

Report of the Committee on Financial Sector Plan for North Eastern Region

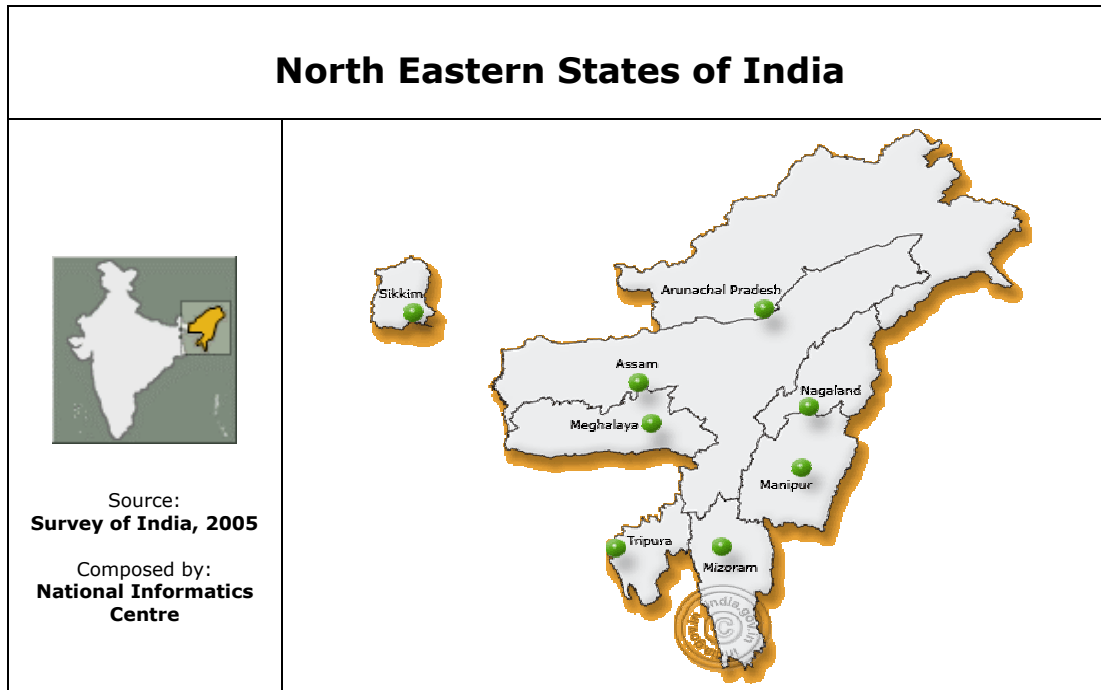


Reserve Bank of India

July 2006



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Letter of transmittal

Acknowledgements

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LETTER OF TRANSMITTAL



Chairperson

**Committee on Financial Sector Plan
for North Eastern Region
Reserve Bank of India
Central Office
Mumbai - 400 001**

July 19, 2006

**Dr Y. V. Reddy
Governor
Reserve Bank of India
Mumbai**

Dear Sir,

I have great pleasure in submitting the Report of the Committee on Financial Sector Plan for North Eastern Region. The report includes, *inter-alia*, suggestions for expanding the banking outreach, simplification of system and procedures for opening bank accounts, land collateral substitutes, currency management, funds transfer and payment facilities and revised human resources incentives in the region.

We trust that the Report addresses important issues pertaining to financial inclusion, improving CD ratio, providing hassle-free credit. We have made an endeavour to outline the roadmap for implementing financial inclusion in a time bound manner.

On behalf of the Committee members, colleagues and on my own behalf, I sincerely thank you for entrusting us with this task.

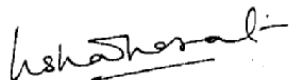
With regards,


Yours sincerely,

Sd/-
(Usha Thorat)



REPORT OF THE COMMITTEE ON
FINANCIAL SECTOR PLAN FOR NORTH EASTERN REGION

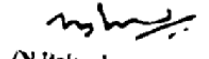

(Smt. Usha Thorat)


(Dr. P.J. Nayak)

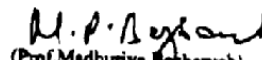

(Dr. P.L.P. Thero)

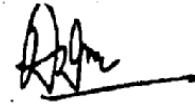

(K.N. Jha)

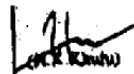

(P.K. Gupta)


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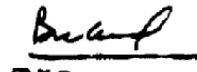

(Prof. Madhuriya Babbaruah)


(H.S. Das)


(K.K. Choudhury)

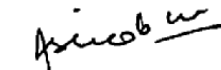

(Tabam Bora)


(J.C. Rathianga)


(B.K. Dev Verma)


(H. Deep Singh)


(Dr G.S.C. Ananyar)


(Ashok Kini)


(Dr. Amarendra Sahoo)

ACKNOWLEDGEMENTS

The Report of the Committee on Financial Sector Plan for North Eastern Region is the result of the sincere efforts of many people and the Committee wishes to thank them all.

First and foremost, the Committee wishes to place on record its debt of gratitude to Dr. Y.V. Reddy, Governor, Reserve Bank of India, for entrusting it with the task of addressing the constraints of the region in a more focused and State specific manner. His visits to some of the States in the region inspired the Committee to give its best towards accomplishing this task. The Committee gratefully acknowledges the continuous and valuable guidance provided to it by Dr. Rakesh Mohan, Deputy Governor. It also acknowledges the valuable inputs provided by Dr. R.B. Barman, Executive Director, Reserve Bank of India and Shri C S Murthy, Chief General Manager and in-Charge of the Rural Planning and Credit Department (RPCD), who also helped in finalisation of the Report of the Committee. The Committee benefited immensely from the vast experience and guidance of Shri Ashok Kini, Advisor to the Committee, who took great pains in traveling to all the seven States and collecting first hand information from different quarters. The Committee expresses its special appreciation for the expert guidance of Professor A. Vaidyanathan.

The Committee would like to place on record its appreciation and gratitude to the Officials of all the seven State Governments in the region for extending full cooperation and facilitating holding of meetings with State Task Forces.

The Committee held deliberations with different stakeholders ranging from bankers, NABARD and State Government officials, representatives of NGOs and industries, academicians etc. in seven States of the region. It also collected and generated a vast amount of material during its deliberations/meetings. Collating all this material, preparing background notes, arranging the meetings and minuting the discussions were by no means easy tasks, given the extensive terms of reference of the Committee and the limited time at its disposal. Nevertheless, these jobs were excellently performed by the Guwahati Regional Office of RBI, which functioned as the Secretariat of the Committee, under the able leadership of Dr. Amarendra Sahoo, Regional Director and

Member Secretary of the Committee. Contributions of Sarvashree P.K.Bahinipati, General Manager, S.K.Patnaik, Deputy General Manager, Jeevan Kundrakpam, Assistant Adviser and all other members of the team in RPCD, Guwahati are gratefully acknowledged. The Committee appreciates and acknowledges the efforts put in by Shri R.N.Dash, Member of Faculty, College of Agricultural Banking, Pune, Shri R.Sudeep, Assistant General Manager, RPCD, Central Office and Shri S.Shankar, Executive Assistant to Deputy Governor (Smt. Usha Thorat) in bringing out this Report. The Committee also acknowledges the contribution of Shri Kaza Sudhakar, CGM, Customer Service Department, RBI, Central Office in the areas relating to Information Technology.

The Committee expresses its gratitude to Shri Amaresh Kumar, Executive Director and Shri G.L.Tawte, Chief General Manager of NABARD for visiting various States in NER and preparing the Real Sector Plan of NABARD for the Committee. The Committee is also obliged to the Regional Offices of NABARD in the region for their unstinted support in collecting ground level information.

The Committee also expresses its gratitude to Sarvashri B.K. Sahu, Additional Secretary, Rural Development, Government of Tripura, Menukhol John, OSD, Finance Department, Government of Nagaland and S.P. Nandy, Joint Secretary, Finance/Director of Institutional Finance, Government of Assam for providing valuable inputs and support.

The Committee acknowledges the overwhelming response and encouraging feedback from various Non-Governmental Organisations, representatives of industries and others in the region and expresses its gratitude to them.

Lastly, the Committee wishes to thank the many others in the Reserve Bank, NABARD, SLBC convener banks and other organizations, including NGOs and Industry associations, too numerous to be mentioned by name, who contributed in one way or the other in bringing out this Report.

LIST OF ABBREVIATIONS

AACS	As Applicable to Cooperative Societies	CBS	Core Banking Solution
ACP	Annual Credit Plan	CDF	Co-operative Development Fund
AGVB	Assam Gramin Vikash Bank	CD Ratio	Credit Deposit Ratio
AIDIS	All India Debt & Investment Survey	CEO	Chief Executive Officer
AI	Artificial Insemination	CGB	Cachar Gramin Bank
APPBO	Average Population per Branch Office	CGSTI	Credit Guarantee Fund Trust for Small Scale Industries
APRB	Arunachal Pradesh Rural Bank	CIBIL	Credit Information Bureau of India Limited
		CIC	Community Information Centre
ARD	Agriculture & Rural Development Department	CII	Confederation of Indian Industries
ARTFED	Assam Apex Weavers and Artisans Co-operative Federation Ltd.	CLCS	Credit Linked Capital Subsidy
ATM	Automated Teller Machine	CRAR	Capital to Risk Weighted Assets Ratio
BDO	Block Development Officer	CSB	Central Silk Board
BIRD	Bankers' Institute for Rural Development	CSO	Central Statistical Organisation
BSNL	Bharat Sanchar Nigam Limited	DAP	Development Action Plan
BSR	Basic Statistical Returns	DCCB	District Central Cooperative Bank
CAB	College of Agricultural Banking	DFI	Development Financial Institution
CBO	Community Based Organisation	DLCC	District Level Consultative

			Committee
DPSS	Department of Payment and Settlement System	JLG	Joint Liability Group
DRT	Debt Recovery Tribunal	Ka Bank	Ka Bank Nongkyndong Ri Khasi Jaintia
DRDA	District Rural Development Agency	KCC	Kissan Credit Card
EC	Empowered Committee	KYC	Know Your Customer
ECS	Electronic Clearing System	LPC	Land Possession Certificate
EPCH	Export Promotion Council for Handicrafts	LSC	Land Settlement Certificate
FI	Financial Institution	LDRB	Langpi Dehangi Rural Bank
FMC	Field Management Committees	LC	Letter of Credit
FINER	Federation of Industry & Commerce in North Eastern Region	LGB	Lakhimi Gaonlia Bank
GCC	General Credit Card	LTC	Leave Travel Concession
HRM	Human Resource Management	MACS	Mutually Aided Co-operative Societies
IDRBT	Institute for Development & Research in Banking Technology	Mani RB	Manipur Rural Bank
IFAD	International Fund for Agricultural Development	Mizo RB	Mizoram Rural Bank
IIBM	Indian Institute of Bank Management	MFI	Micro Finance Institutions
IRDA	Insurance Regulatory & Development Authority	MOU	Memorandum of Understanding
ICAR	Indian Council of Agricultural Research	NABARD	National Bank for Agriculture and Rural Development
IT	Information Technology	NBFC	Non-Banking Financial Companies
JFMC	Joint Forest Management Committee	NBSC	National Bank Staff College
NCCT	National Council of Co Operative	NSIC	National Small

	Training		Industries Corporation
NCUI	National Co Operative Union of India	OD	Overdraft
NDDDB.	National Dairy Development Board	ODI	Organisational Development Intervention
NEC	North Eastern Council	OTS	One Time Settlement
NER	North Eastern Region	PACS	Primary Agricultural Cooperative Societies
NEFT	National Electronic Funds Transfer	PDR	Public Debt Recovery
NEDFi	North Eastern Development Financial Institution	PGB	Pragjyotish Gaonlia Bank
NEPED	Nagaland Environment Protection and Economic Development	PLP	Potential Linked Plan
NERCOR MP	North Eastern Region Community Resource Management Project	PMRY	Prime Minister Rozgar Yojana
NERAMA C	North Eastern Regional Agricultural Marketing Corporation	PSU	Public Sector Undertaking
NGO	Non Governmental Organisation	POS	Point of Sale
NHDC	National Handloom Development Corporation	PPP	Public Private Partnership
NIDC	Nagaland Industrial Development Corporation	PSB	Public Sector Bank
NIFT	National Institute of Fashion Technology	RCS	Registrar of Cooperative Societies
NMDFC	National Minority Development Finance Corporation	RIP	Rural Industries Programme
NPA	Non Performing Asset	REDP	Rural Entrepreneurship Development Programme
NRB	Nagaland Rural Bank	RIDF	Rural Infrastructure Development Fund
NSDP	Net State Domestic Product		

RSCP	Rural Sector Credit Plan	SSI	Small Scale Industry
RRB	Regional Rural Bank	STO	Sub-Treasury Office
RRTC	Regional Rural Training Centre	T AFCUB	Task Force for Urban Cooperative Banks
RTGS	Real Time Gross Settlement	TGB	Tripura Gramin Bank
RUDSETI	Rural Development and Self-Employment Training Institute	TUF	Technology Upgradation Fund
SCB	State Cooperative Bank	UCB	Urban Cooperative Bank
SGB	Subansiri Gaonlia Bank	VC	Village Council
SDM	Sub-Divisional Magistrate	VDB	Village Development Board
SGSY	Swarnajayanti Gram Swarozgar Yojana	VCR	Vaidyanathan Committee Report
SHG	Self Help Group		
SHPI	Self Help Promoting Institutions		
SIDBI	Small Industries Development Bank of India		
SJSRY	Swarna Jayanti Sahari Rozgar Yojana		
SLBC	State Level Bankers' Committee		
SME	Small and Medium Enterprises		
SMERA	Small and Medium Enterprises Rating Agency		
SPADE	Society for Professional Action in Development		
SPV	Special Purpose Vehicle		

Executive Summary and Recommendations

Introduction

0.1 The Reserve Bank Governor visited in November 2005 four States in the North Eastern Region (NER) viz., Meghalaya, Assam, Nagaland and Tripura to get a first hand feel of the development of banking services in the region. His general assessment was that banking services in the NER needed to be upgraded in tune with the Government's efforts/emphasis for development of the region. Deputy Governors, Dr. Rakesh Mohan and Smt. Usha Thorat visited other States in the region in January and February 2006 and received similar feedback.

0.2 Considering the limited success achieved thus far in extending banking services in NER, it was felt imperative that a 'mission mode' be adopted to improve the situation. Accordingly, and in order to address the constraints of the region in a more focused and State-specific manner, the Reserve Bank of India constituted on January 25, 2006 a Committee on Financial Sector Plan for North Eastern Region under the chairmanship of Smt. Usha Thorat, Deputy Governor, Reserve Bank. The Committee set up State level Task Forces to make State specific recommendations.

Review of Progress in the flow of credit and impediments

0.3 The various indicators for NER, which are commonly used for looking at banking development, show that despite improvement in the last five years, the level of financial outreach is low. Credit to Net State Domestic Product (NSDP) ratio of all the States ranging from 9 in Nagaland to 41 in Meghalaya, is lower than the national average of 62. The ratio of current and savings accounts of scheduled commercial banks per 100 adult population as on March 31, 2005, ranged from 19.5 in Manipur to 40.9 in Meghalaya, with a regional average of 37.3, distinctly lower than the national average of 59.2 (Table 0.1).

Table-0.1: Indicators of Banking Development in North East

States	APPBO		CD Ratio		Current and Savings Accounts per 100 adult population		Credit Accounts per 100 Adult Population		Per Capita Deposit (in Rs.)		Per Capita Credit (in Rs.)		Credit to NSDP Ratio
	2001	2005	2001	2005	2001	2005	2001	2005	2001	2005	2001	2005	Latest NSDP data
	Arunachal Pradesh	15813	16211	15	22	45.9	37.8	6.8	6.2	5629	10869	786	2287
Assam	21008	20960	32	35	39.4	39.1	4.5	5.9	3701	6669	1155	2261	26
Manipur	28436	29791	40	42	20.1	19.5	3.2	4.0	1808	4289	717	1713	11
Meghalaya	12741	12658	17	44	44.3	40.9	6.9	8.3	7139	13087	1138	5281	41
Mizoram	11279	11278	24	48	25.8	29.0	5.4	7.7	4441	8741	1030	4028	N.A.
Nagaland	28009	27990	12	23	22.3	19.7	2.6	3.6	4513	6425	518	1356	9
Tripura	17438	17429	22	29	37.0	36.7	12.3	13.6	4905	8200	1015	2240	18
N E Region	19894	19885	28	35	38.2	37.3	5.4	6.7	4003	7199	1068	2407	N.A.
All India	15209	14949	57	66	55.0	59.3	9.7	13.3	9245	16700	4976	10474	62

Sources: as indicated in earlier chapters.

The main factors that impede banking and financial development are topography of the region, sparse settlements of population, infrastructural bottlenecks such as transport, communication and power, low level of commercialisation, lack of entrepreneurship, law and order conditions in some parts of the NER, land tenure system especially in hilly areas, development strategy based on grants rather than loans, low network of branches, lack of simple customized and flexible financial products to suit the needs of the local population, poor loan recovery experience, lack of awareness of banking services, inadequate payment systems, etc.

In making its recommendations, the Committee has basically relied on an approach that addresses the supply side gap, since such a gap exists in the region. Also recent research has shown that more efficient financial intermediation itself can lead to development. The Committee would, however, like to stress upon the need for improving the infrastructure, creating a favourable investment climate, focusing on a few sectors of strategic advantage for development and encouraging a favourable credit culture.

Financial Inclusion

0.4 One of the measures currently being used for gauging the extent of financial inclusion is the number of current and savings deposits per 100 adult population. At the national level, the number is 59 i.e., 59 bank accounts (current and savings) per 100 adult population. Recognising that 100 per cent financial inclusion may be a difficult task in the immediate future, the Committee recommends that banks may draw up plans to provide at least 50 new households per branch each month for the next four 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 (GCC) against such accounts and other products in terms of the extant Reserve Bank guidelines so that banking habit is actively promoted in the region. If the branch has opened an account of a SHG, then the number of members of the Self Help Groups (SHG) will be reckoned as the number of households covered.

Banks could introduce a pilot project in the rural and semi urban areas closest to the bank branches in the first instance by customizing simple deposit and credit products to suit the needs of the households of these villages and then improve upon the product and extend them to other areas. A model application form including form for attesting Know Your Customer (KYC) through simplified procedure has been suggested by the Committee (Annex 3.1). The Committee would like to stress the importance of adequate groundwork and creation of awareness amongst the clientele as also the bank staff and intermediaries before embarking on a large-scale financial inclusion programme. Presently, fifty per cent of credit outstanding under GCC up to Rs. 25,000 will be eligible for being treated as indirect agriculture financing. In order to encourage flow of credit through GCC, the Committee would like to recommend that 100 per cent of advance under GCC at rural and semi urban branches in the NER may be treated as priority sector. The Committee would like to draw attention to the RBI guidelines for offering one time settlement for existing borrowers up to Rs. 25000/- whose loans have become overdue to enable them to get a fresh chance to access bank credit and maintain a good credit record in future.

Branch Expansion

0.5 While in any plan for financial sector development the physical presence of a bank branch is important, the topography of the region, the dispersal of population, transport bottlenecks and law and order conditions in some areas inhibit further branch expansion other than in certain commercial centres. Further, given the unique cultural and language barriers which banks have to cross to connect with people in the NER, banks would be well advised to use the larger community to build bridges. Hence, the Committee has suggested an approach that is based on enhancing the capacities of the existing branches of commercial banks, Regional Rural Banks and cooperative banks having more recourse to bank/SHG linkage programme, business correspondent/business facilitator model as also extensive use of Information Technology (IT) based solutions which facilitate offsite banking.

Taking the minimum branch needs into account, the Committee has identified 19 centres for opening of branches by March 2007 by specified banks as indicated in Annex 3.2. The position may be reviewed in the State Level Bankers Committee (SLBC) to be held in the first quarter of 2007-08 to decide on further centres for branch expansion.

Reserve Bank's current branch licensing policy encourages banks to open branches in under banked rural and semi urban areas especially in under banked districts. Taking into account the large number of such areas in the region, the Committee recommends that, for the NER, RBI may consider an automatic approval scheme for any bank desirous of opening branches in such areas in the region (Annex 3.3 gives the list of such districts). For other areas in the NER also, applications may be considered favourably. New branch proposals from RRBs can be cleared expeditiously by the Empowered Committee (EC) in terms of the instructions issued by Reserve Bank on June 13, 2006.

Business Correspondent and Business Facilitator Model

0.6 Reserve Bank had issued guidelines in January 2006, enabling banks to use registered societies, cooperatives, section 25 companies, trusts or post offices as

business correspondents. In the NER, considering the time, distance and cost for a customer to reach a bank branch, especially in remote areas, the Committee believes that banks can use this model effectively for increasing their outreach. Ideally, for the NER, local community based organizations (CBOs) like Village Development Boards (VDBs), Anchal Samitis etc. may be used as business correspondents. The State level task forces have identified some organizations that could be used as business correspondents. Where a local organisation/association not falling under any of the forms of organisation listed in the Reserve Bank guidelines referred to above is proposed by a bank after due diligence and is recommended by District Level Consultative Committees (DLCC) for being approved as business correspondent, the Committee recommends that regional office of the Reserve Bank may be given powers to grant suitable exemption from the Reserve Bank guidelines.

The Committee believes that having regard to the trusted relationship that the people have with post offices and postmen, banks could gainfully appoint post offices as their business correspondent. There are about 8000 post offices in the region as against 2000 odd bank branches and these offices can be used for achieving the ultimate target of 100 per cent financial inclusion. The model agreement prepared by the Indian Bank Association (IBA) for adoption of such a model in Maharashtra could be used by banks in the region.

The Committee recognizes that there is some risk that banks would face in entrusting the cash with the correspondent for more than a day. Relaxation in the requirement of latest next day deposit of cash could be considered by Reserve Bank where post offices are used as business correspondents by entering into a similar agreement with the Post Master Generals in Guwahati and Shillong.

Banks could also identify well-respected local persons like a schoolteacher, postman, primary health worker or retired official to act as business facilitators or relationship managers. These facilitators can handle all aspects of sourcing clients, marketing the bank's products and helping recovery but cannot undertake any cash transactions.

Linkage with SHGs

0.7 While banks may pursue the well proven intelligent interpretation of traditional concepts of credit assessment, credit utilization, due diligence, asset verification, inspection, security, etc, there is a need to upscale the operations through SHGs, especially for providing working capital and investment credit. National Bank for Agriculture and Rural Development (NABARD) may review its guidelines for this purpose if required and also allow refinance for banks financing Micro Finance Institutions (MFIs) in the NER. A part of the Micro Finance Equity Fund of NABARD may be specifically earmarked and utilised for NER.

Performance Measurement

0.8 The Committee has suggested a performance measurement matrix based on parameters reflecting the efforts for promoting financial inclusion (Annex 3.4). This matrix may be used for performance budgeting, performance appraisal and performance based incentives as suggested by the Committee.

Use of Information Technology

0.9 Given the improving mobile connectivity in the region, the Committee strongly recommends the use of IT based solutions for increasing outreach. Apart from greater use of Automated Teller Machines (ATMs) including mobile ATMs, debit and credit cards, there are various models using smart cards and mobile payments for carrying out banking transactions from non-branch locations. The Committee recommends that the Development and Research in Banking Technology (IDRBT) may prepare a pilot project for testing in a select area in the NER by December 2006 and based on experience, this project can be rolled out in other places.

Individual banks operating in the region may prepare an IT plan, branch-wise for each State with emphasis on actual IT based service the bank will provide. The number of customers who will be assisted should be estimated to measure the effort that the bank

will invest on customer interfaces, staff and consumer education, and incentives for the customer and the branch staff for promoting the use of IT in banking. Action in this regard may be initiated by all the banks in NER immediately and completed within six months. For RRBs, assistance may be provided by IDRBT.

Forex Facilities

0.10 There are very few branches where even basic forex facilities are available. Despite there being so many international borders, even basic money changing facilities are not available at branches near the borders. Further, at certain land custom centres identified as having large export transactions, the banks do not provide expeditious facilities such as Letters of Credit (LCs), etc. A list of such centres is provided at Annex 3.3. Reserve Bank, Guwahati may allocate specific responsibility to the different branches (including RRB branches) for providing need based forex facilities at these centres and arrange for special training for the branch staff.

Providing Insurance and Capital market Products

0.11 Banks may link up with insurance companies for providing insurance products suitable to the NER. Banks would also be able to market insurance linked deposit and credit products as part of their efforts for financial inclusion. The Committee recommends that Insurance Regulatory and Development Authority (IRDA) may advise the insurers to customize products that could be publicised as a part of the campaign for financial inclusion. Similarly, Securities and Exchange Board of India (SEBI) should enable increasing reach of the Depository Participants and mutual funds in the region. Increasing access to the capital markets would also result gradually in the equity funding for projects in the region.

Training and Sensitisation Workshops

0.12 In order to sensitise all stakeholders and ensure their commitment for implementing the plan for financial inclusion, the Committee recommends that Indian

Institute of Bank management (IIBM) may design and conduct a series of workshops starting from the apex level for the bank Chief Executive Officers (CEO), senior State level functionaries and going down to the district level and even block level where felt necessary. Local CBOs, Non Government Organisations (NGOs) as also those identified as relationship managers also need to be provided specific sensitisation and training. The workshops may be completed by December 2006 so that the financial inclusion products can be launched before March 2007.

Creating Awareness and Financial Literacy

0.13 A massive awareness campaign may be launched in the NER for promoting financial inclusion. To disseminate such awareness, powerful traditional audio-visual media like mobile theatre in Assam and dance/drama forms in other states of the region may be used. State Bank of India (SBI) may take the lead along with Unite Bank of India (UBI) and the State governments to launch a massive awareness campaign and cost can be shared by other banks in proportion to their presence in the region. Professional agencies may be engaged to ensure success of this endeavour. The publicity drive should be launched after the sensitisation workshops are over and the bank branches are well positioned to deliver the services promised through such campaign.

Currency Management and Funds Transfer and Payment

Currency Management

0.14 The NER typically relies on cash as the predominant means of payment. The topography of the region and logistics pose unique challenges to currency management. Of the 169 currency chests in the region, 89 are small with limited storage capacity. The existing network of chests in the region may be strengthened and upgraded, where required. Reserve Bank may consider and allow RRBs to have currency chests on a special footing having regard to the fact that in many areas they are the only banks. Many of the RRBs may not be able to defray the security cost fully. The State Governments could meet such cost as in most cases where the currency

chests are used predominantly for government transactions. Government of Meghalaya has already committed on this. Reserve Bank may also consider defraying a part of the cost of installation of chests for RRBs. Central security forces may be deployed to facilitate smoother inter-state movement of treasure. SLBC convenor banks may take necessary steps to provide adequate staff at branches in the region so that the mechanism for handling cash transactions can be strengthened. Where some subvention is felt necessary, proposals may be sent by SLBC convenor banks to Reserve Bank. Reserve Bank may encourage banks to forward innovative proposals for more efficient cash management in the region.

Fund Transfer and Payment Facilities

0.15 The Committee noted that transfer of funds within the region and from/to the region takes an inordinately long time. The payment system's dependence on currency is partly due to the delay and cost involved in transfer of funds through the banking system in the region.

The following recommendations are, therefore, made for enhancing the efficiency of the payment system in the region:

- SBI may initiate steps for computerisation of the remaining eight non-computerised Clearing Houses in the North East to be completed within six months.
- Opening of clearing houses in the five districts without such a facility and having five or more banks.
- Bharat Sanchar Nigam Limited (BSNL), the largest service provider of connectivity in the region, may take steps for improvement of connectivity for leapfrogging to e-banking.
- Reserve Bank should follow up with SBI and other banks in the region for introduction of Automated Clearing House (ACH) before end of March 2007 with the settlement at Guwahati.

- Reserve Bank to pursue with SBI for introduction of Electronic Clearing Service (ECS) facility within six months in all the Clearing Houses in State capitals to enable the government payments and receipts through ECS.
- All the bank branches in NER with commercial transactions should be Real Time Gross Settlement System (RTGS) enabled within six months.
- 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.

Strengthening of Regional Rural Banks and Cooperative Banks

Regional Rural Banks

0.16 The Committee observed that significant improvement in the financial parameters of many Regional Rural Banks (RRBs) in the region could take place in the recent past because of increase in the level of business and containing incremental Non Performing Assets (NPAs). Out of eight RRBs in the region, four RRBs posted profit during the year 2004-05 and remaining were in losses. The RRBs have 645 branches in the NER (30 per cent of total bank branches) and are naturally going to be extremely important players in the plan for financial inclusion. They need considerable strengthening in terms of manpower, capacity building and use of IT.

The problems faced by RRBs include lack of dynamism/motivation of the CEO, staff constraint in some of the RRBs, inadequate interest taken by sponsor banks, sub-optimal size and restrictions on expenditure for business promotion due to accumulated losses.

The Committee suggests that, where required, RRBs may be allowed to recruit CEOs from the market on contract basis with remuneration linked to achievement of certain specified targets in terms of financial inclusion and higher business levels. The

permissions required for this purpose in terms of Section 11 of the RRB Act, 1976 may be expeditiously given by NABARD and Government of India.

RRBs may assess the requirements for staff in terms of norms stipulated by NABARD and bring proposals to the banks' boards early keeping in view the various options viz., engaging business facilitators, hiring staff on contractual basis, and the age profiles of the existing staff. Based on the boards' decisions, the CEOs may take necessary steps to complete the process of recruitment and appointment within shortest possible time. SBI and UBI, being the two sponsor banks concerned, may accord this matter top priority. To start with, RRBs in the region may, with the help of IIBM, engage field staff on contractual basis, for which IIBM may conduct a special three months crash course covering all aspects of basic banking, accounting and financial inclusion.

NABARD, Guwahati may work out a methodology for arriving at staff needs at branch and controlling office levels, based on business parameters, number of transactions/accounts etc., to guide the boards of the RRBs to assess the adequacy of staff at all levels. These could serve as basis for further recruitment/engagement.

To facilitate greater and more efficient use of IT by the RRBs in the region, the Committee suggests that IDRBT may assess the IT solutions already adopted by the RRBs and prepare a plan in consultation with the sponsor banks containing specific proposals for ensuring efficient solutions. This will ensure that RRBs are able to provide all services that a commercial bank does and become seamlessly linked to the national payment system. Such a plan may be got ready in the next three months.

RRBs in Meghalaya, Arunachal Pradesh and Nagaland currently do not cover the entire State and the Committee recommends that SBI may take action to extend area of operation to the entire State.

For evolving and implementing business strategy in the RRBs in the region especially in areas of Human Resources (HR) and IT, NABARD may take the necessary initiative in conjunction with established practitioners in the field.

NABARD may consider providing a special refinance line to RRBs in the region to supplement their resources. To improve the resource base of the RRBs in the region, any commercial bank's lending to RRBs in NER may be treated as part of its priority sector lending.

The Committee suggests that the Empowered Committee of the RRBs may review the performance of RRBs under their business plans on an incremental basis viz., increase in number of deposit and loan accounts, increase in deposits and credit, reduction in NPAs through recovery, operating profits and incremental NPAs. For this purpose, a suggested format is at Annex 5.1.

State Co-operative Banks

0.17 The Committee observes that the financial position of five out of seven State Cooperative Banks (St.CBs) in the region is unsatisfactory. One of the St.CBs is afflicted with severe liquidity problem due to mis-governance. Since the Primary Agricultural Credit Societies (PACS) are defunct in many States in the region, there are alternative local organizations including SHGs that could be considered for grass root level delivery of rural credit on a cooperative basis. The State Governments may introduce alternative legislation on lines of Mutually Aided Co-operative Societies (MACS) so that grass root level associations have the option to form cooperatives under the MACS and avail of credit from a variety of sources depending on their credit rating. The apex banks are plagued by problems of poor financials, mismanagement and weak governance structures. Only in a few States, the problems are due to the primary level overdues and losses. Although many States in the NER have accepted the Vaidyanathan Committee Recommendations (VCR), it is felt that the Vaidyanathan Committee may revisit the position for the NER to explore the possibility of 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, the well established SHGs may be converted into cooperative societies.

Urban Co-operative Banks

0.18 There are eighteen urban co-operative banks (UCB) in the region of which, four do not meet the minimum Capital to Risk Weighted Assets Ratio (CRAR) requirements. Further, three banks have negative net worth. The Committee recommends that each State Government may enter into Memorandum of Understanding (MOU) with as proposed in the vision document of Reserve Bank. The Task Force for Urban Cooperative Banks (TAFUCBs) to be constituted under such MOUs would be a useful consultative forum between the Cooperative Department and the Reserve Bank in arriving at consensus on the action to be taken for strengthening governance in the banks, enhance quality of audit as also for providing necessary assistance for HR and IT initiatives. Entering into MOU would also enable the UCBs to get into non-fund and other businesses apart from adopting a more liberal framework for branch expansion. For the NER, the Committee recommends that a single TAFUCB may be constituted with few States being represented in each meeting by turn.

Pending amendment to the Cooperative Societies Acts to incorporate provisions for auditing by professionals, the existing departmental auditors may be imparted necessary training to broad base their knowledge and skills in this area of work. Also necessary amendments in the Act may be made for inducting professionals on the Board so that the CEO has the benefit of the expertise of such professionals.

The infirmities in some of the states' legislations, which make these banks in some states ineligible for Deposit Insurance and Credit Guarantee Corporation (DICGC) cover needs to be addressed on a priority basis by the respective state governments.

The Committee suggests that the recovery machinery under the disposal of RCS may be made more pro-active. The State Governments may examine the need for further

empowerment of the Registrar of Cooperative Societies (RCS) to ensure speedy recovery of banks' overdues.

Land Tenure System and the Issue of Collateral

0.19 In NER, the plains accommodate about 70 per cent of the population of the region and borrowers do not, by and large, experience any problem in showing evidence of their right to cultivate the land or for offering land as collateral. In other areas, penetration of bank credit is hindered by non-establishment of transferable rights on land (Annex 6.1). Land Possession Certificates (LPCs) have been issued in some of these areas by the respective State Governments.

The Committee's suggestion for increasing financial inclusion through providing 'no - frills' account with limited overdraft and GCC up to Rs 25,000/- to at least 50 new households to start with, is expected to solve the problem of obtaining documentary proof of right of cultivation/possession of land at least for small loans. If satisfactory record is established, banks may provide additional credit limit either under the overdraft or under the GCC. The Committee's recommendations on taking collateral are as under:

0.20 Agriculture

- (i) As per extant Reserve Bank instructions, collateral is not required for agricultural loans up to Rs. 50,000. LPC may be taken where available for establishing proof of right to cultivate the land. Where LPC is not available, a letter of comfort or certificate from the group/local tribal bodies/farmers' clubs/VDBs regarding the borrowers' right to cultivate land may be taken.
- (ii) For loans above Rs. 50,000 and up to Rs. 5 lakh, where the borrower has established track record and projected cash flows are sufficient, banks may not insist on land as collateral where there are no alienable rights on such land. In order to ensure that the farmer in such cases has the right to

the usufruct of the land, LPC where issued, may be taken. In other cases, the certificates issued by the local village council or equivalent organisation may be obtained as proof of possession and right to cultivate the land. Where land is cultivated by the community, Joint Liability Groups (JLGs) may be formed and group/village chief's guarantee may be taken in lieu of any collateral.

- (iii) For agricultural loans above Rs. 5 lakh, where land is not available as collateral, State Governments may consider providing credit enhancement through partial risk sharing instruments, conditional guarantees, etc.,

0.21 Industry

- (iv) For industrial and other projects, banks should be sympathetic and for want of immovable property as collateral, no viable project should be turned down. Where the Credit Guarantee Fund Trust for Small Industries (CGTSI) guarantee is available, such guarantee along with other primary security and the personal guarantee of the promoter/ borrower should suffice.

In those parts of the hills of the North East where there is no practice of issuing documents conferring transferable rights or where the procedure is cumbersome, the respective governments (or autonomous councils) should expeditiously put in place a system of issuing land ownership or possession certificates based on cadastral survey in line with the practice started in Mizoram or Karbi Anglong and N. C. Hills districts of Assam or Arunachal Pradesh. The State laws should be amended to create mortgages in favour of all scheduled commercial banks with limited land transfers to specified entities such as locally domiciled inhabitants of the State or the government bodies or the commercial /cooperative banks.

As loan policy for a bank is uniform for the entire country, every bank operating in the NER may review its loan policy and make necessary changes for the NER on the lines suggested by the Committee. In case of the local banks viz., RRBs and cooperative banks, necessary changes in loan policies can be made immediately by the Boards.

Human Resource Management

0.22 A key factor that affects financial development in the NER is the human resources management (HRM). The region needs development bankers, who have to go to people, actively market/customize their products and help build up the banking relationship. In case of public sector banks, in order to incentivise officers from elsewhere in the country to come and work in the region, an *ad hoc* incentive package of mainly limited tenure of two years, higher allowance up to Rs. 1500/- p.m., posting to a place of choice on completion of the term etc., was introduced in 1983, which is still in vogue. However, this does not appear to have succeeded in achieving the basic objectives of making the officers work as development bankers in the region. The Committee, therefore, felt it necessary to review the package.

The Committee felt that while the difficult terrain, poor connectivity, as also insurgency problems in some areas, warrant continuance of incentive package in some form, there is a need for provision of performance based incentives for bank staff to meet the expectations from them. Hence, the Committee recommends that the existing incentive scheme may be revised to compose of two components:

Component I - This will be applicable only for officers domiciled outside the region and is intended to make it easier for banks to find sufficient number of officers to come and work in the NER keeping in view the distance and other factors. This component should include effective tenure of at least three years (excluding all types of leave), retention of accommodation at earlier place of posting or any other place in India, annual Leave Travel Concession (LTC) plus a cash allowance of up to Rs.5,000/- per month.

Component II - All public sector banks may introduce a performance based cash incentive scheme for staff working in the region. The criteria for giving such incentive may be based on criteria indicated in Annex 3.3. These may, however, be suitably modified by the individual banks for the Grade/posting. In case of branch managers and officers in Scale III and above, the incentives should also include weightage for promotion, external training, etc.

In case of RRBs, an appropriate reward system for staff at branches showing extraordinary performance may be considered. At a later stage, performance based incentive package on lines of the public sector banks could be thought of. This may specifically form part of the business strategy plan for RRBs. Banks may consider having an all-India selection process for recruitment, specifically for NER with a prescribed lock-in period up to Scale II level or for service within the region. This will provide a pool of young officers for a minimum number of years to serve in the NER. Campus recruitment on regular or contractual basis from within the NER especially, for specialist cadres such as IT, Agriculture, Small and Medium Enterprises (SME), Marketing, Forex, etc. should be encouraged.

Within the next two months IIBM may draw up a comprehensive training cum sensitisation plan for financial inclusion on the lines suggested in Chapter 3. The cost for this training may be borne by Reserve Bank, NABARD, SBI and UBI. It may also prepare a crash course for three months for young graduates to be recruited on contract basis by the RRBs as recommended in paragraph 0.10 above.

For cooperative banks and RRBs, the cost of training is an inhibiting factor. Hence, on-site training and distance training methodology may be more suitable. IIBM together with College of Agricultural Banking (CAB) and Bankers' Institute for Rural Development (BIRD) may prepare a comprehensive training plan for upgradation of skills of the staff, the directors and the auditors. Reserve Bank and NABARD could reimburse the cost of travel and Halting Allowance (HA) where the programs are not location based and cost of training could be borne by IIBM with additional support from Reserve Bank and NABARD where required.

Real Sector Plan

Farm and non farm rural sector

0.23 NABARD has prepared a State-wise rural sector credit plan indicating potential for location specific and sector specific bankable schemes and these have been included in the State specific reports. The Committee suggests the following course of action to actualize the plan:

- (i) NABARD should kick start the Rural Sector Credit Plan (RSCP) in each State by conducting workshops over the next two months for implementing the Plan. The Workshops may be held at the State and district levels to create proper awareness among all the stakeholders.
- (ii) As and when the workshop for a specific district is over, a special DLCC may be convened to commit all stakeholders to the proposed RSCP. To the extent required, the DLCC may modify the Annual Credit Plan (ACP) to incorporate the proposed RSCP. For subsequent financial years, the Potential Linked Plan (PLP) of NABARD and ACP/Branch Credit Plan should factor in the projections made in the RSCP.
- (iii) The banks may suitably modify their performance budgets to incorporate the commitment under the proposed RSCP.
- (iv) Certain policy changes have been identified for facilitating financing various activities under the farm or non-farm sector in the region. NABARD may effect such changes taking into consideration the special requirements of the region.
- (v) In order to closely monitor the implementation of the State-wise plans for rural sector, the review of performance under the RSCP may be made a part of the permanent agenda of DLCC and SLBC.
- (vi) The State Governments may earmark fairly senior persons at the State and district levels to coordinate the implementation of the RSCP in all the districts of the States.

0.24 SME sector

- (i) Major banks operating in the region may identify a dedicated branch for encouraging entrepreneurs who want to make investments in agro-processing, agro-based industries and SME sector. Such branches may be equipped with staff and systems for helping the entrepreneurs in preparation of project reports and identifying their capacity building needs.
- (ii) Small Industries Development Bank of India (SIDBI) in association with major banks in the region, may set up a dedicated SME debt fund to provide co-finance up to 25 per cent of project cost to first time entrepreneurs, where a bank is willing to provide the required funds. The fund may have experts from the region and outside as members.
- (iii) SIDBI and North Eastern Development Financial Institution (NEDFi) may prepare bankable projects in the SME sector and disseminate the same as these could be used by potential entrepreneurs. Such schemes should also cover the handloom and handicraft sectors.
- (iv) SIDBI, NEDFi and NABARD as also major banks may sponsor Rural Development and Self-Employment Training Institute (RUDSETIs) for training the entrepreneurs in the SME including industry related small business services sector.
- (v) SIDBI and NEDFi may identify marketing outlets for various industries in the region and provide assistance for display and marketing of the products.
- (vi) SIDBI/NEDFi/NABARD may sponsor Rural Industries Programmes (RIPs) in areas having identified clusters and in areas having concentration of other non-farm economic activities for training of weavers, artisans, small entrepreneurs, etc.
- (vii) Normally, the risk cover under CGTSI scheme is available to the extent of 75 per cent subject to a maximum of Rs.25 lakh. In NER, CGTSI may increase this cover up to 90 per cent. Normally, a guarantee commission of 1.5 per cent (payable upfront) and an annual service charge of 0.75 per cent are payable. In NER, CGTSI may consider charging only 50 per cent of the applicable fee (both guarantee commission and annual fee).

- (viii) Credit Information Bureau of India Limited (CIBIL) may disseminate credit record of borrowers in the NER among the financial institutions in the region to enable the banks to have ready access to the credit history of borrowers in the region. The banks / financial institutions may supply new borrowers' records expeditiously to CIBIL so that the data base may be kept updated.
- (ix) NABARD may identify and support strategic investments in horticulture, bamboo processing/products, fisheries, poultry, animal husbandry, honey production/marketing and organic farming.
- (x) SIDBI may open counseling wings at all State capitals for first time entrepreneurs.
- (xi) Role of NEDFi may be reviewed with a view to repositioning it as a development financial institution for long-term finance and equity support for industry and services sector.

Chapter 1

Introduction

North Eastern Region ¹

1.1 The North Eastern Region (NER) of India constitutes the eight states of Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura. Flanked by hills and with the mighty Brahmaputra river slashing a central path through it, the NER is bounded by the States of Manipur, Meghalaya, Mizoram, Nagaland, Tripura with Assam comprising the heart. Arunachal Pradesh lies to the north and Sikkim a little away in the North West, bordering China and Bhutan. The western side of the NER is connected to the mainland by a narrow corridor, sometimes referred to as the 'Siliguri Neck' or 'Chicken's Neck'.

1.2 While the eight States that comprise the region reflect ecological and cultural contrasts between the hills and the plains, there are significant elements of continuity as also interdependence and interaction between them. The North East is one of the most bio-diverse regions in the world. The torrential Brahmaputra deposits its rich alluvial silt along its banks. Tropical rain forests, rich in flora and fauna, run across Arunachal Pradesh and Assam. Most of the forest area is owned by Government, with village communities, individuals and chiefs having smaller holdings. It is a land where tea is an industry, handicrafts a major occupation and martial arts a favoured sport.

1.3 For the purpose of the Committee, the constitution of which is outlined in paragraph 1.6 below and whose report this document represents, the seven contiguous States of the region, viz. Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland and Tripura have been taken up for study/ review. As such, all references to NER in this report, hereafter, would connote and denote these seven contiguous States, which cover a total area of 255 thousand sq km and have a population of 38.3 million, constituting about 8 per cent of the country's land area and 3.73 per cent of its

¹ Based on information available, inter alia, in the 'NER Databank' of North Eastern Development Finance Corporation, Ltd (courtesy: website of The North Eastern Council - <http://necouncil.gov.in>)

population, respectively. A supplementary report is being submitted separately in respect of Sikkim.

Banking outreach and flow of credit in NER

1.4 The banking outreach in the NER, particularly in the rural districts, is significantly low. Many outreach indicators for the region like average population covered per bank branch, deposit and credit growth, etc. are generally lower than the national average. The position is so on account of several impediments in penetration of banking/financial services in the region, which include difficult terrain, sparsely distributed population in hill regions, poor infrastructure, difficulties in obtaining land as collateral, insurgency/law and order problems, complicated systems/procedures of banks, shortage of suitably skilled staff, lack of awareness amongst large segments of the population about formal banking transactions and the general preference for grants rather than loans. The extension of banking services, especially the flow of credit in the region has been engaging the attention of the Reserve Bank as also other policy-makers over the years.

Governor's visit to the NER

1.5 Governor of Reserve Bank visited four States in the NER viz., Meghalaya, Assam, Nagaland and Tripura in November 2005 to get a first hand feel of the development of banking in the region. His general assessment was that banking services in the NER needed to be upgraded in tune with the Government's efforts/emphasis for development of the region. Further, banks needed to identify issues/impediments in accelerating the flow of credit to the region and initiate necessary corrective measures. Banks needed to look at the region seriously in terms of business potential and prepare special action plans for the region. Observing that the concept of lending through SHGs had not taken off in the region despite its considerable potential, Governor opined that the States in which SHGs had proved successful could be studied and the experience used to identify and organise effective SHGs. He also felt that the RRBs could be effectively activated for accelerating credit flow to the region. The visit concluded with Governor identifying three basic issues in the NER viz. (i) low Credit Deposit (CD) ratio (ii) non-availability of hassle-free credit and (iii) complexity of

procedures for opening of bank accounts. Observing that banking culture would need to adapt to the local conditions, Governor emphasized that the focus should be on proactively connecting banks to the people (rather than waiting for walk-in customers!). Deputy Governors, Dr. Rakesh Mohan and Smt. Usha Thorat visited other States in the region in January and February 2006 and received similar feedbacks.

Constitution of the Committee on Financial Sector Plan for NER

1.6 Considering the limited success achieved thus far in extending banking services in NER, it was felt imperative that a 'mission mode' be adopted to improve the situation. Accordingly, and in order to address the constraints of the region in a more focused and State-specific manner, the Reserve Bank constituted on January 25, 2006 a Committee on Financial Sector Plan for North Eastern Region under the chairmanship of Deputy Governor, Smt. Usha Thorat.

Terms of Reference of the Committee

- (a) To review the action taken so far for extending banking coverage and increasing the flow of credit in the North Eastern Region
- (b) To identify bottlenecks in the extension of financial services, in particular, timely and smooth flow of credit, in the region
- (c) To suggest measures, in particular, the processes as well as procedures, keeping in view the special circumstances, such as land tenure rights, to overcome the impediments in financial inclusion, and enable greater flow of credit
- (d) To draw up State wise action plan appropriate to local conditions in each of the States and
- (e) To consider matters relevant to the above by the Committee and to recommend appropriate actions on them.

The Committee comprised the following dignitaries:

Chairperson

Smt. Usha Thorat, Deputy Governor, Reserve Bank of India

Members

Shri H.S.Das, Commissioner & Secretary, Finance Department, Government of Assam;

Shri B. K. Dev Varma, Principal Secretary, Finance, Government of Meghalaya;

Shri Tabom Bam, Principal Secretary, Finance & Planning, Government of Arunachal Pradesh;

Shri J.C.Ramthanga, Secretary, Industries Department, Government of Mizoram;

Shri H.K.Khulu, Commissioner, Finance, Government of Nagaland;

Shri H.Deleep Singh, Director, Institutional Finance, Government of Manipur;

Dr. G.S.G.Ayyangar, Commissioner & Secretary, Rural Development and Agriculture, Government of Tripura;

Dr.Y.S.P.Thorat, Chairman, National Bank for Agriculture and Rural Development;

Shri N. Balasubramanian, CMD, Small Industries Development Bank of India;

Shri P.K.Gupta, CMD, United Bank of India;

Shri P.B.Lahiri, Chief General Manager, State Bank of India, LHO, Guwahati (upto April 24, 2006)

Shri G. Padmanabhan, Chief General Manager, State Bank of India, LHO, Guwahati (with effect from April 25, 2006);

Dr. P.J.Nayak, Chairman, UTI Bank Limited;

Shri K. N. Hazarika, CMD, North Eastern Development Finance Corporation Ltd.;

Prof. Madhurjya Bezbaruah, Head, Economics Department, Gauhati University.

Member Secretary

Dr. Amarendra Sahoo, Regional Director, Reserve Bank of India, Guwahati.

Advisor & Permanent Invitee

Shri Ashok Kini, Ex-Managing Director, State Bank of India

Permanent Invitee

Dr. Rakesh Mohan, Deputy Governor, Reserve Bank of India

Special Invitees

Dr. R.B. Barman, Executive Director, Reserve Bank of India

Shri Arvind Sharma, Director-in-Charge, Institute for Development and Research in Banking Technology, Hyderabad and

Shri O.P.Bhatt, Chairman, State Bank of India

1.7 The Committee was initially given a timeframe of three months to submit its report i.e. by April 25, 2006. Having regard to the extensive consultative approach adopted by the Committee and given the task of preparing monitorable action plans for seven States in the region, the Committee had requested for and was granted extension of time up to June 2006.

Approach of the Committee

1.8 The Committee had adopted an extensive consultative approach and held discussions with the stakeholders viz., State Governments, NABARD, bankers, NGOs and similar organizations in all the seven States of the region. Simultaneously, in order to draw up its State-specific Action Plan for the real sector, NABARD separately interacted with senior Government officials and NGOs in various States. Shri Ashok Kini (Advisor & Permanent Invitee) undertook independent visits to each of the seven States. The Committee also interacted with several experts, including the learned Prof. A. Vaidyanathan, Dr. Atul Sharma, Vice Chancellor, Rajiv Gandhi University and Shri C.S.Murthy, Chief General Manager-in-Charge, Rural Planning and Credit Department, Reserve Bank of India, Central Office.

1.9 The Committee held four meetings on February 01, March 10/11, May 09 and June 12, 2006 at Guwahati, Kolkata, Mumbai and Guwahati, respectively. Recognising that strengthening the financial infrastructure and payment system was critical in facilitating and catalysing economic development, the Committee in its first meeting identified specific areas for focused attention. These related to financial inclusion, systems and procedures, use of Information Technology (IT) based solutions for increasing outreach, microfinance and use of intermediaries, real sector bankable schemes in farm, non-farm and SME sectors, land tenure and issues of collateral, and

HR issues. State specific Task Forces were set up under the chairmanship of the Member representing the respective State Government on the Committee to deliberate and make recommendations on the areas and issues identified. Simultaneously, anchors were identified amongst the group members from the banking sector to prepare papers on all these areas for the region as a whole. The State-wise as also issue-wise papers were presented and discussed in the second meeting held on March 10 and 11, 2006. In the third meeting, consensus was reached on the recommendations of the Committee on various issues that had emerged thus far and in the final meeting, the draft report was considered and finalised.

1.10 The Committee has 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 has also looked beyond the financial inclusion and put forward an alternative concept of banking for India; acknowledged not just the limitations of the existing operating structures and processes, but also of the inherent inadequacies of banking organizations including RRBs and cooperatives and highlighted the imperative to marry banking process with technology including the Human Resources Management issues which have been ignored for too long. This is no doubt a diagnostic of banking in NER, but could well hold good for much of the industry across the country.

1.11 The Committee is well aware that the plan it has proposed is an ambitious one. No less ambitious is the expectation that implementation will be achieved as per the set timelines. Banks have the largest share of responsibility under the Plan. The Committee would however like to stress upon the need for improving the infrastructure, creating a favourable investment climate, focusing 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.

Structure of the Report

1.12 The report contains nine chapters. Chapter 1 provides the background of the report as also the approach and methodology adopted by the Committee. Chapter 2 describes the action taken so far and delineates the various impediments in extending financial services especially smooth flow of credit in the NER. The chapter also includes appropriately the recommendations of the earlier NER-specific committees and follow-up action taken thereon. Chapter 3 focuses on plan for greater financial inclusion and bank branch expansion, while Chapter 4 deals with currency management and the payment and settlement system. Chapter 5 focuses on strengthening and empowering RRBs as also rural and urban co-operative banks. Chapter 6 deals with land tenure system in the region and the issue of collateral. Chapter 7 discusses the Human Resources (HR) issues, while Chapter 8 details scope for bankable ventures in the farm, non-farm and SME sectors identified jointly by the State Governments, NABARD and SIDBI/NEDFi. Chapter 9 delineates the State-wise action plans and defines the role of each agency.

Chapter 2

Review of Progress in the flow of credit

Banking Outreach

2.1 The penetration of banking in the NER, particularly in the rural areas, has traditionally been very low. While there are several reasons for this, lack of adequate branch network is one significant among them. Nevertheless, a review of branch network data over the last two decades and more reveals that the region has been registering branch expansion, though not entirely to the desired extent and in the desired regions. In fact, during the 1980s, there was a rapid branch expansion of scheduled commercial banks in the region, which had reduced the average population covered per branch (APPBO*) from over 32,000 in 1981 (when the national average was 18,000) to less than 17,000 in 1991 (national average 13,700). Significantly, in the three hill States of Arunachal Pradesh, Meghalaya and Mizoram, the decline in the APPBO (both total and rural) was much more rapid and by 1991, the ratio for these three States had dropped below the national average. However, the APPBO (both total and rural) for the region as a whole was above the national average throughout and the ratios in respect of two States viz., Manipur and Nagaland was alarmingly high at more than twice the national average in 2005 (Table 2.1).

Table-2.1: Total and Rural Average Population Per Branch Office*

States	Total APPBO				Rural APPBO			
	1981	1991	2001	2005	1981	1991	2001	2005
Arunachal Pradesh	28720	12714	15813	16211	26837	11424	15508	17294
Assam	36308	18135	21008	20960	59301	22747	28422	30678
Manipur	36435	21871	28436	29791	45456	23777	38686	46931
Meghalaya	21203	11233	12741	12658	30402	12455	14257	15536
Mizoram	41146	9449	11279	11278	46493	5812	7377	7883
Nagaland	18451	17036	28009	27990	26188	21767	44211	49272
Tripura	19553	15318	17438	17429	26107	18536	22067	23701
N E Region	32018	16870	19894	19885	48318	20123	25629	27796
All India	18062	13711	15209	14949	27820	17996	22722	24856

Source: Compiled from Various Issues of BSR, RBI, Census 2001 and Directorate of Economics and Statistics of States.

(*Lower the APPBO ratio, higher the outreach and vice-versa)

Banking business growth indicators

2.2 The data on annual growth rate of credit, deposit and CD ratio are furnished in Table 2.2. The credit growth rate for NER, which showed a decline in the 1990s, is showing improvement in the current decade and has overtaken the national average. Moreover, the credit growth rate in the current decade for individual States in the region, save for Assam, was higher than the all India growth rate.

2.3 The annual growth rate of deposit for the NER was more or less aligned with the national average, with position of individual States showing wide variation with Nagaland at the lower end and Manipur at the higher end of the spectrum.

2.4 The CD ratio of the NER as a whole as also the individual States was far below the national average, which is a matter of concern. The performance of the NER in regard to this parameter had slid down considerably in 2001 and has since been picking-up gradually.

Table -2.2: Annual growth rate of credit, deposit and C-D Ratio

(in per cent)

States	Credit			Deposit			CD Ratio			
	1981-1991	1991-2001	2001-2005	1981-1991	1991-2001	2001-2005	1981	1991	2001	2005
Arunachal Pradesh	24.1	8.1	31.1	27.2	15.4	18.2	14	28	15	22
Assam	14.4	11.2	18.7	18.1	16.2	15.9	42	50	32	35
Manipur	26.0	8.3	24.9	18.2	14.9	23.2	38	72	40	42
Meghalaya	22.4	12.9	47.7	21.0	15.8	16.8	21	22	17	44
Mizoram	27.0	12.8	41.0	24.9	14.4	18.8	20	28	24	48
Nagaland	26.5	1.7	28.1	24.5	15.4	10.0	36	44	12	23
Tripura	24.1	6.0	22.4	20.6	18.9	14.2	60	68	22	29
N E Region	16.7	10.2	23.0	19.4	16.2	15.9	40	47	28	35
All India	15.9	15.8	21.0	16.4	16.8	16.5	67	62	57	66

Source: Compiled from Various Issues of BSR, RBI.

Sectoral Composition of Credit

2.5 The sectoral share of total credit, however, shows significant divergence from the national pattern. As against the national average of 27.6 per cent for personal and retail credit, the share for these sectors in the NER States ranged from 30 per cent to 56 per cent. This clearly shows the low level of commercialisation of agriculture and low level of industrialisation in NER. In Meghalaya, due to a single loan of Rs.29.10 crore to the State Electricity Board finance to industry accounts for 43.2 per cent of total credit (Annex Table 2.1).

Deposit and Credit Account Growth

2.6 The number of current and savings accounts per adult 100 population reveals the huge gap from the national average that existed in 1981 and its continuance. After the rapid rise during 1980s, the ratio of deposit accounts per 100 adult population has declined in many of the States in the region. In 2005, as against the national average in current and savings account per 100 adult population of 59.3, the average for the NER varied from 19.5 for Manipur to 40.9 for Meghalaya.

2.7 The credit accounts per 100 adult population in the region are also far lower than the national average. Tripura is the only exception which has a higher number of credit accounts per 100 population, indicating a higher percentage of population availing of credit facility as compared to other States in the region. In the remaining States, as on 2005, the percentage of adult population availing of credit facility ranged from 3.6 in Nagaland to 8.3 in Meghalaya, with a regional average of 6.7 barring Tripura (13.6), as against the national average of 13.3 (Table 2.3).

Table 2.3 : Current , Savings and Credit Accounts per 100 Adult population

States	Current and Savings Accounts				Credit Accounts			
	1981	1991	2001	2005	1981	1991	2001	2005
Arunachal Pradesh	10.8	47.0	45.9	37.8	0.8	3.0	6.8	6.2
Assam	11.6	34.9	39.4	39.1	1.4	7.0	4.5	5.9
Manipur	8.2	25.2	20.1	19.5	0.8	4.3	3.2	4.0
Meghalaya	21.7	59.1	44.3	40.9	3.1	9.1	6.9	8.3
Mizoram	5.5	41.8	25.8	29.0	0.5	4.6	5.4	7.7
Nagaland	16.7	41.3	22.3	19.7	1.7	5.8	2.6	3.6
Tripura	10.7	39.3	37.0	36.7	6.6	23.5	12.3	13.6
N E Region	12.2	37.6	38.2	37.3	1.9	8.5	5.4	6.7
All India	28.9	60.3	55.0	59.3	6.2	13.9	9.7	13.3

Source: Various Issues of BSR, RBI, Census 2001 and Directorate of Economics and Statistics of States.

Per Capita Deposit and Credit

2.8 The gap between the per capita deposit in the region and the national average is also substantial, though relatively less than the gap in the per capita credit. During the 1980s, there was a substantial catch up with the national average in all the States, but the gap once again widened in the 1990s. During 2001-05, the gap for most of the States has once again narrowed down, but remains markedly lower than the national average. Thus, against the national average per capita deposit of Rs. 16,700 in 2005, it ranged from Rs. 4,289 in Manipur to Rs. 13,087 in Meghalaya. The per capita credit in the region also continues to remain substantially lower than the national average. The gap in per capita credit from the national average further enlarged during the 1990s. However, during 2001-05, though it increased much more than national average in all the States, except Assam, it remained at 50 per cent or below the national average per capita credit of Rs. 10,474 in 2005 (Annex Table 2.2).

Impediments in the Flow of Credit

2.9 A number of impediments that constrain the smooth flow of credit in the NER have been identified by earlier Committees. Though there are some State specific factors, most of them are a common feature for the region. The following are some such identified factors:

- (i) The **lack of basic infrastructure** such as roads, communications and transport facilities, adequate power, is the major impediment in the region. There are no rail links to the States in the region except Assam and some parts of Nagaland. The lack of adequate infrastructural facilities has retarded the economic growth in the region, particularly the real sector and has led to reduction in the demand for credit. Resultantly, the economic structure of these States is lopsided with heavy dependence on public administration, while the per capita (deposit as well as credit) is lower than the national average.
- (ii) **Industrial sector is underdeveloped** with hardly any large-scale industry in the private sector. Entrepreneurship is yet to be adequately developed among the people of the region. Despite the various subsidies granted in the separate industrial policy for the region, the investment from outside entrepreneurs has not been forthcoming to the desired level due to infrastructure problems.
- (iii) **Agriculture is also still underdeveloped** with production being mostly at subsistence level. There is hardly any generation of marketable surplus and use of modern inputs, resulting in reduction in demand for institutional credit. Inadequate post-harvest infrastructure (warehouses, etc.) also hinders the mobilization of crops to maintain parity in demand and supply of goods. There is also dearth of organized market facilities for getting appropriate price for goods. Scattered producers producing limited volume of outputs individually in the hilly regions further compound this problem.
- (iv) The **topography of the region**, which calls for a greater investment in infrastructure, has been a handicap in adopting the strategy of branch expansion for maximizing financial inclusion. The sparse population and low business prospects, coupled with increasing fixed/operating costs make branch expansion an unviable strategy.
- (v) Banks do not extend loans beyond certain sums without land collateral. Many individuals have no *pattas* legalizing their ownership in the hill regions. The **land**

tenure system prevalent in most of the States of the region except non-scheduled areas of Tripura, Manipur and Assam, restricts alienation of land from a tribal to a non-tribal. This, together with absence of legalised ownership rights, proper land records etc. makes it difficult for the banks to lend in the region.

- (vi) There are various schemes available with banks from State and Central Government and local people can avail of the facilities of those schemes for capacity building and income generation. However, there are no conscious efforts on the part of lending agencies to spread awareness among people about the banking facilities available under various schemes. To some extent, there is **lack of enthusiasm** on the part of people to raise a loan from the banks which points to absence of a matured credit culture and the transactions thrive on money economy through informal channels which are perceived to be trustworthy being deep-rooted and run through generations.
- (vii) **Poor performance in the issue of Kisan Credit Cards (KCC)** by banks in the States such as Manipur and Nagaland is attributed mainly due to lack of awareness of the farmers. The poor off-take of funds under the Rural Infrastructure Development Fund (RIDF) in the region is also attributed to lack of awareness of the scheme, besides the inability to identify, formulate suitable project proposals and the delay in implementation of the sanctioned projects.
- (viii) There are many NGOs operating in the region. Most of the NGOs are involved in social activities. They are not oriented towards rendering financial services in the region. Further, **absence of active NGOs** in the region is another bottleneck in bringing more and more people in the banking net. Absence of State level forum to provide interface between NGOs and bankers also creates bottleneck in providing micro-credit in the region.
- (ix) **Appropriate training modules are not available** to impart training to NGOs. Such untrained NGOs find it difficult to identify right people for creating SHGs

and imparting them necessary skills and motivation to further SHG movement in the region.

- (x) The region is **mostly based on cash economy**. Currency in circulation to bank deposit ratio is very high as compared with the rest of the country. To maintain balance in quantitative and qualitative aspect of currency notes, huge treasure is being transported through air, helicopter and road depending upon the climate, weather conditions, police escorts etc. Larger usage of physical currency by the local people is considered a hurdle to make it at par with the rest of the economy of the country which has graduated to more advanced stages of fund transfer.
- (xi) **Poor recovery of loans**, especially those under Government sponsored schemes and default by borrowers act as a deterrent for granting fresh loans.
- (xii) Micro credit **linkages of the banks with SHGs** leave much scope for improvement. A status paper prepared in May 2006 by North Eastern Region Community Resource Management Project (NERCORMP), a project of International Fund for Agricultural Development (IFAD) and North Eastern Council (NEC), operating in six hill districts of Assam, Meghalaya and Manipur, throws much light on the constraints faced in this area. Some of the constraints listed are:
- Limited bank branches
 - Inadequate staff in branches
 - Insistence of banks on joint-rating with NGO, though bankers cannot spare time
 - Insistence of banks on regular transactions with SHG, which is not possible owing to distance problems (for instance farmers sometimes have to spend Rs.500 to Rs.800 for a single journey).
 - Bank managers not being adequately sensitized to appreciate the potential of SHG movement

- Single member's defaulting record preventing the whole SHG group to access credit linkage. Some bankers want SHG record to be maintained in English, which is difficult in the rural setting
- Wide spread intolerance to even minor mistakes in record maintenance by SHG
- Bankers' feeling that SHG linkages are additional burden and therefore their remaining unenthusiastic

Recommendations of the Earlier Committees

2.10 Various Committees/ Groups have gone into a whole range of issues to identify ways and means to enhance credit flow and augment the overall development of the region. Some of these recommendations which are still relevant are as under:

- (i) The working capital norms for industry need to be in tune with the requirements of the NER.
- (ii) Banks should be induced to open branches in blocks where there are no bank branches. Where security is an issue, branches could be located near police establishments.
- (iii) For skill development, instead of following the traditional training modules, it is imperative that market driven skill requirements be identified and necessary courses and infrastructure created.
- (iv) Self-employment schemes need to be worked out in consultation with banks to provide larger amount of funds to the educated unemployed. The Prime Minister Rozgar Yojana (PMRY) scheme needs to have built-in flexibility.²
- (v) Lenders could consider involving the Village Councils in drawing up the loan programmes in areas where restrictive mortgage laws apply, and obtain the support of the respective Panchayat/Village Council for each loan proposal. This would help in guaranteeing repayment to a certain extent.

² Committee for the Educated Unemployed in the North Eastern Region (Planning Commission, 1996-97) – Chairman : S.S. Boparai.

- (vi) Lending through SHGs should be increased where past experience has generally been satisfactory. Lenders should consider raising the quantum of loans through the SHG medium, for example in respect of groups of educated youth undertaking a cluster of entrepreneurial initiative in the area of information technology. NABARD and NEDFi should be actively involved in formulating such proposals.
- (vii) NGOs may be encouraged to play an active role in formulating loan schemes, and assisting entrepreneurs in the early stages of implementation.
- (viii) The success stories of lending by banks without tangible collateral should be publicised in various fora to create a positive image about such efforts.³
- (ix) The NGO movement is still in the nascent stage in the region and the NGOs do not have funds for taking up microfinance activity in an efficient manner. Given the large information asymmetry because of multiplicity of tribes, local NGOs/MFIs are best suited to provide services at minimum costs.
- (x) Capacity building of these entities and the resources for it are major issues. A Social Venture Fund can be created to support the growth of NGOs/MFIs and facilitate innovations that are conducive to the needs of the NER. The NEC in collaboration with NABARD would be the most appropriate agency for managing this fund since its mandate is the development of NER. The NEC could also coordinate for creating a network of NGOs working in the region.

- (xi) A Risk Fund could also be set up to induce financing agencies to extend micro finance to activities considered risky.⁴

The initiatives taken by Reserve Bank for improving flow of credit from banking system to the region are listed at Annex 2.1.

³ Reserve Bank Informal Group (2001) – Chairman : R. Krishnamurthy.

⁴ Report of the Internal Group to Examine Issues Related to Rural Credit and Microfinance (RBI, 2005), Chairman : H.R. Khan

CHAPTER 3

Financial Inclusion

3.1 The role of financial intermediation in the process of economic growth began to get its attention since the late 1960s with some influential literature highlighting the positive correlation between financial development and economic growth (McKinnon, 1973; Shaw, 1973). The endogenous growth theories also argue that with positive marginal productivity of capital, development of financial markets induces economic growth, both in the short and long run (Bencivenga and Smith, 1991). More recent years have also seen further support on the greater role of financial intermediation in economic growth than the traditional determinants (Gorton, 2002; Boyreau-Debray, 2001; Levine, 1997: and Levine, *et al* 1999). In India, at the sub-national level, Sahoo and Patra (2006) also observe a positive relationship between finance and growth in Orissa.

3.2 The empirical evidence on the causal relationship between finance and growth is also weighted in favour of finance leading to growth i.e. financial development leads to growth in a supply-leading sequence (King and Levine, 1993; Benhabib and Spiegel, 2000). Therefore, strengthening financial institutions, increasing their outreach and ensuring efficient payment and settlement systems covering the maximum possible population in a region, can provide necessary impetus to growth. In this context, the argument for greater financial inclusion - delivery of basic banking services to all sections of the society at an affordable cost - in a country like India, not only derives from reasons of social inclusion but also on economic grounds based on theoretical and empirical research.

3.3 The low level of financial inclusion, which is generally considered to be the outcome of poverty, ignorance and environmental factors, is mostly related to supply related issues i.e. lack of appropriate financial services for those that are excluded by the traditional instruments. Empirical research in Asian and African

countries has demonstrated that poor people do have demand for financial services and, in fact, they often bear the high costs charged by the informal financial markets for various types of services, apart from the risks involved in such products. Ignorance mostly arises due to lack of appropriate marketing of financial products by the formal financial institutions, limited outreach and cumbersome and “unfriendly” procedures.

3.4 Apart from the supply side reasons indicated above, the demand side constraints are also dominant viz., the low level of commercialization, difficult terrain, poor and costly transport, sparse population in the hilly areas, scattered villages, poor infrastructure, high level of grants per capita and traditional ethnic tribal culture where need for savings and credit is limited. The State Governments need to have strategies in place to ensure growth in production and productivity, especially in agricultural and allied activities and promote genuine investment, focus attention on specific activities of comparative advantage and promote investment in these activities to catalyze overall development.

3.5 In the NER, the level of financial inclusion is not related to the poor alone. Gauged by any measure, financial penetration and financial inclusion is very low. Many indicators could be used to measure banking penetration and financial inclusion.

3.5.1 Population per branch and area per branch. The APPBO of 18,833 in NER is markedly higher than the all-India figure and is particularly high in the rural areas of Assam, Manipur and Nagaland. Non-functional bank branches in Manipur (12 RRB branches) and Nagaland (2 branches) have raised the APPBO in Manipur above 30,000 and in Nagaland above 24,000. The geographical area per branch in the region is also much larger than the national average and this negates the advantage of lower APPBO in Arunachal Pradesh, Meghalaya and Mizoram (Annex Table 3.1). The data indicate that the area per branch in the States of Arunachal Pradesh (1232 square kms.), Meghalaya (121 square kms.)

and Mizoram (276 square kms.), is much higher than the national average of 47 square kms. The scenario is the same in other States, except in Assam and Tripura. The extra distance and time required for travel to the branch is compounded by the poor road connectivity in the region, indicating an effectively lower degree of penetration of banking than would be indicated by this measure alone.

3.5.2 Ratio of bank accounts per 100 adult population. A narrow measure of financial inclusion examines the ratio of current and savings accounts of scheduled commercial banks per 100 adult population. Data show that as on March 31, 2005, the ratio ranged from 19.5 in Manipur to 40.9 in Meghalaya, with a regional average of 37.3, distinctly lower than the national average of 59.2 (Annex Table 3.2). Against the marginal improvement at the national level between 2001 and 2005 from 55 to 59.2, the ratios declined in all the States of the region, barring Mizoram. The maximum decline of 8 percentage points to 37.8 was observed in Arunachal Pradesh. The same ratios for rural and urban areas in the region show that for rural areas they were above the national average only in Arunachal Pradesh (Annex Table 3.3). The ratios were very low in Manipur and Nagaland with over 90 per cent of the rural adult population being financially excluded. For the urban areas, the ratio was above the national average in Assam only. In the rest, they were much lower, particularly in Manipur, Mizoram and Nagaland. The ratio declined in both rural and urban centres or at least in one of them in all the States.

3.5.3 The district level ratio of deposit accounts per 100 population reveals that within a State there are large divergences among the districts (Annex Table 3.4):⁵

- Arunachal Pradesh, 3.4 (Dibang Valley) to 55 (West Kameng);
- Assam, from 13.6 (Dhubri) to 56.4 (Kamrup);
- Manipur, from 2.3 (Tamenglong) to 20.4 (Imphal);

- Meghalaya, from 2.9 (South Garo Hills) to 52 (East Khasi Hills);
- Mizoram, from 5.4 (Lawngtlai) to 26.2 (Aizwal);
- Nagaland, from 3.4 (Tuensang) to 37 (Dimapur); and
- Tripura, from 18.9 (Dhalai) to 37 (West Tripura).

A decline in the ratio was observed in most of the districts between 2000 and 2005 in each of the States. As regards the number of credit accounts per capita, the region reflects very low level of penetration as discussed in Chapter 2.

3.5.4 Indebtedness to formal financial institutions. The All-India Debt and Investment Surveys (AIDIS), show the indebtedness of households to formal financial institutions (Annex Table 3.5).

- a. Barring rural households in Tripura, the percentage of indebted households in the region is significantly lower than the national average. The percentage of total indebtedness ranges from 1.5 (Meghalaya) to 30.7 (Tripura), as against the national average of 42.7.
- b. The share of households indebted to non-institutional sources is also significantly lower than the national average, barring in Arunachal Pradesh and Manipur.
- c. Within the institutional sources, government is the most important source of institutional credit in many States, and its share in the total debt is higher than the national average in all the States.

3.5.5 Credit to Net State Domestic Product (NSDP) ratio is another measure of banking penetration. The credit to NSDP ratio of the all the states in the region is not only lower than the national average, but, barring Meghalaya, is also lower than any other State/Union Territory of India (Annex Table 3.5).

⁵ Data on current and savings deposit accounts and adult population at district level are not available. Thus, total deposit accounts and total population have been considered.

3.6 All indicators thus show the low levels of financial intermediation and financial inclusion. The factors responsible for this are:

- a. sparse population settlement and difficult terrain coupled with poor transport facilities - even though the APPBO is lower;
- b. uneven distribution of bank branches within a State, mostly located in the State capitals and important commercial centres;
- c. NSS consumption data reveals that consumption level in the region is above the national average while the level of income is markedly lower. Further, savings could take the form of non-financial assets;
- d. the nature of the economy with low level of commercialization and lower recourse to banking channel for transaction purposes;
- e. formal and cumbersome procedures and documentation required in typical banking transactions discourages people to come to the banks; and
- f. the public are not aware of the various services provided by the banks and the advantages that could be derived by them.

3.7 The Committee observed that taking just one measure of financial inclusion viz. number of deposit (current and savings) accounts per 100 adult population, 1500 new deposit accounts per branch will have to be opened by banks in the region every year over the next four years to achieve 100 per cent coverage of adult population. To reach the national average, assuming no new branches, existing bank branches in the region would need to open 565 new accounts per branch each year over the next four years with individual States ranging from 182 in Mizoram to 1454 in Nagaland (Annex Table 3.6). Recognising that 100 per cent financial inclusion may be a difficult task in the immediate future, the Committee recommends that banks may draw up plans to provide a deposit account (with option to the household of opening such account as a no frills account) to at least 50 new households per branch each month for the next four years. Taking into account the balances maintained in such accounts over a period, the banks may offer small overdrafts or GCC against such accounts and other products in terms of the extant RBI guidelines so that banking habit is actively promoted in the region.

If the branch has opened an account of a SHG then the number of members of the SHG will be reckoned as the number of households covered. Banks could introduce a pilot project in the rural and semi urban areas closest to the bank branches in the first instance by customizing simple deposit and credit products to suit the needs of the households of these villages and then improve upon the product and extend them to other areas. The Committee recognizes that this cannot be achieved without a massive plan for publicity and creating awareness among the households while simultaneously equipping the banks in this region for this task. Banks may immediately take up the task of preparing detailed guidelines to their branches in the region on the scheme including various steps to promote financial literacy amongst the target households with emphasis on the need for maintaining good credit record.

3.8 The Committee is of the view that the banks will have to shed traditional approaches and adopt an aggressive business model for increasing the number of deposit and loan accounts and volume of business. This will call for a 'mission mode' to be adopted with wide publicity among all stakeholders especially the State administration and local community based organizations and local leaders who can act as facilitators. Simultaneously, to be able to meet the expectations created by such wide publicity, the bank branches will have to be prepared with various options and business models for increasing and widening their outreach. The Committee therefore is of the view that focused plan will need to be launched for financial inclusion in the NER. This will consist of the following elements.

3.8.1 Branch expansion

While in any plan for financial sector development the physical presence of a bank branch is important, the topography of the region, the dispersal of population, transport bottlenecks and law and order conditions in some areas inhibit further branch expansion other than in certain commercial centres. Further, given the unique cultural and language barriers which banks have to

cross to connect with people in the NER, banks would be well advised to use the larger community to build bridges. Hence to achieve greater outreach, the Committee has suggested an approach that is based on enhancing the capacities of the existing branches of commercial banks, RRBs and cooperative banks and having more recourse to bank/SHG linkage program, business correspondent/business facilitator model as also extensive use of IT based solutions which facilitate offsite banking.

Taking the minimum branch needs into account, the Committee has identified 19 centres for opening of branches by March 2007 by specified banks as indicated in Annex 3.2. The position may be reviewed in the SLBC to be held in the first quarter of 2007-08 to decide on further centres for branch expansion.

Reserve Bank's current branch licensing policy encourages banks to open branches in underbanked rural and semi urban areas especially in underbanked districts (Annex 3.3 gives the list of such districts). Taking into account the large number of such areas in the region, the Committee recommends that, for the NER, Reserve Bank may consider an automatic approval scheme for any bank desirous of opening branches in such areas in the region. For other areas in NER also, applications may be considered favourably. New branch proposals from RRBs can be cleared expeditiously by the Empowered Committee in terms of the instructions issued by Reserve Bank on June 13, 2006.

3.8.2 Appointment of business correspondent and business facilitator

Reserve Bank has issued guidelines in January 2006 enabling banks to use registered societies, trusts, section 25 companies and post offices as agents to act as business correspondents and carry out minimum banking transactions at their place of business so that banking facilities can be offered

closer to the customer at a lower transaction cost. In the NER, considering the time, distance and cost for a customer to reach a bank branch, especially in remote areas, the Committee believes that banks can use this model effectively for increasing their outreach. The local institutions identified as business correspondent can be used for educating, sourcing customers sensitizing them about the bank's requirements and facilitate the recovery of loans. Ideally, for the NER, local CBOs like VDBs, Anchal Samitis may be used as business correspondents. The State level task forces have identified some organizations that could be used as business correspondents. Where a local organization/association not falling under any of the forms of organization listed in the Reserve Bank guidelines referred to above is proposed by a bank after due diligence and is recommended by DLCC for being approved as business correspondent, the Committee recommends that regional office of the Reserve Bank may be given powers to grant suitable exemption from the Reserve Bank guidelines.

The Committee believes that having regard to the trusted relationship that the people have with post offices and postmen, banks could gainfully appoint post offices as their business correspondent. There are about 8000 post offices in the region as against 2000 odd bank branches and these offices can be used for achieving the ultimate target of 100 per cent financial inclusion. The model agreement prepared by the IBA for adoption of such a model in Maharashtra could be used by banks in the region by entering into a similar agreement with the Post Master Generals in Guwahati and Shillong.

It may not be feasible to ensure that surplus cash with the institutions used as business correspondent reaches the bank branch the same day or even the next day in view of the distance from bank branches is some parts of the region. The Committee recognises that there is some risk that banks would face in entrusting the cash with the correspondent for more than a day. While there are IT solutions and devices that would enable the bank to keep track of the receipts and payments made by the ultimate customer, the business

correspondent model can work only on principles of local knowledge, vigilance and awareness of customers, and sufficient incentives/disincentives for the business correspondent to ensure safety of the bank's cash. Relaxation in the requirement of deposit of cash latest by next day could be considered by Reserve Bank where post offices are used as business correspondents.

Banks could also identify well-respected local persons like a school teacher, postman, primary health worker or retired official to act as business facilitators or relationship managers. These facilitators can handle all aspects of sourcing clients, marketing the bank's products and helping recovery but cannot undertake any cash transactions.

3.8.3 Linkage with SHGs

The deposit and credit linkage program of NABARD has had proven success throughout the country. However, in the NER except for a few States like Assam, the program has not taken off. The challenge, therefore, before the banks is to make the shift to a new model of banking which relies on partnerships and relationship building. This requires change in the mindset of banks to a more intelligent interpretation of traditional concepts of credit assessment, credit utilization, due diligence, asset verification, inspection, security, etc. While banks may pursue the well proven SHG/bank linkage model of the NABARD for widening credit coverage, there is a need to upscale the operations through SHGs, especially for providing working capital and investment credit. The Committee suggests that banks together with NABARD may actively engage themselves with facilitation of group formation and group linkage for savings and deposits as also for providing other financial services like insurance. NABARD may review its guidelines for this purpose if required and also allow refinance for banks financing MFIs in the NER. The performance of banks in this regard will be monitored through a performance measurement as indicated under paragraph 3.8.5 below. There are enough innovative practices across the country that could be adapted and adopted by the banks for the region. The Committee has suggested in Chapter

7 that extensive training and sensitisation workshops for financial inclusion starting at the apex level and going down to district level may be launched by Reserve Bank and NABARD anchored by IIBM. The Microfinance Development and Equity Fund at NABARD may be earmarked and utilized for the purpose.

3.8.4 Financial inclusion products

Reserve Bank in its circulars issued in November/December 2005, has outlined the financial products that can be used effectively by banks to promote financial inclusion. Reserve Bank also had in January 2006 advised the major banks having more than five branches in the NER to formulate a special Scheme for financial inclusion. These are the “no frills” accounts with small overdraft in such accounts and GCC up to Rs 25000. The Committee recommends that these products may be customized by each bank and launched as part of the financial inclusion package for the NER. As there are no requirements of documents of ownership of assets to obtain either a small overdraft or a GCC, these products are simple and are essentially based on developing a relationship and building track record of the customer and providing hassle-free services. A model application form including the form for attesting KYC through simplified procedure is given in Annex 3.1. In the remote areas, the bank branches should arrange for the photograph of the borrower. All banks in the NER should adopt this model for launching a concerted campaign for training and sensitization of NGOs, local persons and branch managers for financial inclusion after rounds of workshops in each State and suitable training to the banks and correspondents/facilitators as also borrowers as recommended in Chapter 7 by the Committee. The workshops may be completed by December 2006 so that these products may be launched before March 2007 by all bank branches in the region. Reserve Bank may closely monitor the progress.

As indicated above, it is extremely important to undertake adequate ground level preparation, both within the banks and amongst the population to be covered, especially in the areas that have little access or are relatively unexposed to formal banking services before launching the products.

At present, 50 per cent of credit outstanding under GCC up to Rs.25000/- is eligible for being treated as indirect finance to agriculture. In order to encourage flow of credit through GCC, the Committee would like to recommend that 100 per cent of advance under GCC at rural and semi urban branches in the NER may be treated as indirect finance to agriculture under priority sector.

3.8.5 Performance Measurement

The Committee recommends that performance measurement should be based on parameters indicating greater financial inclusion and, therefore, suggests that the performance of each bank in promoting financial inclusion and penetration may be assessed each half year using a specifically designed format (Annex 3.4) and the same may be used by banks in the performance budgets and appraisal for their own staff and used as basis for granting performance linked incentives as suggested in Chapter 7.

3.8.6 Use of Information Technology

Individual banks operating in the region may prepare an IT plan, branch-wise for each State with emphasis on actual IT based service that the bank will provide. The number of customers who will be assisted should be estimated to measure the effort that the bank will invest on customer interfaces, staff and consumer education, and incentives for the customer and the branch staff for promoting the use of IT in banking. Action in this regard may be initiated by all the banks in the NER immediately and completed within six months. For RRBs, assistance may be provided by IDRBT.

Given the improving mobile connectivity in the region, IT based solutions may be used by banks for financial inclusion. There are robust models already

implemented in different parts of the world. The committee has looked into them and recommends the following for NER.

- a) As mobile density is increasing in NER, mobile payment technologies may be used to enhance the reach of banking services. This may initially be used for low value and simple transactions. Some banks which have already initiated pilot projects in this regard may come forward to implement a suitable model for NER. Further, as KYC is implemented strictly for obtaining a mobile connection, it can act as an additional comfort.
- b) Smart card based financial inclusion models are well stabilized in some parts of the world. These models, which are off line and in the nature of Micro Deposit Machines having Biometric security and Point of Sale/Transaction Terminals are recommended for carrying out banking from non branch locations through business correspondents. An off line model would mean that the device does not need to be plugged to any electrical and telecommunication point (It works on batteries). The updating to the bank server can be done whenever the agent enters the highway or areas where connectivity is available on his way from one village to another or at the end of the day.
- c) IDRBT may prepare a project for a pilot testing in a select area depending on experience rolled out in other places which may be undertaken by December 2006 and based on experience, this project can be rolled out in other places. Banks which have the requisite IT and business capability to implement these or any other innovative IT based solution to extend outreach may be encouraged.

3.8.7 Forex facilities

There are very few branches where forex facilities even of the most basic type are available. Despite there being so many international borders, even basic money changing facilities are not available at branches near the borders. Further at certain land custom centres identified as having large export

transactions, the banks do not provide expeditious facilities such as LCs etc. A list of such centres is provided at Annex 3.5. Reserve Bank, Guwahati may allocate specific responsibility to the different branches (including RRB branches) for providing need based forex facilities at these centres and arrange for special training for the branch staff.

3.8.8 Providing Insurance and Capital Market Products

Insurance and capital market products should be an integral component of any package on financial inclusion. The Committee recommends that both life and general insurance products may be combined with the products referred to above where the option is given to the customer to avail of such micro-insurance products. Banks may link up with insurance companies for providing insurance products suitable to the NER. Taking into account the level of business and cost aspects, use of banks as agents for sale of insurance products would appear to be the better solution. Banks would also be able to market insurance linked deposit and credit products as part of their efforts for financial inclusion. The Committee recommends that IRDA may advise the insurers to associate themselves with the financial inclusion package for NE and customize products that could be publicized as a part of the campaign for financial inclusion.

Similarly, the Committee recommends that SEBI should enable increasing reach of the Depository Participants and mutual funds in the region. Increasing access to the capital markets would also result gradually in the greater use of such markets to provide equity funding for projects in the region and thereby facilitate the emergence of an industrial/capitalist ethic.

3.8.9 Training and sensitization workshops

In order to sensitize all stakeholders and ensure their commitment for implementing the plan for financial inclusion, the Committee recommends that

IIBM may design and conduct a series of workshops starting from the apex level for bank CEOs and senior State level functionaries down to the district level and even block level where felt necessary. Local CBOs, NGOs as also those identified as relationship managers also need to be provided specific sensitization and training. The workshops may be completed by December 2006 so that the financial inclusion products can be launched before March 2007. Unless the ground level preparation is thorough, the implementation could be faulty and counterproductive.

3.8.10 Publicity drive and media campaign

In its interaction with the NGOs and other local people, the Committee observed that there is very little awareness of the facilities that are available from the banks. It is, therefore, paramount that a massive awareness campaign is launched in NER for promoting financial inclusion. A massive awareness campaign may be launched in the NER for promoting financial inclusion. Given that in many parts of the region the concept of credit itself is not fully understood, it is important to create a favourable recovery climate by incorporating emphasis on recovery as part of the publicity drive. Promoting financial literacy is an integral part of financial inclusion and borrowers need to understand the products offered and the need for repayment. To disseminate such awareness, powerful traditional audio-visual media like mobile theatre in Assam and dance/drama forms in other States of the region may be used. SBI may take the lead along with UBI and the State governments to launch a massive awareness campaign and the cost can be shared by other banks in proportion to their presence in the region. Professional agencies may be engaged to ensure success of this endeavour. The publicity drive should be launched after the sensitization workshops are over and the bank branches are well positioned to deliver the services promised through such campaign.

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Chapter 4

Currency Management, and Funds Transfer and Payment Facilities

4.1 The NER typically relies on cash as the predominant means of payment. Non-availability of currency in the required denomination / quantity in the remote areas has virtually kept some parts of the population out of the payment system. The topography of the region and logistics involved pose unique challenges in efficient management of currency in the region. Moreover, the region is marked by law and order issues, need for frequent crossing of inter-state border problems and difficult terrain impeding easy transportation. The mainstreaming of these parts is of paramount importance.

Issues

4.2 The issues faced in the NER in currency management are broadly as under:

- There are in all 169 Chests in the region, of which as many as 89 are small Currency Chests with very limited storage capacity and as such need very frequent remittances of issuable notes and removal of unfit notes.
- Majority of the Currency Chests (85 out of the total 169) in the region are in the State of Assam and as such the problems / difficulties in the feeding and adequate stocking of currency are mainly experienced in the States, other than Assam.
- There are some non-banking Sub-Treasury Offices in the region mainly in the States of Manipur, Meghalaya and Nagaland. There is a need for regular currency chests in these as well as other States.
- Security considerations require that treasure movement in the NER is largely effected by air. Of late, there have been increasing difficulties being faced by the Reserve Bank in obtaining aircrafts.

- One other challenge in the region is the threat posed by counterfeit bank notes. With all the states having international borders, there is the distinct threat of counterfeit notes being smuggled into the region from across the border.

Recommendations

4.3 The Committee had deliberated on various issues and its recommendations in this regard are given below:

- The existing network of Currency Chests in the States in the region should be suitably strengthened, consistent with the overall security considerations and the local needs.
- Reserve Bank may consider and allow RRBs to have currency chests on a special footing having regard to the fact that in many areas they are the only banks. Many of the RRBs may not be able to defray the security cost fully. The State Governments could meet such cost as in most cases the currency chests are used predominantly for government transactions. Government of Meghalaya, has already committed on this. Reserve Bank may also consider the defraying a part of the cost of installation of chests for RRBs.
- There is a need to identify centres / towns in the States, which can serve as the hub from where cash remittances can be sent to other smaller towns/centres, within a time span of about two hours. If direct air links are available to these centres from Kolkata, then the remittances could be arranged from the Reserve Bank's Kolkata Office instead of Guwahati Office and non-issuable notes may be systematically cleared on the return trips. It is recommended that a study may be undertaken by Reserve Bank to examine the logistics issues and identify the suggested hubs.
- With a view to optimizing the various resources as also to bringing about greater efficiency of operations, there is a need to classify the chests

depending on their level of activity/turnover and upgrade storage capacity of chests.

- A contingent of security personnel not constrained by state boundaries like central security forces may be deployed to facilitate smoother inter-state movement of treasure. The Committee observed that the mechanism for handling cash transactions in the branches in some parts of the region is not satisfactory partly due to apparent shortage of staff. SLBC convenor banks may make an immediate review of the situation prevailing and take necessary steps to provide the services required at branches in the region. Where some subvention is felt, necessary proposals may be sent by SLBC convenor banks to Reserve Bank. Reserve Bank may encourage banks to forward innovative proposals for more efficient cash management in the region.
- Alternate arrangements such as engagement of smaller cargo or passenger aircraft/helicopters from available sources may be considered.
- A series of workshops may be conducted in the entire NER wherein the officials from banks, the State Police as well as the Border Security Forces can be familiarized with the security features of genuine Indian Bank Notes and also be trained at detecting counterfeit notes, especially in the denomination of Rs.100 and above.
- The mechanism for handling cash transactions in the branches in some parts of the region is unsatisfactory and part of the reason was shortage of staff. While it is necessary to ultimately dispense with cash, this may not be feasible in the near future and there is a need to address this problem urgently. SBI, LHO, Guwahati may make an immediate review of the situation prevailing and make proposals to the Reserve Bank for delivering the services required at branches in the region. Reserve Bank may

encourage banks to forward innovative proposals for more efficient cash management in the region.

- The Committee suggests that Reserve Bank, Guwahati may initiate action on all aspects suggested above and this may be reviewed by the SLBC in its quarterly meetings.

Funds Transfer and Payment Facilities

4.4 Facilities for payment against goods and services in the NER are less developed as compared to the other regions in the country. Payments through cheques, cards, and electronic modes like Electronic Funds Transfer (EFT), ECS and RTGS are minimal in the region. The number of cheques processed each day in the region is less than one per cent of the all India volume compared to its nearly four per cent share in the all-India population. The penetration of RTGS in the bank branches in the region is only around eight per cent (163 branches) as compared to nearly 33 per cent (21,000 branches) for the entire country. Only one Magnetic Ink Character Recognition (MICR) centre at Guwahati commenced in September 2005. ECS, both credit and debit being limited only to Guwahati and the volumes in these clearings are less than 0.1 per cent of the all India volumes and there is virtual absence of National Electronic Funds Transfer (NEFT) System Coverage. The reasons for the above include the low degree of penetration of bank branches in the region, transport and connectivity constraints, law and order /insurgency problems in certain States, lack of awareness, relative inaccessibility of banks on account of terrain and sparse population. Improvement in payments system will encourage customers to make use of these services and in turn banks will have opportunity to offer new products and services to the customers for management of their portfolio and expansion of their business. Hence, improvement in payments system is a win-win objective.

4.5 A Clearing House enables different banks to settle their obligations to each other, and the presence of Clearing Houses in a region is an indication of the

development of inter-bank settlement systems in that region. In the 79 districts of NER, at present, there are only 29 clearing houses (Annex Table 4.1), with each of them having participating member banks ranging from 4 to 35. While the one at Guwahati with 35 members is being managed by Reserve Bank, SBI manages 26 clearing houses and the remaining two are managed by UBI. As on date, of the 29 clearing houses, 21 have already been computerized under Magnetic Media Based Clearing System (Annex Table 4.2); the remaining also need to be computerized and networked within six months to ensure both speedy settlement of the transactions and faster realization of cheques. Further, this will pave way for seamless integration of the clearing process with the proposed Automated Clearing House (ACH) offering ECS.

4.6 As a part of the initiative to set up a clearing house in every district having more than five banks, five district Head Quarters having more than five banks but without a clearing house have been identified and SBI has been instructed to initiate steps to open clearing houses in these districts (Annex Table 4.3). With this, the NER would have 34 clearing houses. This exercise should be completed by the year- end in a phased manner. As the remaining districts have less than five banks each, clearing house mechanism may not be required as banks would find it convenient to clear the cheques bilaterally and have settlement through NEFT or RTGS. In future, clearing houses may be started in a district if the number of banks is five or more in number provided such banks are located close to each other to make physical clearing of cheques possible and viable.

4.7 In line with the policy of Reserve Bank to encourage the electronic payment systems in the country, Reserve Bank, Guwahati has constituted a Task Force to promote the use of ECS by State Governments, Public Sector Undertakings, Public Sector Banks and others, with members drawn from all the State Governments, Railways, BSNL, banks, and Income Tax etc. The entire NER presently has ECS services only in Guwahati. The benefits of ECS need to be extended to all the States of the region. The various State Governments have to take initiative to make their bulk payments like salaries and pensions only through mechanisms like ECS as they

are cost effective and operationally efficient as compared to payment by cheques and cash. The clearing houses in the major cities and State capitals of NER may start ECS at the earliest and market it effectively with the Government Departments and other bodies which employ a large number of persons so that all the bulk payments are converted to ECS at the earliest. Urgently required is a plan of action at the level of individual banks also to popularize RTGS, ECS, and NEFT and to increase the reach of these products in the NER. Affordable pricing, customer education, publicity campaigns etc. would be the necessary pre-requisite for successful implementation of these electronic products.

4.8 RTGS enables instantaneous funds transfer and is used by Government and corporate entities for high value transfer. Most of the large bank branches (constituting 8 per cent of the total number of bank branches in the region) are already RTGS enabled. The break up of the RTGS enabled bank branches in NER State-wise is given at Annex Table 4.4. The utilization of the facility is also sub-optimal as it is less than 0.1 per cent of the entire country both in volume and value terms. Banks have been advised to train their staff and educate the customers about the facility. Greater emphasis has to be placed by the banks operating in NER for enhancing the RTGS coverage both by increasing the number of such bank branches in the region and ensuring higher utilization, particularly covering large value payments.

4.9 ECS and EFT are referred to generically as automated funds transfer facilities. A robust ACH mechanism would enable electronic funds transfer either in ECS or EFT form from one bank branch to another across the region in a speedy and secure manner. The development of the funds transfer facilities, the world over has shown that as the systems mature, there is a movement away from paper based systems (cheques, drafts etc.) to ACH. As a step towards moving from paper based to paper less clearing system in NER, it is proposed to set up an ACH mechanism with its hub in Guwahati for sending electronic transactions by linking the entire core banking branches of banks in the region. Under this, the core banking branches will

be linked as designated branches and all other bank branches will be covered as sub-members. There should be a central place for exchange of transactions which can be SBI, Guwahati. This exchange will be done through a server which can be accessed online and offline also through media. The server can be located in the SBI clearing house. The file format may be similar to the ECS format or suitably redesigned for the purpose. Reserve Bank can function as the settling bank. This would mean that only banks with Core Banking Solution (CBS) and having an account with Reserve Bank will be direct members and others will be sub-members. To start with, only the CBS branches will be linked to this so that the clearing can start immediately and will be a straight through one. Since the CBS branches are already networked, there will not be any issues on networking. Reserve Bank will do only the settlement. Once the above clearing stabilizes, even the bulk transactions can be processed with ease. All the clearing house bank branches can become the sub-members of a CBS branch. Thus, the presence of one CBS branch in any clearing house with suitable arrangements with other members would link that clearing house with the others in the NER. Further, this would lead to greater integration of the region and improvement in the efficiency of the payment and settlement system in the region and also obviate the present inordinate delays in realization of intercity payments through physical instruments by offering an alternative electronic platform. The Committee recommends that leading banks in the area may take the required initiative to implement the NER ACH within a reasonable time frame. In order to cover a wider area, banks would need to put more branches on the CBS platform at the earliest.

4.10 Self service banking has become popular in larger towns in NER, thanks to the spread of ATMs by several banks, with SBI in the lead. The IT plan should focus on more ATMs as a channel to attract more customers and a wider range of services – both plain vanilla and innovative. Debit cards are common place in the larger towns in NER, due to the practice of banks issuing ATM cum Debit cards. A very significant and relatively simple IT implementation would be introduction of Point of Sale (POS)/debit facility in one or two large towns. Among the banking problems of

NER is the high dependence on currency. Popularising debit card transactions is a definite answer to the problem, given the fact that all enabling infrastructure is in place. A collaborative effort between card issuing banks and one or more acquiring banks is a feasible proposition. SBI which has the largest number of branches and ATMs in the State capitals, and also has the largest number of debit card customers, may initiate action in this regard. This project will require a pre-launch public awareness campaign for the benefit of consumers for use of debit card in preference to cash and preparing the merchant community to welcome card based sales.

4.11 Monitorable Action Plan:

- The SLBC convener may initiate steps for computerization of the remaining eight non-computerised Clearing Houses in the NER within six months. (Annex Tables 4.1 & 4.2).
- Opening of Clearing Houses in the five districts (Annex Table 4.3) without such a facility but having more than 5 banks. SBI may apply to Reserve Bank immediately for seeking authorization for operationalising the Clearing Houses in the above areas.
- BSNL, the largest service provider of connectivity in the region, may take steps for improvement of connectivity for leapfrogging to e-banking.
- Reserve Bank should follow up with SBI and other banks in the region for introduction of ACH before end of March 2007 with the settlement at Guwahati.
- Reserve Bank to pursue with State Bank of India for introduction of ECS facility within six months in all the clearing houses in state capitals to enable the government payments and receipts through ECS.
- All the branches in North East with commercial transactions should be RTGS/NEFT enabled within six months.
- 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.

Chapter 5

Strengthening Regional Rural Banks, State Cooperative Banks and Urban Co-operative Banks

Regional Rural Banks

5.1 There are currently eight RRBs in the region – two in Assam and one each in the remaining six States. Five RRBs sponsored by SBI are in the States of Assam, Arunachal Pradesh, Meghalaya, Mizoram and Nagaland, while three RRBs sponsored by UBI are in Assam, Manipur and Tripura. Before merger, there were 11 RRBs. The largest RRB, i.e. Assam Gramin Vikash Bank, having 354 branches, was formed on January 12, 2006 through amalgamation of four RRBs, viz. Cachar Gramin Bank, Lakhimi Gaonlia Bank, Pragjyotish Gaonlia Bank and Subansiri Gaonlia Bank, all sponsored by UBI in Assam, with its head office at Guwahati.

5.2 The RRBs, with a total network of 645 branches, cover 60 out of 79 districts in the region. The largest network of branches is in Assam with 399 branches followed by Tripura (87), Mizoram (54), Meghalaya (51), Manipur (29), Arunachal Pradesh (17) and Nagaland (8). There are 19 districts not covered by any RRBs in the region, 10 of which are in Arunachal Pradesh, six in Nagaland and three in Meghalaya.

5.3 The performance indicators of RRBs in the region for the years 1999-2000 and 2004-05 are given in Table 5.1.

Table 5.1: Important Financial Parameters of RRBs in NER

Parameters	(Amount in Rs crore)	
	1999-2000	2004-05
Total Deposits	1323.78	2938.72
Total Advances	403.91	1223.48
C-D Ratio	30.5	41.6
Total Investments	920.32	484.68
Recovery per cent (June)	30.9	63.3
Gross NPAs	188.27	200.02
Percentage of NPAs to Advances	46.6	16.4
Accumulated Loss	264.03	254.86

5.4 During the period, total deposits and advances of RRBs in the region had registered compounded annual growth rate of 17.3 per cent and 24.8 per cent, respectively. CD ratio rose from 30.5 to 41.6. Gross NPAs of the RRBs fell from 46.6 to 16.4 while recovery percentage rose from 30.9 in 2000 to 63.3 per cent in 2005. Thus, there has been a significant improvement in all parameters and accumulated losses have decreased mainly on account of increased business, better recovery and reduction in NPA ratio.

5.5 A detailed study of the bank-wise performance (Annex Table 5.1) showed that where business levels have not risen much and /or where NPA ratios have not reduced, the banks have not been able to revive and their accumulated losses have increased. These include Langpi Dehangi Rural Bank, Arunachal Pradesh Rural Bank, Nagaland Rural Bank and Manipur Rural Bank. In the case of three banks viz. Arunachal Pradesh Rural Bank, Manipur Rural Bank and Nagaland Rural Bank, the level of NPAs at 60.3, 33.3 and 32.8 per cent, respectively continues to be very high. The Langpi Dehangi Rural Bank in Assam covers only two backward hilly districts of Karbi Anglong and N.C. Hills and its poor financials are partly due to the limited scope for business. Langpi Dehangi Rural Bank, Manipur Rural Bank and Nagaland Rural Bank have low staff productivity (Rs. 77.6 lakh, Rs. 66.1 lakh and Rs. 73.9 lakh, respectively) and branch productivity (Rs. 322.9 lakh, Rs. 209.8 lakh and Rs.40.3 lakh, respectively) as compared with the average in the NER (staff productivity : Rs. 130.85 lakh and branch productivity : Rs 645 lakh). Incidentally, it is observed that except Assam Gramin Vikash Bank and Manipur Rural Bank, per staff business in the remaining RRBs is much less than the All India average (Annex Table 5.2).

5.6 The business plan for each RRB should reflect the targets for financial inclusion relevant in the area of operation. The Committee suggests that EC on RRBs headed by the Regional Director reviews the performance on an incremental basis viz. increase in number of deposit and loan accounts, increase in deposits and credit, reduction in NPAs through recovery, operating profits and incremental NPAs rather than the entire balance sheet that includes the legacy losses and NPAs. For this purpose a suggested format is at Annex 5.1.

5.7 The Committee suggests that the possibility of merging Langpi Dehangi Rural Bank with Assam Gramin Vikash Bank could be explored by SBI and UBI so that the latter could then cover these two districts as well. Assam Gramin Vikas Bank covering the remaining 25 districts of the state has achieved sound financials and gained good experience in SHG financing and will need to modify some of its practices to suit the hilly tribal districts covered by Langpi Dehangi Rural Bank.

5.8 In the States other than Assam, there is only one RRB in each but they do not cover the entire State as will be observed from the Table 5.2 below:

Table 5.2 : No. of districts uncovered by RRBs

State	No. of districts	Not covered by RRB
Meghalaya	7	3
Nagaland	11	6
Arunachal Pradesh	16	10

5.9 The Committee is of the view that the RRB in each of these States should cover the entire State and action towards this may be taken by SBI that is the sponsor bank in all cases. Business and outreach of the RRB can be achieved not only by opening branches in the uncovered districts, but also by adopting different business models including the business facilitator and business correspondent models and other intermediaries like NGOs/ MFIs, Post Offices for expansion of outreach and through use of technology based solutions. Thus, the problem of recruitment/ relocation of staff and increasing operating expense on account of opening more branches could be obviated.

5.10 The problems faced by RRBs include lack of dynamism/motivation of the CEO, inadequate interest taken by sponsor banks, sub optimal size and restrictions on expenditure for business promotion due to accumulated losses. There are certain parameters for staffing viz., four per branch currently laid down by NABARD. In terms of even these parameters, there is shortage of staff in some of the RRBs in the region.

5.11 Taking into consideration the entire gamut of issues, the following measures are recommended to improve the performance of the RRBs:

(i) RRBs may assess the requirements for staff in terms of norms stipulated by NABARD and bring proposals to the banks' boards early keeping in view the various

options viz., engaging business facilitators, hiring staff on contractual basis, and the age profiles of the existing staff. Based on the boards' decisions, the CEOs may take necessary steps to complete the process of recruitment and appointment within shortest possible time. SBI and UBI, being the two sponsor banks concerned, may accord this matter top priority. To start with, RRBs in the region may, with the help of IIBM, engage field staff on contractual basis, for which IIBM may conduct a special three months crash course covering all aspects of basic banking, accounting and financial inclusion.

(ii) NABARD, Guwahati may work out a methodology for arriving at staff needs at branch and controlling office levels, based on business parameters, number of transactions/accounts etc., to guide the boards of the RRBs to assess the adequacy of staff at all levels. These could serve as basis for further recruitment/engagement.

(iii) The Committee suggests that, where required, RRBs may be allowed to recruit CEOs from the market on contract basis with remuneration linked to achievement of certain specified targets in terms of financial inclusion and higher business levels. The permissions required for this purpose in terms of Section 11 of the RRB Act, 1976 may be expeditiously given by NABARD and Government of India.

(iv) To facilitate greater and more efficient use of IT by the RRBs in the region, the Committee suggests that IDRBT may assess the IT solutions already adopted by the RRBs in the region and prepare a plan in consultation with the sponsor banks containing specific proposals for ensuring efficient solutions, to ensure that RRBs are able to provide all services that a commercial bank does and become seamlessly linked to the national payment system. Such a plan may be got ready in the next three months.

(v) SBI may take action to extend area of operation of its sponsored RRBs in Meghalaya, Arunachal Pradesh and Nagaland which currently do not cover the entire State. While a few branches need to be opened, outreach could be achieved through IT solutions and use of intermediaries.

(vi) For evolving and implementing business strategy especially in areas of HR and IT, NABARD may take the necessary initiative in conjunction with established practitioners in the field.

(vii) The sponsor banks may give more freedom to RRBs that are doing well in terms of incremental growth in business and incremental reduction of NPAs and are in the process of wiping out accumulated losses. The areas in which more freedom should be

given include all policy matters such as using intermediaries, relationship managers, Post Offices as agents and other IT based solutions for increasing outreach as also staffing. The Boards may be empowered to decide the incentives on the basis of performance in cases where all accumulated losses are wiped out and business growth and business model warrants such incentives.

(viii) The EC of the RRBs should review the performance of RRBs under their business plans on an incremental basis viz., increase in number of deposit and loan accounts, increase in deposits and credit, reduction in NPA through recovery, operating profits and incremental NPAs. For this purpose, a suggested format is at Annex 5.1.

(ix) NABARD may consider providing a special refinance line to RRBs in the region.

In particular, RRBs in the NER could be given priority as proposed in the Union Budget for income generating activities through SHGs/ MFIs etc.

(x) To improve the resource base of the RRBs in the region, any lending by commercial banks to RRBs in NER may be treated as part of its priority sector lending.

State Co-operative Banks

5.12 All the seven St.CBs in the region are non-scheduled banks, of which four are licensed. No District Central Cooperative Bank (DCCB) is functioning in the region. The only DCCB viz. Sibsagar DCCB in Assam is under liquidation. No St.CB except the Meghalaya St.CB, is complying with the provisions of Section 11(1) of the Banking Regulation Act, 1949 (AACS) with regard to minimum capital requirement of Rs. one lakh.

5.13 The bank-wise financial position of St.CBs in the region during the years 1999-2000 and 2004-05 is in Annex Table 5.3.

5.14 St.CBs in Arunachal Pradesh (Rs 429.74 lakh), Meghalaya (Rs 81.50 lakh) and Mizoram (Rs 166.92 lakh) have reported operating profits during 2004-05 while the remaining four St.CBs in Assam (Rs 1750.17 lakh), Manipur (Rs 123.03 lakh), Nagaland (Rs 252.64 lakh) and Tripura (Rs 398.03 lakh) have incurred operating losses during the

same period because of low level of business and poor recovery of loans. Arunachal Pradesh St.CB has reportedly incurred heavy losses during 2005-06 due to mis-governance .

5.15 The Union Finance Minister vide his letter dated January 5, 2006 addressed to the Chief Minister of Assam had enclosed an approved package for revival of Short-Term Co-operative Credit Structure based on the recommendations of the Task Force Chaired by Prof. A. Vaidyanathan. The package envisaged that Central Government may consider relaxing the eligibility levels for PACS and DCCBs in NER. It is learnt that the Government of Assam has already prepared a vision paper for strengthening Cooperative Credit Structure in the State and submitted it to NABARD. NABARD may take expeditious action on the proposal.

5.16 The recommendations of the Task Force on Revival of Rural Cooperative Credit Institutions (Vaidyanathan Committee) are stated to have been accepted in principle by five States viz. Assam, Arunachal Pradesh, Mizoram, Nagaland and Manipur and the new enactment for facilitating the implementation of the recommendations is being drafted. The remaining two States viz. Meghalaya and Tripura are yet to take a decision in the matter.

5.17 The Task Force on Revival of Rural Cooperative Credit Institutions had observed that PACS are the foundation of the short-term cooperative credit structure and much of the weakness of the upper tiers is because of their poor financial health and deficiencies in the way they are organized and managed. The revival package, therefore, must include assistance for restoring the PACS to acceptable levels of financial health. It must put in position an environment that could enable the PACS to evolve into democratic, self-governing and financially well managed institutions.

5.18 The Committee has taken note of the programme on Organizational Development Intervention (ODI), Phase – III of Assam Cooperative Apex Bank Ltd. which was taken up by the National Bank Staff College (NBSC), Lucknow during February 20-22, 2006.

The ODI has identified certain areas of concern in the Apex bank which contributed to huge accumulated loss (Rs 88.65 crore) and operating loss of Rs 17.50 crore during 2004-05. The ODI prescribed certain measures to improve the financial position of the bank, through increased efforts with regard to deposit mobilization and credit dispensation, new products for both deposits and advances, significant reduction of NPAs to bring it below 3 per cent, increased lending to the cooperative sector and SHGs, professionalisation of management, aggressive marketing of bank's products, gearing up the recovery mechanism, providing better customer service, etc. The progress under the ODI is monitored by a small group within the bank, in association with the NBSC. The Committee notes that the ODI methodology developed by NABARD for St.CBs has been credible in terms of results. The Committee also notes that the methodology has been used in the case of Assam State Cooperative bank as indicated above. Given the fact that St.CBs in the NER unlike those elsewhere have only a two tier structure and also do direct lending, it is suggested that St.CBs in the region could request NABARD to help them revamp their business strategy using the ODI model and funding for this purpose could be considered as part of funding proposed for capacity building under the Vaidyanathan Committee.

5.19 The deposit insurance scheme of DICGC does not cover the co-operative banks in Meghalaya, Mizoram and Nagaland due to the absence of enabling provisions in their respective State Co-operative Societies Acts. The Nagaland Government has since passed necessary legislation in this regard to bring the deposits of the bank under the ambit of DICGC cover. Other States could consider passing such enactments expeditiously.

5.20 The Committee noted that the Mendipather Multipurpose Cooperative Society located in Mendipather town of East Garo Hills of Meghalaya has taken upon itself the challenge of forming 150 SHGs in the region with emphasis on eradicating poverty and illiteracy and providing better healthcare and also the need for preservation of environment. Such local initiatives could be gainfully used by the St.CB for increasing their outreach and use the special facilities available from NABARD for funding this activity.

5.21 Taking into consideration the entire gamut of issues, the following measures are recommended to improve the performance of the St.CBs:

- (i) Only about one-fourth of the branches of the St.CBs in the region are computerized. The remaining branches need to be computerised within a time frame of three years. There is merit in having a cooperative approach for IT use for the St.CBs in the region. NABARD may in consultation with the St.CBs prepare a time bound IT plan taking into account the requirements for Management Information System (MIS) etc. suggested by the Vaidyanathan Committee Report. It may also consider providing assistance to the St.CBs for the purpose out of the Cooperative Development Fund or assistance under the revival package. The assistance may also cover the HR needs for implementation of the IT plan.
- (ii) The Committee observes that PACS are defunct in many of the States in the region and there could be alternative local bodies that could be considered for grass root level delivery of rural credit on a cooperative basis. Also the apex banks are plagued by problems of poor financials, mismanagement and weak governance structures. It is suggested that the Vaidyanathan Committee may revisit the position for the NER to explore the possibility of 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, the well established SHGs may be converted to cooperative societies.
- (iii) To enable the above, the State Governments in the region may introduce alternative legislation on the lines of MACS so that grass root level associations have the option to form cooperatives under the MACS and avail of credit from a variety of sources depending on their credit rating.

5.22 The general training needs for staff of the St.CBs have been separately addressed in the Chapter 7 on HR initiatives.

Urban Co-operative Banks

5.23 Urban Cooperative Banks (UCBs) represent voluntary local initiatives and where the financials of such entities are sound and governance satisfactory, they are ideal for delivering financial services to the local population. There are 18 UCBs, all non-scheduled, operating in the region of which nine are in Assam, three each in Manipur and Meghalaya and one each in Mizoram, Nagaland and Tripura. The State of Arunachal Pradesh has no UCB (Annex Table 5.4).

5.24 There are three UCBs which have deposits between Rs 50 crore and Rs 100 crore, four UCBs which have deposits between Rs 10 crore and Rs 25 crore and eleven UCBs having deposits below Rs 10 crore. Total deposits and advances of these UCBs as on December 31, 2005 stood at Rs. 302.43 crore and Rs. 169.02 crore respectively, at which level the C-D ratio works out to 55.9 per cent. The comparative position of the financial parameters relating to UCBs during the years 1999-2000 and 2004-05 is summarized in Table 5.3 below:

Table 5.3 Comparative Financial Position of UCBs in NER

(Amounts in Rs. crore)

Parameters	1999-2000	2004-05
Total Deposits	179.89	305.40
Total Advances	78.30	156.53
C-D Ratio	45.5	51.3
Total Investments	59.04	159.74
Gross NPAs	13.71	28.35
Percent of NPAs to Advances	17.5	18.1
Accumulated Loss	5.93	7.82

5.25 Fourteen of the 18 UCBs banks were complying with the prescribed CRAR norm of 9 per cent as on March 31, 2005. However, one UCB viz. Gauhati Urban Cooperative Bank Ltd. has CRAR of 3.91, two UCBs viz. Shillong Cooperative Urban Bank Ltd. and Urban Cooperative Bank Ltd., Dimapur have negative CRAR and one UCB viz. Mizoram Urban Co-operative Development Bank Ltd. has zero CRAR (Annex Table 5.4).

5.26 Three UCBs viz., Urban Co-operative Bank Ltd., Dimapur (Nagaland), Urban Co-operative Bank Ltd., Shillong and Mizoram Urban Co-operative Bank Ltd. have negative net worth. While 15 out of the 18 banks were earning profits, three banks had posted net losses. Having regard to their financial position and the level of regulatory compliance, six banks were placed in Grade – I, three in Grade – II, five in Grade – III and four banks in Grade – IV classification.

5.27 Duality of control, low capital base, high level of NPAs, lack of professionalism in management, inadequate infrastructure, absence of computerization, lack of trained and skilled manpower are some of the major problems being faced by the UCBs in the region.

5.28 Taking into consideration the entire gamut of issues, the following measures are recommended to improve the performance of the UCBs:

- (i) There is an acute need for a higher level of coordination between the regulators viz., State Government and RBI, which could be achieved by entering into MoU by Reserve Bank with the respective State Governments as per the vision document of Reserve Bank. TAFUCB constituted under such MOUs has proved to be a useful consultative forum between the Cooperative Department and the Reserve Bank in arriving at consensus on the action to be taken for strengthening the governance in the banks, enhance quality as also providing necessary assistance for HR and IT initiatives. This would also enable the UCBs to get into non fund and other businesses apart from more liberal framework for branch expansion permitted only in such States. For the NER, the Committee recommends that a single TAFUCB may be constituted with few States being represented in each meeting by turn.
- (ii) In order to enhance the quality of corporate governance through MOU, the State Governments should commit to introduce long form audit

report for statutory audit of banks and align their audit rating models with the gradation system of Reserve Bank.

- (iii) The Co-operative Societies Acts of respective States provide for an institutional mechanism for the audit of UCBs which often make it difficult to get the directors with professional qualifications, other than from among the members. The Committee moots that Cooperative Societies Acts will need amendment to incorporate provisions for auditing by professionals. In the interregnum, the existing departmental auditors may be imparted necessary training to broad base their knowledge and skills in this area of work. Also necessary amendments in the Act may be made for inducting professionals on the Board so that the CEO has the benefit of the expertise of such professionals.
- (iv) There are infirmities in some of the States' legislations making cooperative banks not eligible for DICGC cover, viz., Meghalaya and Mizoram. This aspect needs to be addressed on a priority basis by the respective State governments in order to ensure that depositors' interests are safeguarded.
- (v) As regards reducing the adverse impact of NPAs, the Committee observes that under the respective Acts, the RCS is vested with powers to proceed against the defaulters and pass orders for recovery from the defaulters. The Committee suggests that the recovery machinery under the disposal of RCS may be made more pro-active and the respective State Governments may examine the need for further empowerment of the RCS to ensure speedy recovery of banks' overdues.

Chapter 6

Land Tenure System and the Issue of Collateral⁶

6.1 The land tenure system in the hill areas, inhabited mostly by tribal population, is markedly different from the system found in the plain areas. As in most other parts of the country, in the plains of the NER individual rights over landholding are transferable, and buying and selling of such rights are ordinarily unrestricted. However, in the hill areas, transfer of these rights is subject to restrictions, if not impossible. As per the extant instructions of Reserve Bank, banks are required to provide agricultural loans up to Rs.50000 and loans to agri-clinics and agri-businesses up to Rs.5 lakh without insisting on collateral. Even in such cases, banks may require documentary evidence regarding the farmer's entitlement to cultivate the land so that need based credit can be provided and appropriate scales of finance can be applied. Though the banks are not required to ask for any documentation if they are satisfied that the borrower is in active possession of land, the community ownership of land deters them in the hilly parts of the region.

The segments of the population and the economy affected

6.2 As mentioned above, borrowers in the plains of the region do not, by and large, experience any problem in showing evidence of their right to cultivate the land or for offering land as collateral. That leaves out the Brahmaputra and the Barak Valleys of Assam (80% of the geographical area of Assam), the Imphal Valley of Manipur (10% of geographical area) and the plain areas of Tripura (40% of geographical area) from the prime concern of this exercise. It is worth mentioning that the plains accommodate about 70% of the population of the region. Nonetheless, certain parts of the region in the states of Arunachal Pradesh, Nagaland, Mizoram and Meghalaya, and the hill districts of Assam, Manipur and Tripura still account for a significant part of the economy of the

region in which penetration of bank credit is hindered by non-establishment of transferable property rights on land. Spatial details are laid out in Annex 6.1.

Existing pattern of the land tenure systems

6.3 The genesis of the cleavage in the land tenure systems in the hills and the plains of the region is the difference in the nature of traditional agricultural activity. Agriculture in the plains has been settled. In contrast, agriculture in the hills traditionally has been shifting in nature. Land used to be communally held and the usufructuary right to land used to be distributed to families according to customary norms by the village council or the village chief as the case may be⁶. Absence of land revenue did not necessitate cadastral survey and settlement of land ownership. Meanwhile, penetration of market forces, the practice of settled cultivation and also urbanisation have induced settling down of hill tribal population in fixed locations. The process has been instrumental in emergence of individual holding in hill areas. For instance, in Nagaland as far back as 1976-77, 86% of the holdings covering 89% of the area under terrace cultivation was wholly owned and self-operated (Report of the Agricultural Census quoted in Agarwal, 1987). There has been a trend towards commoditization of land with increasing number of individual ownership and issue of ILPC. This development has, however, not been backed up with cadastral survey and land settlement, which could have been followed up with giving documents conferring legal ownership rights over holdings. Further, as individual ownership is generally derived from community ownership (barring Mizoram and Tripura where the State owns land), issue of LPC turns out to be a lengthy process, as no other individual should place his/her claim and the community should give its sanction before issue of the certificate. Another shortcoming is the non-transferability of land to non-tribal (Annex 6.2).

⁶ This paper acknowledges substantial inputs from Professor Madhurjya Bezbaruah, Gauhati University
⁷ The customary law regarding distribution of land, as for any other matter, varies from tribe to tribe. Detailed description of the traditional self-governing institutions among the hill tribes of North-Eastern India is available in Goswami (2002). Land ownership and management systems among the tribes of Meghalaya are described in detail in Jamir and Nongkynrhi (undated) - a study funded by and undertaken for International Fund for Agricultural Development (IFAD)

Suggested approach

6.4 It is clear that at present in the hills of north east there are broadly two systems of land tenure existing side by side: (a) community ownership of land in areas where shifting cultivation is still in vogue: here households enjoy user rights to land allocated to them by traditional authority and (b) individual ownership of land which is transferable only within members of local tribal community.

6.5 As indicated earlier, where the household enjoys the usufruct and there is a document to establish this, such as possession certificate, the provision of crop loans is not a problem as banks can accept such document. For crop loans up to Rs. 50000, no collateral is required as per the extant RBI instructions. However, having only a possession certificate without alienation rights does not provide incentives for investment in land improvement and conservation of its long term use. With shortening of *jhum* cycles due to population pressure and reduced availability of land for shifting, economic and environmental sustainability of the practice are getting progressively reduced. Transition to more sustainable alternatives like plantation and horticulture will require infusion of investment. Lack of progress towards document- based property right regime can hinder the inflow of investment for such activities, especially in the form of private financing of equity or debt⁸.

6.6 In areas where individual holdings have emerged, problem in use of land as collateral for bank loan can yet arise because of absence of documents formally entitling individuals with ownership. Without such a document there is a noticeable reluctance among banks to advance even crop loans let alone larger advances that would require taking land as collateral. Though the process of issue of certificates conferring land ownership of land to individuals has started and has been more or less present in the urban areas, the restrictions on transfer of such land reduce the value of land. While this issue needs to be addressed, the suggestion is not to remove all restrictions on transfer of land, especially to

non-tribal. The reforms in this area must contain adequate protection for non-alienation of tribal land till such time that the restrictions remain relevant and necessary. However, such a reform process may not be forthcoming in a short span of time.

6.7 The approach hence should be to seek evidence of the borrower being a farmer rather than being a land holder, in which case the LPC should be adequate. It is also necessary to explore other ways of addressing the problem of collateral, and for this, the following options can be considered.

- a) Look for alternative collateral founded on the strength of social capital in the tribal communities.
- b) Devising of land documents in such a way as to give banks enough confidence to accept the holding as collateral.
- c) Amendment to existing land laws so as to facilitate creation of charge in favour of the lending institutions.

Social Capital as Alternative Collateral

6.8 As recommended by the Advisory Committee on Flow of Credit for Agriculture and Related Activities from the Banking System (Vyas Committee), Reserve Bank had advised the banks to adopt Joint Liability Group (JLG) (See Box 6.1) / SHG approach for providing credit in the NER. Some of the banks have already adopted the approach. However, it has been observed that a number of banks have not percolated the guidelines to their branch level. The controlling offices should urgently grasp the immense potential of this approach and monitor the implementation on regular basis.

6.9 Community guarantee (in line with group guarantee in case of SHG based micro-credit) in lieu of land as collateral for bank finance is another option. This has been tried in Nagaland through VDBs and Village Councils (VCs). While

⁸ In Khonsa and Changlang districts of Arunachal Pradesh community land is in the process of being converted into tea plantation.

credits to individuals against the guarantee of VDBs/VCs have been of limited success, financing of VDBs /VCs for their lending operations to individuals have been relatively more successful (See Box 6.2). However, it will be inadequate to give a summary conclusion that VDBs/VCs have failed both as intermediaries and guarantors. Firstly, it needs to be recognized that the number of VCs and VDBs tried as intermediaries and guarantors have been limited to 20 VDBs and 24 VCs out of over 1000 such Boards/Councils. Secondly, the core competence and their weakness were not understood in detail at the time of the above experiment. Both VDBs and VCs enjoy a very respectable status in the society. While the former has core competence in building infrastructure in villages, the latter has it in the social aspects, but both lack in keeping books of account and are inexperienced in the area of banking. Thus, they were not well aware of their responsibility as per the guarantee deed. Infusing greater sense of financial responsibility by the financial institutions, the benefit of social collateral from these community organizations can be easily derived. In fact, it is learnt that pursuant to DRT directives and meetings held with VC executives, VCs are now more aware of their responsibility and have successfully started putting pressure on loan defaulters for settlement. Thus, potential for using social collaterals as an alternatives to land collateral exist and needs to be explored to the extent possible. At the same time, it is observed that there is already an evolution taking place in the system of land documentation in different States in the region so that land is acceptable to banks as collateral. The findings are in the next section.

Box 6.1 Joint Liability Groups

JLG has evolved as one of the innovations of the credit products and delivery systems which help banks to improve credit flow with advantages of low default risk, transaction costs relating to appraisal, monitoring etc. This focuses the mid-segment people with stress on social security rather than collateral security. Financing is done by formation of a group of 5 to 10 members as JLG. Loans are given individually, however, members are jointly and severally liable for repayment. It offers greater flexibility for the credit user to determine his needs and priorities and increases credit outflow by increasing the quantum of credit to existing clients and enrolling new clients through JLG. It reduces risk cost, improve recovery performance and low operation cost for the banker. Good borrowers only are taken as members, since all members are liable for repayment of the whole group.

The loans disbursed to JLGs by participant banks under the pilot project are eligible for 100 per cent refinance from NABARD. A special concessional refinance rate of 0.5% percentage points below the lowest refinance slab fixed by NABARD for schematic loans will be made available under the pilot projects. The purpose for which the group members would use the credit should desirably be left to the wisdom of the JLG members.

NABARD has sanctioned to the banks a grant support up to Rs. 3.00 lakh for implementation of JLG in the State of Assam towards preliminary expenses, training, promotional costs, monitoring, etc.

As on March 31, 2006, cumulatively 357 JLGs have been promoted and financed by the two RRBs viz. Assam Gramin Vikash Bank (AGVB) and Langpi Dehangi Rural Bank (LDRB) and in the State of Assam through their 53 branches in 17 districts disbursing an amount of Rs. 364.38 lakh. The recovery percentage is between 80% and 90%. Indian Bank has also reported having formed 100 JLGs of 5 members per group of which 60 groups have been provided credit at Rs. 35,000/- per group. Keeping in view the success of the JLG concept and financing in group mode, other banks are evincing interest in implementation of the scheme. The scheme has contributed to increasing the client base of the banks as also improved ground level credit flow.

Box 6.2

Social Capital as Alternative Collateral

While exploring the possibility of a community guarantee in lieu of land as collateral for bank finance, community bonds, often robust as they are in matters related to tradition may not necessarily extend to non-traditional sphere such as dealing with institutional credit, as they lack in keeping books of accounts and are not aware of their responsibility on financial matters. Financial institutions in the region have explored this possibility by working with Village VDB and VC of Nagaland, and have not had much success as guarantor of individual loans.

State Bank of India extended credit to individuals against guarantees provided by VDBs, which usually had accounts with the bank. Yet in many cases the bank could not recover the debt. These loans were relatively small in size (not exceeding Rs. 3.5 lakh). NEDFi also extended finance through Village Councils (traditional local self governing institution, unlike the VDBs which have a modern development oriented outlook) in Nagaland in two ways. First, it lent to individuals against guarantees from village councils. About 68% of such lending turned out to be NPA. When the village council did not honour the guarantee and the Debt Recovery Tribunal was approached, NEDFi was advised to take up the matter informally with the councils. NEDFi also lent directly to village councils for the purpose of further on-lending by the councils. The recovery of these funds was even worse and 85% of the debt turned into NPAs. On the other hand, the experience of some SBI branches in financing through VDBs has been largely successful with cent per cent recovery from many of the VDBs when they are extended support in the area of account maintenance and marketing.

The mixed nature of these experiences reiterates that the social capital in tribal societies, largely unutilized as they are, will be required to be moulded and conditioned to perform their potential role. Institutions existing or engineered will have to be groomed into playing their due role through gradual exposure and experience. Once a few successful instances are established, it will be possible to replicate the same rapidly with minor modifications which variations in local conditions may require. For the comfort of the financial institutions an informal rating of such institutions in terms of their experience and capability can be started.

Towards Land Documents with Legal Backing

6.10 Considerable progress has been achieved in some parts of the region in devising of land documents with adequate legal backing for collateral to loans. But the remaining areas have some catching-up to do.

- a) Mizoram has had a head start in the issue of Land Settlement Certificates (LSC), conferring transferable ownership rights over land holdings. Most of the important urban areas have been already covered. It is worth mentioning that a half of the population of Mizoram already lives in urban areas. Though initially transfer to non-tribal was practically prohibited, provisions have been subsequently created to allow transfer to government organisations and PSUs. This has cleared the way for public sector banks to create equitable mortgage on landholdings for extending credit.
- b) Similar movements have taken place in the two hill districts of Assam also. Community lands have also been leased on long term basis to private companies.
- c) In Arunachal Pradesh also, issuing of LPC has come into practice. To secure a LPC, a land owner can apply to the government with endorsement of his possession of the specified plot of land by an appropriate local authority. The process of issuing a LPC is lengthy, but the document is mortgageable. Banks and Financial Institutions have the liberty to enforce the mortgage, through sale to the natives of Arunachal Pradesh, negotiated sale to any Central or State Government establishments or public undertakings.
- d) In Nagaland, though land is owned by individuals, except in Sema and Konyak areas, only those ownerships under terrace cultivation had permanent ownership right, which are inheritable and transferable. With the amendment of Section 162 of the Assam Land and Revenue

- regulation, 1886 in 2002, land can now be mortgaged in favour of any nationalized bank and PSU, provided transfer of land is made to only indigenous inhabitant of Nagaland. For transfer to non-indigenous inhabitants, prior sanction of the State Government is required.
- e) No land in Tripura is owned by the community, either they are in possession of landowners (patta-holders) or in the possession of Forest Department (State Government). While the land under patta-holders can be transferred to others, for the Jhumia cultivators in forest, it is possible to issue certificate of land holding by Sub-divisional Magistrate/Block Development Officer.
- f) In Meghalaya, though legislature had enacted provisions for creation of charge on land and mortgage of the same for taking bank loan way back in 1976, its progress remains hindered due to lack of creation of formal land ownership/possession documents. Ambiguity with regard to the appropriate authority for land ownership certification has prompted banks to ask for (except in the so called European Ward within the Shillong City where the standard practices are in vogue) other supporting documents like sale deeds to support claim of possession of a plot of land from the traditional local authority as well as the District Council.
- g) In Manipur, only very few pockets of the hill areas have been surveyed and pattas have been issued by the government on which mortgages can be created. In the rest of the hill areas, issue of LPC has not yet taken place, as in other States. However, the government, in consultation with Manipur State Co-operative Bank, has formulated a detailed procedure for securing loans taking into account the unique feature of hill areas. The landed property of the applicants or landed property of any other person can be mortgaged to the bank. The certificate of landed property is issued by the Chairman of the concerned Village Authority who has been notified by the Deputy Commissioner with the approval of the Hills Department.

Amendment to Existing Land Laws

6.11 Despite all the progress made, the hill areas have much to accomplish in preparation of exhaustive and systematic land records based on proper cadastral survey. The issue of LPC for creating collateral in land holdings for drawing institutional finance remains a lengthy process and the transfer of these lands remains restricted. Further, issue of LPC has so far been largely confined to towns and large villages. What has been achieved in Mizoram and some other areas for the limited purpose of creating suitable collateral in landholdings for drawing institutional finance should be made possible in other States.

6.12 Based on the above findings, the Committee recommends the following.

- a. The social capital in the tribal societies in the hill areas of North East offers an opportunity to serve as a collateral substitute to land. The community based institutions, in which this capital is manifested, may have to be trained in account maintenance and educated by infusing greater awareness and responsibility on financial matters so that they can effectively play the role of a guarantor or intermediary in extending financial services on behalf of banks or other financial institutions.
- b. The Committee's suggestion for increasing financial inclusion through providing "no-frills" account with limited overdraft and GCC up to Rs. 25,000/- to at least 50 new households to start with is expected to solve the problem of obtaining documentary proof of right of cultivation/possession of land at least for small loan. Banks may provide additional credit limit either under the overdraft or under the GCC if satisfactory record is established. As interest rates on GCC or in overdraft accounts can be set by banks, based on cost/risk etc., such lending can be sustainable and banks can increase volumes under this segment. The Committee's recommendations on taking collateral are as under:

Agriculture

- (i) As per extant RBI instructions, collateral is not required for agricultural loans up to Rs. 50,000. LPC may be taken where available for establishing proof of right to cultivate the land. Where LPC is not available, a letter of comfort or certificate from the group/local tribal bodies regarding the borrowers' right to cultivate land may be taken.
- (ii) For loans above Rs. 50,000 and up to Rs. 5 lakh, where the borrower has established track record and projected cash flows are sufficient, banks may not insist on land as collateral where there are no alienable rights on such land. In order to ensure that the farmer in such cases has the right to the usufruct of the land, LPC where issued, may be taken. In other cases, the certificates issued by the local village council or equivalent organisation may be obtained as indicated by the State Task Forces in their reports. Where land is cultivated by the community, Joint Liability Groups (JLGs) may be formed and group/village chief's guarantee may be taken in lieu of any collateral.
- (iii) For agricultural loans above Rs. 5 lakh, where land is not available as collateral, State Governments may consider providing credit enhancement through partial risk sharing instruments, conditional guarantees, etc.

Industry

- (iv) For industrial and other projects, banks should be sympathetic and for want of immovable property as collateral no viable project should be turned down. Where the CGTSI guarantee is available, such guarantee along with other primary security and the personal guarantee of the promoter/ borrower should suffice.

c. In those parts of the hills of the North East where there is no practice of issuing documents conferring transferable rights or where the procedure is cumbersome, the

respective governments (or autonomous councils) should expeditiously put in place a system of issuing land ownership or possession certificates in line with the practice started in Mizoram or Karbi Anglong and N. C. Hills districts of Assam or Arunachal Pradesh. The State laws should be amended to create mortgages in favour of all scheduled commercial banks with limited land transfers to specified entities such as locally domiciled inhabitants of the State or the government bodies or the commercial /cooperative banks. The preparation of systematic and exhaustive land records based on cadastral survey enables the banks to accept land as collateral. Such records, backed up with suitable institutional reforms will also serve the broader goal of efficient and equitable use of land.

d. As loan policy for a bank is uniform for entire country, every bank operating in the NER may review its loan policy and make necessary changes for the NER on the lines suggested by the Committee. In case of the local banks viz., RRBs and cooperative banks, necessary changes in loan policies can be made immediately by the Boards.

Chapter 7

Human Resource Management

Background

7.1 A key factor that affects financial development in the NER is the human resource management (HRM). The region needs development bankers, where bankers have to go to the people, actively market/ customize their products and help build up the banking relationship. Banks need to follow approaches that are different from those carried out in other parts. The conditions are not ideal and the banks cannot wait till someone else creates ideal conditions. The banks have to act as prime movers. Hence, finding the right manpower to provide necessary leadership for banking in the NER requires careful selection of persons especially at top level in respect of banks operating in the region.

7.2 In case of public sector banks, in order to incentivise officers from elsewhere in the country to come and work in the region, an *ad hoc* incentive package was introduced in 1983, which is still in vogue. The Committee felt that it is necessary to review the package in terms of its benefits and consider whether any changes are required in the light of the expectations from the banks in the region. In case of RRBs and cooperative banks, the issues pertain to recruitment, capacity building and exposure. Sensitising officers of the commercial banks to work as development bankers to facilitate financial inclusion is also considered to be a priority area for attention. Finally, the need to enhance the basic skills in financial management for the NGOs/ SHGs, local entities and persons used as intermediaries cannot be understated. The recommendations in this chapter therefore focus on these aspects.

7.3 Public sector banks- review of incentive package

The *ad hoc* temporary incentive package for posting of officers of public sector banks (PSBs) and Financial Institutions (FIs) to NER from outside was introduced by

Government of India with effect from October 1, 1983. The broad contours of the incentive package are: a) Limited Tenure (2/3 years), b) Higher Allowance with a ceiling of Rs. 1500/- p.m., c) Posting to a place of choice on completion of the term, d) Permission to retain accommodation at the place of earlier posting, e) Additional annual home travel concession and f) Mid Academic Transfer Allowance. The existing *ad hoc* framework is more than two decades old, which itself necessitates a complete review.

7.4 The above incentives, among others, were reviewed by the erstwhile North East Institute of Bank Management (NEIBM) (now IIBM) in 1993⁹ and the brief observations and suggestions were as under:

- Due to prior knowledge about the short stay, the officer would not be inclined to try something on the job that may require long-term involvement and sustained effort.
- Provision of a special package may lead to the belief that there is something wrong with the region. Such pre-conceived notions about the region on the part of newly posted officers would have significant impact on their performance and effectiveness on the job.
- The special facilities give rise to apprehension and resentment among the local officers already working in the bank, since for the same job (in the same grade) one is paid differently than the other. It has a social dimension too that it can further create a feeling of locals and outsiders in a larger context.
- As most of the apex training colleges are located outside the region, the officers try to avail of the opportunity of attending such programmes, which facilitates visiting their families either directly or *en route*. Indirectly, this amounts to cornering of the available training opportunities and banks are not able to provide to the local officers even the minimum expected training exposure.

- The tendency to visit the respective Central Office/ Administrative Office is higher.
- Availing of leave during their stay in this Region is more frequent.
- To overcome housing problem, efforts to build more bank quarters may be made.
- Banks may pool their resources and develop a series of quality schools, health centres and hospitals.

7.5 The report suggested a review of the policy with a few alternative models: (i) Additional weightage may be given in the performance appraisal e.g., one jump can be automatically given to all the employees in each area of appraisal. For every year of service in the region, an additional two months may be added while calculating minimum number of years of working experience at the time of promotion; (ii) In order to ensure adequate trained manpower within the region, the ad hoc temporary incentive may be extended to all employees hailing from the region when transferred; (iii) The incentives given to the outside officers may be stopped or certain ad hoc allowances granted to all including local officers in the region; (iv) The incentive may be kept unaltered but the duration of stay increased from the present level of minimum two years to minimum five years.

7.6 The report also mentioned that emphasis could be given on leadership quality, particularly the capacity to develop subordinates as the most important criterion of performance appraisal.

7.7 Out of over 21,000 employees working in the banking sector in the region, around 15,000 employees belong to the region, mostly in the non-officer cadres, as in these cadres the banks recruit exclusively from the local population. Among the 6,000 officers, the percentage of outside officers from outside the region ranges between 7 per cent and 23 per cent only in respect of the major banks. In case of SBI, most of the officers

⁹ Personnel Policy Governing Postings in NE Region and its Implications: Need for a relook, Dr. R. Prakasam, NEIBM, Guwahati, March 1993 (unpublished)

belong to the region and very few are from outside. In case of other banks, there is a significant proportion of outside officers especially at higher scales (Annex Table 7.1).

7.8 The Committee observed that while the incentive package seems to have succeeded in helping bank managements to find officers to come and work in the region, it does not appear to have succeeded in achieving the basic objectives of making the officers work as development bankers in the region. Further, the issues highlighted in the Prakasam Report continue to be valid.

7.9 The Committee is of the view that the difficult terrain, poor connectivity within the region and with the rest of the country, as also insurgency problems in some areas, warrant continuance of incentive package to compensate for the hardship that continues to be associated with a posting in the region. At the same time, there is a need for provision of performance based incentives for bank staff to meet the expectations from them. The cash incentive (uniform) at Rs. 1500/- per month has shrunk to around 15 per cent of the basic salary now from its original 150 to 200 per cent.

7.10 The Committee recommends that the existing incentive scheme may be revised and may be composed of two components:

Component I - This will be applicable only for officers domiciled outside the region and is intended to make it easier for banks to find sufficient officers to come and work in the NER keeping in view the distance and other factors. This component should include effective tenure of at least three years (excluding all types of leave), retention of accommodation at earlier place of posting or any other place in India, annual LTC plus a cash allowance of up to Rs.5,000/- p.m.

Component II - This should be an incentive component. All public sector banks may introduce a performance based cash incentive scheme for staff working in the region. The criteria for giving such incentive should be based on the special efforts taken by branches to increase business levels and financial inclusion and may be

based on criteria identified by the Committee in Chapter 3 and suitably modified for the Grade/posting by the individual banks (Annex 3.3). In case of branch managers and officers in Scale III and above, the incentives should also include weightage for promotion, external training, etc.

Recruitment

7.11 Banks may consider having an all-India selection process for recruitment, specifically for NER with a prescribed lock-in period up to Scale II level or for service within the region. This will provide a pool of young officers for a minimum number of years to serve in the NER. After the minimum period is over they may be transferred to other centres. This will (a) ensure committed service from the officers as they are recruited specially for the NER, (b) reduce staff expenses as these officers will not be paid NER incentive and (c) may reduce/eliminate grievances of the local officers in respect of differential financial packages offered. There may be a permanent system of full-fledged pre-examination training for all categories of employees so that they can compete with the candidates from other States and qualify for recruitment. Campus recruitment from within the NER States especially, for specialist cadres such as IT, Agriculture, SME, Marketing, Forex, etc. should be encouraged. There are a number of institutions within the region from where recruitment could be considered either on regular or contractual basis.

Training and Capacity Building

7.12 As identified by the Committee, there is a dire need for training and HR initiatives to convert 'traditional' bankers to 'doorstep' bankers. Use of local post offices, school teachers, respected local persons, CBOs and other intermediaries as banking correspondents and facilitators for increasing banking outreach has been identified as a key element of the strategy for financial inclusion. Also extensive use of IT based solutions for ensuring integrity of the systems and facilitating doorstep banking is envisaged. "No frills" Accounts with limited OD facility and extensive use of GCC for

retailing financial services in a simple and hassle free manner have to be the key elements of the business strategy. The training needs of the various levels in banks as also the CBOs/ SHGs etc. will have to be accelerated to focus on these areas in a time bound manner. A suggested framework for organising the workshops, etc. as part of such training intervention with the lead being taken by IIBM (Guwahati) is given in Annex 7.1. The Committee recommends that within the next two months IIBM may draw up a comprehensive training cum sensitization plan for financial inclusion on the lines suggested in Chapter 3 to be implemented over the next six months. The cost for this training may be borne by RBI, NABARD, SBI and UBI. It may also prepare a crash course for three months for young graduates to be recruited on contract basis by the RRBs.

7.13 RRBs, St.CBs and UCBs

In case of RRBs, the Committee is of the view that an incentive package for better performance at CEO level may be drawn up by NABARD in consultation with the sponsor banks using the same parameters as in the case of public sector banks.

In case of large RRBs like Assam Gramin Vikash Bank (AGVB), the issue of career progression needs to be addressed. The AGVB Board and the sponsor bank should develop an appropriate road map for career progression of staff of the bank.

For increased out reach and financial inclusion, appointment of agents like banking facilitators or correspondents and use of IT based solutions would require to be used and the expenditure in regard to this may be approved by the RRB Boards. NABARD could consider assisting the RRBs in the region in this regard through matching financial grant and other assistance.

For cooperative banks and RRBs, the Committee observes that cost of training is an inhibiting factor and hence on-site training and distance training methodology is considered more suitable. For UCBs and St.CBs where MOU has been entered into and for all RRBs, IIBM together with CAB and BIRD may prepare a comprehensive

training plan for upgradation of skills of the staff, directors and the auditors. The plan should spell out the phasing and location of specific programs to be arranged in the next six months so as to cover most of the staff in the RRBs and cooperative banks in the region. Reserve Bank and NABARD could reimburse the cost of travel and HA where the programs are not location based and cost of training could be borne by IIBM with additional support from RBI and NABARD where required.

Chapter 8

Real Sector plan

8.1 The committee, with a view to draw state wise action plans appropriate to local conditions in each of the State had requested NABARD and SIDBI/ NEDFi to identify the scope for bankable ventures in the farm, non farm, micro credit and SME sectors in consultation with the State Governments concerned. NABARD and SIDBI/NEDFi have since conducted a detailed State wise analysis and have furnished State plans for implementation in the NER.

The State wise plan estimates finalized by NABARD is as under:

Table 8.1 State-wise Estimates

(Amount in Rs. Lakh)

Sr. No	Name of the State	Plan Estimates for				Percent to total	Support through	
		Farm	Non Farm	Micro credit	Total		Banks	Grant
1	Arunachal Pradesh	7891.07	134.00	31.90	8056.97	3.28	6641.07	1415.90
2	Assam	147243.90	1110.30	281.83	148636.03	60.57	144343.90	4292.13
3	Manipur	15235.00	346.40	38.89	15620.29	6.37	12985.00	2635.29
4	Meghalaya	8076.60	148.00	40.15	8264.75	3.37	4726.60	3538.15
5	Mizoram	17029.50	62.00	47.06	17138.56	6.98	15879.50	1259.06
6	Nagaland	9371.50	110.40	16.90	9498.80	3.87	6121.50	3377.30
7	Tripura	38010.00	150.75	28.18	38188.93	15.56	36110.00	2078.93
	Total	242857.57	2061.85	484.91	245404.33	100.00	226807.57	18596.76

NABARD has identified bankable projects- location specific and activity specific- for financing in the farm and non-farm sectors in the region. These include dairy development, other allied activities like sheep and goat rearing, piggery, poultry, horticulture, fishery, jhum cultivation, sericulture and watershed development. Almost all the activities identified require active coordination between the various agencies like

State Governments, banks, NABARD, etc. for their successful implementation. In many identified areas, there is a need for imparting training by specialized institutions like IIBM, CAB, BIRD, etc.

8.3 NABARD has identified that there is a need for revitalizing the dairy sector, which is plagued by short supply of high yielding animals, short supply of fodder and under efficient animal breeding farms in the Government sector. The poultry sector is crippled with the high cost of feed and import of eggs from Andhra Pradesh, which are cheaper. Further as stated by NEDFi, poultry sector in the region needs quality service personnel (farm supervisors) who can implement bio security measures under the supervision of veterinarians in the state. This assumes significance in the light of threat posed by increasing incidence of diseases. Layer (Egg) sector has the potential to grow only if local eggs are promoted as a separate brand. SHG / CIGs (Common Interest Groups) should have access to group organic certification. For broiler sector, the need is to augment setting up of hygienic retail slaughter units by SHGs and capacity building of local entrepreneurs to tap the organized market of Army/para-military establishments and hotel industry. NEDFi has also suggested that NECC may help local entrepreneurs with promotion materials and marketing ideas to promote consumption of local eggs.

8.4 In case of horticulture crops like ginger, the need for innovative processing techniques has been pointed out. The suggestions of NABARD in addressing these issues are given at Annex 8.1. The detailed break up of State and district wise plan is available with NABARD.

8.5 SIDBI/NEDFi have identified handloom weaving and handicraft as the two most important non-farm activities in the region. Around 14.6 lakh units are engaged in handloom activities primarily in five States in NER viz. Assam, Manipur, Nagaland, Tripura and Arunachal Pradesh. However, the handloom fabric production in the region constituted only 20% of the total production in the country. The weakness of the handloom sector in the region is attributable to unorganized and wide dispersal of weavers/ weaving units in the region, weak financial position of the weavers, obsolete

technology, inadequate availability of adequate inputs and absence of marketing support and market intelligence.

8.6 The handicraft industry in the region is characterised by the existence of large number of skilled artisans, reasonable availability of raw materials and the skills inherited over generations. However, these advantages are overshadowed by the obsolete technology and production process employed by the artisans and absence of market intelligence about customer preference and marketing linkages.

8.7 As silk weaving is intrinsic to the culture of local people, the sericulture sector in the NER has good potential for development. Eri silk which has good domestic and international market is produced in NER only. The Central Silk Board has given boost to sericulture in the region under the National Sericulture project with assistance from Japan International Cooperative Agency, Japan. However, this sector also is characterized by the use of obsolete technology, increasing import of raw silk from China in the domestic market, absence of proper grading of cocoons to ensure uniform quality and absence of mechanical spinning unit for spinning of Eri silk cocoon resulting in lower quality of yarn.

8.8 As regards growth of poultry industry, it has been brought to the knowledge of the Committee that in 80% of the cases poultry farmers in the Region are using complete feed being marketed by companies having their manufacturing plants in West Bengal. The NE states have exempted tax on finished animal feed entering the states while there is tax on feed ingredients which are procured by local feed millers creating a disadvantageous position for local entrepreneurs.

8.9 The Committee has noted that there is a short supply of high yielding animals as the existing norms do not provide for full relaxation for entry of animals especially heifers from other parts of the country. NEDFi is contemplating to promote an independent agency (preferably a competent and credible NGO) with some managerial control for improving the field base in dairy sector in some identified locations on trial basis.

8.10 The wind of Integration in broiler farming e.g. Saguna/Venky, etc. as seen in other parts of the country is likely to enter NER also. Local entrepreneurs engaged in the field of small time hatchery and feed perceive threat to their livelihood. Of late, there are reports of violent protest to resist entry of integrators. Local broiler farmers are also protesting against entry of cheap broilers from neighbouring states. The debate on practicality and usefulness of Saguna/Venky model of integration for farmers in NER is another critical issue.

8.11 Taking into consideration, the State wise plans submitted by NABARD (Annex 8.1) and SIDBI (Annex 8.2) and the observations/suggestions made by NEDFi (Annex 8.3), the Committee recommends the following course of action:

8.11.1 NABARD

- I. NABARD should kick start the Rural Sector Credit Plan (RSCP) in each State by conducting workshops over the next two months for implementing the plan. The Workshops may be held at the State and district levels to create proper awareness among all the stakeholders. As and when the workshop for a specific district is over, a special DLCC may be convened to commit all stakeholders to the proposed RSCP. To the extent required, the DLCC may modify the ACP to incorporate the proposed RSCP. For subsequent financial years, the PLP of NABARD and ACP/Branch Credit Plan should factor in the projections made in the RSCP.
- II. NABARD may identify and support strategic investments in horticulture, bamboo processing/products, fisheries, poultry, animal husbandry, honey production/marketing and organic farming. Wherever policy changes are required for facilitating financing various activities under the farm or non-farm sector in the region, NABARD may effect such changes taking into consideration the special requirements of the region.

8.11.2 SLBC

- III. In order to closely monitor the implementation of the State wise Financial Sector

Plans, the review of performance under the Plan may be made a part of the permanent agenda of SLBC and DLCC. The banks may suitably modify their performance budgets to incorporate the commitment under the proposed RSCP.

8.11.3 State Government

IV. The State Governments may earmark fairly senior persons at the State and district Levels to coordinate implementation of the RSCP in all the districts of the States.

V. The Committee examined the suggestions made by NEDFi (Annex 8.3) and is of the view that in the following areas, the respective State Governments may initiate required action:

(a) To address the short supply of fodder, the following strategy may be adopted for increasing the production of maize:

- Developing a support structure that can help farmers purchase inputs intelligently.
- Creating a social marketing strategy to ensure appropriate feeding and minimizing feed wastage by farmers.
- Setting up of scientific feed godowns at strategic locations to streamline the distribution system.
- Need to involve panchayats and other similar agencies for community fodder cultivation and preservation may also be explored.
- Government need to focus on minimum support price and policy changes for wasteland utilization to increase area under fodder cultivation.
- Initiative taken by governments of Rajasthan and Andhra Pradesh in this regard may be studied.
- To explore the possibility of persuading armed forces/para-military establishments/institutions to lease out land for fodder cultivation.

(b) Dairy development

- Barefoot vets: set up service based institutions supported by cooperatives / private sector where barefoot vets can be employed under the supervision of qualified Veterinarian. The reporting structure, service accountability and continuous training are mandatory for success of such initiatives.
- The service institutions employing these barefoot vets must also be oriented to focus on capacity building of clients and delivering of basket of services to recover cost. Efficient record keeping is mandatory for breed improvement through Artificial Insemination (AI).

(c) Poultry

- Poultry sector in the States is in bad need of quality service personnel. (Farm supervisors) who can implement bio security measures under the supervision of Veterinarians in the state. This assumes significance in the light of threat posed by increasing incidence of diseases.

8.11.4 SME sector

VI. Major banks operating in the region may identify a dedicated branch for encouraging entrepreneurs who want to make investments in agro-processing, agro-based industries and SME sector. Such branches may be equipped with staff and systems for helping the entrepreneurs in preparation of project reports and identifying their capacity building needs.

SIDBI/ NEDFi/CIBIL

VII. SIDBI and NEDFi may prepare typical bankable projects in a variety of industries in the SME sector and disseminate the same as these could be used by potential entrepreneurs. Such schemes should cover the handloom and handicraft sectors.

VIII. SIDBI, NEDFi, NABARD as also major banks may sponsor RUDSETIs for training potential entrepreneurs/borrowers in the SME including small business services related to the sector.

IX. SIDBI and NEDFi may provide financial assistance on concessional terms to identified marketing outlets for various industries in the sector and provide assistance for display and marketing of the products

X. NABARD/SIDBI /NEDFi/ may sponsor Rural Industries Programmes (RIPs) in areas where clusters have been identified and in areas having concentration of other non-farm economic activities for training of weavers, artisans, small entrepreneurs, etc.

XI. Normally, the risk cover under CGTSI scheme is available to the extent of 75 per cent subject to a maximum of Rs.25 lakh. In NER, CGTSI may increase this cover up to 90 per cent. Normally, a guarantee commission of 1.5 per cent (payable upfront) and an annual service charge of 0.75 per cent are payable. In NER, CGTSI may consider charging only 50 per cent of the applicable fee (both guarantee commission and annual fee).

XII. SIDBI, in association with major banks in the region, may set up a dedicated

SME debt fund to provide co-finance up to 25 per cent of project cost to first time

entrepreneurs, where a bank is willing to provide the required funds. The fund may have experts from the region and outside as members.

Xiii. SIDBI may open counseling wings at all state capitals for first time entrepreneurs.

XIV. SIDBI may promote SHGs/ MFIs in urban areas.

XV. SIDBI may disseminate/ educate potential borrowers from the SME about its SMERA rating criteria.

XVI. CIBIL may disseminate credit record of borrowers in the NER among the financial institutions in the region separately to enable the banks to have ready access to the track record of borrowers who have in the past borrowed from banks.

XVII. Role of NEDFi may be reviewed with a view to repositioning it as development financial institution for long-term finance and equity support for industry and services sector.

Chapter 9

State Wise Action Plans

The Committee had constituted State Specific Task Forces under the chairmanship of the members of the Committee representing respective State Governments. These Task Forces deliberated on various State specific issues and suggested measures for development of the respective States. Based on the recommendations of these Task Forces, the Committee suggests the following State-specific measures.

9.1 Assam

9.1.1 Branch expansion & credit flow

The State Task Force has suggested that as the first step, banking services need to be enhanced on priority basis by opening new branches in the 12 underbanked districts of Barpeta, Bongaigaon, Cachar, Darrang, Dhemaji, Dhubri, Golaghat, Hailakandi, Kokrajhar, Karimganj, Morigaon, & Nalbari. Focus may be on extension of the rural outreach of the banks in these districts. Thereafter, branches may be opened in the remaining 10 districts. The major banks like SBI, UBI, PNB & UCO and the RRBs operating in the State may chalk out a time-bound plan of action for opening of new bank branches.

(Action: Banks)

The Committee deliberated on the issue and suggests that Assam Gramin Vikash Bank (AGVB) may open one branch each at (a) Nayeralga Dev. Block (Dhubri District) (b) Baska Dev. Block (Baska District) (c) Pub- Nalbari Dev. Block (Nalbari District) as these centres are unbanked. As regards extending banking facilities in the remaining underbanked districts, the SLBC convenor bank may conduct a viability study to decide the feasibility of opening new branches.

(Action : SLBC convenor)

9.1.2 Infrastructure development

- To improve the credit deposit ratio in Assam the banks may like to consider funding of some major infrastructure projects, particularly in the areas of toll roads, toll bridges, power plants, industrial park, SEZ, urban water supply scheme, etc. Many such projects may not be commercially viable. This problem can possibly be redressed by availing the benefits under the Government of India's scheme for financing infrastructure projects through a special purpose vehicle (SPV) set up under public-private partnership (PPP).

(Action: Banks)

- The State Government may take the initiative to identify such projects and ask for expression of interest and identify and select dependable private partners through a transparent bidding process. The viability gap can be funded from the above-mentioned scheme of Govt. of India. If the financial institutions come forward to lend required fund for such infrastructure projects under the above scheme, not only the credit deposit ratio in the State will improve substantially but the economy of the State will also get a boost.

(Action: State Government)

9.1.3 Financial inclusion and microfinance

Field Management Committees (FMCs) may be involved in agriculture credit disbursement as in every district / sub-division as Farmers' Clubs.

(Action: Banks)

9.1.4 Measures for strengthening the RRBs

- State Government has already released part of additional share capital due to five RRBs (4 UBI sponsored RRBs were amalgamated to form Assam Gramin Vikash Bank with effect from 12 January 2006) operating in Assam. Budget provision has been made to release the remaining part within the Financial Year 2006-07 so as to cover the entire share capital of the Government side.

(Action: State Government)

- Status of Chairman of the RRB may be raised to senior level.

(Action: UBI, the Sponsor Bank)

9.1.5 Measures for strengthening Assam State Cooperative Apex bank

- The only cooperative bank in the State viz, Assam State Cooperative Apex Bank Ltd. is under financial problem due to huge accumulation of NPAs. The Bank may re-constitute its Board by bringing in professionals for guidance for better conduct and functioning. **(Action: ASCB)**
- The Vaidyanathan Committee's suggestion and subsequent remedial measures have been accepted by the Government of Assam in principle. The existing Co-operative Act is being repealed. It may be ensured that the new Act contains all the measures suggested.

(Action: State Government)

- There is a need to develop the existing SHGs into primary co-operatives where the Govt. of Assam could explore the possibility of bringing the Mutually Aided Co-op Act, which has been implemented in States like Andhra Pradesh and Orissa. **(Action: State Government)**

9.1.6 Land as Collateral- Position in the two Hill Districts

The traditional land tenure system in both the hill districts varies from place to place and tribe to tribe. Meanwhile, both the districts have also adopted the Assam Land Revenue Regulation, 1886. So far as for the limited issue of creation of mortgage against the land is concerned, the legal position is that such mortgage can be created by the owner of the land having such mortgageable rights and/or any person authorized by such owner. On ground, such owner may be the District Council itself, or a tribe or a clan or village council notified under the 6th Schedule or Town Committees in Urban areas or a village headman.

It is therefore, suggested that for the purpose of bank lending on the basis of collateral involving land mortgage, banks may accept mortgage created by the

owner of the land as mentioned above or by the occupant of the land with authorization from the owner of the land. To add further authority to the mortgage document, countersignature of such mortgage deed by authorized official of the concerned District Council, who are empowered to make laws under para 3 of the Sixth Schedule, should meet the requirement of the lending institutions. It may be mentioned that both the District Councils viz. N.C. Hills and Karbi Anglong has a Revenue Department each.

(Action: SLBC in co-ordination with State Government)

9.1.7 Potential for agriculture and non-agriculture activities

NABARD and SIDBI have also chalked out a plan of action for the State. SIDBI's action plan envisages action for NEDFi too. The suggestions, agency wise are as under:

NABARD

- To encourage increased production of raw silk in the state by increasing the plantation of food plants in co-ordination with Central Silk Board, Directorate of Sericulture, NGOs and others associated with the sector as 50% of the consumption of raw silk yarn is procured from other states inspite of the fact that Assam is the fourth largest producer of raw silk in the country.
- To provide financial assistance to the weavers, spinners, reelers and artisans engaged in handloom and handicraft activities through the RRBs, Scheduled Co operative Banks under Refinance Scheme and/or under micro credit.
- Set up Raw Material Banks, Common Facility Centres, Marketing outlets in co ordination with DC, Handloom and Handicraft, Directorate of Handloom, Directorate of Sericulture, Central Silk Board etc.

SIDBI

- Encourage ancillarisation of the few corporate sector and setting up of down stream industries to the oil sector and the proposed Gas Cracker project.
- Encourage tourism related projects in view of its potential on account of improving infrastructure and law and order situation.

- Promote few clusters on handloom and handicraft activities and or other non farm activities in the state.
- Arrange training of the weavers for working in modern looms in co ordination with National Council of Co- operative Training, National Handloom Development Corporation, National Co Operative Union of India, Directorate of Handloom etc.
- Sponsor Rural Industries Programme (RIP) in few handloom and handicraft clusters and areas having concentration of other non-farm economic activities for training of the weavers, artisans, small entrepreneurs etc.
- Introduce new designs with the help of DC, Handloom, Central Silk Board, National Institute of Fashion Technology etc.
- Establish marketing linkages and /or finance marketing complexes for marketing of the produce.

NEDFi

- Arrange for revival of certain industrial units like the sugar mills in the districts of Jorhat, Nagaon and Cachar with private sector partnership which would have tremendous impact in the rural economy in their area of operation.
- Arrange for revival of Assam spun Silk Mill, Jagi Road, engaged in spinning of silk yarn which is now lying closed which will ease the availability of quality yarn to the weavers.
- Set up a medium capacity spinning mill for spinning of silk yarn in the central Assam district with private sector partnership.
- Set up cold storages with private partnership for perishable agro products like vegetables and horticulture products like fruits for marketing outside the state.
- Provide financial assistance to the weavers, artisans directly and /or under micro credit scheme.
- Set up Raw Material Banks, Common Facility Centers, and Sales Outlets in co ordination with DC, Handloom and Handicraft, Directorate of Handloom.
- Sponsor participation in domestic as also international exhibitions/ trade fairs.
- Arrange for wide publicity of the handloom and handicraft products.

9.1.8 Improving the recovery climate

- An expert group may be constituted by RBI to determine the actual causes for the varying and poor recovery position of banks in the context of (i) the varying recovery figures among banks (ii) the better recovery position of RRBs (recovery percentage of RRBs is almost double that of commercial banks in the same recovery climate) (iii) the internal recovery mechanisms of individual banks and its effectiveness (iv) the pre-disbursal checks of sponsored cases actually implemented at branch level.

(Action: RBI)

9.2 Arunachal Pradesh

9.2.1 Financial inclusion

- Banks should provide bulk lending to NGOs at a concessional rate for future lending to the poor persons / SHG members. The NGOs should be allowed to charge the interest rate as per mutual understanding with the borrower.

(Action: Banks)

9.2.2 Opening of bank branches

- A survey might be undertaken by the SLBC to identify potential centres for opening bank branches in five underbanked districts. According to Convenor Bank i.e, SBI, there are 25 unbanked blocks in the State. The Committee has examined and is of the opinion that at present, APRB can open one branch at Yachuli block (which is unbanked with a population above 10,000) in Lower Subansiri district of the State. In the remaining 24 unbanked blocks spread over six districts, the SLBC convenor bank may conduct a viability study to decide the feasibility of opening of new branches. In the meanwhile, banking facilities may be extended by appointing Banking Facilitators/ Correspondents. SLBC convenor may take the lead in the matter.

9.2.3 Microfinance

- There is a need for the NGOs for exposure visit to the Northern /Southern States where the NGOs/SHGs are more active to gain the knowledge and the good policies followed by the NGOs and introduce the same in the State.

(Action: NABARD)

9.2.4 Measures to revitalize Arunachal Pradesh Rural Bank

- Presently the RRB has 61 staff recruited 20 years back. The bank is also having 32 daily wages messengers. Staff strength is very low for 17 branches, 2 extension counters and Head Office. The bank may be allowed to recruit /regularise the daily wages staff/deputation from Sponsor Bank.

(Action: RRB, sponsor bank)

- Stakeholders are to infuse fresh capital to the extent of loss, at least Rs. 20 crore.
- HO has been partly computerised, the bank has proposed to computerise 4-5 branches during the year and the remaining branches to be computerised in the next financial year for which grant may be provided by the Sponsor Bank.

(Action: sponsor bank).

9.2.5 Measures to strengthen Arunachal Pradesh State Cooperative Bank

- Presently, the bank is facing liquidity crunch and there is no scope for branch expansion. It is suggested that the bank should close/ merge the unviable branches.
- Computerization of branches/operations: Presently HO and only 1 branch have been computerized. There is a need for computerization of all the branches for the better performance of the bank.
- Closure of loss making branches, termination of excess staff, disciplinary action should be taken against the staff wherever necessary.

- Memorandum of Association may be suitably amended to replace elected Chairman of the Cooperative Bank by professional one.

(Action: SCB)

9.2.6 Measures for simplifying bank loan procedures

Presently, in Arunachal Pradesh, there is no system of land record. As a result the banks are unable to take the collateral security. The Deputy Commissioner has issued LPC to few farmers so as to enable to mortgage their land for availing loan facility from banks. Generally, banks are insisting for collateral security for high value loans.

- Ways of obtaining collateral for larger value of loans: For larger value of loans the banks are availing sufficient deposit receipt/guarantee from the third party. The transfer of properties Act is not applicable in the State and as a result equitable mortgage cannot be created. The banks are facing problem for financing high value proposals for want of security.
- Under the Government Sponsored Schemes, the applications are not sponsored by the Development Agency like DRDA as per the time schedule and bunching of applications are made in the last quarter of the year which may be avoided.

(Action: State Govt.)

9.2.7 Improving recovery performance in the State

- The State Cooperative Bank should publish the list of chronic defaulters in the newspapers. Legal action needs to be initiated by the State Government against the defaulters.

(Action : SCB)

9.2.8 SIDBI has made the following suggestions, agency wise, for developing the SME sector in the State of Arunachal Pradesh:

NABARD

- Arrange for training of the carpet weavers in Tawang and artisans engaged in cane and bamboo handicraft in Itanagar, Arunachal Pradesh.

- New designs may be introduced in carpet as also in cane and bamboo handicraft with the help of design institutions like DC, Handicraft, Government of India, National Institute of Design, National Institute of Fashion Technology etc.
- Marketing linkages may be established with departmental stores for marketing of the cane and bamboo handicrafts and carpet or in areas having large demand for such goods.

SIDBI

- Rural Industries Programme (RIP) to be organised in one or two districts having concentration of non farm activities for skill upgradation in the respective field of trade of the artisans and development of entrepreneurship and training of the existing entrepreneurs.
- Establish marketing linkages with departmental stores and areas which have large demand for such goods.

NEDFi

- Provide financial assistance to the weavers /artisans engaged in weaving of handloom/ carpet and handicraft activities directly or under its micro credit scheme.
- Marketing linkages may be established with departmental stores for marketing of the cane and bamboo handicrafts and carpet.
- Set up Common Facility Centres, Marketing outlets in co-ordination with DC, Handloom and Handicraft, Government of India.
- Sponsor participation of the artisans in trade fairs/exhibitions etc.
- Arrange for wide publicity of the handloom and handicraft products in the outside market.

9.3 Manipur

9.3.1 Opening of bank branches

Out of 36 blocks in the State, 18 blocks are unbanked. In some cases, it has been due to the closure of bank branches or owing to off-site functioning of some branches. The

Task Force recommended for opening of 34 bank branches in the State in a phased manner over a period of ten years.

The Committee deliberated on the issue and suggests that in the first phase, one branch each may be opened at Tuibung (Churachandpur district) and Phungyar (Ukhrul district) by Manipur Rural Bank and a branch at Keirao Bitra (Imphal East District) may be opened by Manipur State Co-operative Bank.

(Action : MSCB,MRB)

In the remaining 31 unbanked blocks, a viability study may be conducted by SLBC convenor bank, SBI, to decide the feasibility of opening of bank branches within a period of three months.

(Action: MSCB, MRB, SLBC, State Govt.).

Community Based Organisations like Natural Resources Managing Groups (NRMGs) and Marup may be used as Business Facilitators to increase financial inclusion of people where bank branches are not available.

(Action: Banks).

9.3.2 Microfinance

- The cost of promotion of SHGs should be initially raised to Rs.5000/- per SHG and should be periodically reviewed. Main constraints are in areas of transportation, food, accommodation and out of pocket expenses for field workers of NGOs.

(Action: NABARD)

- Marup could be linked to institutional finance with modification to suit the requirement of law in their functioning, provided a legislation or an administrative order could be passed by the State which would make it obligatory for registration of such marups that are desirous of credit linkages.

(Action: State Government)

9.3.3 Measures suggested for strengthening Manipur Rural Bank

There is only one RRB, Manipur Rural Bank functioning in the State, which covers all the 9 districts with a network of 29 branches. The RRB is sponsored by UBI. Keeping in

view its accumulated losses and negative net worth, the State Task Force has suggested a detailed action plan. The salient features are as under:

- At present the total staff strength of the RRB is 90, of which officers are 36. Average age of staff working in RRB is over 50 years. Serious effort for motivation by the Chairman, Sponsor Bank, through visits, discussion and incentives for increasing business is the need of the hour.

(Action: Sponsor Bank- UBI)

- The business per employee of RRB is Rs. 81.26 lakh which is on the lower side. The business per employee should go beyond Rs.100 lakh per employee immediately and thereafter Rs.150 lakh and so on.

(Action: MRB)

- It has become a high cost institution. Therefore, funds at a low cost may be provided by Sponsor Bank, UBI for long term at lower rate of interest. Additional quantum of funds to the tune of Rs.26.46 crores (accumulated losses + erosion in the value of assets i.e. Rs.17.34 crores + 9.12 crore) may be provided as additional capital. State Government support is also required in the form of deposit with RRB. Relaxation in NABARD refinance norms (Restricted Category) be made since the bank had never defaulted in repayment obligations. If this is taken into consideration, the MRB should project as to how and in what manner they can reach masses within a time bound programme.

(Action: UBI, State Government and NABARD)

- Banks branches are managed by one/two officer/s only. Some financial power can be delegated to clerical staff for limited amount of withdrawal and deposit so that at the time of officers going out of branch, services are provided to the customers.

(Action: Sponsor Bank, MRB)

- The RRB is required to use their non-functional branch as Satellite branch and also open branches in the districts having potential for them. There cannot be any closure of bank branch.

(Action: MRB)

9.3.4 Strengthening Manipur State Co-operative Bank

The Manipur State Co-operative bank Ltd. with 9 branches has its presence in 8 districts. However, the MSCB has not been complying with the Sec.11 (1) of BR Act, 1949 (AACS) since March 31, 1994.

- Computerisation of branches/operations: The Imphal Branch of the Bank has recently gone online and will be performing all its work through computers. The process for computerization of other remaining branches, especially, Nambol, Bishenpur, Thoubal and Kakching Branches are also being initiated. Computerization with time bound programme should be implemented within 6 months to 1 year. NABARD / State Govt. may help in implementing the above proposal by infusing funds. **(Action: SCB, NABARD and State Government)**
- Branch expansion: Given the bank's significant expansion in terms of business volumes, the bank may open branches in the locations mentioned below –

Sl.No.	Place / Location	District	Remarks
1.	Jiribam	Imphal East	Reopening of already existing branch
2.	Moreh	Chandel	New Branch
3.	Paona Bazar	Imphal West	New Branch
4.	Porompat	Imphal East	New Branch
5.	Lakshmi Bazar	Imphal West	New Branch.

(Action: SCB)

- Currency Chest: The bank is centrally located in Imphal and has its own building with infrastructure for establishment of a currency chest. The bank is facing operational difficulties almost on a daily basis, which could be resolved by opening of a currency chest. The daily transaction is very high and regular local remittances have become a security hazard. This will

help alleviate the problems faced by many other non-chest banks in the capital. As such, the case for opening of a chest should be considered sympathetically. In the meantime, SBI and UBI should be urged to provide maximum cooperation.

(Action: SCB, RBI).

9.3.5 Measures for simplifying bank loan procedures

A form of ryotwary system of land tenure is in force under the Manipur Land Revenue & Land Records Act, 1960. It is applicable in the valley districts and in very few pockets of the hill areas, which have been surveyed. Mortgages can be created where title deeds are clear.

- As regards loans for hill districts, instead of land collateral which is not possible for individual, a format may be devised by banks in consultation with the State Government so that people in the hills are able to get loan while at the same time banks are provided with some sort of comfort. This could be in the form of joint liability certificate issued by Chairman of Village Councils or in the analogy of VDB prevailing in Nagaland. The MSCB Ltd. has devised a format for availing loan by accepting land collateral in the hill districts for implementation of Self Employment Generation Programme (SEGP). This format may be considered by other banks also.

(Action: Banks, State Government)

9.3.6 Apart from the suggestions made by the State Task Forces SIDBI has made the following suggestions, agency wise, for developing the SME sector in the State of Manipur:

NABARD

- Provide financial assistance to all individuals engaged in handloom weaving, handicrafts and other rural non farm activities through Regional

Rural Banks (RRBs), Scheduled Co-operative Banks under Refinance Scheme and/or under micro credit.

- Arrange for skill training of the artisans/ weavers.
- Establish marketing linkages with specialised marketing agencies and/ or areas having large demand for such goods.
- Set up Raw Material Banks, Common Facility Centres in co- ordination with DC, Handloom and Handicraft, Directorate of Handloom, Government of Manipur, Central Silk Board etc.

SIDBI

- Arrange training of the weavers for working in modern looms in co ordination with National Council of Co-Operative Training (NCCT), National Handloom Development Corporation (NHDC), National Co-Operative Union of India (NCUI), Directorate of Handloom, Government of Manipur etc.
- Promote a few clusters on handloom and handicraft activities and / or other non farm activities in the state.
- Organise Rural Industries Programme in a few clusters for training of the weavers, artisans, small entrepreneurs etc.
- Introduce new designs with the help of Development Commissioner, Handloom, Central Silk Board (CSB), National Institute of Fashion Technology (NIFT) etc.
- Establish marketing linkages and /or finance marketing complexes for marketing of the produce.

NEDFi

- Arrange for revival of the Manipur Spinning Mills, a cotton-spinning unit to ensure easy availability of quality yarn at reasonable rate to the weavers.
- Provide financial assistance to the weavers, artisans directly and /or under micro credit scheme.

- Set up Raw Material Banks, Common Facility Centres, Sales Outlets in co-ordination with DC, Handloom and Handicraft, Directorate of Handloom, Government of Manipur.
- Sponsor participation in domestic as also international exhibitions.
- Arrange for wide publicity of the handloom and handicraft products.

9.4 Meghalaya

9.4.1 Branch Expansion

- There are three unbanked blocks viz., Gambegre, Rongara and Chokpot in the State as stated by the State Task Force.
- A branch may be opened in Gambegre by the ICICI Bank. The branch of SBI at Rongara functioning on two days in a week may function on more number of days. SBI branch at Chokpot functioning from Tura may be relocated to the original place.
- To extend foreign exchange facility for export/import transactions, SBI may suitably upgrade its branches functioning at Dawki, Gausapara, Mahendraganj, Barengapara and Baghamara.

(Action : SBI)

9.4.2 Financial inclusion

- Banks to be encouraged to utilize the Farmers' Club /Joint Forest Management Committee. The number of Farmers' Club/Joint Forest Management Committee needs to be increased and link the creditworthy Farmers' Club/Joint Forest Management Committee for on lending.

(Action: Banks)

9.4.3 Microfinance

- The village Dorbars as Self Help Promoting Institutions (SHPI) may be encouraged.

(Action: NABARD)

- NIRD and SIRD may also look after the training needs of the NGOs, SHGs and Rural Financing Agencies. **(Action: NIRD, SIRD)**
- Institute of Cooperative Managements located in Guwahati and Imphal and State Cooperative Training Centre need to be adequately staffed with expertise in different fields of cooperation so as to take care of the training needs of the Cooperative Societies and their functionaries.

(Govt of India, Food and Agriculture, State Govt)

9.4.4 Revitalization of Ka Bank Nongkyndong Ri Khasi Jaintia

- Human Resource: Presently RRB have 183 staff recruited 17 years back. The existing manpower strength of the Bank is inadequate and becoming a serious impediment in performance. As per staffing pattern indicated in Aggarwal Committee Report, immediate recruitment of at least 42 numbers of staff is called for to enable normal functioning of the existing 51 branches and Head Office. In addition, 48 staff are required for additional 9 new branches proposed. The bank is also having 4 daily wages messengers. Hence, the bank may be allowed to recruit /regularise the daily wages staff/deputation from Sponsor Bank till the bank reaches the sustainable viability. Bank may be permitted to recruit Officers/Staff from open market

(Action RRB, Sponsor bank)

- HO of the bank has been partly computerised, the bank has already computerized 20% of its branches and propose to computerise 55% of its branches during the financial year and the remaining branches to be computerised in the next financial year for which grant may be provided by the Sponsor Bank.

(Action: Sponsor bank)

- Branch expansion: The bank may be allowed to reallocate the loss making branches to other districts where there are no branches by shifting the loss making branches and may also be allowed to open nine branches in some of the potential areas to make good their losses form loss making

branches. It may open three branches over and above in the three Garo Hills districts also. **(Action: RRB)**

- Currency Chest / forex business -The RRB has identified three places - one in West Khasi Hills and two in Jaintia Hills, for opening of C-class Currency Chests. The RRB is also willing to take up Forex business at specified locations close to the international borders with the help of sponsor bank. **(Action RRB, EC of RBI)**

9.4.5 Strengthening Meghalaya State Cooperative Apex Bank

- NABARD may consider rules /regulations in the name of 'Dos' and 'Don'ts' for the Board of Directors of the Bank in the line of such stipulations made by RBI for Urban Coop. Banks

(Action: NABARD)

- Computerisation of branches / operations: 25% of the branches of the bank have been computerized. The remaining 75% braches should be computerized (25% - within 6 months and the rest within next 6 months) NABARD to provide cent per cent assistance for computerization of SCBs from its Coop. Dev. Fund.

(Action: SCB, NABARD)

- OTS Scheme: NABARD needs to formulate OTS Scheme for SCBs on the same line of the Commercial Banks and also to allow SCBs to formulate such schemes on its own on the line of Commercial Banks.

(Action: NABARD)

- Single exposure limit: NABARD to increase single exposure for individual financing from the existing limit of Rs.25.00 lakhs which was fixed 6 years back to a minimum of Rs.1.00 crore or linking this exposure limit as percentage to working capital / own funds of the SCBs to deploy their surplus resources in lending operation and serve the credit worthy people in the region.

(Action: NABARD)

- Loan from LTO Fund: NABARD to remove 50% ceiling and other restrictions for State Govt. share capital participation to Cooperative Societies by availing loans from its LTO Fund in view of the weak financial position of Cooperative Societies in the North East and their inability to collect more share money from the tribal populace. The State Govt. is also willing to help the SCBs.

(Action: NABARD)

9.4.6 Simplifying loan procedures

- Ways of obtaining collateral for larger value loans: The Meghalaya Credit and Miscellaneous Provisions Act 1976 and Rules thereunder should provide sufficient comfort to Banks in lending against the security of land. Perhaps awareness and sensitization about the provision of the Act & Rules amongst the bankers is required.

(Action: State Government)

- NABARD to waive requirement of Government Guarantees in respect of non-scheduled Co-operative Banks.

(Action: NABARD)

- The State Government should waive stamp duty on Agricultural loan documents and loan documents of SHGs. **(Action: State Government)**

9.4.7 Developing the SME sector

SIDBI has identified the following actions for various agencies for developing the SME sector in the State:

NABARD

- Arrange for training of the entrepreneurs and artisans engaged in cane and bamboo handicrafts and sericulture in Shillong, Meghalaya.

- New designs may be introduced in handloom as also in cane and bamboo handicraft with the help of design institutions like DC, Handicraft, Government of India, National Institute of Design, National Institute of Fashion Technology etc.
- Marketing linkages may be established with departmental stores for marketing of the cane and bamboo handicrafts and carpet or in areas having large demand for such goods.

SIDBI

- Rural Industries Programme (RIP) to be organised in one or two districts having concentration of non farm activities for skill upgradation in the respective field of trade of the artisans and development of entrepreneurship and training of the existing entrepreneurs.
- Establish marketing linkages with departmental stores and areas, which have large demand for the above products.

NEDFi

- Provide financial assistance to the weavers /artisans engaged in weaving of handloom and handicraft activities directly or under its micro credit scheme.
- Marketing linkages may be established with departmental stores for marketing of the cane and bamboo handicrafts.
- Set up Common Facility Centres, Marketing outlets in co-ordination with DC, Handloom and Handicraft, Government of India.
- Sponsor participation of the artisans in trade fairs/exhibitions etc.
- Arrange for wide publicity of the handloom and handicraft products in the outside market.

9.4.8 Improving recovery climate

- Banks may explore the possibility of using Durbars for recovery. Pilot project could be initiated by SBI on recovery by engaging the Durbars, paying them a certain percentage.
- (Action: Banks)**

9.5 Mizoram

9.5.1 Extending bank branch network

- Bunghmun Block under Lunglei district is the only unbanked block in the State. Further, in the following Sub-Divisional Headquarters, though each served by a branch of Mizoram Rural Bank, there is a need for a branch of PSU Bank, given the limitations of a rural bank branch: i) Ngopa (Champhai Dist.), ii) Khawzawl (Champhai Dist.), iii) Thenzawl,(Serchhip Dist.), iv) North Vanlaiphai (Serchhip Dist.). Chawngte, a Sub-divisional town in Lunglei District and the seat of Chakma District Council is still unbanked. Opening a branch by the State Bank of India which is the Lead Bank for all the districts of Mizoram, would fulfil the long-felt need of the area. Sakawrdai, a Sub-Divisional headquarters (within Aizawl district) and seat of Sinlung Hills Development Council is still unbanked. The Committee deliberated on the issue and suggests that in the first phase, a branch may be opened in Bunghmun Block under Lunglei district by Mizoram Rural Bank. The Committee is of the opinion that as regards other centres, a viability study may be conducted by the SLBC convenor to decide the feasibility of opening branches.

(Action: SLBC convenor bank)

- To extend the outreach of banking to the rural areas, as an alternative to regular bank branches whose establishment costs are high, it is felt necessary to have Mobile Banks that will cover villages at strategic locations and clusters of villages. The initiative in this respect may result in emergence of markets in those places on days that coincide with bank's visits. It is suggested that a working group be set up at the State level to work out detailed plan for operation of mobile banking.

(Action : Banks)

9.5.2 Financial services

- There is an increasing number of people among the community of Govt. servants, retired Govt. employees and businessmen who seek avenues for

investment other than through the dried-and-cut savings schemes available in the banks and post offices. For such people who have disposable income and who are prepared to take a measure of risk for profitable investment of their savings, it is suggested that full-time investor services outfit be started under the auspices of any of the PSU banks operating in Aizawl. It is desired that a beginning be made in this respect to provide a platform for trading in equity, debt instruments and hybrids.

(Action: Banks)

9.5.3 Non-conventional Economic Activities :

- There are ample avenues in certain areas, which were spelt out by Hon'ble President of India during his visit to the State in 2005. These areas relate to Bio-fuel mission, Bamboo mission, Horticulture mission, Quality nursing and paramedic education, Tourism, Creating a secured exclusive economic zone and PURA where the NABARD, banks and financial institutions have a big role to play.

(Action: Banks, NABARD)

9.5.4 NGOs and community based organisations as intermediaries

- The different arms of the Church may be given certain responsibilities like social mapping, capacity building exercise, identification of suitable beneficiaries in accordance with credit absorption capacity, awareness programmes on bank schemes and also to act as Pressure Groups in recovery of NPAs of the banks.

9.5.5 Measures for strengthening RRBs and co-operative banks

- The Mizoram Rural Bank (MRB) has 53 branches, and has staff strength of 173 consisting of 69 officers, 56 clerks and 48 messengers. In the absence of any fresh recruitment after 1994-95, the bank is acutely understaffed. The ban on recruitment which is in force may be permitted to be waived as a special case.

(Action: Sponsor bank)

- MRB has a disadvantage of higher ratio of high cost to low cost deposits. The bank has current viability, earning operating profit, but has to wipe off accumulated loss of Rs.5 crore. Parking of Government deposits which are generally non-interest bearing into MRB branches would improve their net interest margin. The Govt. may also issue instructions to different departments to accept the Call Deposits issued by branches of the MRB, being a deemed Scheduled Bank.

(Action: State Government)

In so far as the Mizoram Co-operative Apex Bank is concerned, as the bank is under Section 11 directions, there is need for improving recovery and infusion of capital from the revival package of Co-operative Credit Structure so that its negative net worth may be wiped off. The bank has prepared a development plan that calls for:

- Filling and Settlement of Arbitration Cases as per provisions of Mizoram Co-operative Act 1997.
- Issuance of Co-operative Demand Certificate for Bakijai cases under Deputy Commissioner, Aizawl District.
- Seek Government intervention in Pay deduction of defaulting Government employee Borrowers/Government Employee Guarantors.

9.5.6 Simplifying banking procedures

- In regard to notification of centres for creation of Equitable Mortgage (as collateral security by deposit to Title Deeds) it is desirable that the smaller towns which are outside the purview of the existing notification be included so that larger value loans may not be denied to beneficiaries in smaller places for want of collateral security. Suitable notification in this regard may be issued by the Department of Revenue. **(Action: State Government)**
- For guidance of the operating staff at branches, controlling offices of banks may reiterate Reserve Bank instructions regarding security norms and margin stipulations. The threshold limit for waiver of mortgage, must be strictly adhered to, especially in case of PMRY, SGSY, SJSRY, etc. and any

deviation by the staff must be sternly dealt with by the respective controllers. At times there arises the problem of over-lapping jurisdictions in the matter of distribution of beneficiaries to different banks/branches. Such problems may be speedily sorted out by the Controllers.

(Action: Banks).

9.5.7 Potential for agriculture and non-agriculture activities

- Mizoram is covered up to 35% with bamboo, a highly versatile raw material. But the commercial utilization is limited. The threat of gregarious flowering which takes place once in 48 years and is due in 2007 should impel all concerned to explore early exploitation or alternatives to avoid economic catastrophe. The Task Force suggests that the banks may shift emphasis towards dairy, poultry, piggery and to some extent goatery that have potential for financing. The other areas are "Jatropha" that gives bio-diesel, grows very well in the state. It is another potential plantation since once grown, the plant has a life span of 50 years. "Anthurium", the beautiful and durable flower, is another new hope for the farmers if exports can be organized in a planned manner and credit ploughed into boost production.

(Action: NABARD)

9.5.8 Training needs for NGOs/ Govt. functionaries

- Joint awareness programmes for new hybrids, improved variety of seeds, disease prevention, storage mechanism, mechanization, market monitoring etc. to be conducted by line departments and banks. In turn, the same can be imparted by the trained to the rural population especially during lean seasons.

(Action: State Government, banks)

9.5.9 Improving recovery climate

- The services of students' self-support union (of educated unemployed graduates/post graduates) may be engaged on commission basis by banks.

(Action: banks)

9.6 Nagaland

9.6.1 Assessment of gaps in terms of banking coverage:

- In the State, there are 14 banks having 93 branches. District-wise network of branches reveals that 42 bank branches are located in Kohima (18 branches) and Dimapur (24 branches) districts and the rest are spread over nine districts covering a population of about 14.62 lakh. Thus, 75 per cent of the banks in the State cater to only 23 per cent of the population. In some districts like Mon (four branches), Longleng (one branch), Kiphire (two branches) and Peren (three branches), the banking network is not considered adequate. There are 21 unbanked blocks covering 421 villages.
- Branches may be opened by Nagaland Rural Bank in the five unbanked blocks in the blocks of Kobulong (Mokokchung district), Chen (Mon district), Pungro (Kiphire district), Tamlu (Longleng district) and Niuland (Dimapur district). In the remaining 16 unbanked blocks, a viability study may be conducted by the SLBC convenor bank. Pending the decision, 'Business Facilitator' model may be put in place to expand outreach; the convenor bank may chalk out the plan of action. As decided in SLBC meeting, 'door step banking' and 'backyard farming' may be implemented in letter and spirit. Banks should effectively participate in the 'Year of farmers' programme of the State Government to step up their lending to agriculture.

(Action: Sponsor Bank, Nagaland Rural Bank)

- In places where full-fledged branches are not viable, satellite branches may be opened. This responsibility may be shared by all banks operating in the State. The BDO's office may be utilized for functioning of such satellite branches. Banks should carry out feasibility study in this regard. Individual

banks should also take-up the responsibility to inculcate the banking habit among *the people*.

(Action: Banks, State Government)

- The State Government has provided Rs.5.00 crore in the Budget for 2006-07 for Micro-financing through the VDBs. Banks may also make similar arrangements.

9.6.2 identification of SHGs/NGOs as financial intermediaries

- The VDB experience of acting as financial intermediaries should be extended to all the villages.
- The Banks should examine if the FD of the VDB's can be used as collateral. (At present, Rs.47.51 crore is available. Rs.37.70 crore in POTD and Rs.9.81 crore in the banks). **(Action: Banks)**
- The Government of Nagaland is actively promoting the Hornbill Finance Corporation on a trial basis to see whether it can grow as a financial institution. The State Government has given a guarantee of Rs 5.00 crore and has requested the National Minority Development Finance Corporation to allow it to act as a channelising agency. The Banks may examine if there can be any tie up with the NBFC.
- The Nagaland Environment Protection and Economic Development (NEPED) project has, in the last five years, put into place a micro credit system in the villages called the RF (Revolving Fund) system that is doing well with a well-designed account keeping systems involving ledgers etc. It proves that villages can manage micro credit. The Banks may examine if there can be any tie up with the NEPED
- Micro credit to women especially the SHGs are proving to be a huge success. Banks should capitalize on this front. **(Action: Banks)**

9.6.3 Strengthening RRB and Co-operative bank

- Staffing pattern of the Nagaland Rural Bank (NRB) should be changed to suit the State. **(Action: NRB, Sponsor Bank)**
- NRB and the Nagaland State Cooperative Bank (NSCB) should have absolute flexibility to design their products. **(Action: NRB, NSCB)**

9.6.4 Simplifications of procedures

- For opening of accounts, certificate issued by Village Council Chairman/ Secretary should be entertained. **(Action: Banks)**
- Stamp Duty to be exempted. Under the State Industrial Policy this has been already exempted. However, notification under the Stamp Act would be required. **(Action: State Govt.)**
- Simpler loaning norms for candidates sponsored under the CM's Corpus fund.
- The arrangements between the Hornbill Finance and NEPED could perhaps be examined as one of the alternatives to generate a banking system in the villages and to restructure the financial infrastructure in Nagaland. **(Action: Banks)**

9.6.5 Identification of potential areas

- Crop zoning has been done. Banks should take this document as an aid for facilitating credit.
- Rural veterinary clinics are a potential sector in the rural areas.
- Agriculture Productions Marketing Committee (APMC) can be supported so that this can be an indirect credit linkage with the farmers.
- Tie up with the ITI's for identifying potential candidates.
- Closer linkage with the Nagaland Handloom and Handicraft Development Corporation.
- The Agri & Allied sectors of the Government of Nagaland has identified various sectors where credit flow can be channelised viz.- Farm Mechanization, Commercial Crop Production, Marketing of Agricultural

produces, Organic Farming, Integrated Multi-Crop nurseries, Cold Storage, Piggery, Dairy and Poultry productions, Feed Processing Centers, Promotion and Development of Medicinal and Aromatic plants. Banks can concentrate on these areas also.

9.6.6 Improving recovery position

Nagaland Industrial Development Corporation (NIDC) might be associated on commission basis for effecting recovery.

- Loanees be given the facility to deposit repayment in any local branch of the bank. **(Action: Banks)**
- The Government of Nagaland has issued directives to the district authorities as well as the VDB's for conducting recovery drives/camps for SBI in respect of NPA's out of which 10% of the recovered amounts will be remitted to the Govt' or VDB's as the case may be. Other FIs and banks can come forward for similar arrangements.

(Action: Banks, State Govt.)

9.6.7 IT application /computerisation.

- Terms and conditions of different categories of loan schemes and requisite forms be put in the Web Sites. (This will facilitate access of information through the Community Information Centre by the rural populace). **(Action: Banks)**

9.6.9 The State Task Force for Nagaland has concluded that:

- Banks and Financial Institutions need to know that they are dealing with the first generation entrepreneurs and farmers who are not accustomed to banking culture. This being the case, the same yardstick of banking as followed in the other parts of the country cannot be applied.
- Past experiences of bad loans etc. should not always be taken into account to evaluate the present proposals.

- Banks continue to be reluctant to extend credit to industrial as well as other sectors citing various reasons such as poor recovery, lack of collateral etc. Banks should henceforth come forward to take calculated risk.
- Unless a suitable strategy is devised to extend credit with calculated risk, the situation is unlikely to improve.
- Banking culture is almost non-existent. In fact only about 5% of the population has bank accounts. The banks should reach out to the people.
- Bank coverage insufficient. Further in terms of real banking profit-oriented approach, no new bank can be opened in many areas and there is a need to find out ways to channelise funds through financial intermediaries.
- Normal banking norms are not region friendly. Banks have to be innovative.
- Banks operate with only skeletal staff. The normal criteria of staffing pattern for the State Nagaland should be different.
- Investment by larger corporate entities – in Nagaland, even for SSI - is still a long way away. The outcome of the various Investors' Meet is a testimony to the situation, so also the Turn Key Enterprise Development Programme (EDP) and other initiatives that have been taken to promote enterprise. As such it is felt that banks need to go in for a more aggressive 'grassroots banking.

(Action: Banks)

9.6.10 NABARD has identified bankable projects - location specific and activity specific for financing in the farm and non-farm sectors in the region. These include dairy development, other allied activities like sheep and goat rearing, piggery, poultry, horticulture, fishery, jhum cultivation, sericulture and watershed development. Almost all the activities identified require active coordination between the various agencies like State Governments, banks, NABARD, etc. for their successful implementation. In many identified areas, there is a need for imparting training by specialized institutions like IIBM, CAB, BIRD, etc. As regards beef, it is more preferred in Nagaland also. But, there was no practice of rearing animals for beef alone. Culled animals were

imported from other States. NABARD should, therefore, introduce bankable model within six months for activity of 'fattening of calves'. Hygienic slaughterhouse should be established under Public Private Partnership with assistance from RIDF in two years time.

9.7 Tripura

9.7.1 In the four block headquarters of Hezarnara, Tulasikhar, Padmabil and Mangiakami, there is no bank branch. The Committee deliberated on the issue and suggests that in the first phase, one branch each may be opened at Hezarnara and Mangiakami by Tripura Gramin Bank. Subsequently, the SLBC convenor bank may conduct a viability study to decide opening of bank branches at other underbanked / unbanked centres.

9.7.2 Microfinance

There are as many as 127 NGOs who have submitted project proposals for availing assistance from the Govt. of India. Out of them few NGOs has been assisted by the Govt. of India, directly on the basis of recommendation of the Department of Social Welfare & Social Education. In this context, the state Task Force has suggested the following measures for the microfinance sector in the State.

- Reorientation of NGOs in SHG management by any reputed training Institution like SPADE, Calcutta. **(Action : NABARD)**
- Orientation of Panchayat level to District level Govt. functionaries of every Department in SHG concept, so that the borrowers may get proper advice from them during their need.
- Vocational training of the borrowers in particular income generating activity before sanction of loan through Govt./Non Govt. agencies.

(Action: State Government)

9.7.3 Measures for strengthening Tripura State Cooperative Bank Ltd.

- In order to achieve fully the target for fresh lending 2005-06 and subsequent years as per Development action Plan (DAP), the Agriculture & Rural Development Department (ARD) may provide more cases of Mini Dairy, Poultry Project and Feed Mixing Projects to TSCB for financing under Central Sector Scheme. Fisheries Department may also sponsor good number of fisheries schemes including Feed Mixing Plants to TSCB under Special Project of the Department.
- The cost of deposit of TSCB has been high as most of the deposits are collected from individuals who used to keep their savings in high interest yielding Term Deposits which account for 70% of total deposit of the Bank. The fund flow from Govt. Departments, Agencies, PSUs has been very limited, thereby the bank is suffering dearth of low cost deposits. Hence it is required that the direction from authority may be given to Govt. Departments, Agencies, PSUs etc. to keep their funds proportionately with TSCB in keeping with CD ratio to augment low cost deposits stake of the bank.

(Action: State Government)

- State Government was required to contribute additional Share Capital of Rs. 45 lakh of during 2005-06 as per their previous commitment. But up to December 31, 2005, additional contribution to Share Capital by State Government was to the tune of Rs.10 lakh. The balance amount may be contributed by State Government.
- It was observed that out of total Impaired credit of Rs.5044.28 lakhs, an amount of Rs.3359.48 lakhs was the NPA with Co-operative Societies (PACS / LAMPS) which constituted 64% of the total NPA. Recovery from the Co-operative societies had been poor and could not be improved despite the OTS facility extended.

(Action: State Government)

- Accumulated loss has risen to a figure of Rs. 2034.51 lakh. In order to bring the bank out of provisions of section 11 (1) of B.R. Act, 1949 (AACS) and for

revitalization of co-operative credit system in the State, it is absolutely necessary to waive the accumulated loss and bad and doubtful loans in agriculture and allied activities. This bank may be provided financial assistance of Rs. 5431.00 lakh from Govt. of India.

(Action: Govt. of India)

- In order to boost loan recovery to achieve the target during the DAP period following assistance may be provided by the State Government / NABARD.

(Action: State Government, NABARD)

- TSCB may be permitted to formulate a “amicable settlement scheme” following the NABARD guidelines and with approval from bank’s board for recovery of hardcore over dues.
- The cases filed under PDR for recovery from willful defaulters may be finalised expeditiously by SDM concerned .
- In order to tone up administration and for proper discharging of statutory liability of management, a professional person with adequate banking background should be recruited to function as CEO of the bank i.e. General Manager. The process for recruitment of professional banker either in working position or retired from Nationalized Bank including SBI, UBI may be expedited and deputed Govt. officer may be withdrawn at the earliest.

(Action: TSCB).

- An HRD Cell urgently required to be opened at Head office for which NABARD may help this bank with proper guidance, HRD survey and financial assistance from Co-operative Development Fund (CDF).

(Action: TSCB, NABARD).

- For computerization, TSCB may be provided soft loan of Rs. 200 lakhs and NABARD may sanction the loan applied for.

(Action: NABARD).

9.7.4 Measures for simplifying bank loan procedures

- The State Govt. may consider waiver of stamp duty on loan cases up to a limit of Rs. 5.00 lakh to facilitate the flow of bank credit in the State.
(Action: State Government)
- The delegation of power of bank Officers for loan sanction depends upon the grade/ scale of the Officers concerned. At present there is hardly any credit proposal, which falls within the power of the local Officers of the controlling Offices at Agartala. Banks may consider placement of Officer of suitable Grade/Scale with adequate sanctioning powers.

(Action: Banks).

- At present collateral security is not insisted upon in cases other than SSI up to Rs. 50,000/- and in case of SSI up to Rs. 5.00 lakh. Collateral security is obtained only in case of high value loan schemes depending upon the risk perception of the banks. In absence of original Title Deed in many cases, the borrowers can not execute equitable mortgage. Creation of Registered Mortgage involves high expenditure on the part of beneficiaries on payment of stamp duty, registration fee etc. which may be exempted by the State Government.

(Action: State Government).

9.7.5 Measures for improving the recovery performance

- Sponsoring agencies to ensure proper utilization of loan and creation of assets.
- The sponsoring authority should be given a target for recovery also.
- Panchayats, Local Self Govt. and Block Level functionaries of Line Departments be actively associated with recovery process on an on-going basis.
- Forward and backward linkage to be provided by the Govt. machineries and availability of raw materials, power etc. to be ensured.

(Action : State Government)

9.7.6 In addition to the above, SIDBI has made the following suggestions, agency wise, for developing the SME sector in the State of Tripura:

NABARD

- Provide financial assistance to the artisans engaged in cane and bamboo crafts through RRBs, Scheduled Co operative Banks under Refinance Scheme and/or under micro credit.
- Provide training for upgradation of skill for production of handicrafts.
- Introduce new designs in cane and bamboo handicrafts with the help of design institutions like National Institute of Design, DC, Handloom and Handicrafts, National Institute of Fashion Technology etc.
- Set up Raw Material Banks, Common Facility Centres and Sales outlets for marketing of cane and bamboo handicraft in co ordination with DC, Handloom and Handicraft, Government of India, Directorate Handloom, Government of Tripura etc.

SIDBI

- Sponsor Rural Industries Programme in a few clusters having concentration of cane and bamboo handicrafts and other non farm activities for training of the artisans to work in modern implements for production of cane and bamboo crafts and entrepreneurship development.
- Promote a few clusters on handloom and handicraft activities and/or other non farm activities in the state.
- Arrange for training of the artisans for skill upgradation for production of handicrafts.
- Establish marketing linkages with departmental stores and other markets /regions having large demand for such goods.

9.7.7 The State Government has also made the following suggestions:

- Banks should open new branches in the original location from where they had shifted some of their branches to new locations because of security reasons.

- RBI should open office at Agartala for proper monitoring and supervision of functioning of the banks.
- RBI should set up banking institution in all the States of NE Region both for training of bank staff as well as general public.
- Posting of bank officials in any region should not be taken as punishment posting. A general policy for working in any region may be adopted by RBI.
- There should be development banking spirit for the bankers.
- There should be two to three MFIs in the region to be set up by major banks.
- Private banks should be allowed to open more branches in the region so that a competition mindset may grow up amongst bankers.
- More ATMs and currency chests to be opened by the banks in the region, particularly in Tripura.
- NABARD should take an active role of doubling of credit flow in NE States, particularly, Tripura as major schemes under Government Sponsored programme relate to agri and allied activities.
- Private investors should be invited to come to Tripura and should be extended loan by bankers for raising big projects like rubber based projects.
- Banks are showing accumulated loss due to burden of outstanding amount of loan mela given in 1988-89. This has not been written off in NE region where as bankers in other parts of the country have already written off these amounts. Banks in the region should take necessary action.
- Bankers should actively participate in the meetings of different committees.
- Proper level of participation should be ensured by bankers and State Govt. Department in the SLBC meetings.

Annex 2.1

Initiatives taken by the Reserve Bank for improving flow of credit to the region

- (i) In November 1996, RBI had convened a meeting of all banks operating in the North-Eastern region to discuss measures to improve credit flow to the region. The banks were urged to ensure that:
- a. Service Area Plans are revised upwards under various sectors and loans disbursed for bankable proposals even if not included in the earlier Service Area Plan(s);
 - b. New Schemes are prepared in consultation with the State Governments and existing entrepreneur - clients, with a view to increasing lending in the region.
 - c. The services of Village Development Boards (VDBs) and SHGs be utilized for channelising credit to individuals against suitable guarantee/surety from them;
 - d. VDBs and SHGs may also be considered for being associated with recovery of dues on mutually agreed conditions;
 - e. Provision of timely and adequate credit by banks to facilitate early implementation of large projects initiated in certain states.
 - f. Special agricultural projects may be implemented by banks so as to ensure focused flow of credit to agricultural operations in the region;
 - g. Alternative methods for lending to individuals may be explored including the possibility of substituting mortgage of the land by appropriate guarantees.
- (ii) In September 1997, RBI asked the major banks operating in the region to take action as under:
- Chief Executives of banks should ask branch managers to attend Gram Sabha meetings, which should be held on non-banking days.

- Rather than relying on legal recourse, banks and state Governments should seek to exert social pressure through village communities, tribal chiefs, etc. for recovery of bank dues.
 - Mobile banking should be tried in the States where distance rather than law and order is a problem.
- (iii) In order to facilitate follow-up action on the recommendations of the Shukla Committee (High-Level Committee on Transforming the North East appointed by Government of India in 1999), RBI had set up an Informal Group under the Chairmanship of Shri R. Krishnamurthy, the then Deputy Managing Director, State Bank of India in July 2000 to examine how norms and procedures of the banking and financial institutions may be suitably adopted to respond to the special land laws and other features obtaining in the North-East with a view to augmenting flow of credit to the region.
- (iv) The Informal Group's Report was discussed in a High Level Meeting on February 14, 2003 at Guwahati under the Chairmanship of the then RBI Deputy Governor and as per the decision taken a Monitoring Group under the Chairmanship of the Regional Director, RBI, Guwahati was constituted to review on monthly basis the flow of credit to the region with special focus on KCC and microfinance through SHGs. The Regional in-Charges of six banks having major presence in the Region, CGM, NABARD and SIDBI are members of the Group.
- (v) The Monitoring Group had held twenty meetings since inception, where, apart from review of the performance, issues that come in the way of implementing these schemes were discussed. Apart from representatives of the banks, the State Government officials also participated in the meetings to make the discussion more meaningful and result-oriented. The matter of low performance by banks in issue of KCCs, microfinance, SGSY and other Government sponsored schemes were taken up with the respective banks. Further, it was decided in January 2003 that there should be periodic meetings to discuss

problems related to industries in the region. The meetings with Federation of Industries in the North Eastern Region (FINER) and banks are being held at periodical intervals under the Chairmanship of the Regional Director, RBI.

- (vi) The Regional Director, RBI, Guwahati, is also in regular contact with all the Chief Secretaries of the Region through quarterly DO Letters addressed to them in which issues and problems faced by the banks which require State Government's intervention are highlighted.
- (vii) Further, high level meetings are convened under the chairmanship of the Deputy Governor, Reserve Bank, every year to review the flow of credit from the banking sector to the region. These meetings are attended by the state Government officials, banks, development financial institutions, NGOs and other stakeholders in the region. In these meetings, the various initiatives to improve the credit flow from the banking system are discussed.
- (viii) Two Empowered Committees have been formed under the Chairmanship of Regional Director, RBI, to discuss the ways and means to streamline the flow of credit through the RRBs and also separately to review the progress in SME financing and rehabilitation of sick SSI and SME units, and to remove bottlenecks, if any, faced by them.

Annex 3.2: Summary of proposed branch expansion in NE Region

S N o .	State	No. of distri ct	Exist ing bank bran ches	Propo sed branch expan sion in the first phase	Name of the block proposed for opening of Branch	Name of the District	Population of the block	Existin g APPB O state- wise	APPB O after additi on of branc hes	Banks which are likely to be entrusted with the task of opening branches
1	Assa m	27	1323	03	Nayeralga Develop ment Block Baska Dev.Block Pub- Nalbari Dev Block	Dhubri Baska Nalbari	75818 101058 112858	20134	20089	RRB(AGVB) RRB(AGVB) RRB (AGVB)
2	Aruna chal Prade sh	16	98	01	Yachuli	Lower Subansiri	13895	11115	11003	Arunachal Pradesh Rural Bank
3	Manip ur	09	93	03	Keirao Bitra	Imphal East	70138	25684	24881	MSCB
					Tuibung	Churacha ndpur	32084			RRB(MRB)
					Phungyar	Ukhrul	13293			RRB(MRB)
4	Megh alaya	07	229	04	Gambegre	West Garo Hills	8000 (515813 District population)	10072	9899	Private Sector Bank at Gambegre & one RRB (Ka Bank Nongkyndo ng Ri Khasi Jaintia)
						East Garo Hills	247555(Di st.populati on)			RRB(-do-)

						South Garo Hills	99105(Dist population)			RRB(-do-)
5	Mizoram	08	93	01	Bunghmun	Lunglei	15,821	9658	9554	Mizoram Rural Bank
6	Nagaland	11	93	05	Kobulong	Mokokchung	20686	21383	20292	RRB(NRB)
					Chen	Mon	23989			RRB(NRB)
					Niuland	Dimapur	31479			SBI
					Pungro	Kiphire	24075			RRB(NRB)
					Tamlu	Longleng	25039			RRB(NRB)
7	Tripura	04	226	2	Hezamara	West Tripura	61,796 (1532982-District population)	14155	13909	RRB(TGB)
					Manglaka mi	-do-	58,865			RRB(TGB)
	Total :	82	2155	19						

Annex 3.3

State-wise List of Districts considered Underbanked by RBI (DBOD No. BL.BC.36/22.01.001/2005 dated September 8, 2005)

ARUNACHAL PRADESH

- 1 CHANGLANG
- 2 DIBANG VALLEY
- 3 LOWER DIBANG VALLY
- 4 EAST KAMENG
- 5 LOHIT
- 6 ANJAW
- 7 LOWER SUBANSIRI
- 8 KURUNG KUMEY
- 9 TIRAP
- 10 UPPER SIANG
- 11 UPPER SUBANSIRI

ASSAM

- 1 BARPETA
- 2 BONGAIGAON
- 3 CACHAR
- 4 DARRANG
- 5 DHEMAJI
- 6 DHUBRI
- 7 DIBRUGARH
- 8 GOALPARA
- 9 GOLAGHAT
- 10 HAILAKANDI
- 11 JORHAT
- 12 KAKROJHAR
- 13 KAMRUP METROPOLITAN
- 14 KARBI ANGLONG
- 15 KARIMGANJ
- 16 LAKHIMPUR
- 17 MORIGAON
- 18 NAGAON
- 19 NALBARI
- 20 SIBSAGAR
- 21 SONITPUR
- 22 TINSUKIA

MANIPUR

- 1 BISHENPUR
- 2 CHANDEL
- 3 CHURACHANDPUR
- 4 IMPHAL EAST
- 5 IMPHAL WEST
- 6 TAMENGLONG
- 7 THOUBAL
- 8 UKHRUL

MEGHALAYA

- 1 EAST GARO HILLS
- 2 SOUTH GARO HILLS
- 3 WEST GARO HILLS

MIZORAM

- 1 LAWNGTLAI
- 2 SAIHA

NAGALAND

- 1 DIMAPUR
- 2 KOHIMA
- 3 KHIRPE
- 4 LONGLENG
- 5 MOKOKCHUNG
- 6 MON
- 7 PEREN
- 8 PHEK
- 9 TUENSANG
- 10 WOKHA
- 11 ZUNHEBOTO

TRIPURA

- 1 DHALAI
- 2 NORTH TRIPURA
- 3 SOUTH TRIPURA
- 4 WEST TRIPURA

The above list is indicated as Annex III of Master Circular on Branch Authorisation for Scheduled Commercial Banks (except RRBs)

Annex 3.4: Performance Matrix of Banks for the NER

Goals	Metrics	Basic unit for monitoring purposes	Proposed Targets	Time Frame to Achieve the Goal	Rating of Performance	Reward
Increasing the Number of New Clients	New deposit clients with overdraft/GCC/KCC	Branch Level	50 (or whatever number that is fixed as applicable to the branch) new clients who are provided basic deposit account along with overdraft/GCC/KCC. (the accounts will include direct as also indirect viz. through SHGs)	Next 4 years. Programme may be reviewed at the end of each year	Above the target = Excellent, Below 50% of the target not satisfactory	-
Expanding Geographical Coverage	To increase the number of villages covered by a bank	Regional/ State level	Self set target taking into account the plans for increasing coverage to all households in the area allocated to the branch for financial inclusion	Next 4 Years. Programme may be reviewed at the end of each year	Above the target = Excellent, Below 50% of the target not satisfactory	
Promotion of SHGs	To form SHGs and deposit /credit link them	Branch /Regional level	Self set targets	On ongoing basis	Above the target=Excellent Blow 50 % of target not satisfactory	
Increasing flow of credit to small borrowers	Percentage of credit to small borrowers (upto Rs 50000) in numbers and amount to total credit at branch	Branch Level	Self set targets taking into account ACP and potential in the area as per ACP	On-going basis	Above the target = Excellent, Below 50% of the target Poor	-
Increasing Total Credit Flow	Setting Annual Credit Plan	Branch Level	Achievement as per ACP 25% increase over the previous year	On-going basis with quarterly review.	Above the target Excellent, Below 50% of the target not satisfactory	-

Performance Matrix of Banks for the North-Eastern Region..... Continued

Goals	Metrics	Monitored Level of Office	Proposed Targets	Time Frame to Achieve the Goal	Rating of Performance	Reward
To Curtail excessive reliance on Transfer Pricing Mechanism for Profits and to make efforts for productive lending for improvement operating profit and incremental NPAs	To increase operating income and reduce expenses	Branch Level	Self set target of operating profit	Next 12 to 18 months	Greater than equal to target = excellent, Less than 50% = poor	-
Strengthen internal control mechanism and reporting systems to avoid misappropriations/frauds	Evaluate existing systems and plug loopholes, if any. Frame proper rules and regulations, streamline reporting systems in regard to accuracy, clarity, simplicity and timeliness	Branch / RO/ HO level	Self set target (provided by corporate/controlling office)	On-going basis	Achievement in next two years = excellent, Beyond three years not satisfactory.	Improve rating of the bank
More focus on para-banking business	Insurance products, especially health and life insurance for account holders	Branch Level	Self set target (provided by corporate/controlling office)	On going basis	Above the target Excellent, Below 50% of the target Poor	-

*Based on all-India deposit accounts growth of 2.2% and credit accounts growth of 10.3% during 2001 to 2005 .

Annex 3.5: List of Centres identified for forex facilities in NER

Name of the State	Name of the Trade Centre	Name of tourist destination	Money changing facilities not available near important tourist destinations
Meghalaya	Dawki, Bholaganj, Borsara, Shellabazar, Baghmara, Dalu, Ghasupara, Mahendraganj, Tura	Shillong, Meghalaya	
Arunachal Pradesh	Itanagar		Tawang, Bhalukpong, Bomdilla
Assam	Karimganj, Suterkandi, Mankachar, Dhubri, Golokganj, ICD Amingaon, Dibrugarh, Hojai, Tezpur, Nagaon, Tinsukia, Amingaon, Barpeta, Golaghat, Jagiroad, Namrup	(I)Sibsagar, Assam (ii)Kamakhya Temple, ssam	Orang National Park, Nameri National Park, Kaziranga National Park, Tezpur, Manas National Park, Silchar,
Manipur	Moreh		
Tripura	Agartala, Shrimantapur Dharamnagar, Sonamara, Kailachahar,		
Mizoram	Champai		
Nagaland	Dimapur		

Annex 5.1 Performance review of RRBs in NER for the quarter ended -----

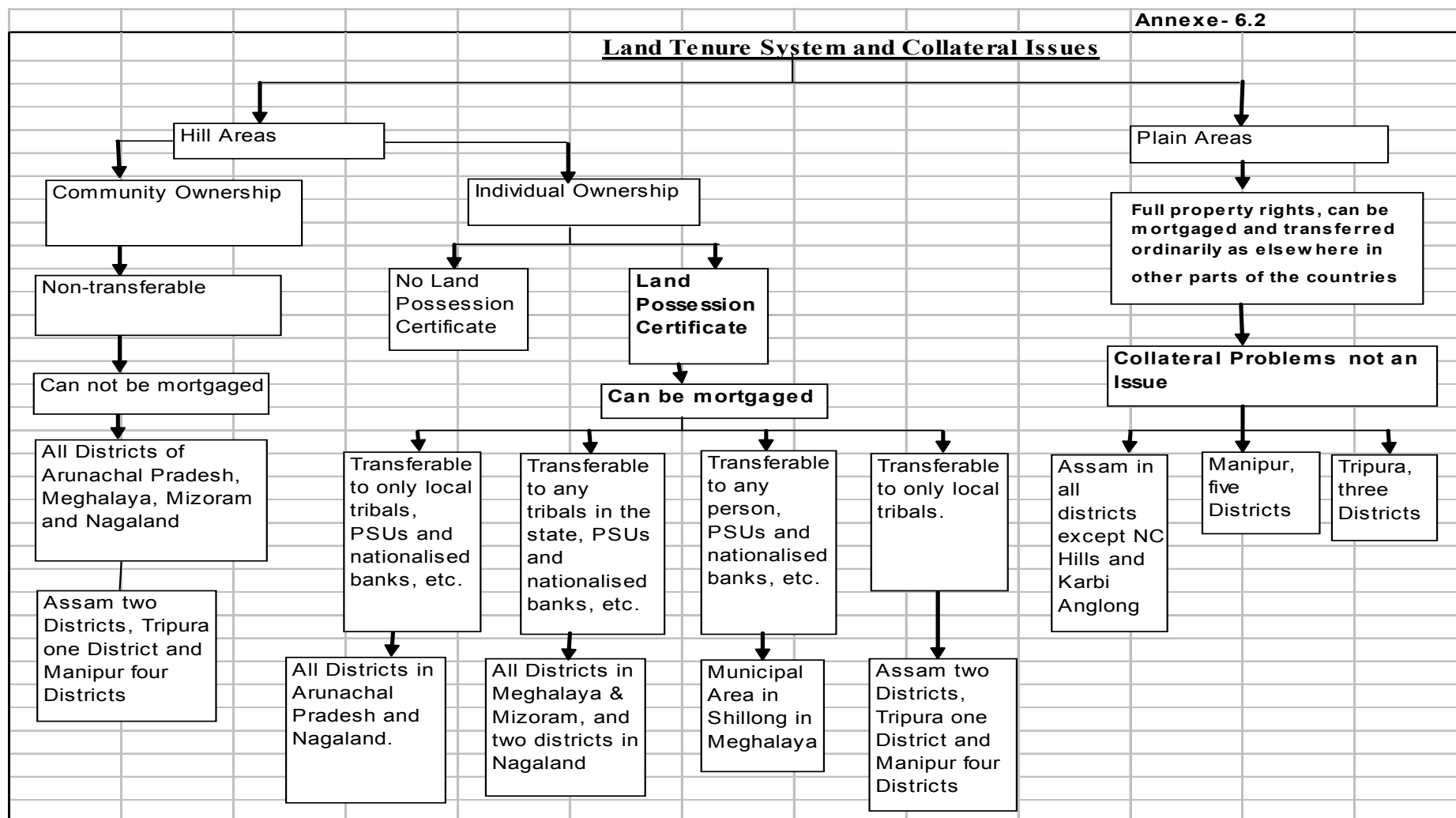
(Rs.in lakh)						
Deposits						
Accounts				Amount		
Name of the RRB	As at the end of previous quarter	As at the end of current quarter	Variation (%)	As at the end of previous quarter	As at the end of current quarter	Variation (%)
Advances						
Accounts				Amount		
Name of the RRB	As at the end of previous quarter	As at the end of current quarter	Variation (%)	As at the end of previous quarter	As at the end of current quarter	Variation (%)
Recoveries in NPA						
Name of the RRB	Amount recovered during the previous quarter	Amount recovered during the Current Quarter			Variation (%)	
Incremental NPAs						
Name of the RRB	NPAs as at the end of previous quarter	NPAs as at the end of current quarter		Incremental NPAs to incremental advances (%)		
Operating Profit						
Name of the RRB	Operating Profit as the end of previous quarter		Operating Profit as at the end of current quarter		Variation (%)	

Annex 6.1 Land Tenure System in the North-East India

State	Geography	Cultivation Pattern	Legal Position	Transferability of land out of the community	Pattern of Ownership
Arunachal Pradesh	Terrain Hilly, Area 83.74 mn. hectares, Population 10.91 lakh	75% shifting, 25% settled	No land Tenure System with legal backing	Prohibited by Customary Law	Community, Clan and Private
Assam					
1. Plain Areas: Brahmaputra and Barak Valley	Area 63.12 mn hectares, Population 256.59 lakh	Settled	Assam Land and Revenue Regulation 1886	Permissible except in designated Tribal Belts	Mostly private
2.Hill Districts:					
(a) Karbi Anglong	Area 10.43 mn hectares, 66% Hilly 34% Plain, Population 8.13 lakh	Both shifting and settled	Mikir Hill District Act 1959	Not possible except with prior permission of the District Council	Community and private
(b) North Cachar	Area 4.89 mn hectares, 85% Hill 15% Plain, Population 1.88 lakh	Both shifting and settled	Only executive orders and Instruction	Not Possible except with prior permission of the District Council	Community and private
Manipur	Area 22.38 mn hectares, 90% Hill, 10% Plain, Population 23.89 lakh	Settled in plains, both shifting and settled in hills	Manipur Land Revenue and Land Reforms Act 1960(Not enforced in Hill areas so far)	Permissible in the plains but not in the hill areas	Community land, clan land, Village chief/council is the owner/ custodian lands

State	Geography	Cultivation Pattern	Legal Position	Transferability of land out of the community	Pattern of Ownership
Meghalaya	Area 23.43 mn. hectares, Terrain Hilly, Population 23.06 lakh	66% shifting 34% settled	Meghalaya Transfer of Land(Regulation) Act 1972	Prohibited by law	Garo Hills:: Clan Lands, Managed by Nokma (on behalf of Nokna) Khasi Hills:: Ri Kyanti land is clan lands, Ri Raid land is: community land Jayantia Hills: Similar to Khasis
Mizoram	Area 20.08 mn. hectares, Terrain Hilly, Population 8.91 lakh	Both shifting and settled	Lushai Hills District (Acquisition of Chief's Rights) Act 1954.	Prohibited by law	All land belongs to State. Three kinds of Pattas: Temporary Pass, Periodic patta, land settlement certificate
Nagaland	Area 16.58 mn. hectares, Terrain Hilly, Population 19.89 lakh	Both shifting and settled	Customary laws	Not possible	Common Village land, Clan land, Individual land, Morung land
Tripura	Area 10.49 mn. hectares, Hills - 60%, Plains-40%, Population 31.91 lakh	Settled in plains, both shifting and settled in hills	Tripura Land Revenue & Land Reforms Act 1960, Tripura Tribal Area Autonomous District Council Act 1979	Prohibited without the permission of Deputy Commissioner	In Hill Areas Community

Sources: 1) Basic Statistics of NER, North Eastern Council, Government of India
2) Statistical Handbook, Assam 2004, Directorate of Economics and Statistics, Govt. of Assam and 3) Sacheva (2000), Lianzela, 2006 and State Governments.



Sources: Sachdeva, 2000; Lianzela, 2006 and from State Governments.

Annex 7.1 Skill sets that are needed and capacity building aimed at¹⁰ achieving Financial Inclusion in the North East

Skill Sets:

- Top Management: Goal Orientation on financial inclusion: Target Setting
- Senior Officers: Contours of financial inclusion: Task analysis: Mid course steps, corrections if any: Guiding the branch managers
- Branch Managers: Financial Inclusion: Group Facilitation and Group management skills: Business skills in micro finance, SHG management skills
- Branch Staff: Facilitation skills: Business skills: Group formation and management of NGO/MFI- **Financial Inclusion**
- NGO/MFI Knowledge of Banking. Rules for SHG banking and lending- **banking products**
- **Bank staff/NGO/MFI- Financial Advising of rural clients.**

Capacity Building programme

SN	Particulars	Coverage	Who will do	Venue	Days	Output
1	Meeting of Chairmen of Banks	The Task and time frame Concept of financial inclusion	RBI	Mumbai	Half day	Action points to be communicated by Chairmen to the offices in NE
2	Seminar for Senior Executives of commercial banks in the North East	The Issue- of financial inclusion The Task The Methodology The time Frame	NABARD IIBM (to be supported by CAB, BIRD, RTC Bolpur) IIBF can also join in the efforts.	Calcutta Guwahati	One Day	Monitoring Issues Policy interventions How to go about
3	Work Shops for Branch Managers	The Task-issue- financial inclusion. The Methodology Facilitation skills NGO/MFI skills Soft skills	Facilitators ¹¹	Various parts of North East	Two days	Understanding the deliverables, Planning for achieving the task Customer Orientation skills
4	Branch Staff	Facilitation Skills Group/NGO/MFI dynamics Task Accomplishment	Facilitators	Various parts of N.E	Two Days	Skill building
5	NGO's	Facilitation Skills	Facilitators	Various parts	Three days	Skill Building

¹⁰ Training programs may specifically cover / demonstrate the use of IT based solutions

¹¹ Identify a set of officers from the banks , NABARD (Guwahati and Calcutta) IIBM (called facilitators) and equip them for the task to focus on, financial inclusion, facilitation, over view of microfinance, micro finance fundamentals, group dynamics and basics of banking

	MFI Field Officers	Basics of Banking Task Accomplishment		of N.E		
6	Branch Staff NGO & MFI	Financial Inclusion and rural financial advising	IIBF- Distance Mode	Courseware/Book Financial Quotient on IIBF portal		45 days time to prepare

Annex 8.1 :NABARD Action Plan

PART : A

FARM SECTOR:

The projections pertain to three sub sectors viz Animal Husbandry, Fisheries and Horticulture.

Animal Husbandry

Dairy Development:

Dairy Development sector needs to be revitalised. The observations that are hampering the growth of the sector are mentioned below along with the recommendations.

- Milk is not preferred, traditionally, as a food item even in tea / coffee.
- Crossbred cows are in short supply.
- Cross breeding through Artificial Insemination (AI) needs to be revitalised.
- Animal breeding farms in Government sector are not efficient.
- Animal fodder is in short supply.
- Infrastructure like veterinary hospital, AI centres is very poor.

Sr.No	Recommendation (Dairy Development)	Action	Remark
1	Strong awareness campaign to propagate advantages of milk consumption amongst tribal communities should be orchestrated by Child Welfare and Health Department of the State Government. Agencies like NDDDB should be roped in for promotion of milk consumption in the region.	State Governments' Child Welfare/Health Department in coordination with NDDDB.	Timeframe: 2 years
2	The derelict Animal breeding farms should be handed over to SHGs/ professionals for better management.	State Government, Dept. of Animal Husbandry and NABARD	Timeframe: 1 year
3	Institutions like RRTC in Shillong should be encouraged to impart 'Hands on' training to farmers on management of Cross Bred Cows (CBCs).	RRTC	Timeframe: 6 months

4	Local Agri-university/Krishi Vigyan Kendras/ Qualified veterinary doctors should train local village youth with matriculation, to become 'barefoot vets' for providing AI services in remote areas.	NABARD and State Government.	Timeframe: 6 months
5	Area under fodder needs to be increased from present 3% to 10%.	Government of Assam, Animal Husbandry Dept.	Timeframe: 4 years
6	In hilly areas, farmers doing animal husbandry activities should be grouped into SHGs/ JLGs.	NABARD	Timeframe: 1 year
7	The State Governments desirous of Public Private Partnership in the areas of AI, Frozen semen, etc may borrow under RIDF.	State Governments.	Timeframe: 1 year

Sheep and Goat:

Sr.No	Recommendation (Sheep and Goat)	Action	Remark
1	Assam hilly variety of goat is known for skin quality and offsprings in twins and triplets however it is not well supported. NGO promoted Goat rearing activity on the lines of Jiribam area (Manipur) can be replicated in other States.	NABARD	Timeframe: 1 year
2	Sheep and goat have good scope in Bomdila and Tawang due to army settlements there. Conscious efforts to expand the activity.	NABARD	Timeframe: 1 year

Piggery:

Sr.No	Recommendation (Piggery)	Action	Remark
1	Piggery is traditionally practised in Dhemaji, Lakhimpur and Boro Territorial Council districts of Assam and all over Tripura State. There is need to set up more pig farms in these areas. Piglet breeding farms should be set up in the region.	State Government and NABARD	Timeframe: 2 years

Beef:

- Beef is more preferred in States of Meghalaya, Nagaland and Mizoram. However, there was no practice of rearing animals for beef alone. Culled animals were imported from other States.
- In Meghalaya not a single standard hygienic slaughterhouse has been established.

Sr.No	Recommendation (Beef)	Action	Remark
1	a) NABARD should introduce bankable model for activity of 'fattening of calves'. b) Hygienic slaughterhouse should be established under Public Private Partnership with assistance from RIDF.	NABARD, Bankers and State Government.	Timeframe: a)6 months b) 2 years

Poultry:

- Egg Production cost is higher in local layer units due to high cost of feed.
- Eggs imported from Andhra Pradesh are cheaper.
- Meghalaya Government has provided Rs.50 lakh for promoting cultivation of maize for poultry feed.

Sr.No	Recommendation (Poultry)	Action	Remark
1	The above initiative of Meghalaya Government needs to be converged under PPP for increasing egg production locally.	State Government, NABARD and Bankers	Timeframe: 1 year
2	National Egg Co-ordination Committee may be roped in for implementation of the plan.	State Government and NECC	Timeframe: 3 months

Horticulture:

- Ginger is produced in abundance. It has high percentage of water content.
- Techniques for ginger processing like dehydration etc. to increase its shelf life are required to be innovated. In this regard APEDA report on Ginger would be useful.
- Governments showed preference for private nurseries by individuals rather than SHGs.
- Nurseries for Arecanut, coconut and citrus fruits have good scope in Assam.

Recommendations:

Sr.No	Recommendation (Horticulture)	Action	Remark
1	Government officials need training in preparation of DPR.	RTC Bolpur	Timeframe: 1 year
2	'Homestead Farming' on the lines of Kerala can be encouraged in NER.	NABARD	Timeframe: 1 year
3	Cluster approach and Joint Forest Management Committee (JFMC) approach would be suitable to undertake the horticultural activities.	NABARD and State Govt.	Immediate steps to be taken
4	Tribal Sub plan for NER may be dovetailed with the financial plan.	NABARD and State Government (Tribal Development Dept.)	Immediate steps to be taken

Fishery:

- Vast scope for supporting ornamental fishery
- Good scope for Fresh water Prawn (Scampi) in Assam and Tripura
- Meghalaya launched "1000 Ponds Scheme" for fisheries development
- Communities own the water bodies; hence lease duration for bank finance was not under the domain of Government of Meghalaya.
- Shortage of fish seeds and high mortality during transportation of seed was noticed.

Sr.No	Recommendation (Fisheries)	Action	Remark
1	Meghalaya Government may set up fish hatcheries in two hill districts.	Government of Meghalaya, Fisheries Dept.	Timeframe: 1 year
2	Bankers should take comfort in water body possession certificate issued by village bodies in favour of SHGs/JLGs of local youths.	Bankers, State Govt. and NABARD	Immediate steps to be taken
3	Bankers to encourage ornamental fisheries and scampi	Bankers, State Govt. and NABARD	Timeframe: 1 year

Jhum cultivation:

- Jhum cultivation has been practiced traditionally in NER and there are sentimental issues involved in it.

- According to Government Representatives from Arunachal Pradesh, Assam, Meghalaya, Mizoram, there are many peculiar advantages of Jhum cultivation in the region.
- Providing a package of practices for cultivation of alternative crops like vegetables, pineapple, rubber etc., in fallow Jhum land to be explored.
- Money allocated for rehabilitation of Jhum in NABARD plan is insufficient.
- Arresting Jhum cultivation with financial interventions by Banks may not be possible in the present scenario.

Sr.No	Recommendation	Action	Remark
1	A pilot project in rehabilitation of degraded Jhum land may be initiated by NABARD with the willing State Govt. in one of the States.	NABARD	Immediate steps to be taken

Watershed:

- 92% subsidy is available for Watershed Development from Government of India. Hence, State Governments are not keen on NABARD Watershed Development Programme.

Sr.No	Recommendation	Action	Remark
1	One NABARD model watershed may be introduced in three willing States namely Manipur, Assam, Mizoram.	NABARD	Timeframe: 2 years

NON-FARM SECTOR

REDP:

- Food processing, printing, dyeing and shoe making to be included.
- Charcoal making from Bamboo was preferred activity in Nagaland.

Sr.No	Recommendation	Action	Remark
1	NABARD should include Food processing, printing, dyeing, shoe making and charcoal making from Bamboo as REDP activities for the region.	NABARD	Immediate

Cluster:

Sr.No	Recommendation	Action	Remark
2	Cluster size should be 50 persons in areas of low population density. Government of Arunachal Pradesh is in the process of identifying locations to be developed as rural	Bankers	Immediate

	hubs as a part of the joint initiative of Gol, Ministry of Panchayati Raj and CII. The bankers may support the Rural Hubs		
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Rural Haats:

Sr.No	Recommendation	Action	Remark
1	The Rural Haats may be managed by Village Committees / SHGs. As preferred by the Government of Aruanchal Pradesh, upgradation of existing village markets into Rural Haat may be undertaken with RIDF support.	State Government and NABARD	Immediate
2	Eco-Tourism may be encouraged.	State Government, Dept of Tourism and Forestry Department	Timeframe: 1 year

Handloom:

- The weavers faced problems of design, quality, productivity, machinery and marketing.
- ARTFED is setting up 'One Stop Shop' in Guwahati for promoting handloom products, within the next 28 months.

Sr.No	Recommendation	Action	Remark
1	State Government to set up Computer Aided Design Centres for weavers on the lines of Phulia in Nadia district of West Bengal.	State Government	Timeframe: 6 months
2	NABARD in collaboration with National Institute of Design should organise training program for weavers of KaRBI Anglong district of Assam for promoting pro market designs	NABARD and NID	Timeframe: 6 months

Sericulture:

- Priority for value addition of Muga silk by 'reeling'. Presently cocoons from Meghalaya are sent to Assam for reeling.

Sr.No	Recommendation	Action	Remark
1	'Reeling' activity to be promoted locally by SIDBI, NABARD.	SIDBI, NABARD	Timeframe: 6 months

PART : B

MICRO-CREDIT:

- I. NABARD may build up data base of SHGs in NER and maintain it at district level. This work could be outsourced by NABARD, if felt required.
- II. NABARD may give assistance under Revolving fund/ Microfinance fund to NGOs identified in the region for helping formation of SHGs/ JLGs as also for infrastructure support like computers, internet, mobile phones, motor bikes etc.
- III. NABARD may arrange for exposure visits and other sensitisation for SHGs in the region.
- IV. The cost of promotion for SHGs being higher in the region, NABARD may raise SHPI assistance to Rs. 5000 per month.
- V. NABARD may assist in establishing permanent showrooms/ haats for marketing products manufactured by SHGs.
- VI. TFM committees already formed may be brought to the SHG bank linkage fold.
- VII. Mature NGOs with good infrastructure could be identified by NABARD to build capacities of other NGOs.

PART : C

Specific Recommendations for policy initiatives

(a) Policy initiatives required of the State Governments

- i. Derelict animal breeding farms and other infrastructure of extension services wherever unutilised or underutilised on account of reasons like staff shortage, funds shortage or lack of demand for the services etc.; may be handed over to the professionals for better management. In absence of professionals, the SHGs of user farmers may be considered.
- ii. Enabling policy framework for recognising 'Barefoot Vets' on the lines of 'Pranibandhus' of West Bengal may be created. Unemployed matriculates from the state may be chosen to receive the training in heat

- detection, AI services and animal health management like vaccination etc.
- iii. Presently the land for green fodder cultivation is not available in adequate measure. Forestland, wasteland, community lands could be made available on lease basis to fodder cultivators. This will need enabling policy environment.
 - iv. Infrastructure sector may be opened for private entrepreneurs as well as for Public Private Partnership (PPP) in the arena of veterinary hospitals, AI services, semen bank, modern abattoirs, cold storages, milk chilling plants, food processing plants, fish hatcheries, jetties and harbours, nurseries, cold chain management etc.
 - v. In order to have Government's partnership in the projects exemplified above, under No.4, the land required for such projects may be made available by the Government through a policy initiative, particularly in the States like Meghalaya, Mizoram where the land belongs to community based organisations.
 - vi. SHG is the best vehicle for financial inclusion. For massification of SHGs in all NER states there has to be a general acceptance to declare SHG as a 'State Policy'. In furtherance of this, the convergence amongst SHGs under different brand names like NABARD's SHG-Bank Linkage Programme, subsidy based SGSY, SHGs in JFMC areas, SHGs promoted, as conditionality to a specific projects will have to be brought about.
 - vii. Govt. may accord preference to SHGs' products and services while making their purchases and giving small works contract/s. Leasing of quarry lands, wastelands for afforestation, fodder cultivation, waterbodies for fisheries, collection of electricity bills, collecting toll taxes etc. may be done in favour of SHGs.
 - viii. Like in West Bengal, a separate ministry for SHGs and micro-enterprises may be set-up.

(c) Policy initiatives required at NABARD's level

i. Due to sparse population in hilly areas it would be difficult to adhere to NABARD's norm of minimum 10 members in each SHG. It would be necessary to relax this norm to minimum 5 members per SHG based on local needs of NER.

ii. Looking at the cost of transport in hilly & difficult areas, there is scope for upward revision in the quantum of promotional grant for NGOs working as SHPI. The quantum of increase should be double than the grant assistance provided in the plains.

iii. At present NABARD Act does not permit NABARD to take care of SHGs in urban areas though NABARD has better experience & insight into SHG movement all over the country for last 15 years. The urban poors are usually migrants from rural areas, their roots are still in the rural areas. At present urban SHGs are very few. There is a need to help these poor migrants in NER. There are not many cities / towns in NER. Rather cities in NE states are like outgrown villages. The Committee feels that, to start with, NABARD may consider helping urban SHGs by extending the rural SHG Bank linkage programme to urban areas also. This will work like hub & spoke relationship between urban & rural SHG. This will benefit rural SHGs in extending their products and services to urban areas and in turn urban SHGs might source their merchandise from rural SHGs. This will necessitate an amendment to NABARD Act.

iv. Though there is sufficient growth of SHGs all over the country, it is not quite adequate in NER. The usual promotional routes are not yielding sizeable number. Therefore good mFIs, and NBFCs will have to be identified for expansion of SHGs. Such NBFCs/mFIs would need to be regulated, hence RBI may equip NABARD with necessary powers to regulate.

v. NABARD may open a separate Department at its Head Office at Mumbai to oversee the implementation of Real Sector Plan for NER. The locational advantage is that Head Offices of most Public/Private Sector Banks and RBI are at MUMBAI.

vi. The seven State-wise time bound real sector plans are disaggregated into 77 district-wise plans for ease of implementation and monitoring. NABARD should be made nodal agency for implementation of the real sector plan. In order to operationalise these plans RBI alongwith NABARD should organize a series of workshops for bankers Government officials NGOs and other development partners, beginning July 2006. The DLCC should be the forum in which the district-wise real sector plan should regularly be monitored by RBI & NABARD jointly.

CONVERGENCE

- It was observed that there was no dearth of money in NER due to subsidy-based schemes of GoI. However, the money was usually spent without visible capital formation in the local economy. There was felt need for technical capacity building like preparation of DPRs, convergence amongst different Govt. Departments to achieve capital formation and sustainable development.
- There was lack of awareness amongst farmers regarding latest packages of practices, which could make agriculture more scientific and remunerative. RRTC in Shillong had made a good dent in this regard but in a very small way. It needs to be encouraged, strengthened and propagated. There was need for convergence between RRTC and extension departments of Government and farmers' clubs in the region.
- There was need to increase the number of farmers' clubs.
- Need was also felt to have more frequent and meaningful interface between Government Departments providing infrastructure for development of Farm and Non-Farm Sector, and the bankers willing to finance these sectors to achieve better coordinated results

ANNEX 8.2

Action plan suggested by SIDBI for the Region

Expansion of non farm activities in NER

North Eastern Region is endowed with rich natural resources. Economic activities based on these natural resources have been practiced by the people in the region through generations. Some of these activities are handicraft activities based on the locally available cane and bamboo, wood etc. Moreover the region is also having significant handloom weaving activities and sericulture leading to production of all types of silk fabric.

- In recent times, the region has seen some manufacturing activity in the small and tiny sector as also a few units in the medium scale sector in addition to the traditional activity in tea, oil and wood based industries.
- Units for processing of fruits like pineapples, oranges, bananas have been set up along with production of other exotic fruits like passion fruit.
- Food processing including processing of ginger, chilly, pepper has potential in the region.
- Processing of aromatic plants like citronella and other medicinal plants which grow naturally in the region.
- Service activities incidental to agriculture has potential in the region.
- One of the promising areas in the services sector in the region is tourism and all activities allied to tourism.
- It is learnt that the Thai Airlines, Bangkok has requested for approval and necessary permission for construction of an Airport at Kaziranga to facilitate increased tourist traffic from the South East Asian countries which should give tremendous boost to the tourism sector.

Existing Non farm Sector

- Handloom weaving and handicraft are the two most important non farm activities in the NER.

- Handloom weaving comprises of cotton handloom and all varieties of silk viz. eri, muga, mulberry and tasar silk.
- Handicraft activities comprise cane and bamboo craft, woodcraft, brass and bell metal ware, blacksmithy, shoe making etc.
- There are stated to be 67500 handloom units and 57500 handicraft units in the NER.
- The total value of output of the handloom and handicraft sector in the region amounted to Rs.20,941 crore as per the census report of the NCAER 1996-97.
- The sector provides the second largest employment next to agriculture.
- There are stated to be 105 no of handicraft clusters in the NER and the no of artisans engaged in this sector has been estimated at 8,89,170 by NCAER in 1999.
- Other notable non farm activities are food processing, steel fabrication, furniture making, juice extraction, pottery making etc.

Strength of the handicraft sector

- Most of the handicraft activities are integral to the culture of the people being practised through generations.
- Large number of existing skilled artisans engaged in the activity.
- Reasonable availability of raw materials from nearby areas.
- Established reputation throughout the country and overseas market.

Weaknesses of the sector

- Obsolete technology and production process of the artisans.
- Difficulty in easy availability of quality raw materials.
- Low level of skill of the artisans to manufacture quality craft with latest designs.
- Absence of market intelligence about consumer preference and marketing linkages.

Handloom Sector

- 25.4 lakh units engaged in handloom activities in the country as per Handloom Census in 1995-96.
- 7862 million square meter handloom fabric production in 1997-98.
- Handloom fabric contributed to 22 % of the total fabric production in the country.
- Second largest provider of employment in the country next to agriculture.
- Handloom sector provided employment to 124 lakh persons during 1996-97.
- Export of cotton handloom textiles amounted to Rs.1621.81 crore in 1996-97.
- Export of silk goods including silk carpets amounted to Rs.2879.56 crore during 2004-05.

Handloom sector in the North East

- 14.6 lakh units engaged in handloom activities in primarily in five states in NER viz. Assam, Manipur, Nagaland, Tripura and Arunachal Pradesh.
- Over 53 % of the looms in the country and over 50% of the weavers belong to North Eastern States.
- However only 13.4 % of the commercial looms of the country are in these States.
- Total production of handloom fabric in NER was only 20 % of the total production in the country.

Strength of NER in Handloom

- Handloom weaving is integral to the culture of the local people.
- Largest number of handloom units in the country.
- Handloom weaving provides employment to second largest number of people next to agriculture.

Weaknesses of the handloom sector

- Unorganised and wide dispersal of weavers/weaving units throughout the region.

- Weak financial position of the weavers.
- Obsolete technology and production technique of the weavers.
- Inadequate availability of various inputs like dyes, chemicals, new designs, training for upgradation of skills etc.
- Absence of marketing support and market intelligence.

Sericulture sector

- India is the second largest producer of raw silk in the world after China.
- The production of raw silk in the country in the year 2004 was 16500 tonnes which constitutes 13.13 % of the world production.
- NER is the third largest producer of raw silk in the country producing 1605 tonnes of raw silk in the year 2004-5 next to Karnataka and Andhra Pradesh.
- NER produces all the four varieties of raw silk viz. mulberry, tasar, eri and muga.

Strength of NER in Sericulture

- Silk weaving is intrinsic to the culture of the local people.
- Eri silk which has good demand in the domestic as also in international market is produced in NER only.
- Central Silk Board has given boost to sericulture in the region under the National Sericulture Project with assistance from Japan International Co operative agency, Japan.
- NER was 3rd in raw silk production with a production of 1605 MT in 2004-05 as against 16500 MT for the country as a whole.

Weaknesses of the Sericulture sector

- Obsolete reeling and weaving technology limit productivity and profit margin of the weavers.
- Increasing dumping of raw silk by China in the domestic market at cheap rate.
- Absence of the system of grading of cocoon to ensure uniform quality.

- Absence of mechanical spinning unit for spinning of the eri silk cocoon resulting in lower quality of yarn.

With a view to give the much needed fillip to the non farm sector in NER, it is proposed to assign agency wise responsibility for expansion of the non farm sector especially for development of the handloom export as desired by the Committee on Financial Sector Plan for the North Eastern Region. Although there are a large number existing agencies under the Central Government as also under the respective State Governments mandated with development of various non farm sector like handloom, handicraft etc., and responsibilities are being proposed for agencies who would be under the purview of monitoring of the RBI of India. Moreover, as NEDFi is the institution exclusively catering to the need of institutional finance in the region, a greater role is being envisaged for NEDFi.

Accordingly, taking into account the existence of a particular non farm economic activity in the state, the course of action as suggested by SIDBI for each of the State is indicated in Chapter 9.

Policy intervention

- The Mill Gate Price Scheme for supply of hank yarn to the handloom weavers through the National Handloom Development Corporation to ensure equitable price of hank yarn should be continued.
- The Handloom (Reservation of Articles for Production) reserving production 11 items of fabric for production by the handloom sector should be continued and extended.
- It should be mandatory for the offices of the Government of India, State Governments and offices of the Puss to use handloom fabric for furnishing of its offices and other requirements.
- Subsidy scheme similar to Credit Linked Capital Subsidy (CLCS) extended to few manufacturing sector or interest subsidy under Technology Upgradation Fund (TUF) for the textile sector should be extended to all the industries irrespective of the activity in the North Eastern Region.

Annex 8.3

NEDFi

Important suggestions made

Fruit Processing Units

- Most of the fruit processing units in the State are uneconomic due to various reasons such as –
 - (a) ageing and outdated machinery
 - (b) Non-availability of adequate supply of fruits round the year
 - (c) Cost of processing is rather high since cans, bottles, etc. have to be procured from outside the region. Cost of sugar is also high due to procurement from outside and as such these units are unable to compete with processing units from outside as far as pricing is concerned
 - (d) It would be helpful if North Eastern Regional Agricultural Marketing Corporation (NERAMAC) can be revived and made more effective.
- Basic requirement for food processing units: availability of more than one fruit to ensure production for at least 10 months in a year.
- Milk is preferred as an important item of diet in Assam and Tripura and it is also gradually becoming popular in other States particularly Meghalaya, Nagaland and Manipur.

In addition to sheep and goat, there is potential to popularize rabbit farming in the hills for both meat and fur. ICAR has achieved some success in Meghalaya and Nagaland.

- **Fishery**

Ponds with composite fish culture need to be encouraged in Assam/Manipur/Tripura.

- **Jhum Cultivation:**

Food security is the primary concern of the jhumias in the interior areas. Jhuming was a good practice in earlier times when forest land was available in plenty and rotation of jhum cycle was more than 10 years. Shortening of the jhum cycles has now led to poor yield as enough time is not available for soil rejuvenation/rehabilitation. Quality

of life of the jhumias is also changing and increase in production is essential to take care of this aspect. As such action is required

(i) for improving the approach to jhum cultivation.

(ii) demonstration of alternative farming systems based on watershed management for creating awareness amongst the farmers.

(iii) rehabilitation of degraded jhum land may be taken up in line with the Khonoma experiment in Nagaland by planting nitrogen fixing plants in such areas.

- **Watershed**

Before implementing watershed management projects, a comprehensive training is essential for officials of financial institutions/Govt. Deptts. for identifying proper watersheds and initiating measures for water harvesting as well as farm planning in the watersheds.

Annex Table 2.1: Average Share of Sectors in Credit during 2001-2005

(in per cent)

Sectors	Arunachal Pradesh	Assam	Manipur	Meghalaya	Mizoram	Nagaland	Tripura	All India
AGRICULTURE	10.1	7.1	11.1	6.6	10.8	11.5	14.0	10.7
Direct Finance	8.9	5.3	8.6	5.0	10.1	10.1	13.1	8.7
Indirect Finance	1.1	1.8	2.5	1.5	0.7	1.4	0.9	2.0
INDUSTRY	18.8	34.7	18.5	43.2	13.1	23.4	13.1	35.2
Electricity, Gas & Water	0.2	5.8	0.0	23.8	0.1	0.7	0.0	2.3
TRANSPORT OPERATORS	3.6	2.3	2.5	2.8	6.6	2.5	3.6	2.0
PROFESSIONAL	7.6	2.8	3.7	3.7	1.4	4.5	6.4	4.0
PERSONAL	29.2	24.8	39.6	23.0	44.6	29.9	33.8	20.1
Consumer								
Durables	1.7	1.4	2.2	1.3	3.2	1.7	5.2	2.7
Housing	5.9	6.5	15.3	8.2	28.1	5.0	8.7	7.6
Others	21.6	14.7	22.1	13.6	13.3	23.2	19.9	9.8
TRADE	16.9	12.2	14.2	10.6	14.7	12.0	20.6	16.2
Wholesale	4.0	3.8	2.0	3.4	3.7	3.4	4.0	8.7
Retail	13.0	8.4	12.3	7.2	11.0	12.0	16.5	7.5
FINANCE	1.7	3.3	0.1	0.2	0.2	1.5	0.3	4.8
ALL OTHERS	12.1	12.8	10.3	9.9	8.7	14.6	8.2	6.9
Total	100	100	100	100	100	100	100	100

Source: Compiled from Various Issues of BSR, RBI.

Annex Table: 2.2: Per Capita Deposit and Credit

(Amount in Rs.)

States	Deposit				Credit			
	1981	1991	2001	2005	1981	1991	2001	2005
Arunachal Pradesh	208	1693	5629	10869	17	367	786	2287
Assam	210	981	3701	6669	65	405	1155	2261
Manipur	143	588	1808	4289	34	330	717	1713
Meghalaya	421	2132	7139	13087	50	349	1138	5281
Mizoram	227	1499	4441	8741	25	312	1030	4028
Nagaland	309	1770	4513	6425	42	448	518	1356
Tripura	208	1009	4905	8200	79	576	1015	2240
N E Region	220	1087	4003	7199	60	410	1068	2407
All India	642	2370	9245	16700	281	1167	4976	10474

Source: Various Issues of BSR, RBI, Census 2001 and Directorate of Economics and Statistics of States.

Annex Table 3.1: Bank Branch Network and APPBO

States	Total Branches	Share of SCBs (in %)	Share of Co-op. (in %)	Share of Rural SCB Branch (in %)	Share of total Rural Branch (in %)	Total APPBO	Rural APPBO	Area per SCB Branch Sq. Kms.
A.P	99	68.7	31.3	77.9	73.7	11632	12556	1232
Assam	1340	94.9	5.1	62.0	60.4	20697	29883	62
Manipur	93	83.9	16.1	51.3	48.4	26518	41717	286
Meghalaya	224	82.6	17.4	70.8	65.6	11304	13845	121
Mizoram	90	88.9	11.1	75.0	70.0	10406	7508	276
Nagaland	94	77.7	22.3	50.7	52.1	23577	37206	227
Tripura	231	80.5	19.5	64.0	61.0	14714	20003	56
N.E.R	2147	90.5	10.7	63.3	61.9	18833	25724	131
All India*	69969			45.7		15726	24856	47

* pertains to only SCB branches.

Source: Compiled from various issues of BSR, RBI, Basic Statistics, NEC and CSO.

Note: Population figures implicitly are obtained from the NSDP and per capita NSDP reported by the respective Directorate of Economic and Statistics, and for the most recent years, they are extrapolated assuming an unchanged population growth.

Annex Table 3.2: Current and Savings Accounts Per 100 of Adult Population

States	2001	2002	2003	2004	2005
A.P	45.9	46.5	44.2	38.8	37.75
Assam	39.4	38.1	38.1	37.7	39.08
Manipur	20.1	18.7	18.6	17.3	19.50
Meghalaya	44.3	43.1	43.5	41.5	40.93
Mizoram	25.8	23.4	25.0	24.5	28.97
Nagaland	22.3	20.5	20.4	19.4	19.74
Tripura	37.0	36.3	35.8	35.9	36.67
N.E.R	38.2	36.9	36.8	36.2	37.32
All India	55.0	54.4	54.4	56.3	59.25

Source: Compiled from various issues of BSR, RBI, Basic Statistics, NEC and CSO.

Note: Population figures implicitly are obtained from the NSDP and per capita NSDP reported by the respective Directorate of Economic and Statistics, and for the most recent years, they are extrapolated assuming an unchanged population growth. The share of adult population is assumed to have remained unchanged from the 2001 Census.

Annex Table 3.3: Current and Savings Accounts Per 100 of Adult Population in Rural and Urban Areas

States	Center	2001	2002	2003	2004	2005
A.P	Rural	33.1	33.3	33.8	29.7	29.4
	Urban	95.6	97.7	84.7	74.2	70.0
Assam	Rural	21.1	20.4	21.7	21.8	22.3
	Urban	165.3	159.3	150.6	146.8	153.9
Manipur	Rural	7.5	7.4	6.7	5.9	8.7
	Urban	60.3	54.5	56.5	53.3	54.1
Meghalaya	Rural	25.7	26.1	27.0	24.1	23.3
	Urban	120.2	112.7	111.3	112.5	112.7
Mizoram	Rural	18.7	18.7	20.1	19.8	22.1
	Urban	33.0	28.2	29.9	29.4	36.0
Nagaland	Rural	5.1	4.8	4.6	4.8	5.1
	Urban	102.2	93.2	93.5	87.1	87.4
Tripura	Rural	20.4	19.7	20.3	21.3	20.9
	Urban	118.0	117.4	111.5	107.1	110.0
N.E.R.	Rural	20.5	20.0	21.0	20.8	21.3
	Urban	134.6	129.2	123.2	120.8	124.4
All India	Rural	24.1	23.9	24.4	25.0	25.7
	Urban	135.3	133.7	132.3	137.8	142.8

Source: Compiled from various issues of BSR, RBI, Basic Statistics, NEC and CSO.

Note: Population figures implicitly are obtained from the NSDP and per capita NSDP reported by the respective Directorate of Economic and Statistics, and for the most recent years, they are extrapolated assuming an unchanged population growth. The share of adult population and their distribution between rural and urban centers is assumed to have remained unchanged from the 2001 Census.

**Annex Table 3.4: District-wise Percentage of Total Deposit Accounts to
100 of Population**

STATE/DISTRICT	2001	2002	2003	2004	2005	APPBO
ARUNACHAL PR.	33.0	32.1	30.3	25.9	25.2	16936
Anjaw					18.4	14801
Chunglang	19.4	15.4	15.2	14.0	15.3	33149
Dibang Valley	22.5	24.0	20.4	2.5	3.4	45532
East Kameng	17.7	15.4	20.4	17.9	12.4	30165
East siang	48.1	45.6	42.9	39.9	38.9	10220
Kurung Kumey				3.7	3.8	44701
Lohit	24.4	21.6	18.0	17.9	14.3	30337
Lower Dibang Valley					21.5	45532
Lower Subansiri	23.8	24.3	22.3	26.6	25.9	11833
Papumpare	68.8	68.1	64.7	47.1	52.5	9922
Tawang	27.9	22.4	28.7	23.2	23.2	12230
Tirap	21.6	19.1	18.3	18.5	18.6	26516
Upper Siang	21.0	32.6	29.5	19.2	22.7	17444
Upper Subansiri	26.3	35.7	35.9	33.4	26.3	19504
West Kameng	43.9	44.6	45.8	61.7	54.5	6440
West Siang	42.0	38.6	31.0	35.1	31.9	13583
ASSAM	29.2	28.2	28.0	27.3	27.7	21803
Barpeta	17.8	18.5	19.8	19.0	20.0	29888
Bangaigaon	26.9	26.0	26.4	25.9	26.2	25173
Cachar	26.9	28.1	28.8	27.9	28.0	20851
Darrang	20.5	20.0	20.4	19.6	19.3	32395
Dhemaji	18.2	17.1	17.2	17.5	14.3	35356
Dhubri	13.7	14.1	13.4	13.1	13.6	44237
Dibrugarh	44.4	43.7	43.4	38.1	38.2	16717
Goalpara	25.1	24.1	24.8	21.7	22.9	24797
Golaghat	30.6	29.7	30.1	28.8	28.3	20372
Hailakandi	15.1	14.4	15.0	14.4	14.3	30162
Jorhat	39.3	39.6	38.9	38.2	37.1	16139
Kokrajhar	18.9	19.8	21.5	20.0	20.2	36593
Kamrup	59.4	56.1	54.9	56.9	56.4	13206
KaRBI Anglong	19.0	17.9	18.5	16.7	17.2	16177
Karimganj	25.8	23.4	22.4	22.0	21.0	23541
Lakhimpur	24.8	24.5	24.1	23.6	21.2	19971
Morigaon	15.4	15.5	15.1	16.4	16.8	29246
Nagoan	25.8	22.7	22.7	22.8	24.1	27770
Nalbari	23.0	22.5	22.6	22.7	23.6	26115
North Cachar Hills	56.1	44.1	38.8	34.0	32.6	12282
Sibsagar	36.2	34.6	32.8	32.4	31.7	19158
Sonitpur	28.5	28.3	28.6	27.8	28.8	21863
Tinsukia	40.8	40.4	37.5	34.3	33.7	18118

MANIPUR	12.2	11.6	11.2	10.5	11.6	31618
Bishenpur	5.9	6.6	5.5	4.4	4.0	43366
Chandel	6.7	8.6	9.4	6.5	8.4	25844
Churachandpur	12.6	11.6	10.5	7.8	8.8	60209
Imphal	22.8	20.8	21.0	20.6	20.4	25809
Senapati	5.1	5.2	4.3	4.2	10.4	33277
Tamenglong	6.2	6.6	6.2	3.8	2.3	23481
Thoubal	5.5	5.5	4.6	4.2	4.3	42863
Ukhrol	3.7	4.2	4.4	5.5	4.9	37105
MEGHALAYA	28.4	28.3	27.5	26.2	25.5	13687
East Garo Hills	11.7	12.0	12.3	11.4	9.8	18600
East Khasi Hills	58.9	58.5	56.1	55.3	51.6	9430
Jaintia Hills	19.1	18.7	19.4	19.2	17.1	15148
Ri Bhoi	20.7	21.1	20.6	19.0	19.2	14486
South Garo Hills	7.0	6.6	5.0	4.7	2.9	37231
West Garo Hills	17.3	16.7	15.9	13.7	13.6	18753
WestKhasi Hills	15.2	15.8	16.9	14.0	15.9	16574
MIZORAM	15.6	14.2	14.9	14.7	17.4	11707
Aizawl	34.6	21.0	20.4	21.3	26.2	13393
Champhai	0.0	6.5	7.3	7.9	8.8	13487
Kolasib	0.0	18.8	20.7	18.3	19.6	7210
Lawngtlai	0.0	5.2	5.2	3.9	5.4	38869
Lunglei	12.0	12.9	15.7	13.3	14.1	12163
Mamit	0.0	8.6	11.8	12.1	12.1	6631
Saiha	8.2	5.1	5.3	5.7	6.3	16182
Serchhip	0.0	13.0	13.4	13.7	16.2	7388
NAGALAND	14.7	13.5	13.2	12.5	12.5	30360
Dimapur	0.0	39.8	36.8	36.1	36.6	20772
Kohima	63.3	17.3	18.9	18.3	16.8	19999
Mokokchung	13.0	12.6	11.1	8.6	7.8	28911
Mon	5.0	4.8	5.2	4.1	4.5	99089
Phek	5.3	4.9	6.1	5.9	6.9	28292
Tuen Sang	3.5	3.3	2.9	3.3	3.4	67854
Wokha	8.8	8.2	8.9	8.1	8.3	26353
Zunheboto	9.9	9.8	9.3	9.0	6.1	29564
TRIPURA	31.4	31.1	31.1	30.1	29.4	18274
Dhalai	18.7	18.4	18.0	19.9	18.9	22176
North Tripura	24.3	24.9	24.5	22.7	22.3	19367
South Tripura	24.4	23.6	22.9	23.7	22.2	17937
West Tripura	40.1	39.7	40.4	38.2	36.9	18001

Source: Compiled from various issues of BSR, RBI, Basic Statistics, NEC and CSO.

Note: Population figures implicitly are obtained from the NSDP and per capita NSDP reported by the respective Directorate of Economic and Statistics, and for the most recent years, they are extrapolated assuming an unchanged population growth. The population distribution between the districts is assumed to have remained unchanged from the 2001 Census.

Annex Table 3.5: Indebtedness of Households (percentage reporting cash loan outstanding), Institutional Sources of Indebtedness and Credit to Income ratio in 1991.

States	Indebtedness			Sources Rural %			Sources Urban %			Credit /NSDP Ratio
	Rural	Urban	Total	Banks	Govt.	Money Lender	Banks	Govt.	Money Lender	
A.P	2.7	1.6	4.3	19.3	41.6	8.7	22.6	0	0	17
Assam	6.2	6.2	12.4	42.8	17.9	4	73.8	17.7	0.1	26
Manipur	3.7	3.2	6.9	31.5	9.2	2.3	17.4	11.6	1	11
Meghalaya	0.4	1.1	1.5	23.2	67.4	0	98.6	0.4	0	41
Mizoram	3.9	6.3	10.2	0.06	97.6	0	30.2	68.3	0.3	N.A.
Nagaland	3.1	5	8.1	34.3	21	3.3	6.4	83.1	0	9
Tripura	23.6	7.1	30.7	62.7	26.5	1.9	27.2	24.6	0	18
All India	23.4	19.3	42.7	55.3	6.1	17.6	38.8	11.1	10.2	62

Source: AIDIS, 1991, BSR, 2004 and Handbook of Statistics of Indian Economy, 2004-05.

Annex Table 3.6: New Deposit Accounts to Achieve Various Levels Financial Inclusion by 2010

States	Net New Accounts per year for 100%	Net New Accounts per year for 75%	Net New Accounts per year for 59%	Average new Accounts per branch for 100%	Average new Accounts per branch for 75%	Average new Accounts per branch for 59%	Annual Account Growth for 100%	Annual Account Growth for 75%	Annual Account Growth for 59%
A.P	80331	49421	29639	1181	727	436	23.34	16.45	10.99
Assam	1992662	1208188	706125	1567	950	555	22.33	15.49	10.08
Manipur	229267	159637	115075	1239	863	622	41.41	33.51	27.25
Meghalaya	174597	106543	62988	944	576	340	22.77	15.90	10.47
Mizoram	77531	50899	33855	417	274	182	29.73	22.47	16.73
Nagaland	210343	146821	106166	2881	2011	1454	42.17	34.22	27.93
Tripura	274030	171218	105418	1473	921	567	24.55	17.58	12.08
N.E.R.	2933054	1813448	1096900	1510	934	565	23.71	16.80	11.32

Source: Compiled from various issues of BSR, RBI, Basic Statistics, NEC and CSO.

Note: Population figures implicitly are obtained from the NSDP and per capita NSDP reported by the respective Directorate of Economic and Statistics, and for the most recent years, they are extrapolated assuming an unchanged population growth. The share of adult population is assumed to have remained unchanged from the 2001 Census.

**Annex Table 4.1: CLEARING HOUSES IN THE NER AND VOLUME AND
VALUE OF BUSINESS (2005-2006)**

Sl. No.	Bank Managin g Clearing	Centre Name	Clearing Code	Average daily volumes	Daily Average value (In Lakh.)	Number of member banks
1	SBI	NAMRUP	NMICR	32	41	4
2	SBI	DIPHU	NMICR	79	25	5
3	SBI	BARPETA	NMICR	66	49	9
4	SBI	TURA	NMICR	73	74	7
5	SBI	KOHIMA	NMICR	75	266	9
6	SBI	AIZAWL	NMICR	123	247	6
7	SBI	GOALPARA	NMICR	68	81	5
8	UNI	DIGBOI	NMICR	100	79	4
9	SBI	NALBARI	NMICR	105	62	6
10	SBI	NORTH LAKHIMPUR	NMICR	82	117	9
11	SBI	KOKRAJHAR	NMICR	161	103	7
12	SBI	GOLAGHAT	NMICR	150	129	10
13	SBI	KARIMGANJ	NMICR	258	73	9
14	SBI	ITANAGAR	NMICR	175	319	8
15	UNI	DULIAJAN	NMICR	193	445	7
16	SBI	DHUBRI	NMICR	487	113	13
17	SBI	BONGAIGAO N	NMICR	327	834	10
18	SBI	DIMAPUR BAZAR	NMICR	487	472	13
19	SBI	SIVSAGAR	NMICR	534	435	12
20	SBI	NAGAON	NMICR	630	262	16
21	SBI	TEZPUR	NMICR	611	312	13
22	SBI	IMPHAL	NMICR	810	816	16
23	SBI	AGARTALA	NMICR	1133	1410	20
24	SBI	DIBRUGARH	NMICR	1212	465	13
25	SBI	TINSUKIA	NMICR	1143	746	17
26	SBI	JORHAT	NMICR	1640	595	19
27	SBI	SHILLONG	NMICR	1746	1857	20
28	SBI	SILCHAR	NMICR	3068	4011	15
29	RBI	GUWAHATI	NMICR/H V/MICR	18600	14689	35

Annex Table 4.2: Clearing houses in the NER computerized so far :-

No	State	Clearing house	Lead bank
1	Assam	Guwahati	RBI
2	-do-	Tezpur	SBI
3	-do-	Nagaon	SBI
4	-do-	Namrup	SBI
5	-do-	Tinsukia	SBI
6	-do-	Silchar	SBI
7	-do-	Karimganj	SBI
8	-do-	Gollahat	SBI
9	-do-	Dibrugarh	SBI
10	-do-	Diphu	SBI
11	-do-	North Lakhimpur	SBI
12	-do-	Duliajan	United Bank of India
13	-do-	Digboi	United Bank of India
14	Arunachal Pradesh	Itanagar	SBI
15	Tripura	Agarthala	SBI
16	Mizoram	Aizawl	SBI
17	Manipur	Imphal	SBI
18	Meghalaya	Tura	SBI
19	-do-	Shillong	SBI
20	Nagaland	Dimapur Bazar	SBI
21	-do-	Kohima	SBI

Annex Table 4.3: District Centers in the NER having more than 5 banks but not having a Clearing House

Sl. No.	Name of the State	Name of the District	Number of Banks
	ASSAM		
1		Darang/Mangaldoi	8
2		Hailakandi	9
3		Morigaon	9
	MANIPUR		
4		Imphal (East)	6
	MEGHALAYA		
5		Ri-Bhoi	6

Annex Table 4.4: List of RTGS enabled branches-State wise

STATE	BRANCHES
ARUNACHAL PRADESH	2
ASSAM	104
MANIPUR	5
MEGHALAYA	29
MIZORAM	3
NAGALAND	7
TRIPURA	13
TOTAL	163

Annex Table 5.1 Financial Indicators of RRBs in NER

(Amount in Rs. Crore)

Name of the RRB	Year	Productivity (Dep + Adv)	Branch Prody (Rs lakh)	Staff Prody (Rs lakh)	Profit/Loss	Gross NPA (#)	Accumulated losses
PGB	2000	561.7	-	-	1.7	61.9 (51.5)	41.0
	2005	1364.5	826.9	144.4	20.2*	70.5 (15.2)	7.8
LGB	2000	195.6	-	-	1.4	6.5 (27.0)	31.6
	2005	513.6	503.5	-107.2	3.2	5.7 (4.0)	21.8
CGB	2000	100.0	-	-	1.3	1.5 (7.8)	12.9
	2005	277.5	630.7	161.3	3.2	6.4 (8.7)	4.3
SGB	2000	87.3	374.2	94.1	0.7	5.4 (39.7)	11.1
	2005	168.4	-	-	0.3	3.4 (9.7)	6.5
LDRB	2000	53.2	-	-	(-)0.8	6.6 (56.4)	16.5
	2005	138.8	322.9	77.6	(-)2.4	2.5 (5.5)	24.8
APRB	2000	52.5	-	-	0.5	6.0 (21.0)	1.0
	2005	97.9	576.1	155.5	(-)4.7	20.7 (60.3)	29.2
Mani RB	2000	28.4	-	-	(-) 0.5	3.7 (50.7)	10.6
	2005	54.8	209.8	66.1	(-)1.7	8.0 (33.3)	17.3
Ka Bank	2000	117.6	-	-	(-)0.8	10.6 (57.0)	16.5
	2005	274.1	537.6	149.8	1.5	14.9 (27.5)	-
Mizo RB	2000	68.1	420.9	132.9	0.3	7.8 (44.3)	6.4
	2005	227.3	-	-	0.3	9.5 (11.8)	5.5
NRB	2000	6.1	-	-	0.07	0.7 (50.0)	1.5
	2005	19.2	40.3	73.9	(-)1.1	2.0 (32.8)	3.1
TGB	2000	416.1	-	-	(-)6.7	77.2 (75.5)	131.2
	2005	1019.9	1172.3	147.4	0.5	56.1 (21.4)	134.5

*The bank has received repayment of an amount to the tune of Rs. 9.71 crore from the Govt. of Assam under the Misguided Youth Scheme

Figures in parentheses indicate NPA ratio.

Annex Table 5.2: Staff Productivity of RRBs in NER

(as on March 31, 2005)

Name of RRB	Total Staff	No. of deposit account	No. of advances account	Per deposit and advances a/c
AGVB	1778	1956458	199781	1212*
LDRB	179	108124	14637	686
APRB	62	54395	4655	952
Mani RB	92	94495	11355	1150
Ka Bank	183	124454	27083	828
Mizo RB	171	72622	15672	516
NRB	26	7384	2404	376
TGB	694	453296	169623	898
Total RRBs of NER	3185	2871228	445210	1041
All India RRBs	65753	57688827	14167354	1093

* Figures from one of the constituents namely SGB are not available

Annex Table 5.3: Financial Parameters of State Co-operative Banks

(Amount in Rs crore)

Name of the Bank	Year	Productivity (Dep + Adv)	Profit/Loss (Rs lakh)	C/D Ratio (%)	Investments	% of recovery	Gross NPA	Accumulated Loss
Arunachal Pradesh State Co-operative Apex Bank Ltd.	2000	139.2	-	48	40.1	29.0	9.2	27.5
	2005	363.6	429.7	73	43.6	34.3	122.3	25.3
Assam Co-operative Apex Bank Ltd.	2000	597.3	-	53	169.9	25	86.2	27.8
	2005	837.3	(-) 1750.2	55	191.8	39	207.5	88.7
Manipur State Co-operative Bank Ltd.	2000	28.6	-	132	0.7	3	15.9	26.6
	2005	70.9	(-)123.0	75	24.2	29	14.2	33.1
Meghalaya Co-operative Apex Bank Ltd.	2000	94.9	-	28	115.6	43	17.3	8.1
	2005	546.9	81.5	22	199.9	37	23.0	nil
Mizoram Co-operative Apex Bank Ltd.	2000	86.7	-	32	24.9	20	7.7	19.6
	2005	217.2	166.9	66	51.1	56	14.1	18.4
Nagaland State Co-operative Bank Ltd.	2000	106.7	-	35	50.6	30	13.6	13.3
	2005	186.5	(-)252.6	31	72.0	47	22.3	24.7
Tripura State Co-operative Bank Ltd.	2000	189.3	-	73	26.1	31	26.6	6.6
	2005	319.2	(-)398.0	62	67.6	41	50.4	20.5

**Annex Table 5.4 Financial Indicators of UCBs in NER
(As on March 31, 2005)**

(Amount in Rs lakh)

Sr. No.	Name of UCB	CRAR	Total Business (Dep + Adv)	C-D Ratio	Gross NPAs (%)
Assam					
1.	Konoklata Mahila UCB Ltd.	74.26	115.53	38.8	2.11 (6.5)
2.	Nalbari UCB Ltd.	47.37	1144.33	50.6	9.03 (2.3)
3.	Mangaldoi Nagar Samabai Bank Ltd.	27.79	916.92	35.5	52.95 (22.0)
4.	Mahabhai UCB Ltd.	26.99	440.83	35.8	9.07 (7.8)
5.	Golaghat UCB Ltd.	20.02	48.62	55.7	3.93 (22.6)
6.	Nagarik Samabai Bank Ltd.	18.90	1199.53	33.1	6.81 (2.3)
7.	Industrial Coop. Bank Ltd.	18.65	10889.08	56.9	828.34 (20.9)
8.	Cooperative City Bank Ltd.	16.91	8648.14	49.7	37.52 (1.3)
9.	Gauhati Urban Coop. Bank Ltd.	3.91	2403.39	53.3	153.25 (18.3)
Manipur					
10.	Manipur Women's Coop. Bank Ltd.	87.51	94.38	33.7	9.52 (40.0)
11.	Moirang Primary Coop. Urban Bank Ltd.	15.234	78.04	62.9	16.93 (56.2)
12.	Imphal UCB Ltd.	9.38	10905.39	69.0	1063.35 (23.9)
Meghalaya					
13.	Jowai Coop. Bank Ltd.	26.98	2124.72	42.1	30.82 (4.9)
14.	Tura Urban Coop. Bank Ltd.	25.72	912.00	52.1	35.85 (11.5)
15.	Shillong Coop. Urban Bank Ltd.	(-) 0.70	742.09	35.7	90.73 (46.5)
Mizoram					
16.	Mizoram Urban Coop. Dev. Bank Ltd.	0.00	1836.15	75.8	617.71 (78.0)
Nagaland					
17.	Urban Coop. Bank Ltd., Dimapur	(-) 123.87	229.44	65.9	57.02 (62.6)
Tripura					
18.	Agartala Coop. Urban Bank Ltd.	11.71	1482.30	35.6	116.88 (30.1)

Annex Table 7.1: Local and Outside Officers in North Eastern States

Name of the bank	Total officer	Up to scale II			Scale III			Scale IV and above			Outside officers scale III and above
		Total	Local	Outsider	Total	Local	Outsider	Total	Local	Outsider	
SBI	2693	2181	1999	182 (8.34%)	343	341	2 (0.58%)	169	141	28 (16.57%)	30
UBI	878	751	607	144 (19.17%)	101	62	39 (38.61)	26	6	20 (76.92%)	59
UCO	339	284	272	12 (4.23%)	49	49	-	6	6	-	-
Canara Bank	111	99	45	54 (54.55%)	7	-	7 (100%)	5	-	5 (100%)	12
Allahabad Bank	129	109	84	25 (22.94%)	17	13	4 (23.53%)	3	-	3 (100%)	7