loans given to SHGs as on March 31, 2007. The banks also financed non-governmental organisations/micro-finance institutions (NGOs/MFIs) for on-lending under micro-finance. As on March 31, 2007, the number of MFIs that had outstanding bank loans was 550 amounting to Rs.1,585 crore. During the year 2006-07, banks financed 334 MFIs amounting to Rs.1,152 crore.

IV.43 Micro finance activity has grown rapidly since the late 1990s due to the following reasons: (i) ability to reach out to the poor; (ii) promise of financial sustainability; (iii) the potential to build on traditional systems; (iv) provision of informal and flexible financial services to the poor for meeting their modest consumption and livelihood needs (v) the availability of better financial products as a result of experimentation and innovation; and (vi) provision of collateral-free micro credit to the poor. Microfinance helps the poor people meet their need

Table 4.8: Bank Loans Outstanding Against SHGs – As on March 31, 2007

Agency	No. of SHGs	Share in per cent	Amount (Rs. crore)	Share in per cent	Per SHG Outstanding Loan (Rupees)
1	2	3	4	5	6
Commercial Banks (Public Sector)	1,810,353	62.5	8,225	66.5	45,435
Commercial Banks (Private sector)	82,663	2.9	535	4.3	64,719
Sub Total (Commercial Banks)	1,893,016	65.4	8,760	70.8	46,277
Regional Rural Banks	729,255	25.2	2,802	22.7	38,419
Co-operative Banks	272,234	9.4	804	6.5	29,546
Total	2,894,505	100.0	12,366	100.0	42,724

SHG: Self Help Group

Source : NABARD

for small credit and other financial services. The informal and flexible services offered to low-income borrowers for meeting their needs have made the microfinance movement grow at rapid pace in the country. Recognising the potential of microfinance to positively influence the development of the poor, the Reserve Bank has been providing a facilitating environment for orderly development of the microfinance sector in the country.

IV.44 On an earlier occasion, the Reserve Bank advised commercial banks that micro credit should cover not only consumption and production loans for various farm and non-farm activities of the poor, but also include their other credit needs such as housing and shelter improvements. Consequent upon the announcement made by the Union Finance Minister in his Budget speech for the year 2008-09, these instructions were reiterated and banks were advised to meet the entire credit requirements of SHG members. A Microfinancial Sector (Development and Regulation) Bill, 2007, which envisages the regulation of the sector, is under consideration of the Parliament.

IV.45 Pursuant to the announcement made in the Annual Policy statement for the year 2007-08, the regional offices of the Reserve Bank undertook an evaluation of the SHG-bank linkage programme with a view to ascertaining the degree of transparency in maintaining the accounts by the SHGs and their adherence to well accepted best practices. The study results are being analysed.

FINANCIAL INCLUSION

IV.46 The Reserve Bank has emphasised access to banking services for all sections of the society and all regions from time to time, which is reflected in the branch licensing policy and the guidelines on priority sector lending. Although these initiatives resulted in a sharp increase in the number of bank branches, a large segment of the households was left outside the coverage of the formal banking sector. According to the National Sample Survey Organisation (NSSO) survey, only 15.1 per cent of rural households and 42.8 per cent of the urban households reported deposits with commercial or cooperative banks in 1991. Census data revealed that in 2001, the proportion of rural households availing banking (deposit) services was 30.1 per cent, while for urban households, it was 49.5 per cent. The extent of exclusion was higher for specific population groups and regions. The NSSO (59th Round, 2003) data revealed that 45.9 million farmer households in the country, *i.e.*, 51.4 per cent of the total of 89.3 million households do not access credit, either from institutional or non-institutional sources. Further, despite the vast network of bank branches, only 27 per cent of total farm households were indebted to formal sources (of which one-third also borrow from informal sources). Farm households not accessing credit from formal sources, as a proportion to total farm households, was especially high at 95.9 per cent, 81.3 per cent and 77.6 per cent in the North Eastern, Eastern and Central Regions, respectively. Thus, apart from the fact that exclusion in general is

large, it also varied widely across regions, social groups and asset holdings. The poorer the group, the greater was the exclusion.

IV.47 Concerns on financial inclusion also emanated from the results of the All-India Debt and Investment Survey (AIDIS), 2002, which revealed that over a period of 40 years, the share of non-institutional sources of credit in sources of credit for cultivator households declined sharply from about 93 per cent in 1951 to about 30 per cent in 1991, with the share of money lenders declining from 69.7 per cent to 17.5 per cent. However, in 2002, the AIDIS revealed that the share of money lenders again increased to 27 per cent and that of non-institutional sources overall rose to 39 per cent. In other words, notwithstanding the outreach of banking, the formal credit system has not been able to adequately penetrate the informal financial markets. Further, it may be noted that the rate of agricultural growth during the last decade slowed down, particularly in respect of foodgrains production.

IV.48 The Reserve Bank, therefore, initiated policies focusing on financial inclusion from the year 2005. In simple terms, financial inclusion may be defined as delivery of banking services at an affordable cost to the vast sections of disadvantaged and low-income groups who tend to be excluded. The Reserve Bank's broad approach to financial inclusion aims at 'connecting people' with the banking system and not just credit dispensation; giving people access to payments system and portray financial inclusion as a viable business model and opportunity. In consonance with the above approach, the Reserve Bank has undertaken a number of measures for bringing the financially excluded population into the structured financial system.

No-Frills Accounts

IV.49 The Reserve Bank advised the scheduled 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. Significant progress has been made by banks in this regard and the number

of no-frills accounts opened by banks and, particularly, by public sector banks increased sharply during the last few years (Table 4.9).

IV.50 As announced in the Annual Policy Statement for the year 2008-09, and in order to give further impetus to financial inclusion, banks were advised in May 2008 to classify overdrafts up to Rs.25,000 (per account) granted against 'no-frills' accounts in rural and semi-urban areas as indirect finance to the agriculture sector under priority sector with immediate effect.

IV.51 The Reserve Bank advised the convenor banks of the State Level/Union Territory Level Bankers' Committees (SLBC/UTLBC) in all States/Union Territories on April 28, 2006 to identify at least one suitable district in each State/Union Territory for achieving 100 per cent financial inclusion by providing a "no-frills" account and issue of General Credit Card (GCC). They were also advised that on the basis of experience gained, the scope for providing 100 per cent financial inclusion may be extended to cover other areas/districts. The SLBCs/UTLBCs were further advised to allocate villages to the various banks operating in the State for ensuring 100 per cent financial inclusion and also to monitor the progress under financial inclusion in the meetings of the SLBC/UTLBC from September 2006 onwards. So far, 340 districts have been identified for 100 per cent financial inclusion and the target has reportedly been achieved in 153 districts in 19 States and six Union Territories. Notably all districts of Haryana, Himachal Pradesh, Karnataka, Kerala, Uttarakhand, Puducherry, Daman & Diu, Dadra & Nagar Haveli, Goa and Lakshdweep have reported achieving 100 per cent financial inclusion.

Table 4.9: Number of No Frills Accounts

Bank Group	As on		
	31.03.2006	31.03.2007	31.03.2008*
1	2	3	4
Public Sector Banks	332,878	5,865,419	13,925,674
Private Sector Banks	156,388	860,997	1,879,073
Foreign Banks	231	5,919	33,115
Total	489,497	6,732,335	15,837,862

* : Provisional.

Note : The figures are cumulative.

IV.52 The Reserve Bank had undertaken an evaluation study of the progress made in achieving 100 per cent financial inclusion in 26 districts that had reported 100 per cent financial inclusion, through external agencies, to draw lessons for further action in this regard. The studies were carried out in the States of Gujarat, Karnataka, Orissa, Himachal Pradesh, West Bengal, Andhra Pradesh, Punjab and Rajasthan. The study results are being examined.

Use of Intermediaries as Agents

IV.53 In January 2006, the Reserve Bank permitted banks to utilise the services of non-governmental organisations (NGOs/SHGs), micro-finance institutions (other than regular NBFs) and other civil society organisations as intermediaries in providing financial and banking services through the use of business facilitator (BF) and business correspondent (BC) models. The BC model allows banks to do 'cash-in/cash-out' transactions at a location much closer to the rural habitation, thus addressing the last mile problem. Banks are also entering into agreements with India Post for using the vast network of post offices as business correspondents, thereby increasing their outreach and leveraging on the postman's intimate knowledge of the local population.

IV.54 ICT offers a solution for enhancing the level of financial inclusion by enabling the provision of affordable financial services at the village level. The Reserve Bank has been encouraging the use of ICT solutions by banks for enhancing their outreach with the help of their business correspondents. The BCs carry hand held devices, which are essentially smart card readers. Mobile phones have also been developed to serve as card readers. The information captured is transmitted to a central server where the accounts are maintained. These devices are used for making payments to rural customers and receiving cash from them. Account holders are issued smart cards, which have their photographs and finger impressions. Pilot studies have shown that the technology is practical and robust as also affordable. Scaling up is, at present, the challenge, and some States like Andhra Pradesh are keen that all Government payments should be routed through

these accounts to ensure transparency and efficiency in such payments apart from providing a huge opportunity for ensuring financial inclusion. Recognising that IT-enabled services have the potential for improving financial inclusion, the Reserve Bank urged the banks in May 2007 to scale up their financial inclusion efforts by utilising appropriate technology. The Reserve Bank also advised banks to ensure that the solutions developed are highly secure, amenable to audit and follow widely accepted open standards to allow inter-operability among the different systems adopted by different banks.

IV.55 Pursuant to the announcement made by the Union Finance Minister in the Union Budget 2008-09, banks were permitted to engage retired bank employees, ex-servicemen and retired government employees as business correspondents (BCs) with effect from April 24, 2008, in addition to the entities already permitted, subject to appropriate due diligence. While appointing such individuals as BCs, the Reserve Bank advised banks to ensure that these individuals are permanent residents of the area in which they propose to operate as BCs and also institute additional safeguards as may be considered appropriate to minimise agency risk. With a view to ensuring adequate supervision over the operations and activities of the BCs, the Reserve Bank advised banks that every BC should be attached to and be under the oversight of a specific bank branch to be designated as the base branch. The distance between the place of business of a BC and the base branch, ordinarily, should not exceed 15 Kms in rural, semi-urban and urban areas. In metropolitan centres, the distance could be up to 5 kms. However, in case a need is felt to relax the distance criterion, the matter can be referred to the District Consultative Committee (DCC) of the district concerned for approval. Where such relaxations cover adjoining districts, the matter may be cleared by the State Level Bankers' Committee (SLBC), which shall also be the designated forum for metropolitan areas. Such requests may be considered by the DCC/SLBC on merits in respect of under-banked areas or where the population is scattered over large area and where the need to provide banking services is imperative

but having a branch may not be viable, keeping in view the ability of the base branch of the bank making the request to exercise sufficient oversight on the BC. Where currently BCs are operating beyond the distance limits specified above, DCC/SLBC may be kept informed and steps taken to conform to the stipulated limits within six months time, unless specific approval would be accorded by the DCC/SLBC on the grounds indicated above. Banks were also advised that they should bring to the notice of the Reserve Bank any important issues to facilitate prompt corrective steps. Further, the implementation of the BF/BC model should be monitored closely by controlling authorities of banks, who should specifically look into the functioning of BFs/BCs during the course of their periodical visits to the branches. Banks have also been advised to put in place an institutionalised system for periodically reviewing the implementation of the BF/BC model at the Board level.

IV.56 The extant Know Your Customer (KYC) regime was supplemented by putting in place reporting of Cash Transaction Report (CTR)/ Suspicious Transaction Report (STR) by banks to Financial Intelligence Unit-India (FIU-IND) under the requirements of Prevention of Money Laundering Act, 2002; on February 15, 2006. Banks have also been advised on April 13, 2007 to incorporate complete originator information (names, address, account number) in wire transfer transactions. Based on feedback received on the extant KYC/AML/CFT regime, the relevant guidelines were revised on February 18, 2008. These guidelines include among others (i) in case of close relatives who find it difficult to furnish documents relating to place of residence while opening accounts, banks can obtain an identity document and a utility bill of the relative with whom the prospective customer is living, along with a declaration from the relative that the said person (prospective customer) wanting to open an account is a relative and is staying with him/her. Banks can also use any supplementary evidence such as a letter received through post for further verification of the address; (ii) banks have been advised to keep in mind the spirit of the instructions and avoid undue

hardships to individuals who are otherwise classified as low risk customers; (iii) banks should review the risk categorization of customers at a periodicity of not less than once in six months.

IV.57 Reserve Bank advised banks (on June 4, 2008) to ensure that all the banking facilities such as cheque book facility including third party cheques, ATM facility, Net banking facility, locker facility, retail loans, credit cards etc. are invariably offered to the visually challenged without any discrimination. Banks were also advised to instruct their branches to render all possible assistance to the visually challenged for availing the various banking facilities.

Improvement of Banking Services in Different States/ Union Territories

IV.58 The Reserve Bank had in the recent past constituted Working Groups to suggest measures for improving the outreach of banks and their services, and promoting financial inclusion in certain less developed States such as Bihar, Uttarakhand, Chattisgarh, and those in the North Eastern Region, and for supporting the development plans of these State Governments. These working groups have made specific recommendations for enhancing the outreach of banks and promoting financial inclusion, strengthening of financial institutions, improving currency and payments systems, and for revitalisation of the Regional Rural Banks and urban cooperative banks in the respective regions. The recommendations of these Groups are under implementation.

IV.59 Three separate working groups to undertake studies of the banking services in the States of Himachal Pradesh and Jharkhand and the Union Territory of Lakshadweep were constituted. The groups have since submitted their reports. The recommendations of the groups have been forwarded to the respective agencies for implementation.

General Purpose Credit Cards

IV.60 With a view to providing credit card like facilities in the rural areas, with limited point-of-sale (POS) and limited ATM facilities, the Reserve Bank

advised all scheduled commercial banks, including RRBs, in December 2005 to introduce a General Credit Card (GCC) Scheme for issuing GCC to their constituents in rural and semi-urban areas, based on the assessment of income and cash flow of the household similar to that prevailing under a normal credit card. The Reserve Bank also advised banks to classify fifty per cent of the credit outstanding under loans for general purposes under General Credit Cards (GCC), as indirect finance to agriculture under priority sector. The Reserve Bank further advised banks in May 2008 to classify 100 per cent of the credit outstanding under GCCs as indirect finance to agriculture sector under the priority sector with immediate effect.

Differential Rate of Interest (DRI) Scheme

IV.61 The outstanding advances of public sector banks under the DRI Scheme as on the last reporting Friday of March 2008 amounted to Rs.669 crore under 191 thousand borrowal accounts, constituting 0.05 per cent of the outstanding adjusted net bank credit or credit equivalent of off-balance sheet exposures, whichever was higher, at the end of the previous year, as against the target of 1.0 per cent. Consequent upon the announcement made by the Union Finance Minister in the Union Budget 2007-08, the limit of loans under the DRI Scheme was raised from Rs.6,500 to Rs.15,000 and that of the housing loans under the Scheme from Rs.5,000 to Rs.20,000 per beneficiary. It was further announced in the Union Budget 2008-09 that the borrower's eligibility criteria as annual family income would be Rs.18,000 in rural areas and Rs.24,000 in urban areas.

Financial Inclusion Fund (FIF) and Financial Inclusion Technology Fund (FITF)

IV.62 The "Committee on Financial Inclusion" set up by the Government of India (Chairman: Dr. C. Rangarajan) in its Interim Report recommended the establishment of two Funds, namely the "Financial Inclusion Promotion and Development Fund" for meeting the cost of developmental and promotional interventions for ensuring financial inclusion, and the "Financial Inclusion Technology Fund (FITF)" to meet

the cost of technology adoption. The Union Finance Minister, in his Budget Speech for 2007-08 announced the constitution of the Financial Inclusion Fund (FIF) and the FITF, with an overall corpus of Rs.500 crore each at NABARD (Box IV.2). The Government advised that for the year 2007-08 it was decided to initially contribute Rs.25 crore each in the two funds by the Central Government, RBI and NABARD in the ratio 40:40:20. The final report of the Committee has been submitted to the Government in January 2008.

FINANCIAL LITERACY AND CREDIT COUNSELLING

IV.63 Recognising that lack of awareness is a major factor for financial exclusion, the Reserve Bank has taken a number of measures towards imparting financial literacy and promotion of credit counselling services. The Reserve Bank has undertaken a project titled "Project Financial Literacy". The objective of the project is to disseminate information regarding the central bank and general banking concepts to various target groups, including, school and college going children, women, rural and urban poor, defence personnel and senior citizens. It would be disseminated to the target audience with the help of, among others, banks, local government machinery, schools/colleges using pamphlets, brochures, films, as also, the Reserve Bank's website. The Reserve Bank has also created a link on its web site 'For the Common Person' to give him the ease of access to information, in Hindi, English and 11 regional languages (Assamese, Bengali, Gujarati, Kannada, Malayalam, Marathi, Oriya, Punjabi, Tamil, Telugu and Urdu).

IV.64 A 'Financial Education' site link on the Reserve Bank's website was launched on November 14, 2007, mainly aimed at teaching basics of banking, finance and central banking to children in different age groups. The comic books format has been used to explain the complexities of banking, finance and central banking in a simple and interesting way for children. The site has films on security features of currency notes of different denominations and an educative film to persuade citizens not to staple notes. The site also has a games section. This

BOX IV.2**Financial Inclusion Fund and Financial Inclusion Technology Fund**

Pursuant to the announcement made by the Union Finance Minister in his Budget Speech for the year 2007-08, a Financial Inclusion Fund (FIF) and Financial Inclusion Technology Fund (FITF), with an overall corpus of Rs. 500 crore each, has been set up with NABARD, with initial funding to be contributed by the Government of India, the Reserve Bank and National Bank for Agriculture and Rural Development in a ratio of 40:40:20. The funding would be contributed in a phased manner over a maximum period of five years, depending upon utilisation of funds. Depending on the outflow from the Fund, annual replenishments may be made by Government, the Reserve Bank and NABARD and from other stakeholders/institutions as may be decided by the Government. The FIF/FITF would be in operation until financial inclusion to the extent of 100 per cent of rural families in all districts is achieved, over a period of five years from the date of commencement of the Fund or for such enhanced period as may be decided by the Government.

FINANCIAL INCLUSION FUND (FIF)

The objective of the FIF is 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.

Eligible Activities/ Purposes

The FIF would be used for the following activities /purposes: (i) funding support for capacity building inputs to business facilitators and business correspondents; (ii) providing promotional support to institutions such as resource centres, farmers’ service centres 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; (iii) providing funding support for promotion, nurturing and credit linking of self-help groups (SHGs); (iv) capacity building of personnel of NABARD, banks, post offices, State Government Departments, MFIs, NGO, Local Level Associations, members of SHGs/ joint liability groups, among others; (v) Defraying expenses of approved institutions for undertaking interventions for financial inclusion in Central, Eastern and North-Eastern Regions, J&K, Himachal Pradesh and Uttarakhand; (vi) funding support for setting up of Rural Credit Bureaus and credit rating of rural customers; (vii) supporting initiatives of local level associations/federations; (viii) supporting pilot projects for development of innovative products, processes and prototypes for financial inclusion; and (ix) any other developmental and promotional interventions recommended by the Advisory Body for the FIF.

Eligible Institutions

(i) financial Institutions, viz., NABARD, commercial banks, regional rural banks and cooperative banks; (ii) NGOs, MFIs, SHGs, farmers’ clubs, local level associations; (iii) training and research organisations, academic institutions, universities; (iv) service providers like insurance companies (providing micro insurance services), post offices, railways, and (v) any other organisation whose objectives are in conformity with the overall objectives of the FIF and are approved by the Advisory Board from time to time.

FINANCIAL INCLUSION TECHNOLOGY FUND (FITF)

The objectives of the FITF is 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.

Eligible Activities/ Purposes

The FITF would be used for the following activities /purposes: (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, etc.; (ix) capacity building of personnel of banks, post offices, state government departments, MFIs, NGOs, VAs and other stakeholders; and (x) Any other activity as may be approved by the Advisory Board.

Eligible Institutions

(a) financial institutions, viz., NABARD, commercial banks, regional rural banks and cooperative banks; (b) NGOs, MFIs, SHGs, Farmers’ Clubs, local level associations, etc.; (c) technology Service providers and other service providers like insurance companies (providing micro insurance services), Post Offices, Railways; and (d) any other institution/ organisation whose objectives are in conformity with the overall objectives of the FITF and are approved by the Advisory Board.

Advisory Board and Management of FIF/FITF: Advisory Boards constituted by the Government of India shall guide and render policy advice on various aspects relating to the FIF/FITF. The nature, quantum and terms of assistance to eligible institutions/organisations for various promotional and developmental interventions for promoting technological solutions for financial inclusion shall be decided by the Advisory Boards for the FIF/FITF. The Advisory Boards may determine their own procedures for day to day functioning in respect of FIF/FITF, including constitution of committees, sub-committees, task forces for examination, implementation and monitoring of various issues.

The programme sanction, implementation, monitoring and administration of the FIF/FITF shall vest with NABARD. The interest accrued/income earned from the FIF/FITF shall be ploughed back into the FIF/FITF as per the investment policy approved by the Advisory Board. The administering charges incurred in conduct of meetings of the Advisory Board and other expenses (except salaries/allowances of personnel involved in the sanction, implementation and monitoring of FIF/FITF) of NABARD in connection with discharge of its functions related to FIF/FITF shall be met out of the funds on such basis as may be decided by the Advisory Board from time to time.

section aims at educating children through entertainment. The Reserve Bank put up an exhibition on the evolution of banking in India since independence aboard the Azadi Express, a train run by the Government of India all over the country to celebrate 60 years of India's Independence. The Reserve Bank also organised essay competitions across the country to generate interest among the children in the area of banking and finance. A Young Scholar's Internship Award Scheme, designed at giving opportunity to young college students to work as interns with the Reserve Bank during their vacations, is under implementation.

IV.65 The Working Group (Chairman: Prof. S. S. Johl) constituted by the Reserve Bank to suggest measures for assisting distressed farmers recommended that financial and livelihood counselling were important for increasing the viability of credit. Furthermore, the Working Group constituted to examine procedures and processes for agricultural loans (Chairman: Shri C. P. Swarnkar) also recommended that banks should actively consider opening of counselling centres, either individually or with pooled resources, for credit and technical counselling with a view to giving special thrust for credit delivery in the relatively under-developed regions. In the light of the recommendations of these two Groups and as announced in the Annual Policy Statement for the year 2007-08, State Level Bankers' Committee convenor banks were advised to set up a financial literacy-cum-counselling centre in any one district on a pilot basis and extend it to the other districts in due course, based on the experience gained. Various banks are in the process of setting up credit counselling centres on a pilot basis.

IV.66 In the Mid-term Review of the Annual Policy for the year 2007-08, it was stated that a concept paper on Financial Literacy and Credit Counselling Centres would be prepared and placed on the Reserve Bank's website. In the Union Budget for 2008-09, the Finance Minister indicated that individuals such as retired bank officers, ex-servicemen, among others, will be allowed to be appointed as credit counsellors. In this backdrop, a

concept paper on Financial Literacy and Credit Counselling Centres was prepared and placed on the Reserve Bank's website on April 3, 2008 for public feedback in order to take the initiative forward (Box IV.3). The feedback received on the concept paper is being examined for deciding the future course of action.

CREDIT INFORMATION SYSTEM

IV.67 The need of credit information system was felt a long time back in order to alert the banks and financial institutions (FIs) and put them on guard against borrowers who have defaulted in their dues to other lending institutions. It was also imperative to arrest accretion of fresh NPAs in the banking system through an efficient system of credit information on borrowers as a first step in credit risk management. In this context, the requirement of an adequate, comprehensive and reliable information system on the borrowers through an efficient database system has been keenly felt by the Reserve Bank/Government as well as credit institutions. A Working Group (Chairman: Shri N.H. Siddiqui) with representatives from select public sector banks, IDBI, ICICI, Indian Banks' Association and Reserve Bank was constituted by the Reserve Bank in the year 1999, to explore the possibilities of setting up a Credit Information Bureau (CIB). The Working Group had recommended to set up a CIB under the Companies Act, 1956 with equity participation from commercial banks, FIs and NBFCs registered with the Reserve Bank. As per the recommendations made by the Working Group, Credit Information Bureau (India) Ltd., (CIBIL) was set up by State Bank of India in association with HDFC in January 2001.

IV.68 In order to get over the legal constraints of customer confidentiality *vis-à-vis* providing information on banks' customers to CIBIL, pending enactment on the Credit Information Companies (Regulation) Act, the Reserve Bank advised banks and financial institutions on October 1, 2002 to obtain consent from all existing borrowers and guarantors at the time of renewal of loans and consent of all the new borrowers/guarantors for sharing the credit information in respect of non-suit filed accounts with

Box IV.3

Financial Literacy and Credit Counselling Centres : Concept Paper

The concept paper on Financial Literacy and Credit Counselling Centres (FLCCs) has three parts. Part A deals with matters relating to definition and the need for financial literacy, while Part B deals with definition, the need and various issues relating to credit counselling. Part C outlines the suggested Scheme for FLCCs. In order to make credit counselling more effective and popular, a scheme for setting up of FLCCs has been suggested. The features of the Scheme suggested in the concept paper are as under:

Objectives 1. The broad objective of the FLCCs will be to provide free financial literacy/education and credit counselling. The specific objectives would be: (a) to educate the people in rural and urban areas with regard to various financial products and services available and to make the people aware of the advantages of being connected with the formal financial sector; (b) to provide face-to-face financial counselling services. (c) to formulate debt restructuring plans for borrowers in distress and recommend the same to formal financial institutions, including cooperatives, for consideration; (c) to take up any such activity that promotes financial literacy, and amelioration of debt-related distress of an individual. FLCCs should not, however, act as investment advice centres.

2. Debt counselling/credit counselling can be both preventive and curative. In case of preventive counselling, the centre would provide awareness regarding cost of credit and availability of backward and forward linkages, where warranted. In the case of curative counselling, the clients may approach the counselling centres and the centre could work out effective debt restructuring plans, if necessary, in consultation with the bank branch.

Coverage: Given the low literacy and dependence on informal sector in the rural areas, the centres in such areas could concentrate on financial literacy and counselling for farming communities and those engaged in allied activities while the centres in metro/urban areas could focus on individuals with overdues in credit cards, personal loans, housing loans, etc. among others.

Organisational / Administrative Set-up: To start with, banks may set up Trusts/Societies for running the FLCCs, singly or jointly with other banks. A bank may induct respected local citizens on the Board of such Trust/Society. However, serving bankers may not be included in the Board. FLCCs may be fully funded by the bank/banks to begin with. In order to have maximum coverage, FLCCs may need to be set up at various levels, viz., block, district, town and city levels. SLBCs may discuss and coordinate with banks, both in public and private sectors, and arrive at a plan for setting up of FLCCs at different levels in a phased manner. However, to start with, lead banks may take the initiative for setting up FLCCs in the district headquarters. While the endeavour should be to keep costs as low as possible, in order to support banks in the setting up of FLCCs in rural and urban areas where there is concentration of low income borrowers, cost-sharing through the Financial Inclusion Fund set up in NABARD could be considered. Once the system stabilises the counselling centres could cover part of the cost by levying nominal charges on the banks whose borrowers have commenced repayments due to the credit counselling and debt management plan drawn up by the counselling centre. Consulting and debt management services may be provided free of charge to the customers so as to put no additional burden on them.

Infrastructure: Proper infrastructure would have to be put in place by banks with adequate communication and networking facilities.

Mechanism for Credit Counselling and Debt Settlement: Banks may encourage their own customers in distress or customers of any bank to approach the FLCCs set up by it. Information about such FLCCs can be provided through the various fora available under the Lead Bank Scheme. The FLCCs may conduct open-house seminars either at the centre or at various places in the district for group counselling. For single-creditor-debts, the FLCCs could assist the borrower in negotiating with the bank concerned. In the case of multiple credits availed of by individuals, the FLCCs may negotiate with the bank/s having the largest exposure to restructure the debt and the recoveries to be shared on a pro-rata basis. The FLCCs would, however, not involve themselves in recovering and distributing money. This could be left to the bank concerned, or the bank having the largest exposure to act on behalf of all the banks.

Qualification and Training – Counsellors: Qualified / trained counsellors may be selected to man the centre on a full time basis. In his Budget speech for the year 2008-09, the Finance Minister indicated that individuals such as retired bank officers, ex-servicemen, etc. will be allowed to be appointed, among others, as credit counsellors. Credit counsellors should have sound knowledge of banking, law, finance, excellent communication and team building skills and would constantly upgrade and update with latest developments. Specialised courses on credit counselling and debt management may be conducted by Indian Institute of Banking and Finance (IIBF) and other professional bodies.

Types of interface: Counselling centres should be equipped to deal with requests received in person, by phone, e-mails, post, among others. They should have a toll free line, e-mail and fax facilities for easy contact. Mobile units could also be set up to service all the blocks in the districts.

Monitoring: The functioning of the FLCCs in each State may be monitored by a Committee headed by the Regional Director of the Reserve Bank and feedback provided to the banks on a regular basis.

Transparency / Disclosure of Information: To help the customers make informed decisions, all banks may display on their websites particulars of all fees, interest rates, yields and other features of standard products offered by them. The Reserve Bank may also display the consolidated data on its website for one-stop information on all banks.

Information sharing: It is imperative that credit information companies are set up and up-scaled quickly to provide both positive and negative information to the banks. The FLCCs, in turn, could obtain comprehensive credit information from the concerned bank or the bank having the largest exposure to the defaulting borrower.

Publicity: All forms of publicity, viz., press conferences, workshops, publications, websites, road shows, mobile units, village fairs, among others should be actively explored. In order to proceed in a planned manner, a Standing Committee on Financial Literacy and Counselling may be set up by the Reserve Bank with members from the Reserve Bank, NABARD, IBA, BCSBI, CIBIL, NGOs working in the area and consumer organisations. The list of counselling centres should be placed on the websites of IBA, BCSBI, the Reserve Bank, and regularly updated.

the CIBIL. A Working Group (Chairman: Shri S.R. Iyer) set up in 2002 observed that while some modalities like 'consent clause' could be adopted as a base to begin with, for limited operations of a CIB, such modalities cannot be a substitute for a special legislation. The Working Group, therefore, recommended the enactment of an appropriate legislation by the Government of India expeditiously, in consultation with the Reserve Bank.

IV.69 With a view to strengthening the legal mechanism and facilitating the Bureau to collect, process and share credit information on the borrowers of credit institutions, the Credit Information Companies (Regulation) Act, 2005 was passed in May 2005 by Parliament and notified in the Gazette of India on June 23, 2005. The Government of India also notified the rules and regulations for the implementation of the Credit Information Companies (Regulation) Act, 2005 on December 14, 2006 making the Act operational.

IV.70 The Reserve Bank issued a press release on April 18, 2007 inviting applications from companies interested in continuing/commencing the business of credit information. An external High Level Advisory Committee (HLAC) (Chairman: Dr. R.H. Patil) has been set up by the Reserve Bank for screening the applications and recommending the names of the companies to which certificate of registration can be granted by the Reserve Bank. After the announcement of the FDI policy for credit information

companies on March 12, 2008, the processing of applications has been taken up and 'in-principle approval' for setting up of credit information companies would be granted by the Reserve Bank shortly.

Outlook

IV.71 The Reserve Bank continued with its endeavour to improve credit delivery through its various measures. There has been significant improvement in the credit flow to the agriculture and the MSE sectors in recent years. Given the significance of these sectors for the economy, the need is to maintain the momentum. In the coming years, therefore, banks would be encouraged further to work towards achieving the stipulated targets for advances to the priority sector, especially agriculture and weaker sections. Efforts to promote financial inclusion have so far yielded good results with a large number of people having been brought within the banking fold. The momentum gained in respect of micro-finance through SHG-bank linkage programme, the largest of its kind in the world, would also be maintained. In future, greater emphasis would be placed on leveraging technology through a multi-agency approach, which would not only expand banking outreach but also reduce the transaction costs and make the process of financial inclusion sustainable. While improving credit delivery, the Reserve Bank would continue to emphasise the maintenance of credit quality.