

**RESERVE BANK OF INDIA**www.rbi.org.inwww.rbi.org.in/hindie-mail: helpprd@rbi.org.in

PRESS RELATIONS DIVISION, Central Office, Post Box 406, Mumbai 400001
Phone: 2266 0502 Fax: 2266 0358, 2270 3279

August 21, 2006

RBI releases Report of Committee on Financial Sector Plan for NE Region

It may be recalled that, the Reserve Bank of India had, on January 25, 2006, set up a committee to achieve greater financial inclusion and provision of financial services in the North-Eastern region (NER) and also to prepare an appropriate state-specific monitorable action plan for the region. Deputy Governor, Smt. Usha Thorat was the Chairman of the Committee. The Committee has since submitted its report, which is now placed in the Reserve Bank's website.

The Committee held extensive discussions with different stakeholders in all the seven States of the region. It proceeded on the basic premise that banking culture would need to adapt to the local conditions. The focus should be on proactively connecting banks to the people, rather than waiting for walk-in customers.

The Committee basically relied on an approach that addresses the supply side gap, since such a gap existed in the region. Also, research has demonstrated that more efficient financial intermediation itself can lead development. The Committee noted the limitations of the existing operating structures/processes and the inherent inadequacies of banking organisations, including Regional Rural Banks (RRBs) and cooperatives and highlighted the imperative to marry banking process with technology, besides addressing human resources management issues. The Committee particularly emphasised the need for improving infrastructure, creating a favourable investment climate, focussing on a few sectors of strategic advantage for development and encouraging a favourable credit culture. The State Governments need to play an important role in this respect to ensure that financial sector development feeds into and is fed by economic growth and development.

Major recommendations made by the Committee are:

- (i) In order to achieve greater financial inclusion and reach the national average, banks in the NER may draw up plans to provide at least 50 new households per branch each month for the next 4 years with a deposit account (with option to the household of opening such account as a "no frills" account). Taking into account the balances maintained in such accounts over a period, the bank may offer small overdrafts or General Credit Cards against such accounts and other products in terms of the extant Reserve Bank guidelines so that banking habit is actively promoted in the region. For this, a massive awareness campaign and sensitisation of the staff and clientele along with adequate groundwork may be done in the region.
- (ii) Keeping in view the local conditions, extensive recourse may be taken to bank/Self Help Group (SHG) linkage programme, business correspondent/business facilitator

model as also widespread use of Information Technology based solutions for increasing outreach. Local Community based organizations approved by District Consultation Committees may be used as business correspondents/ facilitators. Besides, post offices could also be used as business correspondents.

- (iii) Given the improving mobile connectivity in the region, IT based solutions including smart cards based and mobile payments may be adopted for carrying out banking transactions from non-branch locations with a view to increasing outreach. The Institute for Development and Research in Banking Technology may prepare a pilot project for testing in a select area in the NER by December 2006 and based on experience, this project may be rolled out in other places.
- (iv) Recognising that community ownership and non-transferable rights on land lead to problems in offering land as collateral, simplified alternatives like Land possession certificate /certificate from the group/local tribal bodies/farmers clubs/Village Development Boards regarding the borrowers' right to cultivate land may be accepted for sanctioning loans. For large loans to industries and services sector, parameters like established track record, projected cash flows, credit enhancement through partial risk sharing instrument, conditional guarantees by State Governments etc. may be considered.
- (v) Revision of the existing *ad hoc* incentive package for bank officers, including introduction of a performance based cash incentive component.
- (vi) Revamping of Regional Rural Banks, including strengthening of staff and market recruitment of CEOs have been recommended.
- (vii) Alternative legislation on lines of Mutually Aided Co-operative Societies (MACS) may be introduced so that grass root level associations have the option to form cooperatives under the MACS. The Vaidyanathan Committee may revisit the position for the NER to explore the possibility of state governments channeling the resources available under the revival package to alternative local community based organizations in those States where the primary cooperatives are not assessed as having the potential to deliver credit services. Alternatively, as suggested by various State Governments in the State specific reports, well established SHGs may be converted into cooperative societies.
- (viii) Each State Government may enter into Memorandum of Understanding with Reserve Bank as proposed in the vision document of RBI for urban cooperative banks and a single Task Force for Urban Cooperative Banks (TAFUCB) may be constituted in the region with few States being represented in each meeting by turn.
- (ix) Existing network of chests in the region may be strengthened and upgraded, where required. RRBs may be allowed to have currency chests with State Governments and RBI meeting part cost.
- (x) Electronic Clearing Service may be introduced within six months in all the clearing houses in all the State capitals to facilitate Govt. payments and receipts. A plan for implementing smart card/mobile based solutions on an open standard platform to be

accessed by all banks may be prepared by IDRBT and a pilot project in a suitable area may be tested within six months.

- (xi) The Reserve Bank may allocate specific responsibility to the different branches (including branches of RRBs) for providing need based forex facilities at centres deficient in such facilities and arranging for special training for the branch staff.
- (xii) Implementation of the location specific and activity-wise Action Plans for each of the seven states for stepping up flow of credit to Agriculture, allied activities and Small & Medium Enterprises (SME) sector.
- (xiii) Setting-up of a dedicated SME Debt Fund by SIDBI, in association with major banks, to provide co-finance up to 25 percent of project cost to first time entrepreneurs, where a bank is willing to provide the required funds. Identification of dedicated branches by major banks operating in the NER for encouraging entrepreneurs desirous of investing in agro-processing, agro-based industries and SME sector. Enhancement of insurance cover under Credit Guarantee Fund Trust for Small Scale Industries (CGTSI) scheme to cover up to 90 percent in the NER, as against the risk cover of 75 percent subject to a maximum of Rs. 25 lakh available in the rest of the country.

Press Release: 2006-2007/252

Alpana Killawala
Chief General Manager