

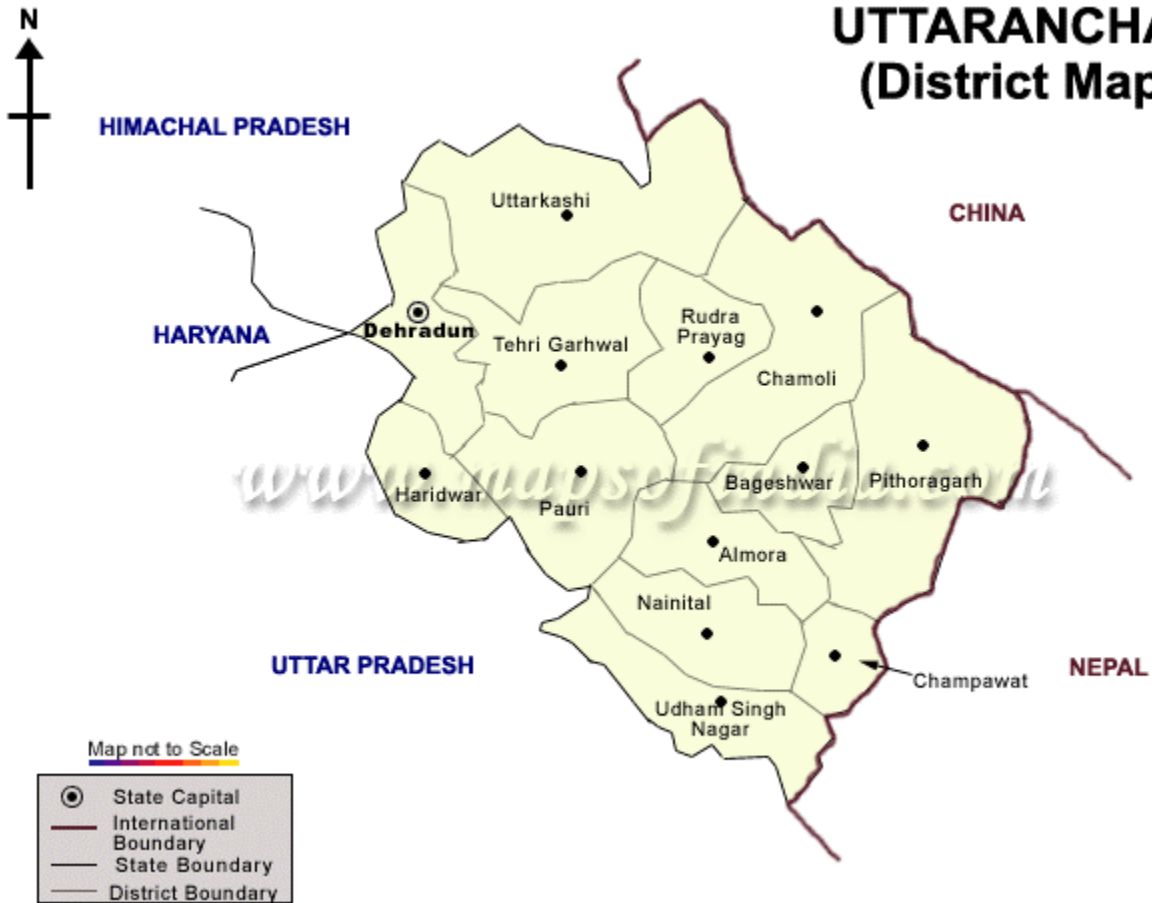
**REPORT OF
THE WORKING GROUP
ON IMPROVEMENT OF
BANKING SERVICES
IN UTTARANCHAL**



**RESERVE BANK OF INDIA
MUMBAI
AUGUST 2006**

Map of Uttarakhand

UTTARANCHAL (District Map)



**REPORT OF THE WORKING GROUP ON IMPROVEMENT OF BANKING
SERVICES IN UTTARANCHAL**

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LETTER OF TRANSMITTAL

Mumbai
August 14, 2006

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

Dear Sir,

Working Group on Improvement of Banking Services in Uttaranchal

We have pleasure in submitting the 'Report of the Working Group for Improvement in Banking Services in Uttaranchal'.

Uttaranchal is a new State, full of opportunities and strengths, and we trust that our Report has addressed all the issues assigned to us in the Terms of Reference. We are hopeful that the recommendations made by the Working Group would improve the quality of banking and financial services in Uttaranchal and promote the development of the State.

We thank you for entrusting us with this task. The guidance and encouragement provided by the Hon'ble Chief Minister of Uttaranchal and you have greatly facilitated the accomplishment of our task.

With regards,

Yours sincerely,

(V.S. DAS)
Chairman

(J. B. Bhorla)
Member

(Sanjeev Chopra)
Member

(Vishwa Mitter Sharma)
Member

(I. K. Pande)
Member

(B.K. Gairola)
Member

(Om Prakash)
Member

(S. Prabhakara)
Member

(A.R. Khan)
Member Secretary

Acknowledgements

The Group is grateful to the Hon'ble Chief Minister of Uttaranchal, Shri Narayan Datt Tiwari for his invaluable suggestions and encouragement. It expresses its gratitude to the Governor, Reserve Bank of India, Dr. Y.V. Reddy, for assigning it the important task of preparing an action plan for improvement of banking services in Uttaranchal. The Group is grateful to Smt. Usha Thorat, Deputy Governor, Reserve Bank of India for her guidance.

The Group benefited from the advice and inputs provided by a number of individuals and would like to thank them all. Shri Amrendra Sinha, Secretary (Planning), Government of Uttaranchal made the task of the Group easier by providing useful data on Uttaranchal. The Group also received valuable inputs and assistance from Smt. Radha Raturi, Secretary (Finance), Uttaranchal, Shri N. C. Sharma, Secretary Cooperation, Government of Uttaranchal and Shri P.S. Hooda, Managing Director, Uttaranchal State Cooperative Bank. Shri P. Das, General Manager, NABARD, Dr. Baljit Singh, Deputy General Manager, State Bank of India, Local Head Office, New Delhi, Shri S. D. Sharma, Assistant General Manager and Shri Mahipal, Chief Manager, State Bank of India, Dehradun gave helpful insights and suggestions. Shri Anil Goyal, Secretary, Indian Industries Association, Uttaranchal, Shri Pankaj Gupta, President, Indian Industries Association, Uttaranchal, Smt. Lovelena Mody, Chairperson, Confederation of Indian Industry, Uttaranchal and Ms. Vibha Malhotra, Head, Confederation of Indian Industry, Uttaranchal also met the Group which benefited from their advice.

Shri C. S. Murthy, Chief General Manager-in-Charge, Rural Planning and Credit Department, Central Office, Reserve Bank of India had provided his analytical perspectives on the Terms of Reference. A very useful presentation on Biometrics Smart Card Technology, was made by Shri Kaza Sudhakar, Chief

General Manager, Customer Services Department, Central Office, Reserve Bank of India. The Group thanks them both.

Secretarial and logistical support was ably led and coordinated by Member-Secretary, Shri A. R. Khan, General Manager, Reserve Bank of India, Lucknow and the Group places on record its appreciation of members of his team, viz. Shri B. R. Garg, Assistant General Manager, Shri S. K. Gakhar, Assistant General Manager, Shri R. M. Varma, Private Secretary and Shri M. M. K. Dewan, Stenographer. The Group appreciates the hard work put in by Shri Sudhanshu Prasad, Assistant General Manager, Rural Planning and Credit Department, Reserve Bank of India, Central Office, in putting the report together and giving it the final shape.

INTRODUCTION

Uttaranchal, formerly a part of Uttar Pradesh, was formed on November 9 2000 as the 27th State of the Indian Union. Blessed with magnificent glaciers, majestic snow-clad mountains, gigantic and ecstatic peaks, valley of flowers, skiing slopes and dense forests, the State has many shrines and places of pilgrimage such as, Badrinath, Kedarnath, Gangotri and Yamunotri. A picturesque state, with a breathtaking panoramic view of Himalayas, Uttaranchal is a major tourist attraction and offers immense opportunities for promotion of tourism. The unique Himalayan ecosystem plays host to a large variety of animals, plants and rare herbs. Two of India's mightiest rivers, the Ganga and the Yamuna take birth in the glaciers of Uttaranchal. About 58 per cent of the population of Uttaranchal depends on agriculture. The State is rich in mineral deposits like limestone, rock phosphate, dolomite, magnesium, copper graphite, soapstone, gypsum, etc. The number of small scale and heavy industries in Uttaranchal is increasing. The State has excellent potential for hydropower generation. There are a number of hydro-electric projects on the rivers Yamuna, Bhagirathi, Ganga, Ramganga, Sharda, etc. generating electricity. Recent developments in the region include initiatives by the State Government to speed up economic development and growth, thrust areas being hydro power, horticulture including floriculture and aromatic and medicinal plants, tourism development, industrialisation, Information Technology and development of infrastructure.

2. The Governor and senior executives of Reserve Bank of India, were in Mussoorie on 4th and 5th May 2006 in connection with a meeting of the Central Board of Directors and took the opportunity of meeting the Hon'ble Chief Minister of Uttaranchal, Shri Narayan Datt Tiwari and other senior officials of the State Government on May 5, 2006. Issues/problems faced by the Government/ banks / entrepreneurs with respect to speedier credit delivery process were discussed. Keeping in view the geographical and diverse topography of the State, the

spotlight was on improving the outreach of banking services and availability of bank finance for the development activities. Appreciating the keenness of the State Government for speedy economic development and in recognition of the problems confronting the Government in this regard, Governor announced the constitution of a Working Group under the chairmanship of Shri V. S. Das, Executive Director, Reserve Bank of India to examine the problems/issues relating to banking services in the State and prepare an action plan to be implemented for the purpose. Another significant announcement made by the Governor related to the setting up of an office of the Reserve Bank of India in Dehradun. The Hon'ble Chief Minister inaugurated Reserve Bank of India's Dehradun Regional Office on June 30, 2006.

3. The Working Group mentioned above, comprising the following members was notified by the Reserve Bank of India vide its letter RPCD No. Plan. 4986/04.09.11/2005-06 dated May 22, 2006:

- | | | |
|------|---|----------|
| i. | Shri V.S. Das, Executive Director Reserve Bank of India Central Office | Chairman |
| ii. | Shri I. K. Pande, IAS Principal Secretary (Finance) Government of Uttaranchal | Member |
| iii. | Shri Om Prakash, IAS Secretary (Agriculture) Government of Uttaranchal | Member |
| iv. | Shri Sanjeev Chopra, IAS Secretary (Industrial Development), Government of Uttaranchal | Member |
| v. | Shri J. B. Bhoria Regional Director for Uttar Pradesh & Uttaranchal Reserve Bank of India | Member |

- | | | |
|-------|---|------------------|
| vi. | Shri B.K. Gairola Chief General Manager State Bank of India Local Head Office, New Delhi | Member |
| vii. | Shri S. Prabhakara Chief General Manager NABARD, Dehradun | Member |
| viii. | Shri Vishwa Mitter Sharma Deputy General Manager Punjab National Bank, Dehradun | Member |
| ix. | Shri A.R. Khan General Manager & Officer-in-Charge Reserve Bank of India, Lucknow | Member Secretary |

4. The Terms of Reference were set as under:

- i. To review the role of banks and financial institutions in supporting the initiatives being taken by State Government for promoting economic development of the State and making specific recommendations for enhancing their role in this regard.
- ii. To recommend measures for enhancing greater outreach/penetration of the banking system in the State and identifying constraints, if any, in this regard that need to be addressed.
- iii. To specifically examine and recommend measures to strengthen the Regional Rural Banks (RRBs) and cooperative banks (rural and urban) in the State.
- iv. To propose measures for improving foreign exchange facilities and services for tourists coming in the State.

5. The Working Group held four meetings. The first meeting was held at Dehradun on June 8, 2006 when broad aspects relating to the approach to be adopted and structuring of the report were discussed. The second meeting was

also held at the same venue on June 16, 2006 in which suggestions from the Group members and representatives of Industrial Associations, SIDBI, postal authorities, State Co-operative Bank, commercial banks and RRBs were sought. This was followed by a meeting of the Group at New Delhi on June 28, 2006 to discuss the drafting of its report. The report of the Group was finalized by the members of the Group at its last meeting held at New Delhi on August 2, 2006.

Structure of the Report

6. The Report has six chapters. Chapter 1 gives a broad profile of Uttaranchal, Chapter 2 deals with the role of banks and financial institutions in supporting the initiatives taken by the State Government for promoting economic development of the State. Chapter 3 is about the measures for enhancing greater outreach/penetration of the banking system in Uttaranchal. Chapter 4 presents an assessment of the existing status of the Regional Rural Banks and Cooperative Banks (rural and urban) in Uttaranchal and measures for strengthening the rural credit structure in the State. Chapter 5 explores the avenues for attracting foreign tourists to Uttaranchal and improving the foreign exchange facilities. Chapter 6 is the Summary of Recommendations.

CHAPTER 1

STATE AND BANKING PROFILE

State Profile

1.1 Geographical Features

1.1.1 Uttaranchal became the 27th State of the Republic of India on November 9, 2000 by virtue of promulgation of Uttar Pradesh Reorganization Act, 2000. It borders China in the north and Nepal to the east, while its neighbouring States are Himachal Pradesh to the west and Uttar Pradesh in the south. The geographical area of the State is 53,483 sq. km. The region is mainly hilly (almost 93 per cent) with 65 per cent forest cover. The State can be grouped into three distinct geographical regions, the High Himalayan region, the Mid-Himalayan region and the Terai region. **The State is rich in natural resources especially water and forests.** Uttaranchal has 13 districts grouped under two divisions; Garhwal Division includes Chamoli, Dehradun, Haridwar, Pauri Garhwal, Rudraprayag, Tehri, and Uttarkashi districts; and Kumaon Division includes Almora, Bageshwar, Champawat, Nainital, Pithoragarh and Udham Singh Nagar. The capital of Uttaranchal is Dehradun. The two districts viz. Haridwar and Udham Singh Nagar fall under the Terai Region of agro-climatic zone and all the other 11 districts under the hilly region.

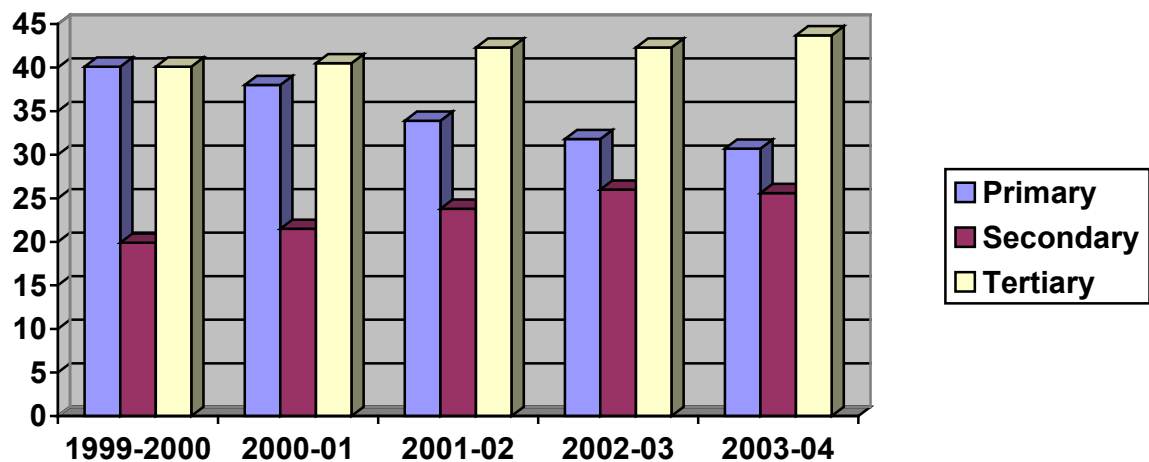
1.2 Demographic Features

1.2.1 Uttaranchal has a population of 84.89 lakh. While 50.96 per cent of the population is male, female population comprises 49.04 per cent. The bulk of the population (74.38 per cent) is rural. The overall literacy rate in the State is 71.62 per cent, 59.63 per cent in females and 83.28 per cent in males (2001 census). Persons living Below Poverty Line (BPL) in rural areas constitute 36.44 per cent. The population density per sq. km. is 159 in the State, as against the all-India level of 324.

1.3 The Economy

1.3.1 The State's Gross Domestic Product (SGDP) was Rs. 17,370 crore in the year 2003-2004 and had grown by 15.3 per cent over the previous year. The year to year growth in SGDP increased by 14.1 per cent in the first year of the formation of the State, but decreased to 7.7 per cent in the second year (2001-02) and again increased substantially by 14.3 per cent and 15.3 per cent in the years 2002-03 and 2003-04 respectively. The annual per capita income has risen from Rs. 12,967 in the year 1999-2000 to Rs. 19,598 in the year 2003-04. The shares of primary, secondary and tertiary sector in the SGDP were 30.65 per cent, 25.61 per cent and 43.74 per cent respectively in the year 2003-04. As per the latest available data, the share of primary sector to SGDP has shown a declining trend from 40.1 per cent in the year 1999-2000 to 30.7 per cent in the year 2003-04. The shares of secondary and tertiary sectors to SGDP have shown an increasing trend from 19.9 per cent and 40.1 per cent respectively in the year 1999-2000 to 25.6 per cent and 43.7 per cent respectively in the year 2003-04 (Figure 1.1).

Figure 1. 1

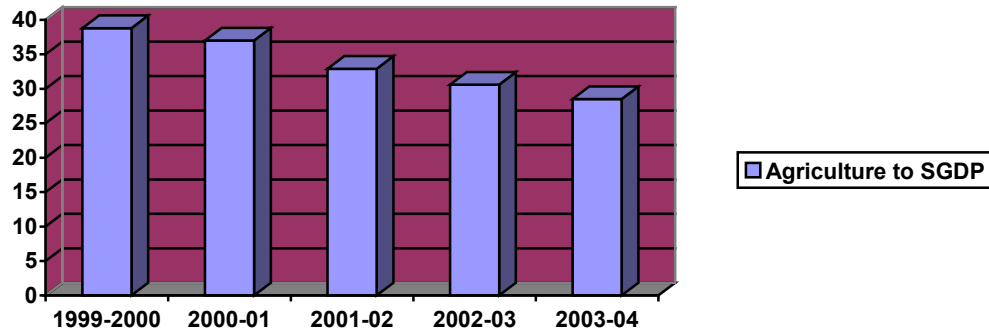


** Latest available data*

1.3.2 Agriculture

Agriculture contributes around 28.5 per cent of the SGDP. About 58 per cent of the State's population is dependent on agriculture. The share of agriculture in SGDP has been progressively receding. It was 38.8 per cent in 1999-2000 and slid to 28.5 per cent in 2003-04 (Figure 1.2).

Figure 1. 2



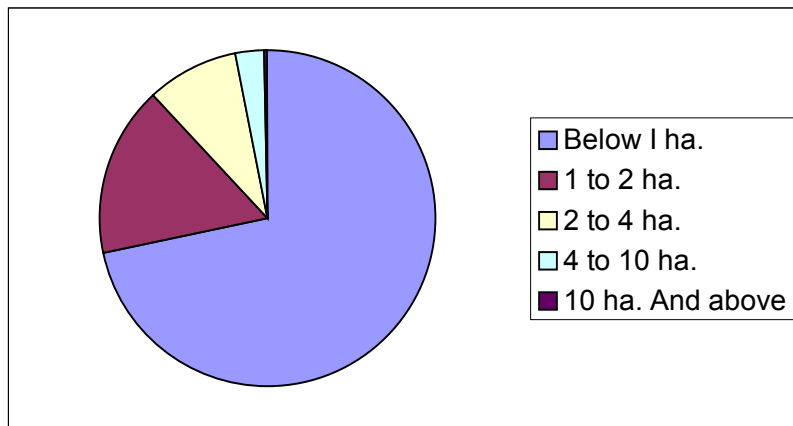
* Latest available data

1.3.3 Land Utilisation Pattern

The State has about 65 per cent area under forests. The share of net sown area is only 13.6 per cent as against the National Average of 43.37 per cent. The share of culturable wasteland is 6.8 per cent and provides a huge potential for plantation crops like Jatropha and species of Tree Borne Oilseeds (TBOS) and also for horticultural crops in the State.

1.3.4 Land Holding Pattern

The average size of land holding in the State is 0.93 hectare as against the National Average of 1.57 hectare. The land holding share of small and marginal farmers to the total holdings is 88.1 per cent and the large farmers, having more than 10 hectares of land, is very minimal (0.19 per cent). The land holding pattern of various categories of farmers in the State is depicted in the Figure 1.3. The small and fragmented holdings are major inhibiting factors in the adoption of farm mechanization, crop diversification and commercial orientation of agriculture.

Figure 1.3**Land Holding Pattern in Uttarakhand (2000-01)**

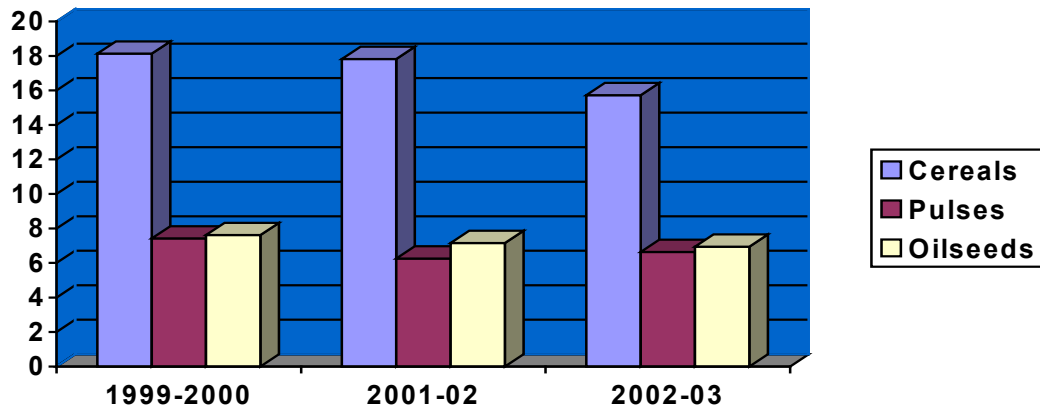
** Latest available data*

1.3.5 Composition of Gross Cropped Area (GCA)

The major crops of the State are paddy, wheat, barley, sugarcane, mandua, maize, potato and pulses. The shares of food grains and non-food grains in total GCA were 85.21 per cent and 14.79 per cent respectively in 2002-03 (provisional). The share of food grains was 86.50 per cent in total GCA in 1999-2000 and it is continuously declining thereafter. This is an indicator of diversification or commercial orientation of the agriculture sector in the State. Area under paddy and other cereal crops (excluding wheat, barley and maize) showed a declining trend during 1999-2000 to 2005-06.

The food grains production has been showing a fluctuating trend. It was 17.91 lakh MT during 1999-00, which came down to a level of 15.97 lakh MT during 2002-03, increased to 17.28 lakh MT during 2003-04 and decreased to 15.93 lakh MT during the year 2005-06. The declining trend was observed in cereals as well as in pulses. The share of the State in total food grains production of the country is around 0.86 per cent as against the share of net sown area of 0.56 per cent, which is an indication of higher crop intensity. The average productivity per hectare of cereals, pulses and oilseeds has also shown a continuous declining trend from 1999-2000 to 2002-03 (Figure 1.4). There is an urgent need to improve the value and productivity in the hilly regions.

Figure 1.4



* Latest available data

1.3.6 Irrigation scenario

The net irrigated area in the State is 3.46 lakh hectare. The share of plains is about 85.83 per cent in total net irrigated area of the State whereas the hilly region accounts for only 14.17 per cent.

1.3.7 Allied Activities to Agriculture

(a) Animal Husbandry and Dairy Development

Cattle rearing is staple economic support for the people of the State. This occupation provides direct or indirect income to more than two and a half lakh people. According to livestock census of 2003, Uttarakhand has an animal wealth of 49.43 lakh, and of poultry 19.84 lakh. Of the animal wealth, there are 34.17 lakh cattle, 2.96 lakh sheep, 11.58 lakh goats and 0.72 lakh other breeds. The State has encouraged animal husbandry as an important source of self employment and economic development.

The State is milk surplus and has per capita production of 326 ml per day. The State has followed the Anand pattern of three-tier structure for dairy development, i.e. Milk Producers' Cooperative Societies at the village level, the Milk Producers' Cooperative Union at the district level and the Uttarakhand Dairy Federation at the State level.

Animal husbandry, dairy development, horticulture, including floriculture and medicinal & aromatic plants (MAPs), are emerging as important sub-sectors of agriculture in the State and there is need for greater focus in these areas, particularly with reference to food processing and marketing. The major constraints observed in the development of animal husbandry and dairy development activities are shortage of fodder, inadequate marketing and veterinary facilities in hill regions. The State Government would need to fill up these gaps as soon as possible.

1.4 The strengths of the plains in Uttaranchal are good irrigation facilities and availability of fertile soil, availability of infrastructural facilities, farmers having entrepreneurial attitude and skill, developed agricultural extension system and average size of land holding bigger than that of the hill regions. The hill regions have strengths such as climate being suitable for off season cultivation of crops particularly vegetables, prevalence of organic farming for which demand is growing and there is large scope of diversification in agricultural allied activities such as fisheries, MAPs, apiculture and food processing, etc.

1.5 Industries

1.5.1 Since Small Scale Industries serve as a backbone for the large industries and play a vital role in balanced and sustainable economic growth by value addition, employment generation, equitable distribution of national income, regional dispersal of industries, mobilisation of capital and entrepreneurial skills and contribution to export earnings, the Central Government had declared a Concessional Industrial Package for Uttaranchal on January 7, 2003. As per the Package, various concessions of Excise Duty and Income Tax were announced for establishing new industrial units as well as to existing units on their substantial extension in the State.

The State Government has implemented its "Industrial Policy 2003" to facilitate an investor friendly environment for ensuring rapid and sustainable industrial development in the State. The vision of the industrial policy is:

- To create high quality infrastructure facilities, to provide single window project clearance, to promote and encourage private sector participation, to simplify and rationalize labour laws;
- To promote in particular Small Scale, Cottage, Khadi & Village Industries and handicrafts;
- To promote industries based on local resources;
- To promote planned and scientific exploitation of mineral resources;
- To promote sunrise industries in the State in areas of Information Technology and Bio-Technology; and
- To provide special attention for setting up industries in remote areas.

Due to environmental and geographical constraints and concerns, the medium and large industries are not likely to come up in the Middle and Upper Himalayas. Wool based industry is a traditional industry in these areas, which needs to be promoted. Adequate facilities like wool banks, designs, processing and marketing facilities need to be developed.

1.5.2 The progressive policies formulated by the State Government have paid dividends. In a short span of time, a number of large units have emerged, which notably include Hindustan Lever, Mahindra & Mahindra, ITC, Britannia Industries, Dabur, Telco, Bajaj Auto, Havells, etc. Though the number of medium and large industries has increased from 113 in the year 2002-03 to 133 in the year 2004-05 with an investment of Rs. 17,014.72 crore, the number of SSI units has decreased from 36,516 to 25,294 during the same period, with investment of Rs.

860.63 crore. While the number of handicraft units had substantially increased from 58,904 to 61,486, the number of Khadi & Village Industries Board assisted units decreased from 575 to 468 (involving advances of Rs.4.61 crore) during the same period.

1.5.3 The State Government has set up a State Industrial Development Corporation of Uttarakhand Ltd. (SIDCUL) to ensure all facilities to industrialists. SIDCUL has established industrial estates in Haridwar, Pant Nagar, Sitarganj, Selakui, Kotdwar, etc. In these estates, more than 1,500 units are being set up with an investment of Rs. 15,000 crore, providing direct employment to one lakh persons and indirect to three lakh persons.

1.6 Handlooms

The State is providing facilities like infrastructure, marketing incentives, better designs, training and publicity to weavers through weavers' co-operative societies under the Deendayal Handloom Promotion Scheme with an aim of promoting handloom products. The Government Design Centre, Kashipur, provides financial aid to weavers and printers. Uttarakhand Handloom and Handicraft Development Council organizes craft and trade fairs, creates publicity and provides superior and new technical information to the handloom and handicraft workers of the State. It provides information material regarding foreign buyers. The Council has a scheme of marketing products in the brand name of "Himadri".

1.7 Infrastructure

1.7.1 The State Government is focusing on the development of infrastructure for improving basic facilities in the State. Rail, road and air connectivity is being strengthened. The Government has constructed 3,890 km. of roads and 280 bridges to connect the people living in the far-flung areas of the State. It has also

taken steps to expand the air services in the State. These include a plan for making at least one helipad in each district and expansion of Pant Nagar airport.

1.7.2 Uttaranchal is a land of vast water resources. The State proposes to scientifically utilize the immeasurable water wealth and make Uttaranchal an Energy State by the year 2016. The State has identified potential of 20,000 MW of which 1,669.31 MW is already under hydro-electric (hydel) projects and further 13,397 MW is in various stages of development. In the areas of alternate energy, 20 micro hydel projects are run by rural consumer societies in the remote areas and 11 district level energy parks have been established.

1.8 Tourism

Uttaranchal, cradled in the awesome beauty and calm serenity of the stately Himalayas, has attracted tourists and pilgrims from time immemorial. The hills of Uttaranchal have all the ingredients for adventure like unexplored valleys, towering peaks, flowing rivers, snow-capped mountains, a splendid combination of flora and fauna and vast tracts of virgin snow. It offers some of the best venues for adventure sports such as skiing, river rafting, canoeing, para gliding, rock climbing, etc. UNESCO has declared the Valley of Flowers as a "World Heritage" site. The State Government has given tourism the status of industry and it is now the thrust area for developing necessary infrastructure. The State has also launched Veer Chander Singh Garhwali Paryatan Self Employment Scheme to co-join tourism and livelihood. The State Government has sanctioned Rs. 60.66 crore for tourism master plan and has substantially increased the plan outlay for tourism from Rs. 7.75 crore in Sixth Five Year Plan to Rs. 300 crore in the current Five Year Plan. The number of Indian tourists and foreign tourists (1,63,73,509 and 94,744 respectively in 2005) has been increasing in the recent past and the sector has immense potential for further development thereby contributing to the over all economic development of the State.

1.9 Information Technology

The State Government has stepped up the implementation of developmental projects through e-governance and has secured approval for assistance of Rs. 38 crore from World Bank. The other initiatives taken by the State Government include human resource development through Aarohi and Shikhar projects for bringing in computer literacy to schools and colleges, and it has entered into an agreement with IBM for computerization of State land records. The State Government has also entered into a Memorandum of Understanding with Jaikisan.org for setting up IT kiosks in rural areas, developed as a self sustaining revenue model, with assistance from the banks. The 'Uttara' portal is being developed in the State. With the cooperation of UNDP, information about all the 109 Government Departments and institutions will be made available on this portal. Broadband connectivity has been provided to the industrial units in the State. For increasing the outreach of banking services in the remote hilly areas, the telecom department has erected transmission towers to link the bank branches through Internet.

Banking Profile

1.10 Banking network in the State

1.10.1 The State of Uttaranchal comprises 13 districts. State Bank of India is the convenor of the State Level Bankers' Committee (SLBC). The lead bank responsibility of the 13 districts has been allotted amongst the following three public sector banks:

| <u>Name of the bank</u> | <u>No. of districts</u> |
|-------------------------|-------------------------|
| 1. State Bank of India | : 9 |
| 2. Bank of Baroda | : 2 |
| 3. Punjab National Bank | : 2 |
| | ----- |
| | 13 |
| | ----- |

As on March 2006, the State had a network of 1123 bank branches as given in the following table:

| Type of Bank | No. of Banks in the State | No. of Branches |
|-----------------------------|---------------------------|-----------------|
| Public sector banks | 23 | 690 |
| Regional Rural Banks | 4* | 168 |
| Cooperative Banks | 11 | 209 |
| Private banks | 12 | 56 |
| Total | | 1123 |

* Three RRBs sponsored by SBI has since been merged into one RRB.

The position of number of branches of commercial banks (including RRBs) and co-operative banks for the last three years is given below:

| Population Group | March 2004 | March 2005 | March 2006 |
|-------------------|-------------|-------------|-------------|
| Rural | 635 | 659 | 666 |
| Semi-Urban | 260 | 279 | 288 |
| Urban | 159 | 164 | 169 |
| Total | 1054 | 1102 | 1123 |

1.10.2 As on March 31, 2006, the average population per branch in the State was 7,750. The average number of villages served per branch in the State was 14.37, which varied between 3.77 villages in Dehradun district to 26.93 villages in Pauri Garhwal district. Chamoli, Pauri Garhwal, Rudraprayag, Pithoragarh, Almora, Bageshwar and Champavat districts had more than 20 villages per branch. The average villages served per branch in Garhwal region was 13.60 whereas in Kumaon, the number of villages per branch was 15.44.

1.10.3 State Bank of India (SBI) and Associates (283 branches), Punjab National Bank (PNB) (134 branches) and Bank of Baroda (BOB) (51 branches) are the predominant public sector banks in the State. The urban cooperative banks have

only 29 branches in the State. Garhwal region has 58.34 per cent share in total branches of the State.

1.11 Credit Deposit (CD) Ratio of scheduled commercial banks (including RRBs)

The comparative figures of deposits, advances and corresponding CD ratio for all scheduled commercial banks, including Regional Rural Banks for the last three years were as under.

(Rs. in crore)

| Year | Deposit | Advances | CD Ratio |
|------------|---------|----------|----------|
| March 2004 | 15789 | 4278 | 27.09% |
| March 2005 | 17587 | 5775 | 32.84% |
| March 2006 | 20726 | 7565 | 36.50% |

Source – SLBC Agenda Paper

The Government of India had appointed a Group of Experts under the chairmanship of Shri Y. S. P. Thorat, then Managing Director, NABARD to go into the nature and magnitude of the problem of low CD ratio across States / regions and to suggest steps to overcome the problem. The Expert Group examined the problems and causes of low CD ratio and submitted its report to Government of India. The recommendations of the Group have since been examined and accepted by the Government of India with certain modifications. Accordingly, Reserve Bank has advised all scheduled commercial banks on November 9, 2005, that the CD Ratio of banks should be monitored at different levels on the basis of the following parameters –

| Institution / Level | Indicator |
|---------------------------------|-----------|
| Individual banks at Head Office | Cu + RIDF |
| State Level (SLBC) | Cu + RIDF |
| District Level | Cs |

Note: Cu = Credit as per place of Utilization

Cs = Credit as per place of Sanction

RIDF = Total Resource support provided to States under RIDF

As per the new definition, the CD ratio for all scheduled commercial banks in the State works out to 46.56 per cent as on March 31, 2006.

The CD ratio of the State has improved significantly from 27.09 per cent as on March 31, 2004, to 32.84 per cent on March 31, 2005, and further to 46.56 per cent as on March 31, 2006 (36.5 per cent as per old formula). The Credit plus Investment to Deposit ratio had also increased from 42.20 per cent as on March 31, 2004 to 45.60 per cent as on March 31, 2005 and further to 59.84 per cent as on March 31, 2006.

The district-wise CD ratio as on March 31, 2006 is as follows:

| Sr. No | Name of District | 31.03.2006 |
|---------------|-------------------------|-------------------|
| 1 | Dehradun | 46.44 |
| 2 | Uttarkashi | 34.09 |
| 3 | Hardwar | 46.65 |
| 4 | Tehri | 65.90 |
| 5 | Pauri | 19.74 |
| 6 | Chamoli | 25.23 |
| 7 | Rudraprayag | 25.19 |
| 8 | Almora | 25.36 |
| 9 | Bageshwar | 23.88 |
| 10 | Pithoragarh | 27.84 |
| 11 | Champawat | 23.68 |
| 12 | Nainital | 35.63 |
| 13 | Udham Singh Nagar | 85.27 |

On the basis of the recommendation of the Expert Group on CD ratio (Chairman: Dr. Y. S. P. Thorat), Special Sub-Committees (SSCs) of District Level Coordination Committee have been formed in all districts having CD ratio below 40 per cent.

1.12 Performance of banks in key areas in the State:

The aggregate deposits of all the banks operating in the State increased from Rs. 12,814.28 crore as on March 31, 2001 to Rs. 20,726.27 crore as on March 31, 2006, with the share of commercial banks at 86.49 per cent, RRBs at 3.64

per cent and cooperative banks at 9.87 per cent. The aggregate loans and advances has also increased from Rs. 3,109.02 crore as on March 31, 2001 to Rs. 7,565.42 crore as on March 31, 2006. The banks credit in the State has increased by 31 per cent in the year 2005-06 as compared to 2004-05. The banks have also increased their advances to priority sector, agriculture and weaker sections. The performance of banks in key areas in the State is as follows:

(Amount in Rs. crore)

| Sr. No. | Items | March 2004 | March 2005 | March 2006 | % increase over March 2005 |
|---------|-------------------------------------|------------|------------|------------|----------------------------|
| 1. | Deposits | 15789.18 | 17587.16 | 20726.27 | 17.85% |
| 2. | Credit | 4277.78 | 5774.80 | 7565.42 | 31.01% |
| 3. | Credit under Priority Sector | 2568.62 | 3009.57 | 4087.62 | 35.82% |
| 4. | Agricultural Credit | 959.76 | 1147.03 | 1492.38 | 30.12% |
| 5. | Credit to Weaker Sections | 573.16 | 749.94 | 1014.31 | 35.25% |
| 6. | DRI advances | 0.48 | 0.67 | 0.96 | 43.28% |

Source: Agenda Papers of SLBC Meeting

1.13 Kisan Credit Cards (KCC)

The Kisan Credit Card (KCC) Scheme was introduced in the year 1998-99 to enable the farmers to purchase agricultural inputs and draw cash for their production needs. During 2005-2006, all commercial banks, RRBs and cooperative banks operating in the State had issued 83,939 KCCs amounting to Rs. 378.72 crore. Cumulatively, the number of KCCs issued by these banks stood at 4,96,499 since inception till date. The average limit per KCC was estimated at Rs. 24,831 which varied between Rs. 17,769 in Garhwal region and Rs. 32,152 in Kumaon region.

1.14 Recoveries

The overall recovery under agriculture sector was 71.48 per cent in the State, which varied between 66.84 per cent in Garhwal region and 82.02 per cent in

Kumaon region. Almora, Nainital and Udham Singh Nagar districts had better recoveries than the State average, whereas Uttarkashi, Tehri Garhwal, Bageshwar, Champawat districts had recoveries less than 50 per cent.

1.15 Micro Credit

The micro credit movement in the State was initiated from the pilot period phase i.e. 1991-92. At present, there are about 26,000 SHGs (including SGSY programme) in the State and 15,000 SHGs have been credit linked with the banks. Although the SHG movement had covered all the districts of the State, the spread, however, was uneven. In Bageshwar, Chamoli, Champawat, Haridwar and Rudraprayag districts, the progress in promotion of SHGs was not encouraging.

1.16 Role of NABARD and Financial Institutions

(a) NABARD has been playing a proactive role in development of agriculture and rural sector through credit. The refinance provided in the State (since its formation) against credit supported term lending in farm and non-farm sectors, including rural housing, up to March 31, 2006, cumulatively stood at Rs. 100.69 crore. The State Government had availed loan under NRC (LTO) for strengthening share capital base of District Central Cooperative Banks (DCCBs) and Primary Agricultural Credit Societies (PACS) to the extent of Rs.15.36 lakh up to March 31, 2006.

(b) The Uttaranchal State Cooperative Bank was set up in March 2004 to provide credit facilities both long term & short term for rural sector through DCCBs/PACS.

(c) The branch office of SIDBI in Dehradun had initially given thrust on promotional and developmental initiatives and, subsequently, taken up direct lending operations and disbursed loans to 38 units situated in major industrial towns viz., Kashipur, Rudrapur, Dehradun, Hardidwar, Rookee, Rishikesh, Haldwani and Kotdwar with outstanding balance of Rs. 40.36 crore as on March 31, 2006.

CHAPTER 2

ROLE OF BANKS AND FINANCIAL INSTITUTIONS IN SUPPORTING THE INITIATIVES TAKEN BY THE STATE GOVERNMENT FOR PROMOTING ECONOMIC DEVELOPMENT OF THE STATE

2.1 Banks and financial institutions play a vital role as financial intermediaries by accepting deposits from the public and providing credit facilities to the needy sector of the economy for its development. With a view to arriving at accelerated economic development of the regions/States, credit-planning process was introduced under the Lead Bank Scheme in 1969. Under the scheme, banks were allocated areas/villages to provide necessary credit for the development of the area allocated to them under Service Area Approach by formulating specific innovative schemes. The Service Area Approach to Rural Lending has since been discontinued, except for the Government sponsored schemes, as per the recommendation of the Advisory Committee on Flow of Credit to Agriculture and Related Activities from the Banking System (Vyas Committee). The Lead Bank usually prepares Annual Credit Plans (ACP) for the State with targets to all banks functioning in the State. The achievements under ACP are normally monitored at quarterly intervals at the block, district and State level in the concerned forum i.e. Block Level Bankers' Committee (BLBC), District Consultative Committee (DCC) and State Level Bankers' Committee (SLBC). NABARD prepares Potential Credit Linked Plan for the area after taking into account the local resources and potential available, on the basis of which the Annual Credit Plan for the State is prepared. In the State of Uttaranchal, the lead bank responsibility has been entrusted to State Bank of India at State level whereas the State Bank of India, Punjab National Bank and Bank of Baroda have been entrusted the lead bank responsibilities at district level. The banks had achieved the targets under the ACP for the year 2005-06 by sanctioning/disbursing Rs. 2,382.06 crore against the targeted amount of Rs. 2,052.53 crore.

2.2 Performance of Banks under Annual Credit Plan in the State

The performance of banks under ACP for the years 2003-04, 2004-05 and 2005-06 was as under:

(Rs. in crore)

| Sector | 2003-04 | | | 2004-05 | | | 2005-06 | | |
|--------------|---------|-------------|--------|---------|-------------|--------|---------|-------------|--------|
| | Target | Achievement | % | Target | Achievement | % | Target | Achievement | % |
| Agriculture | 554.74 | 521.34 | 93.97 | 609.77 | 753.25 | 123.53 | 948.39 | 1021.19 | 107.68 |
| SSI | 318.00 | 271.65 | 85.42 | 387.78 | 324.76 | 83.74 | 412.74 | 474.48 | 114.96 |
| Services | 413.61 | 504.89 | 122.0 | 542.06 | 720.33 | 132.88 | 691.40 | 886.38 | 128.20 |
| TOTAL | 1286.35 | 1297.88 | 100.89 | 1539.61 | 1798.34 | 116.80 | 2052.53 | 2382.06 | 116.05 |

The above data shows that the achievement levels under the agriculture, SSI and services sectors targets were much above the targets during the year 2005-06. The overall achievement was 116.05 per cent of the target under ACP during the year 2005-06, which was also much above the target. However, there was scope for further improvement in the performance of banks in the SSI sector, as the banks had set a marginal increase in the target for lending to SSI sector during the year 2005-06. In view of the new industrial policy of the State being implemented vigorously as also potential avenues for setting up new industries in the State, the group suggests that the Annual Credit Plans may be prepared taking into account the potential available and the targets for various sectors may be set accordingly.

2.3 Flow of credit to Agriculture

2.3.1 Credit flow position in Uttaranchal

Consequent upon the announcements made by Union Finance Minister on June 18, 2004 for doubling the flow of credit to agriculture within a period of three years, banks in the State intensified their efforts to meet the targets. Disbursement to agriculture in the State increased from Rs. 521.36 crore during the year 2003-04 to Rs. 750.04 crore during the year 2004-05 (43.9 per cent increase) and further rose by 36 per cent to Rs. 1021.19 crore during the year 2005-06. In a period of two years, the flow of credit increased by almost 96 per

cent over the base year credit to agriculture. The short term (crop loans) loans disbursed by all banks in the State also increased by 30 per cent from Rs. 303.57 crore during the year 2002-03 to Rs. 394.27 crore during the year 2003-04 and further rose by 32.5 per cent to Rs. 522.29 crore during the year 2004-05. The medium and long term loans to agriculture sector disbursed by all banks in the State had dipped from Rs. 157.87 crore during the year 2002-03 to Rs. 127.09 crore during the year 2003-04, but then increased to Rs. 227.74 crore during the year 2004-05, showing a substantial increase of 79 per cent over the previous year. The share of investment credit to total credit to agriculture has been decreasing as compared to short-term credit.

2.3.2 Integrating investment and production credit

Farmers use credit for various activities, such as crop cultivation, purchase or replacement of tractors and farm equipment, sinking/ deepening wells, installing diesel pump sets or electric motors, laying cement pipelines/ field channels and drip/sprinkler irrigation system, construction of farm sheds, purchase of produce transport vehicles, dairy animals and so on. Banks can expand the flow of farm credit significantly if they were to consider total credit needs of cultivators. There is, therefore, a need to integrate investment and production credit. There is a slow down in the long term credit from about 34 per cent in 2003 to about 30 per cent in 2005. This deceleration of growth of investment credit impairs agricultural borrowers' credit absorption capacity. It would eventually affect the growth of crop loans as well. The Group, therefore, recommends that the banks should integrate the investment and production credit needs of the farmers and increase their investment credit.

2.3.3 Kisan Credit Cards (KCC)

As on March 31, 2006, 4,96,499 KCCs were issued in the State by various banks as against 5,25,000 cultivators having landholdings. The average limit per KCC in the State was estimated at Rs. 24,831, which varied between Rs. 17,769 in

Garhwal region to Rs. 32,152 in Kumaon region. The KCC limit across districts varied between Rs. 3,292 in Pauri Garhwal to Rs. 44,538 in Udham Singh Nagar district.

2.3.4 In view of large number of small and fragmented land holdings, there is a need to adopt cluster approach in financing. Subsequently, sub-clusters could be developed around the main cluster. In Uttaranchal, women in hilly districts are engaged in farm activities as their men folk usually move out of the State or district in search of jobs. In such a situation, suitable mechanism may be worked out by the State Government in consultation with banks to enable the women cultivators to avail credit from the banking system.

2.3.5 Agricultural extension services are inadequate in the hilly areas, which are to be strengthened with support of Government or through private participation. The agricultural extension system is the conduit between the research institutions and the farmers for conveying to the farmers improved agricultural technology, which can increase their yields and incomes within the framework of their environment and assets. For enhancing extension system, the Group suggests that the Government agencies should join hands with private and community driven organizations. Research-extension linkages should be strengthened. The quality of extension process should be improved by using techniques like participatory rural appraisal, group dynamics, leadership techniques, conflict resolution, data analysis, efficient documentation and information technology. Considering the high involvement of women in farm work in the State, special efforts should be made to reach technology to them, with sensitive attention to their time windows, mobility and cultural situation.

2.4 Credit flow to Small Scale Industries

2.4.1 Small Scale Industries (SSI) play an important role in the industrial development of the State by acting as a backbone for the large industries. While capital incentive medium and large enterprises account for large industrial output,

it is the SSI that provides employment to the large number of people. The Central Government declared a Concessional Industrial Package for Uttaranchal in 2003. As per new Industrial Package, various concessions of excise duty and income tax have been declared for establishing new industrial units as well as to existing units on their substantial expansion in the State. The State Government has also implemented its "Industrial Policy 2003" to enable a facilitating investor friendly environment for ensuring rapid and sustainable industrial development in the State.

2.4.2 The scheduled commercial banks, including Regional Rural banks, in the State have disbursed Rs. 491.43 crore during the year 2005-06 to SSI sector. This has shown an increase of 50 per cent over the disbursement made in the previous year 2004-05.

2.4.3 The main constraints hampering the growth of industries in the State are summarized below:

- (i) Geographical and environmental constraints in hill regions;
- (ii) Lack of availability of infrastructure including roads in remote areas;
- (iii) Lack of marketing opportunities and avenues; and
- (iv) Non-availability of raw materials locally.

With a view to encouraging banks to lend efficiently to the SME sector for the overall economic development of the State, the Group suggests that the State Government should provide necessary infrastructure and facilitate marketing opportunities.

2.5 National Bank for Agriculture and Rural Development (NABARD)

Uttaranchal Regional Office of NABARD, set up in July 2001, has been playing a proactive role in development of agri-rural sector through credit. The role of NABARD can be broadly grouped into Credit Function, Developmental function and Regulatory function.

2.5.1 Refinance Support

The refinance disbursed in the State (since its formation) against credit supported term lending in farm and non-farm sectors including rural housing up to March 31, 2006, cumulatively stood at Rs.100.69 crore. The short-term refinance support given by NABARD as on March 31, 2006 stood at Rs.24.87 crore. NABARD refinance support had been largely availed by RRBs and commercial banks.

2.5.2 The Uttaranchal State Cooperative Bank (UASCB) was set up in March 2004. The State has decided that the short term cooperative credit structure – DCCBs and PACS shall meet the investment credit needs of their members and accordingly no long term credit structure has been set up in the State. However, the short-term cooperative credit structures were not organizationally geared up to take up the job. Consequently, flow of investment credit to agriculture sector had slowed down. This is one of the reasons for negative growth recorded in term lending to agriculture during the period 2000-01 to 2004-05. The recourse to refinance was found non-attractive due to following factors: the cost of deposits mobilized by most of the DCCBs was either lower or on par with the rate of interest charged by NABARD and the cooperative banks had a comfortable liquidity position.

2.5.3 Support for Development of Rural infrastructure under RIDF

The State has availed support under RIDF from Tranche VIII onwards. Till March 31, 2006, sanction aggregating Rs. 652 crore had been accorded for construction of 169 deep tube wells, over 3,000 km of rural roads, 3,100 meter of rural bridges, seven lift irrigation projects, 31 rural drinking water schemes, six flood protection schemes and for system improvement in power. The State Government had drawn Rs. 386.09 crore as on March 31, 2006. These projects, when completed, are expected to generate 435.66 lakh man-days of employment of non-recurring nature during implementation stage and recurring employment

to the extent of 26,220 jobs annually, adding Rs.62.43 crore to SGDP annually. Government of India restriction limiting the State Government borrowings under RIDF to Rs.175 crore during 2005-06 and 2006-07 could impede flow of infrastructure projects under RIDF.

2.5.4 Support to Strengthen Share Capital base of Cooperative Credit Structure

The State Government had availed loan under NRC (LTO) for strengthening share capital base of DCCBs and PACS to the extent of Rs.15.36 lakh up to March 31, 2006.

2.5.5 Institutional Development

The strengthening of Regional Rural Banks and cooperative credit structures through the mechanism of Development Action Plan, Organizational Development Initiatives (ODIs), extending financial support for computerization, publicity of KCC and other schemes, promotion and credit linking of SHGs, promotion of farmers club, banking infrastructure in PACS, training of staff, Women Development Cell, etc. has been one of the core areas of developmental initiatives of NABARD. However, these measures alone may not be enough to strengthen the cooperative credit structure. In order to strengthen the credit delivery system and to ensure availability of credit to all, the State Government should implement the recommendations of Task Force on Revival of Rural Cooperative Credit Institutions (Chairman; Prof. A. Vaidyanathan). The cooperative credit structures in Uttaranchal have no training arrangements to train their officers and staff. The proposal to have an arrangement with Institute of Cooperative Management is yet to take a concrete shape. The Group recommends that this issue needs to be addressed by State Government and UASCB on top priority.

2.5.6 NABARD prepares Potential Linked Plans (PLPs) annually for all the districts indicating potential location specific bankable schemes. The pre-

requisite for preparing PLPs was detailed as “Agro-climatic Planning and Information Bank (APIBs)”. The Planning Commission enunciated this concept in 1980’s. So far Karnataka has attempted this exercise. This will clearly indicate the bottlenecks, which impede credit off take and diminish credit absorbing capacity, especially long term ones. The task of preparing APIBs can jointly be undertaken by NABARD and the State Government. PLPs prepared on the basis of detailed APIB will enable NABARD to suggest gaps in physical infrastructure which could be taken under RIDF on the one hand and at the same time support strategic investments in horticulture, fisheries, organic farming, agro industries, marketing, agriculture related services, etc.

2.5.7 Other Developmental Initiatives

Some of the initiatives actively pursued by NABARD relate to credit planning and monitoring, micro-finance and SHG-Bank linkage programme, capacity building of NGOs, farmers, entrepreneurs, unemployed youth, skill upgradation, promotional support for marketing for rural non-farm products, promotion of Farmers’ Clubs, development of tribal areas, watershed, cluster development both in farm and non-farm sectors, formulation of area development schemes, model schemes etc. There is a need to translate the strategies as suggested in State Focus Paper 2006-07 into an implementable and monitorable action plan. In this context, the Group is of the view that a coordinated approach and integration of developmental programmes of Government with the developmental programmes of other agencies can result in synergy with significant positive impact. NABARD can take a lead in this behalf with active support from Government of Uttaranchal.

2.5.8 New initiatives

NABARD is contemplating to devise new strategies for boosting the development process in hills by:

- launching programme for rainwater harvesting and conservation under Rural Employment Guarantee Programme, consolidation of land holdings to check further fragmentation with appropriate policy intervention by State Government;
- use of common property resources for income generating activities, using State owned corporations and Boards/Bodies/Agencies as financial delivery agencies; promote public-private partnership in exploiting available potential;
- enthusing / inducing development of common facility centre in private sector, i.e. creation of basic infrastructure for P&H, forestry, animal husbandry, fisheries sectors, etc.;
- developing alternative credit delivery and recovery system for financial support, inclusion and identifying competent and credible agencies and strengthening extension infrastructure by enhancing the capability of village level officers and other grass-root level extension workers.

2.5.9 Micro Finance

The objective of Micro Finance Scheme is to "include the excluded in the Banking system" and make the poor, bypassed sections of the society, "Bankable." Micro Finance is, thus, an effort to provide greater access to credit, savings, insurance and other financial services to the poor and lower income households in order to help them to move towards more secure livelihood and prosperous future. RBI and NABARD have taken several initiatives to promote and upscale the programme.

(i) Micro Finance scenario in Uttaranchal

After formation of Uttaranchal State, efforts have been made to promote micro finance with active association of NGOs, banks, and Government Departments through various schemes for empowerment of women and improving the economic status of 3.76 lakh of BPL families (32 per cent of rural population as per 2001 census). As at the end of March 2006, as many as 31,600 SHGs had

been formed in the State and about 17,600 SHGs had been credit linked with banks. In Almora, Bageshwar, Chamoli, Champawat, Haridwar, Pauri Garhwal and Rudraprayag districts, the progress in promotion / linkage of SHGs is not encouraging. The bankers' conservative attitude, skepticism over the utility of micro finance as a business proposition, security orientation and reluctance to finance women SHGs must undergo change if micro finance has to make any significant dent.

(ii) SHGs promoted under various Government Departments/Agencies

The State Government is implementing all poverty alleviation programmes, like, Swarnajayanti Gram Swarozgar Yojana (SGSY), livelihood programme, Watershed Development Programme, Diversified Agricultural Support Programme (DASP), Rural Drinking Water Supply Programme, etc. through SHG route. Some shortcomings like group inertia, irregular savings, no internal lending, no rotation of leadership, unsatisfactory record maintenance with high dependence on outsiders, e.g. NGOs for their maintenance, low level of trust among the members of groups and dormancy were observed in the SHGs and these need to be addressed by the Government Departments promoting groups in order to make SHGs as effective vehicles for implementing the programmes.

The State Government has set up Social Venture Company under the livelihood programme in the IFAD supported districts, for promoting SHGs.

(iii) Strategy for accelerating micro finance movement in the State

In order to give a fillip to this programme, following strategies may be adopted:

- (a) Continued collaboration with major NGOs who may be supported with assistance for taking up capacity building of the smaller partner NGOs using NABARD's funding support;
- (b) Identification of suitable NGOs to act as intermediaries for on lending to SHGs on agency basis in remote areas where the banks cannot serve

- through their branches. The banks can use support available from NABARD for getting rating of such intermediaries done from approved rating agencies;
- (c) Farmers' clubs may be increasingly used as SHPIs in association with commercial, cooperative and Regional Rural Banks taking advantage of NABARD's funding support;
 - (d) Banks use NABARD's "Scheme for Associating Individual Rural Volunteers (IRVs) in SHG promotion" The Panchayat Raj Bodies, Nehru Yuva Kendras, Kisan Vikas Kendras (KVKs), Aanganwadi workers, literacy workers, retired school teachers, etc. can be inducted as Individual Rural Volunteers (IRVs) in SHG formation as they can be effective in organizing people into groups because of their closer contact;
 - (e) NABARD's support for training to include sensitization of bankers at different levels, skill building of Government field functionaries, NGOs, SHG animators;
 - (f) The Credit Plus approach to be encouraged for helping mature SHGs to graduate into income generating groups;
 - (g) Publication and circulation of operational manuals and booklets on SHG-Bank Linkage by NABARD/Bank;
 - (h) Regular reviews of progress of credit linkage by controlling offices of commercial banks, RRBs and DCCBs for imparting seriousness to the implementation of the SHG Bank Linkage programme;
 - (i) At present SHGs (outside SGSY) have to pay stamp duty on execution of documents with banks for credit linkage. Since members of SHGs belong to poor families, financing to SHGs may also be exempted from stamp duty on the lines of SGSY programme.
 - (j) Government should evolve system of grading of NGOs functioning in the state. The norms evolved by NABARD for NGOs' grading can be used for the purpose.

2.6 Cluster Development

Consequent upon the announcements made by the Union Finance Minister on August 10, 2005 for stepping up credit to small and medium enterprises, the Reserve Bank has advised all scheduled commercial banks to rationalize the cost of loans to SME sector, to provide credit cover on an average to at least 5 new small/medium enterprises at each of their semi urban/urban branches per year, adopt cluster based approach for financing SME sector, and set up specialized SME branches in identified clusters/centres with preponderance of Medium Enterprises to enable the SME entrepreneurs to have easy access to the bank credit and to equip bank personnel to develop requisite expertise.

NABARD has decided to undertake intensive development of five selected clusters on its own and develop 50 additional clusters by partnering with other agencies over a period of five years. NABARD has also identified and selected Handloom Cluster in Imlikhera Village of Haridwar district for development by partnering with other agencies like banks and NGOs, etc. The development of cluster will involve many stages like diagnostic study, skill up-gradation of beneficiaries, setting up of Common Facility Centres/ Depot, market linkages, capacity building of NGO and extension of bank finance to beneficiaries.

2.7 Small Industries Development Bank of India (SIDBI)

2.7.1 Consequent upon the implementation of the Central Government's Concessional Industrial Package, rapid and systematic industrialization has taken place in the State. Kashipur, Rudrapur, Dehradun, Haridwar, Roorkee, Rishikesh, Haldwani, Kotdwar are major industrial towns. The branch office of SIDBI in Dehradun has initially given thrust on promotional and developmental initiatives. The branch has also taken up direct lending operations and disbursed loans to 38 units with outstanding balance of Rs. 40.36 crore as on March 31, 2006.

2.7.2 Some of the developmental initiatives of the SIDBI, Dehradun include:

- Conducted various Skill-cum-Training Upgradation Programmes (STUP) on processing, packaging, storage and marketing techniques for agriculture and dairy products, export marketing and documentation, capacity building;
- An Eco-tourism development under the aegis of NREP conducted in Almora;
- Grant assistance was provided to KGCCI for upgrading the information technology facilities;
- A Rural Industrialization Programme (RIP) is underway in Almora district; and
- Study of six leading NGOs in the State was undertaken with a view to up-scaling micro credit operations. DISHA and ATI, Ukhimath have been identified for joining hands for assistance through SHGs.

In order to boost the industries sector in the State, the Group suggests that SIDBI may prepare bankable projects in variety of industries in SME sector and disseminate information thereon for use of potential entrepreneurs. Such schemes should also cover the handloom and handicrafts sectors.

2.7.3 SIDBI, NABARD, as also major banks, may sponsor RUDSETI for training to entrepreneurs and potential entrepreneurs in SMEs including small business services related sectors. SIDBI / NABARD may sponsor rural industries programmes in the areas where clusters have been identified and in areas having concentration of other non-farm economic activities for training of weavers/artisans small entrepreneurs and for entrepreneurship development.

2.7.4 SIDBI may identify marketing outlets for various industries in the State and provide assistance for display and marketing of the products.

2.8 State Government Initiatives

2.8.1 Recently announced State Industrial Policy to attract industries with fiscal, taxation incentives - valid up to 2007, covered setting up of industrial estates by SIDCUL and also in partnership with private sector, IT parks, new infrastructure projects and improving the existing ones including transportation and power supply, design centre for handicrafts, "HIMADRI" for sale, promotion of handicrafts and Prime Minister's Rozgar Yojana (PMRY) Plus.

2.8.2 The PMRY Plus scheme has been launched by the State Government to provide additional assistance to the successful entrepreneurs of the PMRY scheme. These entrepreneurs have not been able to avail these facilities in the service sector. RBI has advised banks in the State to take a view to extend collateral free credit facilities to entrepreneurs in the services sector, in respect of advances up to Rs. 5.00 lakh.

2.9 The entrepreneurs in Uttaranchal are also facing difficulties in accessing venture capital funds from banks and SIDBI. The Group suggests that SIDBI may strengthen its support in providing venture capital facilities and consultancy services in preparation of project reports for various economic activities, including agricultural projects. Banks may also extend such facilities to the entrepreneurs, at least in their specialized SME branches.

2.10 Banks may explore the possibilities of setting up SSI/SMEs branches in potential areas with adequate sanctioning powers to the branch manager and ensure disposal of loan applications, as per RBI guidelines.

2.11 The lendings of private sector banks to the SME sector in the State has been very minimal as compared to their total loans and advances. Of the ten private banks (excluding Nainital Bank Ltd.) operating in the State, nine private sector banks have lent a minimal amount of Rs. 1.65 crore to the SME sector,

where as Nainital Bank has extended credit of Rs. 27.94 crore to the sector. The Group, therefore, suggests that the private sector banks operating in the State should increase their lending to SME sector. Role of private sector banks should be monitored closely.

2.12 Other suggestions/recommendations

(i) Help of local Agricultural Universities may be taken to improve the quality of inputs so as to improve the quality and quantity of output.

(ii) Since almost 27 per cent of area falls under subsistence farming, State Government may consider providing technical input support (agricultural extension services) to these holders at its cost/subsidized affordable cost.

(iii) Tie up arrangements with multinational/local majors engaged in agricultural business may be explored so as to be beneficial to both the producer and purchaser.

(iv) National Horticulture Board should be made a permanent member of SLBC. The Board should chalk out its plans for the State with the help of State Government and also motivate producers for quality output. Banks should also be made a party for negotiations with producers so as to settle issue of credit on spot. This may act as a single window type clearances/tie ups.

(v) Role of HIMADRI be widened to procure, process and market agricultural products on the lines of HPMC of Himachal Pradesh.

CHAPTER 3

MEASURES FOR ENHANCING GREATER OUTREACH / PENETRATION OF THE BANKING SYSTEM IN UTTARANCHAL

3.1 The Reserve Bank has been making consistent efforts to strengthen credit delivery, improve customer service and encourage banks to provide banking services to all segments of the population. Despite considerable expansion of the banking system in India, large segments of the country's population do not have access to banking services. Expanding the outreach of banking services and 'financial inclusion' is, therefore, a major concern that is engaging the attention of Government of India and the Reserve Bank. "Financial Inclusion" is the delivery of banking services, viz. access to payments and remittance facilities, savings, loans and insurance services at an affordable cost to the vast sections of the disadvantaged and low-income groups.

3.2 International experience in promoting financial inclusion

It may be worthwhile to have a look at the international experience in tackling the problem of financial exclusion. An interesting feature, which emerges from the international practice, is that the more developed the society, the greater is the thrust on empowerment of the common person and low-income groups.

- (i) The Financial Inclusion Task Force in UK has identified three priority areas for the purpose of financial inclusion, viz. access to banking, access to affordable credit and access to free face-to-face money advice. UK has established a Financial Inclusion Fund to promote financial inclusion and assigned responsibility to banks and credit unions in removing financial exclusion. Basic bank no frills accounts have been introduced. A Post Office Card Account (POCA) has been created for those who are unable or unwilling to access a basic bank

account. In addition, the Community Finance Learning Initiatives (CFLIs) were also introduced with a view to promoting basic financial literacy among housing association tenants.

- (ii) A civil rights law, namely Community Reinvestment Act (CRA) in the United States prohibits discrimination by banks against low and moderate-income neighborhoods. The CRA imposes an affirmative and continuing obligation on banks to serve the needs for credit and banking services of all the communities in which they are chartered. In fact, numerous studies conducted by Federal Reserve and Harvard university demonstrated that CRA lending is a win-win proposition and profitable to banks. Apart from the CRA experiment, the State of New York Banking Department, with the objective of making available the low cost banking services to consumers, made mandatory that each banking institution shall offer basic banking account and in case of credit unions the basic share draft account, which is in the nature of low cost account with minimum facilities.
- (iii) The Bangladesh Grameen Bank model and the micro finance programmes of BRAC and ASA in Bangladesh have by now been widely studied. Similarly, the experience of BRI Unit of Indonesia and micro finance experience of Philippines are by now quite well known. Although each of these were path breaking efforts and innovations in their time, the same have already been used in one form or other in designing the microfinance programme in India.
- (iv) A large number of people were cut off from the banking services in Brazil. In 1997, banks and the regulators responded to this situation by creating a network of "correspondents bancarios" or "banking correspondents", small outlets with extended working hours who offered basic banking services. Under this arrangement, banks are permitted to appoint a wide variety of institutions/entities as correspondents/agents e.g., drug stores, petrol pumps, super markets, small stores in neighbourhood, post offices and even lottery shops

(who are easily accessible to people). Another initiative in Brazil has been the use of the post offices network and post office staff to deliver banking services through Banco Postal.

- (v) In South Africa, Teba Bank which was providing financial services to the mining industry since 1975, started targeting low income households in small towns and rural areas having limited banking facilities.

3.3 Indian Experience

3.3.1 The pigmy deposit schemes, which involved daily/weekly collection of tiny deposits at the depositors' doorsteps by engaging local people as agents, were operated in the past by a few banks. These schemes ran into a variety of problems such as frauds and accounting/reconciliation issues. Banks have also experimented with mobile banking in rural areas. The location and time of operation are usually synchronized with market days so that larger numbers of people could transact business. However, due to manpower constraints and inadequate volumes to cover costs, banks have not seen these operations as scalable models for wider replication.

3.3.2 Regional Rural Banks (RRB) were set up to give special attention for financing the weaker sections of the society in rural areas and to bridge the gap comprising population in rural areas which was not being served either by commercial banks or by cooperatives. Over time, with ageing staff, branch rationalization (including shifting to more convenient locations) and focus on profitability and strong balance sheet, these banks have digressed from their social mandate and focused their attention on lending to non-target group borrowers. However, even today, in comparison to commercial and co-operative banks, RRBs offer the best fit for undertaking micro finance operations on a much larger scale considering their close understanding of the local people and geography.

3.3.3 Local Area Banks (LABs) were another initiative, which attempted to mobilize rural savings by local institutions and make them available for investment locally. The LABs set up in the private sector were expected to bridge the gap in credit availability and strengthen the institutional framework in the rural and semi-urban areas to provide efficient and competitive financial intermediation in their area of operation. The LABs have, however, not made an impact on the local communities in terms of any significant indicators, such as deposit mobilization, number of depositors, borrowal accounts, rural branches.

3.3.4 The SHG-Bank linkage model, the indigenous model of micro credit, has been widely acclaimed as a success model with a present coverage of over 22 lakh groups involving a cumulative credit flow of Rs. 11,398 crore as on March 31, 2006 from the banking system. During the year 2005-06, 6.2 lakh new SHGs were provided with bank loans aggregating Rs. 2,330 crore and 3.45 lakh existing SHGs were extended further financial assistance. Bank loans disbursed during the year 2005-06 aggregated Rs. 4,499 crore. Banks have found comfort in lending to such groups. The linkage programme has also helped the banks to reduce the costs of intermediation, leverage peer pressure to mitigate default risks, involve and facilitate NGOs/Civil Society Organizations (CSOs) to build up quality portfolios, etc.

3.3.5 An alternative delivery model for microfinance is the bulk-lending model, where funds are placed at the disposal of NGOs or Micro-Finance Institutions (MFI) for on lending. On lending could be to SHGs or groups in Bangladesh Grameen Bank model, or even to individuals. This model has faced problems of up-scaling, because it was found that many NGOs were unable to undertake financial intermediation. Under the "Partnership Model" popularized by new private sector banks, MFI evaluates, recommends, originates the loans, helps in disbursement and subsequently tracks and collects the loans. This model has overcome the constraints of capitalization of the MFI and the double exposure

that the banks are exposed to. The intervention of CSOs / other external entities is expected to result in accelerating the process of linking the large numbers of hitherto un-banked persons with the banking network.

3.4 Recent RBI initiatives for promotion of Financial Inclusion

Some of the recent initiatives that RBI has taken to promote financial inclusion are as follows: -

(i) As a proactive measure, the RBI in its Annual Policy Statement for the year 2005-06, urged banks to review their existing practices to align them with the objective of financial inclusion, to make available a basic banking 'no frills' account either with nil or very minimum balances as well as charges that would make such accounts accessible to vast sections of the population.

(ii) In order to ensure that persons belonging to low income group both in urban and rural areas do not face difficulty in opening the bank accounts due to the procedural hassles, the Know Your Customer (KYC) procedure for opening accounts has been simplified.

(iii) Banks have been specifically advised to allow limited overdraft facilities in 'no frills' accounts without any collateral or linkage to any purpose.

(iv) For all non-performing small loans with an outstanding balance of less than Rs. 25,000, banks have been asked to offer to the borrowers a one time settlement scheme (OTS) and treat them as eligible for fresh loans. Such an OTS is expected to restore borrowing relationship with the formal system and thereby obviate the need to go back to the informal system.

(v) Banks have been advised by RBI to provide collateral-free General Credit Card (GCC) facility at their rural and semi urban branches up to an amount of Rs. 25,000 depending upon the expected cash flow of the party concerned. The credit facility extended under the Scheme will be in the nature of revolving credit.

(vi) Banks have been advised to enhance their outreach by utilizing the services of civil society organizations, farmers' clubs, NGO's, post offices, etc. as business facilitators and business correspondents.

(vii) In order to rejuvenate the RRBs which are meant to be the main vehicles, a slew of measures were announced, such as permitting RRBs to avail lines of credit from their sponsor banks, participating in inter-bank call money market, opening of currency chests, undertaking non-trade related current account forex transactions, etc.

3.5 Status of Financial Inclusion in Uttaranchal

3.5.1 A major portion of the population of the State, particularly those residing in the difficult hilly terrains and those having low income, cannot access the mainstream financial products such as bank accounts and low cost loans. The banks have little outreach in the interior villages in view of logistics. The bank branches are not within the reach of farmers and artisans. This financial exclusion imposes real costs on individuals and their families, often the most vulnerable people in these areas.

3.5.2 Banking Outreach in Uttaranchal

(i) The commercial banks, cooperative banks and Regional Rural Banks are the main providers of credit in the State at present under the multi agency approach. In Uttaranchal, there are 1,123 bank branches of commercial banks, RRBs & cooperative banks. The number of banks' branches in rural and semi-urban areas in the State has increased from 895 in the year 2004 to 954 in the year 2006. Even so, the outreach of banks has remained restricted for various reasons, which is caused by a weak credit delivery structure and the difficult hilly terrain in the State.

(ii) **Average Population per Branch Office:** The average population per branch office in the State was 7,870 as on March 31, 2005, which varied between 5,958

in Pauri Garhwal district to 12,060 in Haridwar district. The average number of villages served on per branch in the State is 14.37, which varied between 3.77 villages in Dehradun district to 26.93 villages in Pauri Garhwal district. The villages situated in plains have better access to the banks' branches in comparison to villages situated in hilly areas.

(iii) The adult population of the state is 44,72,514 (as per Census 2001) and the number of savings/current accounts is 35,03,283 leaving a gap of adult population of 9,69,231 who are financially excluded. Banks need to initiate necessary measures to "financially include" this under privileged population over a period of three years. The task is not so difficult as the average share of each branch works out to only 275 new accounts per annum.

3.5.3 The Group has observed that, on an average, 275 new deposit accounts per branch will have to be opened by the banks every year over the next three years to achieve 100 per cent coverage of adult population. The Group recommends that once the ground level preparations have been made and awareness of bank products created, each bank branch in the State may cover a minimum of 25 new households per month with a basic banking account and limited overdraft/GCC/KCC, either directly or through SHGs. The target may be fixed for each branch having regard to the need to cover every household with at least one account through existing/proposed branches in the state over next three years. The Working Group is of the opinion that three under developed districts i.e. Chamoli, Pithoragrah and Champawat, be selected on pilot basis for 100 per cent "financial inclusion".

3.6 Factors responsible for Financial Exclusion

The exclusion of large number of the rural population from the formal banking sector may be for several reasons from the supply side as well as demand side, such as:

- (i) High transactions costs;
- (ii) Cumbersome documentation procedures required in banking transactions;
- (iii) Lack of financial literacy among the rural people in remote and far-flung hill areas;
- (iv) Very small volume/size of transactions which are not encouraged by formal banking institutions;
- (v) Uneven distribution of bank branches in the State;
- (vi) Borrowers are stationed at long distances for servicing and supporting the accounts in the perception of bankers;
- (vii) Human resource related constraints both in terms of inadequacy of man power and lack of proper orientation /expertise; and
- (viii) Lack of banking habits and credit culture.

By extending their reach to the vast numbers of untapped small and marginal clients in the rural areas at the bottom of the pyramid, banks can increase their business, enhance their profit and spread the risk. Similarly, lack of remittance facilities may drive the people to continue to depend on informal sector and at the same time deprive the banking system the benefit of other income.

3.7 Measures for increasing the Outreach

Banks and financial institutions in Uttaranchal have done well in regard to widening and deepening of credit and extending other banking services since its formation. However, there is lot more to be done to ensure inclusion of the excluded. The areas of concern which need to be addressed with possible measures are enumerated as under:-

3.7.1 Need for Effective Monitoring of Financial Inclusion Measures

There is problem of inadequate monitoring at the district level and by controlling offices of the banks. The Group suggests that the banks should set up, at

controlling office level, an efficient monitoring system to ensure implementation of strategies for financial inclusion. Senior officers from banks' Regional Office/ Zonal office or head office visiting the branches should record their special report on the achievement of financial inclusion and the performance reviews placed before the Boards of respective banks annually. The supervisory authority (i.e. Reserve Bank of India and NABARD, as the case may be) can monitor the progress. Similarly, DCC, SLBC fora should also review the progress at regular intervals.

3.7.2 Credit Plus Approach

In order to facilitate borrowers in utilizing the loans more profitably, the Group suggests that the banks should have credit plus approach in their financial inclusion schemes. They would need to extend insurance, marketing, consultancy services, etc., as they can access technological developments taking place in agricultural universities, IITs, and Research Institutions.

3.7.3 Target Setting and Reward System

In order to increase the financial outreach in the under developed and un-banked areas of the State of Uttaranchal, as also to benefit the unprivileged population of the State, the Group has suggested, earlier in this chapter, to set up monthly target for each branch in the State to cover 25 new households per month with a basic banking account and limited overdraft/GCC/KCC directly or through SHGs. The Group also suggests that the banks and other agencies may carry out awareness campaign for opening of "No frill" with "Zero Balance" accounts of the unprivileged population having low income and no access to mainstream financial services. Banks may take proactive decisions to increase outreach to underserved areas / un-banked persons. Branch / field level functionaries of the banks as well as business correspondents/facilitators may be acknowledged and rewarded for achieving the targets. The banks/SLBC/DCC meetings may review

the achievements regularly. The review notes may be put up to the concerned Boards on an annual basis.

3.7.4 Use of Business Facilitators / Business Correspondents

With a view to ensuring greater financial inclusion and increasing the outreach of the banking sector, the Reserve Bank has advised all scheduled commercial banks on January 25, 2006 to use the services of intermediaries, such as, NGOs/ Farmers' Clubs, cooperatives, community based organizations, IT enabled rural outlets of corporate entities, post offices, insurance agents, well functioning Panchayats, Village Knowledge Centres, Agri Clinics/ Agri Business Centers, Krishi Vigyan Kendras and KVIC/ KVIB units, depending on the comfort level of the bank, for providing facilitation services. Approaching a large number of small borrowers spread over an extensive geographical area is always a cost intensive proposition. Routine functions, such as accepting and scrutinizing applications, appraisal, supervision and monitoring of loans, etc. are cost intensive. Considering the time, distance and cost for customers to reach a bank branch, especially in remote areas, the Group believes that banks can aggressively use the Business Facilitator model for increasing their outreach. Banks may also identify well respected local persons like school teachers, postman, primary health workers or retired officials. Such services may include (a) identification of borrowers and fitment of activities; (b) collection and preliminary processing of loan applications including verification of primary information/data; (c) creating awareness about savings and other products and education and advice on managing money and debt counselling; (d) processing and submission of applications to banks; (e) promotion and nurturing Self Help Groups/ Joint Liability Groups; (f) post-sanction monitoring; (g) monitoring and handholding of Self Help Groups/ Joint Liability Groups/ Credit Groups/ others; and (h) follow-up for recovery.

3.7.5 Apart from the facilitation support, it may be possible to use several institutions as agents for providing assistance in financial functions on behalf of

banks. The “Business Correspondents” would provide value added services, such as disbursal of small value credit, recovery of principal / collection of interest and sale of micro insurance/mutual fund products/ pension products. Agencies like registered NBFCs, NGO-MFIs set up under Societies/Trust Act, Section 25 companies, societies under MACS and Government/ corporate supported IT enabled outlets can be taken as banking correspondents.

3.7.6 Scheme to enable banks to purvey rural credit in association with Post Offices

Despite the existence of more than 650 rural branches of commercial banks, including cooperative banks, as at the end of March 2006, a substantial proportion of the rural population still does not have access to formal institutional credit. At the same time, there are 2,719 post offices (389 departmental and 2,330 extra departmental post offices) in Uttaranchal, catering to the rural population, with unique customer interaction and vast local knowledge. Banks, in order to expand their credit deployment and contribute to rural development without incurring higher transaction costs, can use these effectively. A Scheme has been formulated in consultation with the Department of Post, Maharashtra Circle for purveying rural credit in association with the post offices. The formalities are being worked out in consultation with the IBA, banks and Post Master General. The Group believes that having regard to the trusted relationship that the people have with post offices and postman, banks could gainfully appoint post offices as their business correspondents on the same lines of Maharashtra model for achieving the ultimate target of 100 per cent financial inclusion.

3.7.7 Capacity Building

(i) Capacity building of facilitators/correspondents: Training unemployed persons to prepare project profiles, product design, product promotion, pricing, marketing, accounting and acquainting them with bank procedures and

formalities, etc. could provide them opportunities for gainful self employment and promote micro credit. This would also enlarge the number of potential bank borrowers. Some banks have set up Rural Development and Self Employment Training institutes (RUDSETI) in certain States for imparting training exclusively to the rural unemployed. The Group feels that such measures evoke very good response from borrowers and facilitates enlargement of bank clientele. It, therefore, recommends that major public sector banks in the State may consider setting up similar institutes in major cities of Uttaranchal.

(ii) Capacity building of NGOs/ MFIs/ Banks' staff: Capacity building will be essential for a large number of NGOs / MFIs required for expanding the geographical coverage of financial services. Due to the unique features of each region in the State, it would be preferable to have geographically localised MFIs manned by persons having a good understanding of the local region and its peculiarities. The Group is of the view that the financial products cannot reach the ultimate borrowers till the time the banks' staff are also trained and sensitized about the importance of the financial inclusion. Further, unless the ground level preparation is thorough, policies for financial inclusion cannot be implemented fully. The Group, therefore, recommends that the national level training institutions like the College of Agricultural Banking (CAB), Pune and the Bankers' Institute of Rural Development (BIRD), Lucknow, and State Bank Institute of Rural Development (SBIRD), Hyderabad may design and conduct a series of workshops for various levels of bank staff. They may also develop suitable training modules for the NGOs / MFIs.

3.7.8 Financial Literacy

Financial inclusion has not taken its roots in the real sense in the entire State, mainly because of lack of awareness of banking facilities among people living in the far-flung rural and hilly areas. The Group, therefore, is of the view that an awareness campaign through media, newspapers, road shows, street plays, etc. may be launched in the State in order to induce people to avail banking services.

The Group recommends that the State Level Bankers' Committee (SLBC) convenor bank of the State may take a lead with the help of other major public sector banks and State Government and conduct an awareness campaign of the various financial products and recovery by publishing in local newspapers, through media (television and radio) and also through audio-visuals during the major festivals in the State. The issue may be discussed in the SLBC meeting to work out the formalities of the campaign. The cost may be shared by all the banks depending on the proportion of their presence in the State.

3.7.9 Reducing cost of credit

Interest rate is the major determinant of cost to any borrower and it becomes even more important as backward and forward linkages are strengthened. What ultimately matters to the borrower, in addition to the rate of interest, is the timeliness and adequacy of credit as well as the concomitant costs he may have to incur to avail credit. Financial institutions set the interest rates on the basis of a number of factors, such as suitable margin to cover cost of funds, expenses in sanctioning, supervising and recovery of loans, etc. A wide territorial spread, large number of clients, small loan requirements, difficulties in asset verification and absence of social pressure for timely repayments, make it difficult for banks to reduce their transaction costs. The SHG–Bank linkage programme, the flagship micro finance intervention programme of NABARD, has been a success throughout the country in reducing the transaction costs for banks and also increasing the banks' outreach in the areas and to the people. The Group recommends that, apart from using business facilitators and banking correspondents, the SHG-Bank Linkage model may be pursued for widening the credit coverage in the State. There is also a need to upscale operations through SHGs, especially for providing working capital and investment credit. Banks and NABARD may actively engage themselves in formation of groups and linkage of groups for savings and deposits as also providing other financial services. The Micro Finance Development and Equity Fund (MFDEF) set up in NABARD may be utilized for the purpose.

3.7.10 Village Facilitation Centres

The Group recommends that there be a Banking Services Facilitation Centre at each village in the State. Its role would be to act as a link between the bank servicing the region and the residents of the village, promotion of banking services, resolving savings and credit needs of the residents of the village. The aim of such centre should be to achieve total financial inclusion. The State Government may institute an award for attainment of this goal. Village Panchayats may be groomed for this role. They can also act as business facilitators / correspondents for banks.

3.7.11 Funds transfers /Payment & Settlement Systems

The Group noted that transfer of funds within the State takes inordinately long time. On account of heavy migration of rural people to urban areas there is an immediate need for an efficient system to enable them to remit their surplus to their family members in rural areas on reasonable terms. Payments through cheques, cards and electronic modes like Electronic Funds Transfer (EFT), Electronic Clearing Service (ECS) and Real Time Gross Settlement (RTGS) are minimal in the State. Three district headquarters (Champawat, Chamoli and Rudraprayag) do not have clearing houses. The number of cheques processed each day in the State is less than one per cent of the all-India volume. There is only one MICR-based mechanized cheque processing center in the State which is run by SBI at Dehradun. ECS (only credit clearing) has been implemented by SBI in Dehradun and is limited to their staff salary payments. There is virtual absence of EFT system in the State. This is attributable to transport and connectivity constraints, lack of awareness, etc. Improvement in payment systems 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.

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. The computerization of clearing houses and increase in number of clearing houses will help to reduce the time taken for transfer of funds. It is possible to move from cash payments to electronic payments leapfrogging the stage of paper based payments system. The Group, therefore, suggests that clearing houses may be set up at various places in the State which are having more than five banks, after taking into consideration the volume of cheques handled. In line with the policy of Reserve Bank to encourage the electronic payment systems in the country, the banks may encourage and promote the use of ECS and EFT for speedy settlement. The State Government needs to take initiative to make their bulk payments like salaries and pensions only through ECS mechanism as they are cost effective and operationally efficient as compared to payment by cash and cheques. The clearing houses in the major cities may start ECS at the earliest and market it efficiently with the help of Government Departments and other bodies which employ a large number of persons. Banks need to play major role in popularizing RTGS, ECS and EFT through appropriate canvassing.

3.7.12 Use of Information Technology

Information Technology (IT) holds the key in reducing transaction cost and increasing business volumes of banks. IT impacts both internal management and accounting / record-keeping / MIS in the banks and their outreach. Banks may progressively use appropriate technology. The Group suggests that:

a) NABARD, in consultation with Ministry of Information and Technology, may draw up a time bound action plan to set up Rural Kiosks/ Village Knowledge Centers. These Kiosks can be leveraged for expanding Business Facilitators/ Correspondents relationships by the banks.

b) IDRBT may be requested to examine, in consultation with NABARD, the feasibility of setting up a portal to enable e-marketing of products of SHGs/ micro entrepreneurs by making use of rural kiosks, Village Knowledge Centres, etc.

Over time, the settlement can be web enabled by linking the portal with the payment gateways of banks financing the concerned SHGs/micro entrepreneurs.

c) A Rural Banking Technology Development Fund (RBTDF) may be set up by way of grants from Government of India, NABARD and institutional agencies for computerization and networking of rural branches, particularly of RRBs and cooperative banks. The cost on technology infrastructure in rural areas and contributions made to the proposed RBTDF may be included for computation of banks' achievement under priority sector advance, wherever applicable.

d) Banks may provide toll free Interactive Voice Response System (IVRS) in local language to customers as a part of information dissemination strategy.

3.7.13 Business Processing Technologies

Mobile banking allows users to access financial information and manage financial transactions over mobile phones. These systems can extend the outreach by enabling remote transactions, improve customer service and reduce transaction cost. ATMs can be efficient transaction handlers and possibly be vehicles for a broader range of financial products. In order to use ATMs in a rural environment, it may be necessary to make certain adaptations to the technology. Multi Application Smart Card programme is an initiative that leverages technology and takes mainstream banking and financial services along with other non-financial services to the customer in a cost effective manner. Biometric or PIN enabled smart cards may contain all the techno-graphic information, health details and net worth details of the customer for provision of various products and services.

Financial Information Network and Operations (FINO) is a technology backbone company for providing facilities akin to banking to the grassroot financial entities such as MFIs serving people who do not have access to banking facilities. FINO provides a shared platform for end-to-end delivery of entire range of financial services with economies of scale and lowering of interest cost for microfinance borrowers. It will provide off-line hand held equipment to MFIs, NBFCs, RRBs and cooperative banks, data from

which would then be transferred through FINO's core banking solution platform to the concerned banks. The borrowers will be given a biometric card, which provides a unique identification for the banks' customers. The FINO solution is recommended for careful consideration for greater outreach of the banking services in the remote areas of the State. FINO has already offered their assistance in implementing the Scheme on pilot basis in five districts of the State.

3.7.14 Branch expansion

The Group is of the view that having regard to the topography, dispersal of population and transport bottlenecks, branch banking may not be the most viable way to increase outreach in the difficult hilly terrain. Hence, in order to achieve the objective of financial inclusion, recourse will have to be taken to SHG-Bank linkage programme, business correspondent/business facilitator model, as also extensive use of IT based solutions which facilitate remote banking, as suggested earlier. Nevertheless, taking the minimum branch needs into account, the position for branch expansion may be reviewed in SLBC meetings.

3.7.15 Performance Measurement

The Group recommends a performance measurement matrix (Annex I) based on parameters reflecting the efforts for promoting financial inclusion, which may be used for performance budgeting, performance appraisal and performance based incentives etc. A similar measurement matrix was suggested in respect of North Eastern Region by the Committee on Financial Sector Plan for North Eastern Region (Chairperson: Smt. Usha Thorat, Deputy Governor, Reserve Bank of India).

3.7.16 Insurance Cover

Banks may link up with insurance companies for providing insurance products suitable to the State. The Group recommends that IRDA may advise the insurers to associate themselves with the financial inclusion package for Uttaranchal and customize products that could be publicized as a part of the campaign for financial inclusion.

3.7.17 Currency Management

There are 54 currency chests (State Bank of India – 45, Punjab National Bank – 4, Bank of Baroda – 2, State Bank of Patiala – 2 & Oriental Bank of Commerce – 1) in the State of Uttaranchal. The Group observed that mechanism of funding cash transactions in the branches in some parts of the State is not satisfactory, particularly in the hilly regions where banks also faced staff shortages. The problem may be addressed at the concerned bank level. Further, RRBs satisfying the eligibility criteria laid down by RBI may also go in for currency chests.

CHAPTER 4

STRENGTHENING REGIONAL RURAL BANKS (RRBs) AND CO-OPERATIVE BANKS (RURAL AND URBAN)

Regional Rural Banks

4.1 Regional Rural Banks (RRBs) were established in India under the Regional Rural Banks Act, 1976 with Government of India, State Governments and commercial banks equity participation in the ratio of 50:15:35 respectively. They are scheduled banks under the Reserve Bank of India Act, 1934 and authorized to transact banking business as defined in the Banking Regulation Act, 1949. RRBs were basically the outcome of the Government of India's efforts to create an alternative credit delivery system to eradicate rural indebtedness in the hands of rural moneylenders. They were required, in particular, to undertake the business of providing credit and other facilities to the poorer sections of rural society (generally referred to as the "Target Group"), particularly to small and marginal farmers, agricultural labourers, artisans and small entrepreneurs for development of agriculture, trade, commerce, industry and other productive activities. With the advent of financial sector reforms in early 1990's, RRBs were permitted to finance the non-farm sector and, later, non-target group borrowers so as to enhance the profitability and viability of these institutions. Non-priority sector lending was also permitted to a limited extent. To provide them with profitable avenues of investment of their surplus funds, RRBs have been permitted non-SLR investments almost at par with their sponsor banks. In order to strengthen and consolidate this sector in the wake of deterioration in the financial health of certain RRBs, restructuring of the sector through mergers and amalgamations among RRBs is underway. As a result of this, the number of RRBs as on August 2, 2006 stands at 105.

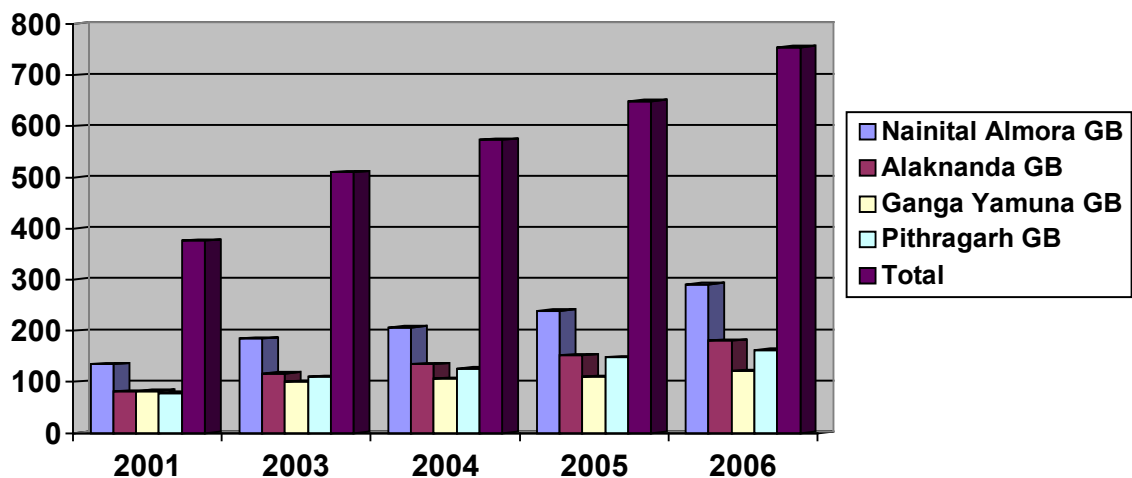
4.2 Status of RRBs in Uttarakhand

4.2.1 Until very recently, there were four RRBs in Uttarakhand. Of them, three were sponsored by State Bank of India (Ganga Yamuna Gramin Bank, Dehradun; Alaknanda Gramin Bank, Pauri and Pithoragarh Kshetriya Gramin Bank, Pithoragarh) and one by Bank of Baroda (Nainital Almora Kshetriya Gramin Bank, Nainital). All the three banks sponsored by State Bank of India have since been merged into one entity, i.e. Uttarakhand Gramin Bank vide Government of India notification issued on June 29, 2006. There are consequently two RRBs in the State at present. The two RRBs together have 169 branches of which rural and semi-urban branches constitute about 98 per cent.

4.3 Business Growth

4.3.1 Deposits: RRBs in the State have done appreciable work in developing the relationship with the rural poor through mobilisation of their small savings. The aggregate deposits of RRBs, which stood at Rs. 375.77 crore as on March 31, 2001 have maintained a rising trend and were Rs. 754.31 crore as on March 31, 2006. The deposits mobilised by each of the RRBs has also shown an increasing trend during the period 2001 to 2006, which is depicted in figure 4.1.

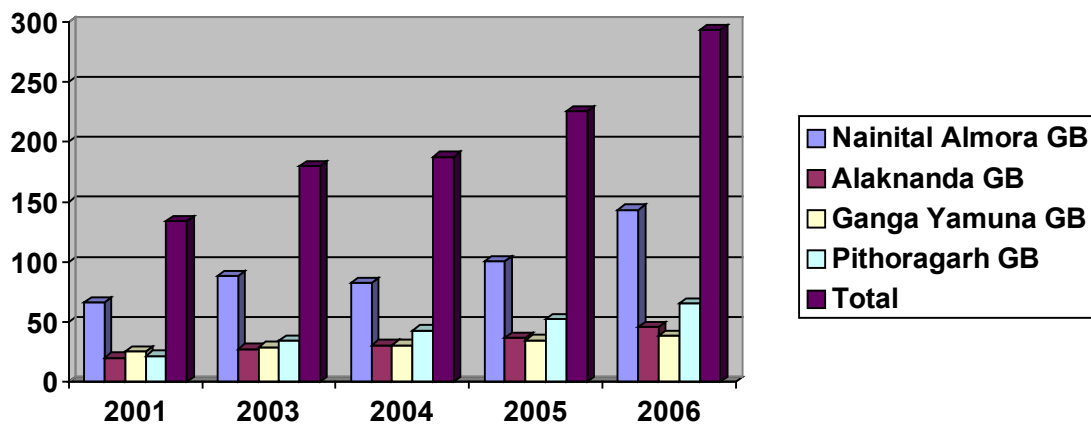
Figure 4.1



4.3.2 Loans and Advances Portfolio

The aggregate outstanding advances of RRBs in the State were Rs. 133.94 crore as on March 31, 2001. Advances grew from Rs.179.56 crore as on March 31, 2003 to Rs. 187.69 crore as on March 31, 2004, showing an increase of 4.53 per cent. The advances increased appreciably by 20.24 per cent during 2004-05 and stood at Rs.225.68 crore as on March 31, 2005 and further rose to Rs. 293.22 crore (29.93 per cent) as on March 31, 2006. The gross loans issued by the individual RRBs have shown an increasing trend during the last six years, which has been depicted in fig. 4.2. The share of RRBs in total agricultural credit was Rs. 88.95 crore as on March 31, 2006 constituting 5.96 per cent of the total agricultural credit outstanding of all scheduled commercial banks in the State. The average per branch advances disbursed by RRBs stood at Rs. 174.6 lakh in 2005-06, whereas average per branch advances disbursed by all banks in the State was Rs. 859 lakh. The priority sector advances of RRBs in Uttaranchal increased from Rs 107 crore in March 2001 to Rs 242 crore in March 2006 showing a growth rate of 25.22 per cent per annum.

Fig. 4.2



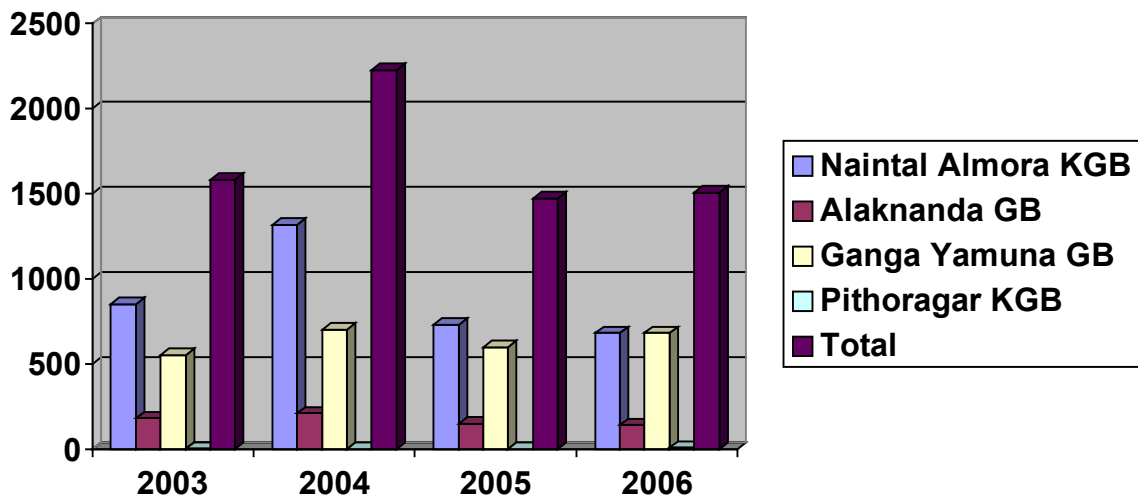
However, a higher growth in the business of commercial banks has been observed in comparison to RRBs. The business of all banks taken together has increased at a rate of 26.83 per cent per annum, whereas the business of RRBs has increased at the rate of 13.17 per cent per annum. In fact the share of RRBs

in total banking business had come down from 4.88 per cent as on March 31, 2001 to 3.46 per cent as on March 31, 2006. Thus, there is a scope and need for business growth of RRBs in the State through intensive involvement in credit delivery process for the rural sector.

4.4 Non Performing Assets (NPAs) of RRBs in Uttaranchal

Gross NPAs of all RRBs in the State which were to the tune of Rs. 15.81 crore as on March 31, 2003 increased by 40.77 per cent to Rs. 22.26 crore as on March 31, 2004 and then declined sharply by 33.84 per cent to Rs. 14.73 crore as on March 31, 2005. However, the NPAs increased marginally by 2.21 per cent to Rs. 15.05 crore as on March 31, 2006. The percentage of NPAs to outstanding loans was 8.81 per cent as on March 31, 2003, which increased to 11.86 per cent as on March 31, 2004. However, it declined to 6.50 per cent as on March 31, 2005 and further to 5.13 per cent as on March 31, 2006. The RRB bank-wise increase/decrease in gross NPAs over the last four years is depicted in Figure 4.3.

Fig. 4.3



4.5 Investment Portfolio of RRBs

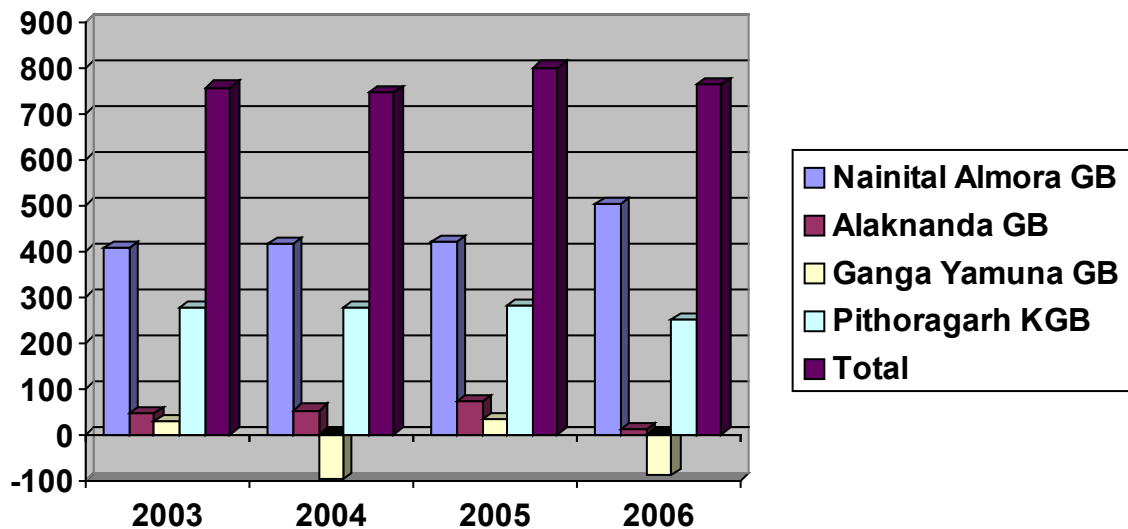
The investment portfolio of RRBs in Uttaranchal is showing an increasing trend. The investment by all the RRBs in the State as on March 31, 2001 was Rs.

316.16 crore which increased to Rs. 367.55 crore as on March 31, 2003. Continuing with this trend, the RRBs invested Rs. 420.52 crore in 2004 and Rs. 466.41 crore as on March 31, 2005. The total investment of all four RRBs stood at Rs. 494.60 crore as on March 31, 2006.

4.6 Profitability

The financial position of the RRBs in Uttaranchal is quite comfortable as all the RRBs except Ganga Yamuna Gramin Bank had been earning profits and did not have any accumulated losses. Ganga Yamuna Gramin Bank had accumulated losses of Rs.352.88 lakh as on March 31, 2006 and the operating losses for the current financial year were Rs. 88.05 lakh. Nainital Almora Kshetriya Gramin Bank had earned net profit of Rs. 500.78 lakh in 2005-06 and had reserves and surpluses aggregating Rs. 2126.66 lakh as on March 31, 2006. The profitability pattern of all the four banks during the period 2003 to 2006 is furnished in figure 4.4.

Fig. 4.4



4.7 Major Factors Affecting Growth and performance of RRBs

Although majority of the RRBs in the State performed well, yet the benefits had not reached the targeted populace as the growth of RRBs was affected by a host of factors, both internal and external. Some of the major factors are as follows:

- i) Limited area of operation particularly in hilly and difficult terrain of upper Himalayas with narrow band of business activities and a low clientele base has kept a large part of rural society and economy away from the RRBs.
- ii) The small organizational structure of the RRBs in the State has limited the size of financial assets, as well as linkages, necessary for effective banking services. As a result, the growth of business volume has not been large enough to post a substantial market share of the RRBs in the rural financial market.
- iii) Heavy dependence of RRBs on their sponsor banks for every financial/business initiative. The Chairmen of the RRBs in Uttarakhand are mainly from the sponsor banks. They do not enjoy full freedom and decision-making capacity is limited, as even for small matters they have to look to their sponsor banks. This leads to delay in decision-making and efficiency suffers.
- iv) Lack of adequate support systems needed for efficient services to clients.
- v) Non-official directors on the Board of Directors of RRBs do not always possess necessary skills and expertise to take important financial decisions.
- vi) Limited exposure and lack of appropriate training has resulted in RRBs staff lacking the necessary skills and capacity to cater to the changing requirements of the rural sector. The ban on recruitment has also resulted in ageing staff structure constraining efficiency in operations. Uniform

personnel policies ignoring the local touch are causing staff unrest, poor industrial relations, innumerable litigations and lowering of staff morale as also their involvement with the developmental tasks.

4.8 Enhancing Resource Base of RRBs

Reserve Bank has issued guidelines whereby the RRBs can enhance their resource base by availing lines of credit from their sponsor banks at reasonable rate of interest, access to inter RRB term money borrowings, repo/CBLO markets, etc. Sponsor banks, in turn, may actively facilitate such access and provide necessary training to RRB staff. Further to broaden the activities of RRBs, they have been permitted to issue credit/debit cards, set up ATMs, open currency chests and engage in FOREX business and undertake pension/Government business through agency arrangements as a sub-agent.

4.9 The renewed emphasis on agricultural and rural development by the Government of India would lead to a growing demand for different types of financial services in the rural areas, as the financial needs of the rural economy has become diversified. As the cooperative credit structure suffers from infirmities, the RRB network will have to be leveraged for benefiting the rural areas. RRBs, therefore, have to provide a larger share of credit disbursed calling for much larger resource mobilization. Greater efforts are required for their institutional strengthening. Thus, on the one hand, the concept of RRBs has to be pursued in the interest of the rural economy and on the other, the RRBs have an opportunity to cash in on the gap between demand and supply of banking services. As mentioned earlier, the Reserve Bank of India has reviewed the performance and role of RRBs in rural credit delivery system and suggested a package to strengthen their resource base and enlarge their activities and improve their performance through good corporate governance. RRBs are expected to play a significant role in financial inclusion of disadvantaged sections of the society, particularly in rural and far-flung hill districts. The group, therefore, recommends the following measures for RRBs:

(i) Governance and Management

Various issues pertaining to governance, business development, human relations and other aspects were examined and the following measures may be considered for addressing these issues:

(a) It has been observed that in certain cases persons, not familiar with technical and operational aspects of banking and finance, were inducted in the Boards of RRBs. Further, as the Chairmen of RRBs are from the sponsor banks, there could be several potential areas of conflicts of interest. For strengthening the Boards of RRBs, the composition of the Board may be changed. This could be done by making the Board broad-based by inducting professionals such as agricultural experts, bankers, management experts, chartered accountants, etc. The Boards of RRBs may appoint the Chairmen of RRBs, with the concurrence of RBI.

(b) NABARD has prescribed certain parameters for staffing viz. four persons per branch. However, most of the RRBs are facing shortage of staff in the State. Although the Government of India has given freedom to the sponsor banks for recruitment of staff in RRBs, no sponsor bank is willing to permit RRBs to recruit new staff. The requirement of obtaining sponsor's bank's prior approval in staff recruitment matters may be dispensed with to give more autonomy to the Board of RRBs. Each RRB must evolve its own operational policies, including those on staff matters. They should also undertake exercises on succession planning and age group analysis of their staff to take care of the large-scale vacancies in the near future. Pending recruitment of staff in RRBs in the State, the problem of staff shortage may be urgently addressed by deputation of staff from the concerned sponsor banks.

(c) The lack of well-defined policy framework on staff matters and inordinate delays in resolution of staff related issues in RRBs have adversely affected the employee morale and created industrial unrest. The Group is of the opinion that the RRB staff has to be motivated to take up the new challenges. The Group,

therefore, suggests that the policies of RRBs such as manpower planning, recruitment, promotion systems, remuneration, perquisites and facilities, etc. may be reviewed and modified suitably to meet the legitimate aspirations of the staff.

(ii) Improving profitability

(a) RRBs, to be on a sustainable business model in the long run, need risk management tools (including ALM), albeit on a less sophisticated scale as compared to commercial banks. Certain basic guidelines on risk management may, therefore, be made applicable to them. Furthermore, to facilitate their balance sheet management, RRBs may be encouraged to employ certain instruments like Certificates of Deposit / Inter-bank Participation Certificates, etc., wherever necessary. In order to meet the challenge of increasing the credit dispensation and to bring about greater efficiency in operations, RRBs may consider introduction of new products and also streamline their business processes.

(b) In order to improve profitability and productivity, RRBs may rationalize their branch network, including opening of new branches and relocation of loss making branches. With a view to increasing the avenues for credit deployment, RRBs may be encouraged to participate in consortium lending within their area of operation. State Governments may consider empowering RRBs to collect Government taxes. RRBs may strengthen their recovery mechanism with necessary support from the State Governments. The Group also feels that the income tax exemption granted to RRBs may be continued for RRBs, since they would be deploying 60 per cent of their advances in the priority sector, as is applicable now. The State Government may treat RRBs at par with the public sector banks for the purpose of acceptance of guarantees and security deposits/ earnest money of Government departments operating in rural areas.

(c) As RRBs in the State operate in difficult terrain, they have to incur high cost of transactions, which affects profitability of these RRBs and also worked as

disincentive for carrying on business operations in such areas. In order to overcome this problem, the Group recommends that refinance from NABARD should be provided to such RRBs at nominal rate of interest. As most of the financing of the RRBs is in the priority sector and comes under directed lending where rate of interest is also regulated, they require large portion of low cost of deposits to improve their viability.

(d) New initiatives are being taken in rural areas by institutions/ organisations, which are active in rural development. RRBs may consider fostering links with such organizations to provide avenues for innovative financing.

(e) The Group observed significant improvement in the financial health of RRBs in the State, mainly due to increase in the level of business and containing incremental NPAs. As the RRBs have 169 branches in the state and most of them are in rural and semi urban areas, they have to be treated as important players in the plan for financial inclusion. The Group recommends that they should strengthen their manpower, engage in capacity building and make optimal use of IT.

(f) With a view to increasing their non interest income, RRBs may be encouraged to have arrangements with their sponsor banks for issuance of demand drafts/ banker cheques, etc. on their behalf, which may help in improving customer service since most of their branches are located in remote areas.

(g) The asset quality of RRBs has significantly improved over the past few years. This was due to their improved recovery performance. The improvement in recovery of dues could also be attributed to progressive linkages undertaken by RRBs with micro credit institutions, such as SHGs. RRBs have been playing an important role as Self Help Groups Promoting Institutions (SHPI) in rural areas. The SHG-Bank linkage programme has helped RRBs in increasing their outreach and has become a platform for successful implementation of many other developmental programmes. The Group suggests that RRBs in the State may

adopt the SHG-Bank linkage programme more aggressively to improve their profitability and also reduce their transaction costs.

(iii) Other measures for strengthening of RRBs

(a) In keeping with the changing environment and rising customer preference for technology driven services in banks even in rural areas, the Group suggests that RRBs may introduce automated services like credit cards, smart cards, automated teller machines, touch-screen services, etc., at least on selective basis in select major branches.

(b) For efficient cash management, RRBs in the State may be allowed to set up currency chests with appropriate safeguards.

(c) The growing complexities of the rural financial system and introduction of various new financial products and services in RRBs require a massive effort for training and development of staff at all levels. To meet these requirements, RRBs in Uttaranchal may work out their training needs and utilize the facilities available at various training establishments at Bankers' Institute of Rural Development (BIRD), Lucknow and College of Agricultural Banking (CAB), Pune, etc.

Cooperative Credit Institutions

4.10 Overview of Rural Cooperatives in Uttaranchal: The three-tier cooperative credit structure in the State comprises Uttaranchal State Cooperative Bank (UASCB), with two branches at Dehradun and Haldwani, at the apex level, ten District Central Cooperative Banks (DCCBs) with 197 branches covering 13 districts at the district level and 756 Primary Agricultural Credit Societies (PACS) at the grass root level. The UASCB is functioning as “Integrated Cooperative Credit Structure” to meet the short term, medium and long term credit demands of the farmers.

Cooperative Banks in Uttaranchal are disbursing agricultural loans up to Rs. one lakh at a rate of 5.5 per cent per annum and above Rs. one lakh at 6.0 per cent per annum. The State Government has been providing interest rate subvention of 3.5 percentage points.

4.11 Financial Position of Rural Cooperatives in the State

4.11.1 Uttaranchal State Cooperative Bank Ltd. (UASCB): After the formation of the State, the Uttaranchal State Cooperative Bank Ltd. (UASCB) came into existence with effect from February 2004 consequent upon division of Uttar Pradesh State Cooperative Bank Ltd. (UPCB) and Uttar Pradesh Sahkari Gramya Vikas Bank Ltd. (UPSGVB). Reserve Bank permitted UASCB to carry on banking business subject to the following conditions: (i) submission of copy of the resolution passed by the Boards of Directors of both UPCB and UPSGVB regarding approval of the scheme of bifurcation and approving the bifurcation of assets and liabilities by the General Body of the parent banks; (ii) the State Governments should follow the procedures as laid down under the Cooperative Societies Act/s in regard to the division of these banks and apportionment of assets and liabilities among the banks. Despite repeated follow up by the Reserve Bank, the issue of bifurcation of assets and liabilities could not be resolved as the Uttar Pradesh Government has opined that the present Cooperative Societies Act does not permit such bifurcation. A reference under Section 60 of the Uttar Pradesh Reorganization Act 2000, was made to Government of India who have advised that Uttar Pradesh Government may take suitable action to apportion the assets and liabilities of UPCB and UPSGVB between the States of Uttar Pradesh and Uttaranchal. The proposal for bifurcation of assets has not yet been placed before the General Bodies of UPCB and UPSGVB. The Group strongly recommends that the issue may be resolved by the concerned State Governments / cooperative banks/agencies at the earliest.

4.11.2 The paid up capital of UASCB was Rs. 2,990.55 lakh, which was subscribed by DCCBs to an extent of Rs. 2,990.42 lakh and individual promoters to the extent of Rs. 0.13 lakh as on March 31, 2005. The aggregate deposits of the bank increased from Rs. 2,378.56 lakh as on March 31, 2004 to Rs. 22,537.27 lakh as on March 31, 2005. Similarly, the loans and advances of the bank increased from Rs. 1,098.12 lakh as on March 31, 2004 to Rs. 6,234.3 lakh as on March 31, 2005. As the deposits of the bank has increased at a faster pace than its loans and advances, the Credit Deposit ratio has come down from 46.17 per cent as on March 31, 2004 to 27.66 per cent as on March 31, 2005. The bank had earned a marginal profit of Rs. 3.52 lakh during the year 2003-04 which increased substantially to Rs. 261.93 lakh during the year 2004-05. The UASCB reported a profit of Rs. 41.79 lakh during 2004-05 in its audited balance sheet. NPAs of the bank were also very high at 19.68 per cent of total loans and advances as on March 31, 2005.

4.11.3 District Central Co-operative Banks (DCCBs): The aggregate deposits of the DCCBs functioning in the State increased from Rs. 1,38,090.72 lakh as on March 31, 2003 to Rs. 1,75,034.59 lakh as on March 31, 2005. Similarly, the loans and advances of the banks increased from Rs. 45,268.06 lakh as on March 31, 2003 to Rs. 60,928.20 lakh as on March 31, 2005. Out of ten DCCBs functioning in Uttaranchal, nine have continued to earn profit during the year 2004-05. Only one DCCB had suffered a loss of Rs. 133.18 lakh and its accumulated losses had gone up to Rs. 463.81 lakh as on March 31, 2005. It was the only DCCB, which was non-compliant with Section 11 (1) of Banking Regulation Act (As applicable to Cooperative Societies), 1949. However, with the funding by State Government to the tune of Rs. three crore, the position is likely to undergo a change. Although, all DCCBs had collectively earned a profit of Rs. 1,788.40 lakh in 2004-05, it was much below the reported profit of Rs. 2,633.06 lakh for 2003-04. The NPA as percentage to total loans and advances outstanding in respect of all the DCCBs was 9.56 per cent as on March 31, 2003 and had increased to 10.69 per cent as on March 31, 2005. The recovery of

loans as a percentage to demand increased from 80.85 per cent as on June 30, 2003 to 85.05 per cent as on June 30, 2005.

4.11.4 Primary Agricultural Credit Societies (PACS)

Presently, 756 PACS are functioning in the State of Uttaranchal, which are supplementing the formal credit delivery system in the State. Out of 756 PACS, about 16 PACS are dormant and 15 PACS are under liquidation. On an average, the number of villages per PACS is 20.6, which varied between 11.59 villages per PACS in Haridwar district to 31.17 villages per PACS in Almora district. The business per PACS in the State was about Rs. 24.45 lakh (2002-03). However, there was wide variation in their business in hills/plain areas. The business per PACS in hills was only Rs. 11.28 lakh. The borrowing membership was only 34 per cent of total membership. Only 389 PACS in the State showed profits in 2002-03. The average annual growth in loan business of PACS was hardly nine per cent during 1998-99 to 2002-03.

4.12 Role of cooperatives in providing agricultural credit

4.12.1 The cooperatives once dominated the rural credit market in the institutional segment (with a share of around 65 per cent as per the All India Debt and Investment Survey 1991). Data for the past decade indicates a fall in the share of cooperatives in the rural credit market, from around 62 per cent in 1992-93 to about 34 per cent in 2002-2003, in spite of an increase of just under 10 per cent per annum in the absolute disbursement on a compounded annual basis.

4.12.2 The share of cooperatives in Uttaranchal in the rural credit market in total loans outstanding was 8.30 per cent and 3.49 per cent for years ended March 31, 2005 and March 31, 2006 respectively. The position of share to agricultural loans, which was 5.30 per cent on March 31, 2005 declined to 3.49 per cent on March 31, 2006.

4.12.3 As Uttaranchal has predominantly small or marginal land holdings (88.1 per cent), the reach of the cooperative system needs to be enhanced much deeper than the other institutional arrangements in the rural areas. The Group, therefore, suggests that the cooperative banks, especially the DCCBs in the State should increase their lending to agriculture and allied activities.

4.13 Constraints / problems in cooperatives in the State: The major constraints of the cooperative banks in the State are enumerated below:

(i) **Lack of autonomy in functioning:** The Registrar of Cooperative Societies (RCS) has a tight control over cooperative credit structure in the State at all the three tiers, which gives the cooperative little headroom for independent decision-making. Some instances are: interest rates to be charged by DCCBs from PACS and by PACS from members, interest payable on the mini bank deposits of PACS with DCCBs being fixed by RCS; interference in sanction of individual limits and release of drawal to sugar mills; computerisation in cooperatives require prior sanction of RCS, etc.

(ii) The training needs of cooperative banks' staff have largely remained unaddressed. The apex cooperative bank of the State needs intensive support in building appropriate systems and procedures, recruiting right type of personnel and training of the existing and new staff on professional lines.

(iii) The cooperative banks, including the apex bank and DCCBs, have been working with depleted staff strength. The present gap between sanctioned and actual staff is around 31 per cent.

4.14 Recommendations

4.14.1 Capacity Building/Technical Assistance

The Working Group suggests that the cooperative banks need to introduce a system of special audit by professionals, apart from the State Government audit, for true and fair assessment of their financial position.

The existing training programmes are archaic and outdated, focused more on issues like the history of cooperation and legal enactments, than on matters pertaining to business and operations. The Group suggests that the cooperative banks in the State may arrange with the Institute of Cooperative Management, Dehradun for training of their staff. Bankers Institute of Rural Development (BIRD), Lucknow may also conduct special sensitization programme and on site training programme for the cooperative banks' staff.

4.14.2 Institutional Reforms

The State Government has a vital developmental role to play, not merely because agriculture is a state subject, but because most strategies for new developments and corrective measures have to be location-specific. Therefore, State administrations have to become even more pro-active, in the sense of anticipating peasant concerns and putting in place activities in the right direction. A large part of the credit delivery system, the co-operative structure, is in the purview of State Government. They must act effectively to give it the required strength.

Financial assistance alone cannot revive cooperatives. Cooperatives can only be revived if they become democratic, self-governing, self-reliant organizations for mutual thrift and credit. The Group suggests that the State administration may minimise their interference in the operational matters of the cooperative banks in the State.

4.14.3 Corporate Governance

There are several weaknesses in internal control systems in DCCBs that need to be addressed.

The Group recommends that the State Government may take suitable measures to strengthen the cooperative banks in the state by infusing capital / funds in the banks, particularly in the one that is not meeting the requirement of Section 11 (1) of Banking Regulation Act. It may also take steps to improve corporate governance, including internal control systems, etc.

4.14.4 Government of India appointed a Task Force on Revival of Rural Cooperative Credit Institutions under the chairmanship of Prof. A.Vaidyanathan on August 5, 2004. The Task Force has broadly advocated four sets of remedial measures:

- a) Special financial assistance to the tune of Rs. 14,839 crore (Rs. 53 crore for Uttaranchal);
- b) Institutional restructuring;
- c) Radical changes in the legal framework to empower RBI;
- d) Qualitative improvement in personnel in all tiers.

The State Government of Uttaranchal has yet to convey its formal consent to NABARD for acceptance of the recommendations of the Task Force in principle. NABARD has begun the process of implementing the recommendations. The Group, therefore, recommends that the recommendations of the Task Force may be implemented at the earliest as that would greatly help not only in extension of financial support to the cooperatives, but also in capacity building and modernisation.

4.15 Urban Cooperative Banks

4.15.1 Though limited in number and geographical coverage, Urban Cooperative Banks (UCBs) in the State have been functioning as an important segment of the

banking and financial landscape of Uttaranchal. These institutions have been making appreciable contribution in the economic development of the State. As on date there are seven UCBs in Uttaranchal. The Urban Cooperative Bank Ltd., Dehradun was the first UCB to start operations on February 26, 1976. Subsequently, Kurmanchal Nagar Sahkari Bank Ltd., Nainital started operations with effect from January 1, 1983, followed by two other co-operative banks viz., Kashipur Urban Cooperative Bank Ltd., Kashipur and Almora Urban Cooperative Bank Ltd., Almora in 1991. The other UCBs that started functioning subsequently are Garhwal Cooperative Bank Ltd., Rishikesh, Dehradun, Doon Valley (SC/ST) UCB Ltd. and Dehradun and Uttarkhand Co-operative Bank Ltd., Rishikesh.

4.15.2 The seven UCBs with a network of 45 branches in the State, had aggregate deposits of Rs.655.57 crore and advances amounting to Rs. 343.73 crore as on March 31, 2006. Almora Urban Cooperative Bank Ltd. (AUCB), Almora and Kurmanchal Nagar Sahkari Bank Ltd. (KNSB) have emerged as the largest and second largest banks respectively in the Northern region. The deposits of Almora Urban Cooperative Bank touched Rs. 333.87 crore, while the deposits of Kurmanchal Bank were at Rs. 263.07 crore as on March 31, 2006. Both the banks were showing profits. The Group recommends that urban co-operative banks which are presently in satisfactory financial health may be permitted to expand their areas of operations in the State of Uttaranchal through more branches as this would contribute in increasing the outreach of financial services.

4.15.3 The Reserve Bank has recently issued guidelines to UCBs to enhance their areas of operation and also the facility for opening currency chests and conducting foreign exchange business with a view to undertaking non trade related current account transactions. The Group, therefore, suggests that the UCBs with strong financials may extend the foreign exchange facility to the tourists and also open branches to extend their banking outreach.

4.15.4 Presently, the urban cooperative banks in the State are not members of various fora (SLBC, DCC, etc.) under the Lead Bank Scheme. The Group suggests that they should be made members of various fora under the Lead Bank Scheme so as to review their performance in lending to priority sector and Government sponsored programmes.

4.15.5 The State Government of Uttaranchal has since signed Memorandum of Understanding with Reserve Bank regarding constitution of TAFCUB in the State, which will try to address all the relevant issues relating to revival/strengthening of weak cooperative banks. With strong financial position of cooperative banks in the State, they can play effective role in providing better banking services including financial inclusion in semi urban areas.

CHAPTER 5

MEASURES FOR IMPROVING FOREIGN EXCHANGE FACILITIES AND SERVICES FOR TOURISTS

5.1 As stated earlier in this report, Uttaranchal, with its diverse geographical, demographical and climatic features, is an attractive tourist destination because of its scenic beauty and sacred pilgrimage sites. The hills of Uttaranchal possess all the ingredients for adventure, excitement and thrill - an unexplored valley, towering peaks, flowing rivers, snow-capped mountains, a splendid combination of flora and fauna and vast tracts of virgin snow. It offers some of the best venues for adventure sports such as skiing, river rafting, canoeing, para gliding and rock climbing, etc. The State also has great potential to develop as a tourist paradise by offering variety of tourist attractions viz. health tourism, religious tourism, adventure tourism, eco-tourism, game tourism, Golf tourism and skiing, etc. The manifold tourism attractions, can make Uttaranchal a prime tourist destination globally.

5.2 Opportunities and Potentials available in the State

(i) Pilgrimage

Important places of pilgrimage of different religions are located in Uttaranchal. Among these, Badrinath, Kedarnath, Yamunotri, Gangotri, Haridwar, Hemkund and Nanakmatta are some of the best known. There are several other places of pilgrimage like Panchbadri, Panchkedar, Panchprayag, Patal Bhuvaneshwar, etc., which need to be developed.

(ii) Cultural Tourism

Uttaranchal has a rich and vibrant cultural heritage. There are innumerable local fairs and festivals like Surkanda Devi Mela (Tehri), Magh Mela (Uttarkashi), Nanda Devi Mela

(Nainital), Chatti Mela (Udham Singh Nagar), Pumagiri Mela (Champawat), Joljivi Mela (Pithoragarh) and Uttarayani Mela (Bageshwar); which are indicative of the immense potential for cultural tourism in Uttaranchal.

(iii) Adventure Tourism

Uttaranchal is a paradise for adventure sports. The sheer variety ranging from mountaineering (Bhagirathi, Chowkhamba, Nanda Devi, Sahastratal, Kafni, Gaumukh, etc.), trekking/skiing (Auli, Munsiyari, Mundali, Dayara, Bugyal, etc.), skating, water sports to aero sports like hang gliding, para gliding (Pithoragarh, Jolly Grant, Pauri), etc. make Uttaranchal one of the most attractive destinations for adventure sports not only in India, but the world over.

(iv) Wildlife Tourism

Along with the world-famous Corbett National Park, Uttaranchal has several other breathtaking destinations for Wildlife Tourism. These include the Rajaji National Park, Govind Pashu Vihar, Asan Barrage, Chilla, and Saptarishi Ashram, the last four being a delight for bird watchers.

(v) Eco-Tourism

Uttaranchal has a rare diversity of flora and fauna. This makes it an ideal area for developing eco-tourism, projects and activities like jungle safaris, trekking on mountain and forest trails, nature walks, catch and release angling for Mahaseer and other fish.

5.3 State Government initiatives

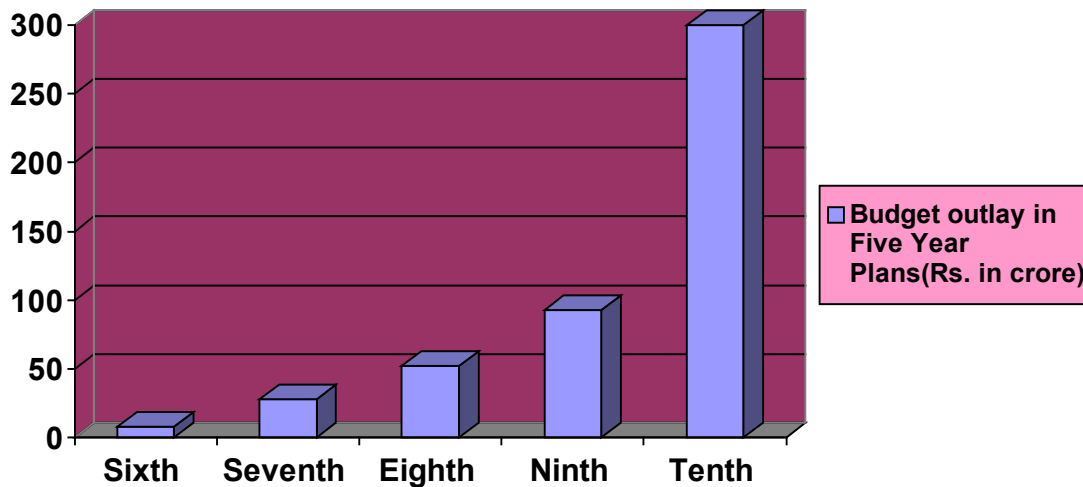
The tourism potential of Uttaranchal has not been fully exploited in the absence of a planned and coordinated strategy of tourism development. Inadequate capital investments in tourism infrastructure and limited private sector participation have been substantially responsible for this. Tourism needs to be developed in a planned and time bound manner. Towards this end, the State Government has identified some thrust

areas, like strengthening of institutional framework, infrastructure development, enhanced private sector participation, mobilization of resources, human resources development, publicity and marketing, optimal development of pilgrimage, Cultural, Eco-Tourism and promotion of Tourism oriented Handicrafts and Souvenir industry.

- (i) The State Government has set up Statutory Uttaranchal Tourism Board under the Chairmanship of the Minister of Tourism to function as an apex body for the development of tourism in the State.
- (ii) The Government has accorded the industry status to the tourism industry to give it a thrust.
- (iii) The State Government has formulated a separate Tourism Policy to increase tourism in the State and attract private investors, while ensuring the safety of local interests and without harming the environment. Great stress has been laid on the generation of livelihood through tourism so that the educated unemployed can become partners in the sector.
- (iv) Under the policy, the Government has given a number of fiscal incentives, to encourage investment in the tourism sector, like benefits in exemption of luxury tax (all new projects), income tax, entertainment tax (ropeway, new Multiplex projects and entertainment parks) for five years and exemption from excise duty (new Multiplex projects) for ten years on some specified projects.
- (v) In order to operationalise small airports, the State Government has bought airstrips at Haridwar, Pantnagar, Chamoli, Uttarkashi and Pithoragarh districts and private air lines have been asked to manage air traffic. The airstrip at the Jolly Grant airport (Dehradun) is being expanded to facilitate the operation of larger jet planes such as Boeings and Airbuses.
- (vi) The “centres of excellence” with private sector participation are being established across the State. Ananddas Park at Narendra Nagar, a resort at George Everest Cottage, Mussoorie and eco-tourism project near Corbett National Park have come up as tourist hubs.

- (vii) The State's budget outlay for the development of tourism has increased substantially from Rs. 7.75 crore in the sixth five year plan to Rs. 300 crore in the tenth five year plan (Figure 5.1).

Figure 5.1



The challenges are the augmentation of infrastructure facilities on development of new tourist destinations, an aggressive and well planned publicity & marketing strategy and more active participation of local host communities.

5.4 Veer Chander Singh Garhwali Paryatan Swarozgar Yojana

The scheme, launched by the State Government in June 2002, aims at providing opportunities of self employment to local educated unemployed youth who will get themselves engaged in activities relating to tourism viz., setting up of tourist information centres / restaurants, transport facilities – fast food centres, setting up of motor repair shops / garages, making available tents, sale outlet for locally produced mementos, communication centres, equipment for adventure sports and setting up of Sadhna Kuteers / meditation centres. Under the scheme, private entrepreneurs can get a loan from commercial banks and a State subsidy of 20 per cent (since raised to 25 per cent) with a ceiling of Rs. 2 lakh (since raised to Rs. 3.75 lakh), on investments up to Rs. 10 lakh (since raised to Rs. 15 lakh). Under this scheme, 876 beneficiaries were provided loans amounting to Rs.47.00 crore. Insistence by banks on collaterals for term loans in

the services sector was observed as an impediment. The Group suggests that the banks may take a view on not insisting on collaterals for loans up to Rs. 5.00 lakh and fixing individual limits for working capital based on cash flow projections as well as primary security of assets financed.

5.5 Inflow of Tourists in Uttaranchal

In Northern India, Uttaranchal ranks fourth in attracting foreign tourists and second in domestic tourists. Himachal Pradesh, a hill destination, attracts foreign tourists almost thrice of Uttaranchal. Even Nepal, which is geographically very similar to Uttaranchal, used to attract more than six-times foreign tourists (excluding Indian tourists) at its peak in 1993, as compared to Uttaranchal today. The inflow of domestic and foreign tourists in Uttaranchal has increased from 105,48,784 and 54,701 respectively in the year 2001 to 163,73,509 and 92,744 respectively in the year 2005, showing an increase of 55 per cent and 67 per cent respectively. The place-wise details of inflow of tourists are given in Annex II.

5.6 Though the thrust of the State Government is to develop tourism industry, there are various gaps, like scarce infrastructure facilities for foreign tourists, very few good quality hotels and resorts, non-availability of communication facilities in far flung areas, limited foreign exchange facilities offered by banks to foreign tourists, payment through debit/credit cards not encouraged even by the hotels and establishments run by the State Tourism Department, etc., which need to be filled in to promote the industry (detailed suggestions given below).

5.7 Augmentation of infrastructure facilities

5.7.1 In order to attract tourists from all over the world, there is an urgent need to create efficient, modern and state-of-the-art infrastructure to cater to the specific needs of tourists of all categories. The Group recommends that the State Government may strengthen its efforts for providing necessary infrastructure, i.e. good hotels and resorts, transport

facilities, intra and inter-city all weather roads, efficient telecommunication system and connectivity through broad band at places of tourist interest in the State.

5.7.2 Infrastructure projects sanctioned/disbursed under Rural Infrastructure Development Fund (RIDF)

As on December 31, 2005, a total of 873 projects aggregating Rs. 659.13 crore had been sanctioned by NABARD under various tranches of RIDF and an amount of Rs. 340.77 crore only had been disbursed. The Group suggests that in order to improve connectivity between the various villages and towns, the State Government should make optimum utilization of the funds available to it under RIDF for infrastructure development.

5.8 Winter/Year Round Tourism

Winter sports activities like skiing, ice-skating & ice-hockey, water sports and winter trekking, etc. have vast potential in the State and these need to be promoted, publicized and advertised to attract tourists throughout the year. Though the State Government has made efforts to publicise and project the State as "Uttaranchal – A Heaven on Earth", the Group is of the view that more needs to be done for promoting winter / year round tourism. The State Government may give advertisements and also take part in the national as well as international tourism seminars, exhibitions and fests. The State Government should encourage private participation in construction of quality budget hotels for the younger groups of foreign tourists, who are interested in mountaineering, skiing, trekking, river rafting, aero sports, eco-tourism and village tourism.

5.9 Development of new Tourist Destinations

Uttaranchal has so far been generally known for its "Hill Stations," such as Mussoorie and Nainital. The Group was informed that there are innumerable other destinations with immense potential such as, New Tehri, Pithoragarh, Munsiyari, Pauri, Khirsu, Lansdowne and many others in the interiors, which can be developed into attractive tourist hill destinations. The Group was also informed that the State Government has prepared Master Plans for some areas in the State. The Group, therefore, recommends that the

State Government may encourage and create an environment for developing new potential tourist destinations, with all interrelated infrastructure, with the cooperation of private entrepreneurs and local people.

5.10 Rural Tourism

Rural tourism is being promoted in the State both at the macro and micro level. Cluster of villages near Corbett National Park has been identified and converted into home stay with the involvement of NGOs and local people. Approximately, 2000 foreigners have visited these villages and each of the host family has been benefited. Eight more clusters of villages have been identified to replicate the Corbett model, without hurting the sensitivity of the rural population. The State Government has involved banks in its initiatives to set up motels, home stay accommodation and other small infrastructure like toilets facilities in hilly and remote areas, etc. Keeping in view the potential, the Group recommends that the rural tourism in the State may be encouraged and villages should be developed as tourist villages. NABARD may assist the State Government in selection of potential pockets in the State for development as a tourism cluster. The tourism clusters may be developed taking into account the infrastructural requirements, capacity building needs of the service providers and the credit requirements thereof. The tourism cluster will be a multi activity cluster involving entrepreneurs providing accommodation, catering, entertainment, educative inputs, health and fitness related activities, tour operators, travel guides and other service providers. Commercial banks should extend credit facilities for development of such tourism cluster for infrastructure requirements as per the guidelines issued by Reserve Bank of India.

5.11 Promotion of Tourism Oriented Handicrafts Industry

5.11.1 One Tambon One Product Model

Souvenirs and cuisine are integral to tourism anywhere in the world. The Government of Thailand had launched "One Tambon (one village) One Product (OTOP)" project in 2001 to identify and promote unique products made by village communities (Tambons) as a means of expanding the country's domestic and international trade as well as improving

income levels of villagers. With local wisdom and resources, each community has improved its local products and turned them into high quality and income producing ones to meet the global standard so that they can be sold domestically and internationally. The objective of the OTOP was to support technical knowledge and villagers wisdom to enable farmers to develop their profession and encourage farmers and communities to display and sell their crops and farm products. The Government also plays an important role in marketing the unique OTOP products by introducing the very best of them to local and international markets.

5.11.2 In the remote hilly areas of Uttaranchal, the people have their own culture and they are engaged in making of variety of handicrafts and various other products made out of locally available resources, such as weaving of shawls and carpets, copperware handicrafts (manufactured in Bageshwar area), etc. The Group, therefore, suggests that the State Government may go in for promoting the traditional arts and crafts of the villages by adopting the "One Tambon One Product" model of Thailand. The Group also suggests that the project could be encouraged by formation of SHGs, in particular women SHGs. This will even encourage setting up of SSIs and Medium enterprises in the villages. The State Government may also assist the villagers in marketing their products domestically as well as internationally.

5.12 Publicity and Tourism Marketing

Publicity and marketing of the tourist attractions of Uttaranchal at the national and international level need to be stepped up on a sustainable basis. Planned and coordinated efforts with the fullest utilization of information technology are required to be made in this direction. Above all, Uttaranchal Tourism needs to develop its own brand name and image. The Group recommends that the State Government may take necessary steps for effective publicity and marketing of tourist attractions of the State.

5.13 Human Resources Development

Special arrangements and up-gradation of existing institutions and facilities will be necessary for developing tourism entrepreneurship, management capabilities and

training in specialized services such as guides, porters, chefs, etc. The Group, therefore, recommends that these facilities may be developed by the State Government at the potential tourist centers to provide international level amenities to the foreign visitors.

5.14 Foreign Exchange facilities

5.14.1 Only a few bank branches in the State offer basic type of foreign exchange facilities. There are 15 authorized dealers in foreign exchange (State Bank of India-7, Punjab National Bank - 4, and one each of Allahabad Bank, Bank of India, Union Bank of India and ICICI Bank) and five full-fledged money-changers operating in the State of Uttaranchal. In addition to above, State Bank of India has authorized some of its other branches for encashment of foreign currency. These are Tel Bhawan, Dehradun, Mussoorie, Haridwar, Almora, Haldwani, Ramnagar and Ranikhet.

5.14.2 Reserve Bank has liberalized the scheme of granting moneychanger licenses to provide easier conversion facilities to travellers and tourists by enlarging the network of money changing facilities in the country. Reserve Bank permits Authorized Dealers and Full Fledged Money Changers to enter into agency/franchise agreements at their option with entities for the purpose of carrying on restricted money changing business i.e. conversion of foreign currency notes, coins or travelers' cheques into Indian rupees. Such facilities can be provided at all tourist centres and major cities of Uttaranchal for extended hours and also on holidays. As per the extant FEMA regulations, hotels, etc. (which provide services to the foreign tourists) can accept foreign exchange without any license/authorization from Reserve Bank of India.

5.14.3 It has also been gathered from some sources that the foreign tourists are facing difficulties in exchanging their foreign currencies in banks and hotels in the State. This may be mainly on account of fear/lack of knowledge on the part of concerned staff to differentiate between the genuine and counterfeit currency. There have also been problems in making payments through national/international credit/debit cards by both domestic as well as foreign tourists. In view of lack of knowledge in handling the foreign

currency by the staff of banks, hotels, shops and emporia, RBI and banks may organize seminars/workshops in matters relating to foreign exchange at major centres in the State at regular intervals.

5.14.4 The Group is also of the opinion that the banks having bigger share of foreign exchange business in the State, may review the present status of these facilities at various tourist centres and make arrangements for providing foreign exchange facilities at all district headquarters and other strategic locations.

5.14.5 Urban Co-operatives Banks and RRBs satisfying the laid down criteria can apply to the RBI for permission to undertake non-trade related current account foreign exchange business.

5.15 Automated Teller Machines (ATMs)

In order to provide hassle free cash withdrawal from banks to the tourists, the Group recommends that the major banks operating in the State may set up Automated Teller Machines (ATMs) at Tourist Information Centres and Wayside Amenties Centres for the convenience of the tourists.

5.16 Broad band connectivity

Broadband connectivity will help the banks to establish ATMs at places of tourists interest - and accept international debit/credit cards from the foreign tourists. The Group recommends that the branches dealing in foreign exchange may be provided with broadband connectivity immediately so that the foreign tourists are extended hassle-free conversion facilities without any delay.

CHAPTER 6

SUMMARY OF RECOMMENDATIONS

The recommendations made in this report are summarized hereunder:

Chapter 1 – State Profile

1. The food grains production has been showing a fluctuating trend. It was 17.91 lakh MT during 1999-00, which came down to a level of 15.97 lakh MT during 2002-03, increased to 17.28 lakh MT during 2003-04 and decreased to 15.93 lakh MT during the year 2005-06. The declining trend was observed in cereals as well as in pulses. The share of the State in total food grains production of the country is around 0.86 per cent as against the share of net sown area of 0.56 per cent, which is an indication of higher crop intensity. The average productivity per hectare of cereals, pulses and oilseeds has also shown a continuous declining trend from 1999-2000 to 2002-03. There is an urgent need to improve the value and productivity in the hilly regions. [Para 1.3.5] **Action: State Government**

2. Animal husbandry, dairy development, horticulture, including floriculture and medicinal & aromatic plants (MAPs), are emerging as important sub-sectors of agriculture in the State and there is need for greater focus in these areas, particularly with reference to food processing and marketing. The major constraints observed in the development of animal husbandry and dairy development activities are shortage of fodder, inadequate marketing and veterinary facilities in hill regions. The State Government would need to fill up these gaps as soon as possible. [Para 1.3.7 (a)] **Action: State Government**

3. Due to environmental and geographical constraints and concerns, the medium and large industries are not likely to come up in the Middle and Upper Himalayas. Wool based industry is a traditional industry in these areas, which needs to be

promoted. Adequate facilities like wool banks, designs, processing and marketing facilities need to be developed. [Para 1.5.1] **Action: State Government**

Chapter 2 - Role of Banks and Financial Institutions in supporting the Initiatives taken by the State Government for promoting Economic Development

4. In view of the new industrial policy of the State being implemented vigorously as also potential avenues for setting up new industries in the State, the Annual Credit Plans may be prepared taking into account the potential available and the targets for various sectors may be set accordingly. [Para 2.2] **Action: Lead banks (SBI, PNB, BoB), NABARD**

5. Banks can expand the flow of farm credit significantly if they were to consider total credit needs of cultivators. There is, therefore, a need to integrate investment and production credit. There is a slow down in the long term credit from about 34 per cent in 2003 to about 30 per cent in 2005. This deceleration of growth of investment credit impairs agricultural borrowers' credit absorption capacity. It would eventually affect the growth of crop loans as well. Banks should integrate the investment and production credit needs of the farmers and increase their investment credit. [Para 2.3.2] **Action: Banks**

6. In view of large number of small and fragmented land holdings, there is a need to adopt cluster approach in financing. Subsequently, sub clusters could be developed around the main cluster. [Para 2.3.4] **Action: Banks**

7. In Uttaranchal, women in hilly districts are engaged in farm activities as their men folk usually move out of the State or district in search of jobs. In such a situation, suitable mechanism may be worked out by the State Government in consultation with banks to enable the women cultivators to avail credit from the banking system. (Para 2.3.4) **Action: State Government / Banks**

8. Agricultural extension services are inadequate in the hilly areas, which are to be strengthened with support of government or through private participation. The agricultural extension system is the conduit pipe between the research institutions and the farmers for conveying to the farmers improved agricultural technology, which can increase their yields and incomes within the framework of their environment and assets. For enhancing extension system, it is suggested that the Government agencies should join hands with private and community driven organizations. Research-extension linkages should be strengthened. The quality of extension process should be improved by using techniques like participatory rural appraisal, group dynamics, leadership techniques, conflict resolution, data analysis, efficient documentation and information technology. Considering the high involvement of women in farm work in the State, special efforts should be made to reach technology to them, with sensitive attention to their time windows, mobility and cultural situation. [Para 2.3.5] **Action: State Government**

9. The main constraints hampering the growth of industries in the State are summarized below:

- (i) Geographical and environmental constraints in hill regions;
- (ii) Lack of availability of infrastructure including roads in remote areas;
- (iii) Lack of marketing opportunities and avenues; and
- (iv) Non-availability of raw materials locally.

With a view to encouraging banks to lend efficiently to the SME sector for the overall economic development of the State, the Group suggests that the State Government should provide necessary infrastructure and facilitate marketing opportunities. [Para 2.4.3] **Action: State Government**

10. Till March 31, 2006, sanction aggregating Rs. 652 crore had been accorded for construction of 169 Deep Tube Wells, over 3,000 km of rural roads, 3,100 meter of rural bridges, seven lift irrigation projects, 31 rural drinking water

schemes, six flood protection schemes and for system improvement in power. The State Government had drawn Rs.386.09 crore as on March 31, 2006. These projects, when completed, are expected to generate 435.66 lakh man-days of employment of non-recurring nature during implementation stage and recurring employment to the extent of 26,220 jobs annually, adding Rs.62.43 crore to SGDP annually. Government of India restriction limiting the State Government borrowings under RIDF to Rs.175 crore during 2005-06 and 2006-07 could impede flow of infrastructure projects under RIDF. [Para 2.5.3] **Action: Government of India/State Government**

11. In order to strengthen the credit delivery system and to ensure availability of credit to all, the State Government should implement the recommendations of Task Force on Revival of Rural Cooperative Credit Institutions (Chairman; Prof. A. Vaidyanathan). The Cooperative Credit Structures in Uttaranchal had no training arrangements to train their officers and staff. The proposal to have an arrangement with Institute of Cooperative Management is yet to take a concrete shape. This issue needs to be addressed by State Government and UASCB on top priority. [Para 2.5.5] **Action: State Government/UASCB**

12. NABARD prepares Potential Linked Plans (PLPs) annually for all the districts indicating potential location specific bankable schemes. The pre-requisite for preparing PLPs was detailed as “Agro-climatic Planning and Information Bank (APIBs)”. The Planning Commission enunciated this concept in 1980’s. So far Karnataka has attempted this exercise. This will clearly indicate the bottlenecks, which impede credit off take and diminish credit absorbing capacity, especially long term ones. The task of preparing APIBs can jointly be undertaken by NABARD and the State Government. PLPs prepared on the basis of detailed APIB will enable NABARD to suggest gaps in physical infrastructure which could be taken under RIDF on the one hand and at the same time support strategic investments in horticulture, fisheries, organic farming, agro industries, marketing, agriculture related services, etc.[Para2.5.6]**Action: State Government/NABARD**

13. Some of the initiatives actively pursued by NABARD relate to credit planning and monitoring, micro-finance and SHG-Bank linkage programme, capacity building of NGOs, farmers, entrepreneurs, unemployed youth, skill upgradation, promotional support for marketing for rural non-farm products, promotion of Farmers' Clubs, development of tribal areas, watershed, cluster development both in farm and non-farm sectors, formulation of area development schemes, model schemes etc. There is a need to translate the strategies as suggested in NABARD's State Focus Paper 2006-07 into an implementable and monitorable action plan. In this context, a coordinated approach and integration of developmental programmes of Government with the developmental programmes of other agencies can result in synergy with significant positive impact. NABARD can take a lead in this behalf with active support from Government of Uttaranchal. [Para 2.5.7] **Action: State Government / NABARD / SIDBI**

14. In order to give a fillip to micro finance, the following measures are recommended:

- (a) Continued collaboration with major NGOs who may be supported with assistance for taking up capacity building of the smaller partner NGOs using NABARD's funding support;
- (b) Identification of suitable NGOs to act as intermediaries for on lending to SHGs on agency basis in remote areas where the banks cannot serve through their branches. The banks can use support available from NABARD for rating of such intermediaries through approved rating agencies;
- (c) Farmers' clubs may be increasingly used as SHPIs in association with commercial, cooperative and Regional Rural Banks taking advantage of NABARD's funding support;
- (d) Banks use NABARD's "Scheme for Associating Individual Rural Volunteers (IRVs) in SHG promotion". The Panchayati Raj Bodies, Nehru Yuva Kendras, KVKs, Aanganwadi workers, literacy workers, retired

- school teachers etc. can be inducted as Individual Rural Volunteers (IRVs) in SHG formation as they can be effective in organizing people into groups because of their closer contact;
- (e) NABARD's support for training to include sensitization of bankers at different levels, skill building of Government field functionaries, NGO's, SHG animators;
 - (f) The Credit Plus approach to be encouraged for helping mature SHGs to graduate into income generating groups;
 - (g) Publication and circulation of operational manuals and booklets on SHG-Bank Linkage by NABARD/Bank;
 - (h) Regular reviews of progress of credit linkage by controlling offices of commercial banks, RRBs and DCCBs for imparting seriousness to the implementation of the SHG-Bank Linkage programme;
 - (i) At present SHGs (outside SGSY) have to pay stamp duty on execution of documents with banks for credit linkage. Since members of SHGs belong to poor families, financing to SHGs may also be exempted from stamp duty on the lines of SGSY programme;
 - (j) Government should evolve system of grading of NGOs functioning in the state. The norms evolved by NABARD for NGOs' grading can be used for the purpose.

[Para 2.5.9 (iii)] **Action: State Government/NABARD/Banks**

15. In order to boost the industries sector in the State, SIDBI may prepare bankable projects in variety of industries in SME sector and disseminate information thereon for use of potential entrepreneurs. Such schemes should also cover the handloom and handicrafts sectors. [Para 2.7.2] **Action: SIDBI**

16. SIDBI, NABARD, as also major banks may sponsor RUDSETI for training to entrepreneurs and potential entrepreneurs in SMEs including small business services related sectors. SIDBI / NABARD may sponsor rural industries programmes in the areas where clusters have been identified and in areas

having concentration of other non-farm economic activities for training of weavers/artisans small entrepreneurs and for entrepreneurship development.

[Para 2.7.3] **Action: NABARD /SIDBI/ Banks**

17. SIDBI may identify marketing outlets for various industries in the state and provide assistance for display and marketing of the products. [Para 2.7.4]

Action: SIDBI

18. The entrepreneurs in Uttaranchal are also facing difficulties in accessing venture capital funds from banks and SIDBI. SIDBI may strengthen its support in providing venture capital facilities and consultancy services in preparation of project reports for various economic activities, including agricultural projects. Banks may also extend such facilities to the entrepreneurs, at least in their specialized SME branches. [Para 2.9] **Action: SIDBI / Banks**

19. Banks may explore the possibilities of setting up SSI / SMEs branches in potential areas with adequate sanctioning powers to the branch manager and ensure disposal of loan applications, as per RBI guidelines.

[Para 2.10] **Action: Banks**

20. Extension of credit facilities by the private sector banks to the SME sector in the State have been meagre as compared to their total loans and advances. Of the 10 private sector banks (excluding Nainital Bank Ltd.) operating in the State, nine banks had lent just Rs. 1.65 crore to the SME sector, whereas Nainital Bank has extended credit of Rs. 27.94 crore to the sector. Private sector banks operating in the State should increase their lending to SME sector. The role of private sector banks should be monitored closely. [Para 2.11] **Action: RBI / private sector banks**

21. Other suggestions/recommendations:

- (i) Help of local Agricultural Universities may be taken to improve the quality of inputs so as to improve the quality and quantity of output;

- (ii) Since almost 27 per cent of area falls under subsistence farming, State Government may consider providing technical input support (agricultural extension services) to these holders at its cost/subsidized affordable cost;
- (iii) Tie up arrangements with multinational/local majors engaged in agricultural business may be explored so as to be beneficial to both the producer and purchaser;
- (iv) National Horticulture Board should be made a permanent member of SLBC. The board should chalk out its plans for the State with the help of State Government department and motivate producers for quality output. Banks should also be made a party for negotiations with producers so as to settle issue of credit on spot. This may act as a single window type clearances/tie ups; and
- (v) Role of HIMADRI be widened to procure, process and market agricultural products on the lines of HPMC of Himachal Pradesh.

[Para 2.12] **Action: State Government/SLBC Convenor/NABARD/Banks**

Chapter 3 - Measures for Enhancing Greater Outreach/Penetration of the Banking System in Uttaranchal

22. The adult population of the state is 44,72,514 (as per Census 2001) and the number of savings/current accounts is 35,03,283 leaving a gap of adult population of 9,69,231 who are financially excluded. The banks need to initiate necessary measures to “financially include” this unprivileged population over a period of three years. The task is not as difficult as the average share of each branch works out to be only 275 new accounts per annum. Thus on average, 275 new deposit accounts per branch will have to be opened by the banks every year over the next 3 years to achieve 100 per cent coverage of adult population. Once the ground level preparations have been made and awareness of bank products created, each bank branch in the State may cover a minimum of 25 new households per month with a basic banking account and limited overdraft/GCC/KCC, either directly or through SHGs. The target may be fixed for

each branch having regard to the need to cover every household, with at least one account through existing/proposed branches in the State over next three years. It is recommended that three under developed districts i.e. Chamoli, Pithoragrah and Champawat, be selected on pilot basis for 100 per cent “financial inclusion”. [Para 3.5.3] **Action: Banks**

23. There is problem of inadequate monitoring at the district level and by controlling offices of the banks. Banks should set up, at controlling office level, an efficient monitoring mechanism to ensure implementation of strategies for financial inclusion. The senior officers from banks’ Regional Office/ Zonal office or head office visiting the branches should record their special report on the achievement of financial inclusion and the performance reviews placed before the Boards of respective banks annually. The supervisory authority (i.e. Reserve Bank of India and NABARD, as the case may be) can monitor the progress. Similarly, DCC, SLBC fora should also review the progress at regular intervals.

[Para 3.7.1] **Action: Banks/RBI/NABARD/Convenors of SLBC and DCCs**

24. In order to facilitate borrowers in utilizing the loans more profitably, banks should have credit plus approach in their financial inclusion schemes. They would need to extend insurance, marketing, consultancy services, etc., as they can access technological developments taking place in agricultural universities, IITs, and Research Institutions. [Para 3.7.2] **Action: Banks**

25. Banks and other agencies may carry out awareness campaign for opening of “No frill” with “Zero Balance” accounts of the unprivileged population having low income and no access to mainstream financial services. Banks may take proactive decisions to increase outreach to underserved areas / unbanked persons. Branch / field level functionaries of the banks as well as Business Correspondents/Facilitators may be acknowledged and rewarded for achieving the targets. The banks/SLBC/DCC meetings may review the achievements

regularly. The review notes may be put up to the concerned Boards on an annual basis. [Para 3.7.3] **Action: Banks/SLBC & DCC convenors**

26. Considering the time, distance and cost for customers to reach a bank branch, especially in remote areas, banks can aggressively use the Business Facilitator model for increasing their outreach. Banks may also identify well respected local persons like school teachers, postman, primary health workers or retired officials. Such services may include: (a) identification of borrowers and fitment of activities; (b) collection and preliminary processing of loan applications including verification of primary information/data; (c) creating awareness about savings and other products and education and advice on managing money and debt counselling; (d) processing and submission of applications to banks; (e) promotion and nurturing Self Help Groups/ Joint Liability Groups; (f) post-sanction monitoring; (g) monitoring and handholding of Self Help Groups/ Joint Liability Groups/ Credit Groups/ others; and (h) follow-up for recovery.

[Para 3.7.4] **Action: Banks**

27. Apart from the facilitation support, it may be possible to use several institutions as agents for providing assistance in financial functions on behalf of banks. The “Business Correspondents” would provide value added services, such as disbursement of small value credit, recovery of principal / collection of interest and sale of micro insurance/mutual fund products/ pension products. Agencies like NGO-MFIs set up under Societies/Trust Act, Section 25 companies, societies under MACS and Government/ corporate supported IT enabled outlets may also act as banking correspondents. [Para 3.7.5]

Action: Banks

28. With a view to enabling banks to enhance their credit deployment in the rural areas at lower transaction costs, a Scheme has been formulated in consultation with the Department of Post, Maharashtra Circle for purveying rural credit in association with the post offices. The formalities are being worked out in

consultation with the IBA, banks and Post Master General. Having regard to the trusted relationship that the people have with post offices and postman, banks could gainfully appoint post offices as their business correspondents on the same lines of Maharashtra model for achieving the ultimate target of 100 per cent financial inclusion. [Para 3.7.6] **Action: Banks/Department of Posts**

29. Certain banks have set up Rural Development and Self Employment Training Institutes (RUDSETI). Such measures evoke very good response from borrowers and enlarge bank clientele. Major public sector banks in the State may consider setting up similar institutes in major cities. [Para 3.7.7 (i)] **Action: Banks**

30. Financial products cannot reach the ultimate borrowers till the time the banks' staff are also trained and sensitized about the importance of the financial inclusion. Further, unless the ground level preparation is thorough, policies for financial inclusion cannot be implemented fully. It is, therefore, suggested that the national level training institutions like the College of Agricultural Banking (CAB), Pune, the Bankers' Institute of Rural Development (BIRD), Lucknow, and State Bank Institute of Rural Development (SBIRD), Hyderabad may design and conduct a series of workshops for various levels of bank staff. They may also develop suitable training modules for the NGOs / MFIs. [Para 3.7.7 (ii)] **Action: RBI /NABARD/SBI**

31. Financial inclusion has not taken its roots in the real sense in the entire State, mainly because of lack of awareness of banking facilities among people living in the far-flung rural and hilly areas. The Group, therefore, is of the view that an awareness campaign through media, newspapers, road shows, street plays, etc. may be launched in the State in order to induce people to avail banking services. State Level Bankers' Committee (SLBC) convenor bank of the State may take a lead with the help of other major public sector banks and State Government and conduct an awareness campaign of the various financial products and recovery by publishing in local newspapers, through media (television and radio) and also

through audio-visuals during the major festivals in the State. The issue may be discussed in the SLBC meeting to work out the formalities of the campaign. The cost may be shared by all the banks depending on the proportion of their presence in the State. [Para 3.7.8] **Action: SLBC Convenor/Banks/State Government**

32. The SHG–Bank linkage programme, the flagship micro finance intervention programme of NABARD, has been a success throughout the country in reducing the transaction costs for banks and also increasing the banks’ outreach in the areas and to the people. Apart from using the business facilitators and banking correspondents, the SHG-Bank Linkage model may be pursued for widening the credit coverage in the State. There is also a need to upscale operations through SHGs, especially for providing working capital and investment credit. The banks and NABARD may actively engage themselves in formation of groups and linkage of groups for savings and deposits as also providing other financial services. The Micro Finance Development and Equity Fund (MFDEF) set up in NABARD may be utilized for the purpose. [Para 3.7.9] **Action: Banks/NABARD**

33. There should be a Banking Services Facilitation Centre at each village in the State. It’s role would be to act as a link between the bank servicing the region and the residents of the village, promotion of banking services, resolving savings and credit needs of the residents of the village. The aim of such centre should be to achieve total financial inclusion. The State Government may institute an award for attainment of this goal. Village Panchayats may be groomed for this role. They can also act as business facilitators / correspondents for banks.

[Para 3.7.10] **Action: State Government/Banks**

34. Transfer of funds within the State takes inordinately long time. On account of heavy migration of rural people to urban areas there is an immediate need for an efficient system to enable them to remit their surplus to their family members in rural areas on reasonable terms. Payments through cheques, cards and

electronic modes like Electronic Funds Transfer (EFT), Electronic Clearing Service (ECS) and Real Time Gross Settlement (RTGS) are minimal in the State. It is possible to move from cash payments to electronic payments leapfrogging the stage of paper based payments system. It is suggested that clearing houses may be set up at various places in the State which are having more than five banks, after taking into consideration the volume of cheques handled. In line with the policy of Reserve Bank to encourage the electronic payment systems in the country, banks may encourage and promote the use of ECS and EFT for speedy settlement. The State Government needs to take initiative to make their bulk payments like salaries and pensions only through ECS mechanism as they are cost effective and operationally efficient as compared to payment by cash and cheques. Clearing houses in the major cities may start ECS at the earliest and market it efficiently with the help of Government Departments and other bodies which employ a large number of persons. Banks need to play major role in popularizing RTGS, ECS and EFT through appropriate canvassing.

[Para 3.7.11] **Action: RBI / Banks / State Government**

35. Information Technology (IT) holds the key in reducing transaction cost and increasing business volumes of banks. IT impacts both internal management and accounting/ record-keeping/ MIS in the banks and its reach to the clients outside. It is suggested that:

- a) NABARD, in consultation with Ministry of Information and Technology, may draw up a time bound action plan to set up Rural Kiosks/ Village Knowledge Centers. These Kiosks can be leveraged for expanding Business Facilitators/ Correspondents relationships by the banks.
- b) IDRBT may be requested to examine, in consultation with NABARD, the feasibility of setting up a portal to enable e-marketing of products of SHGs/ micro entrepreneurs by making use of rural kiosks, Village Knowledge Centres, etc. Over time, the settlement can be web enabled by linking the

portal with the payment gateways of banks financing the concerned SHGs/micro entrepreneurs.

- c) A Rural Banking Technology Development Fund (RBTDF) may be set up by way of grants from Government of India, NABARD and institutional agencies for computerization and networking of rural branches, particularly of RRBs and cooperative banks. The cost on technology infrastructure in rural areas and contributions made to the proposed RBTDF may be included for computation of banks' achievement under priority sector advance, wherever applicable.
- d) Banks may provide toll free Interactive Voice Response System (IVRS) in local language to customers as a part of information dissemination strategy.

[Para 3.7.12] **Action: Government of India / State Government / RBI / IDRBT / NABARD / Banks**

36. Financial Information Network and Operations (FINO) is a technology backbone company for providing facilities akin to banking to the grass root financial entities such as MFIs serving people who do not have access to banking facilities. FINO provides a shared platform for end-to-end delivery of entire range of financial services with economies of scale and lowering of interest cost for microfinance borrowers. The FINO solution is recommended for careful consideration for greater outreach of the banking services in the remote areas of the State. FINO have already offered their assistance in implementing the Scheme on pilot basis in five districts of the State. [Para 3.7.13]

Action: State Government / RBI / Banks

37. Having regard to the topography, dispersal of population and transport bottlenecks, branch banking may not be the most viable way to increase outreach in the difficult hilly terrain. Hence, in order to achieve the objective of financial inclusion, recourse will have to be taken to SHG-Bank linkage programme, business correspondent/business facilitator model, as also

extensive use of IT based solutions which facilitate remote banking, as suggested earlier. Nevertheless, taking the minimum branch needs into account, the position for branch expansion may be reviewed in SLBC meetings.

[Para 3.7.14] **Action: SLBC Convenor**

38. A performance measurement matrix (Annex I) based on parameters reflecting the efforts for promoting financial inclusion has been suggested. This matrix may be used for performance budgeting, performance appraisal and performance based incentives, etc. [Para 3.7.15] **Action: Banks**

39. Banks may link up with insurance companies for providing insurance products suitable to the State. IRDA may advise the insurers to associate themselves with the financial inclusion package for Uttaranchal and customize products that could be publicized as a part of the campaign for financial inclusion.

[Para 3.7.16] **Action: Banks / RBI/ IRDA**

40. The mechanism of funding cash transactions in the branches in some parts of the State is not satisfactory, particularly in the hilly regions where banks also faced staff shortages. The problem may be addressed at the concerned bank level. Further, RRBs satisfying the eligibility criteria laid down by RBI may also go in for currency chests. [Para 3.7.17] **Action: RRBs / Banks**

Chapter 4 - Measures to Strengthen Regional Rural Banks and Cooperative Banks (Rural & Urban)

Regional Rural Banks

41. It has been observed that in certain cases persons not familiar with technical and operational aspects of banking and finance were inducted in the Boards of RRBs. Further, as the Chairmen of RRBs are from the sponsor banks, there could be several potential areas of conflicts of interest. For strengthening the Boards of RRBs, the composition of the Board may be changed. This could be

done by making the Board broad-based through inducting professionals such as agricultural experts, bankers, management experts, chartered accountants, etc. The Boards of RRBs may appoint the Chairmen of RRBs, with the concurrence of RBI. [Para 4.9 (i) (a)] **Action: Government of India / State Government/ Sponsor Banks/ RRBs/RBI**

42. Most of the RRBs, due to increased business, are facing shortage of staff in the State. Although the Government of India has given freedom to the sponsor banks for recruitment of staff in RRBs, no sponsor bank is willing to permit RRBs for recruitment of staff. The requirement of obtaining sponsors bank's prior approval in staff recruitment matters may be dispensed with to give more autonomy to the Boards of RRBs. Each RRB must evolve its own operational policies, including those on staff matters. They should also undertake exercises on succession planning and age group analysis of their staff to take care of the large-scale vacancies in the near future. Pending recruitment of staff in RRBs in the State, the problem of staff shortage may be urgently addressed by deputation of staff from the concerned sponsor banks. [Para 4.9 (i) (b)] **Action: Sponsor Banks/RRBs/RBI**

43. Lack of well-defined policy framework on staff matters, inordinate delays in resolution of staff related issues in RRBs have adversely affected the employee morale and created industrial unrest. RRB staff has to be motivated to take up the new challenges. Policies of RRBs with respect to manpower planning, recruitment, promotion systems, remuneration, perquisites and facilities, etc. may be reviewed and modified suitably to meet the legitimate aspirations of the staff. [Para 4.9 (i) (c)] **Action: RRBs /Sponsor Banks**

44. RRBs, to be on a sustainable business model in the long run, need risk management tools (including ALM), albeit on a less sophisticated scale as compared to commercial banks. Certain basic guidelines on risk management may, therefore, be made applicable to them. Furthermore, to facilitate their

balance sheet management, RRBs may be encouraged to employ certain instruments like Certificates of Deposit / Inter-bank Participation Certificates, etc., wherever necessary. In order to meet the challenge of increasing the credit dispensation and to bring about greater efficiency in operations, RRBs may consider introduction of new products and also streamline their business processes. [Para 4.9 (ii) (a)] **Action: RRBs**

45. In order to improve profitability and productivity:

- i) RRBs may rationalize their branch network including opening of new branches and relocation of loss making branches.
- ii) With a view to increasing the avenues for credit deployment, RRBs may be encouraged to participate in consortium lending within their area of operation.
- iii) State Governments may consider empowering RRBs to collect Govt. taxes.
- iv) RRBs may strengthen their recovery mechanism with necessary support from the State Governments.
- v) Income tax exemption granted to RRBs may be continued for RRBs, since they would be deploying 60 per cent of their advances to the priority sector, as is applicable now.
- vi) The State Government may treat RRBs at par with the public sector banks for the purpose of acceptance of guarantees and security deposits/ earnest money of Government departments operating in rural areas.

[Para 4.9 (ii) (b)] **Action: RRBs / State Government**

46. As RRBs in the State operate in difficult terrain, they have to incur high cost of transactions, which affects profitability of these RRBs and also works as disincentive for carrying on business operations in such areas. To overcome this problem, it is recommended that refinance from NABARD should be provided to such RRBs at nominal rate of interest. As most of the financing of the RRBs are

in the priority sector and falls under directed lending where rate of interest is also regulated, they require large portion of low cost of deposit to improve their viability. [Para 4.9 (ii) (c)] **Action: NABARD**

47. New initiatives are being taken in rural areas by institutions/ organisations, which are active in rural development. RRBs may actively consider fostering links with such organizations to provide avenues for innovative financing.

[Para 4.9 (ii) (d)] **Action: RRBs**

48. Significant improvement was observed in the financial health of RRBs in the State, mainly due to increase in the level of business and containing incremental NPAs. As the RRBs have 169 branches in the State and most of them are in rural and semi urban areas, they have to be treated as important players in the plan for financial inclusion. They should strengthen their manpower, engage in capacity building and make optimal use of IT. [Para 4.9 (ii) (e)] **Action: RRBs**

49. With a view to increasing their non-interest income, RRBs may be encouraged to have arrangement with their sponsor banks for issuance of demand drafts/ banker cheques, etc. on their behalf which may help in improving customer service since most of their branches are located in remote areas.

[Para 4.9 (ii) (f)] **Action: Sponsor Banks /RRBs**

50. The SHG-Bank linkage programme has helped RRBs in increasing their outreach and has become a platform for successful implementation of many other developmental programmes. It is suggested that the RRBs in the State may adopt the SHG-Bank linkage programme more aggressively to improve their profitability and also reduce their transaction costs.

[Para 4.9 (ii) (g)] **Action: RRBs**

51. In keeping with the changing environment and rising customer preference for technology driven services in banks even in rural areas, RRBs may introduce automated services like credit cards, smart cards, automated teller machines,

touch-screen services etc. at least on selective basis in select major branches.

[Para 4.9 (iii) (a)] **Action: RRBs/Sponsor Banks**

52. For efficient cash management, RRBs in the State may be allowed to set up currency chests with appropriate safeguards. [Para 4.9 (iii) (b)] **Action:**

RRBs/Sponsor Banks/RBI

53. The growing complexities of the rural financial system and introduction of various new financial products and services in RRBs require a massive effort for training and development of staff at all levels. To meet these requirements, RRBs in Uttaranchal may work out their training needs and utilize the facilities available at various training establishments at Bankers' Institute of Rural Development (BIRD), Lucknow and College of Agricultural Banking (CAB), Pune etc.

[Para 4.9 (iii) (c)] **Action: RRBs/ BIRD/CAB**

Cooperative Banks (Rural)

54. After the formation of the State, the Uttaranchal State Cooperative Bank Ltd. (UASCB) came into existence with effect from February 2004 consequent upon division of Uttar Pradesh State Cooperative Bank Ltd. (UPCB) and Uttar Pradesh Sahkari Gramya Vikas Bank Ltd.(UPSGVB). Reserve Bank permitted UASCB to carry on banking business subject to the following conditions: (i) submission of copy of the resolution passed by the Boards of Directors of both UPCB and UPSGVB regarding approval of the scheme of bifurcation and approving the bifurcation of assets and liabilities by the General Body of the parent banks; (ii) the State Governments should follow the procedures as laid down under the Cooperative Societies Act/s in regard to the division of these banks and apportionment of assets and liabilities among the banks. Despite repeated follow up by the Reserve Bank, however, the issue of bifurcation of assets and liabilities could not be resolved as the Uttar Pradesh Government has opined that the present Cooperative Societies Act does not permit such bifurcation. A reference

under Section 60 of the Uttar Pradesh Reorganization Act 2000, was made to Government of India who have advised that Uttar Pradesh Government may take suitable action to apportion the assets and liabilities of UPGB and UPSGVB between the States of Uttar Pradesh and Uttaranchal. The proposal for bifurcation of assets has not yet been placed before the General Bodies of UPGB and UPSGVB. The issue may be resolved by the concerned State Governments / cooperative banks/agencies at the earliest. [Para 4.11.1] **Action: State Governments of Uttaranchal & U.P./ State Cooperative Bank of U.P. & Uttaranchal**

55. As Uttaranchal has predominantly small or marginal land holdings (76.1 per cent), the reach of the cooperative system needs to be enhanced much deeper than the other institutional arrangements in the rural areas. Cooperative banks, especially the DCCBs in the State should increase their lending to agriculture and allied activities. [Para 4.12.3] **Action: State Government / RCS/ DCCBs**

56. Cooperative banks need to introduce a system of special audit by professionals, apart from the State Government audit, for true and fair assessment of their financial position. [Para 4.14.1] **Action: State Government / RCS/ DCCBs**

57. The existing training programmes are archaic and outdated, focused more on issues like the history of cooperation and legal enactments, than on matters pertaining to business and operations. Cooperative banks may arrange with the Institute of Cooperative Management, Dehradun for training of their staff. Bankers' Institute of Rural Development (BIRD), Lucknow may also conduct special sensitization programme and on-site training programme for the cooperative banks' staff. [Para 4.14.1] **Action: RCS/BIRD/Cooperative Banks**

58. Financial assistance alone cannot revive cooperatives. Cooperatives can only be revived if they become democratic, self-governing, self-reliant

organizations for mutual thrift and credit. The State administration may minimise their interference in the operational matters of the cooperative banks in the State.

[Para 4.14.2] **Action: State Government/RCS**

59. State Government may take suitable measures to strengthen the cooperative banks in the State by infusing capital / funds in the banks, particularly in the one that is not meeting the requirement of Section 11 (1) of Banking Regulation Act. It may also take steps to improve corporate governance, including internal control systems, etc. [Para 4.14.3] **Action: State Government/RCS**

60. Government of India appointed a Task Force on Revival of Rural Cooperative Credit Institutions under the chairmanship of Prof. A. Vaidyanathan on August 5, 2004. The Task Force has broadly advocated four sets of remedial measures:

- a) Special financial assistance to the tune of Rs. 14,839 crore (Rs. 53 crore for Uttaranchal);
- b) Institutional restructuring;
- c) Radical changes in the legal framework to empower RBI;
- d) Qualitative improvement in personnel in all tiers.

The State Government of Uttaranchal has yet to convey its formal consent to NABARD for acceptance of the recommendations of the Task Force in principle. NABARD has begun the process of implementing the recommendations. It is, therefore, suggested that the recommendations of the Task Force may be implemented at the earliest as that would greatly help not only in extension of financial support to the cooperatives, but also in capacity building and modernisation. [Para 4.14.4] **Action: State Government**

Urban Cooperative Banks

61. Urban co-operative banks which are presently in satisfactory financial health may be permitted to expand their areas of operations in the State of Uttaranchal

through more branches as this would contribute in increasing the outreach of financial services. [Para 4.15.2] **Action: UCBs/RCS/RBI**

62. Reserve Bank has recently issued guidelines to urban cooperative banks to enhance their areas of operation and also the facility for opening currency chests and conducting foreign exchange business with a view to undertaking non trade related current account transactions. Urban cooperative banks with strong financials may extend the foreign exchange facility to the tourists and also open branches to extend their banking outreach. [Para 4.15.3] **Action: UCBs / RBI**

63. Presently, the urban cooperative banks in the State are not members of various fora (SLBC, DCC, etc.) under the Lead Bank Scheme. It is suggested that UCBs should be made members of various fora under the Lead Bank Scheme so as to review their performance in lending to priority sector and Government sponsored programmes. [Para 4.15.4] **Action: RBI**

Chapter 5 – Measures for improving foreign exchange facilities and services for tourists

64. The State Government's Veer Chander Singh Garhwali Paryatan Swarozgar Yojana, launched in June 2002, aims at providing opportunities of self employment to local educated unemployed youth. It has been observed that insistence by banks on collaterals for term loans in the services sector was acting as an impediment. Banks may take a view on not insisting on collaterals for loans up to Rs. 5.00 lakh and fixing individual limits for working capital based on cash flow projections as well as primary security of assets financed. [Para 5.4] **Action: SLBC Convenor/Banks**

65. In order to attract tourists from all over the world, there is an urgent need to create efficient, modern and state-of-the-art infrastructure to cater to the specific needs of tourists of all categories. The State Government may strengthen its efforts for providing necessary infrastructure, i.e. good hotels and resorts, transport facilities, intra and inter-

city all weather roads, efficient telecommunication system and connectivity through broad band at places of tourist interest in the State. [Para 5.7.1] **Action: State Government**

66. As on December 31, 2005, a total of 873 projects aggregating Rs. 659.13 crore had been sanctioned by NABARD under various tranches of RIDF and an amount of Rs. 340.77 crore only had been disbursed. In order to improve connectivity between the various villages and towns, the State Government may like to make optimal utilization of the funds available to it under RIDF for infrastructure development. [Para 5.7.2]

Action: State Government

67. Winter sports activities like skiing, ice-skating & ice-hockey, water sports and winter trekking etc. have vast potential in the State and these need to be promoted, publicized and advertised to attract tourists throughout the year. Though the State Government has made efforts to publicize the State as "Uttaranchal – A Heaven on Earth", it is suggested that there still more needs to be done for promoting winter/year round tourism. The State Government may give advertisements and also take part in the national as well as international tourism seminars, exhibitions and fests. The State Government may encourage private participation in construction of quality budget hotels for the younger groups of foreign tourists, who are interested in mountaineering, skiing, trekking, river rafting, aero sports, eco-tourism and village tourism.

[Para 5.8] **Action: State Government**

68. Uttaranchal has so far been generally known for its "Hill Stations," such as Mussoorie and Nainital. The Group was informed that there are innumerable other destinations with immense potential such as, New Tehri, Pithoragarh, Munsiyari, Pauri, Khirsu, Lansdowne and many others in the interiors, which can be developed into attractive tourist hill destinations. The Group was also informed that the State Government has prepared Master Plans for some areas in the State. State Government may encourage and create an environment for developing new potential tourist destinations, with all interrelated infrastructure, with the cooperation of private entrepreneurs and local people. [Para 5.9]

Action: State Government

69. Rural tourism in the State may be encouraged and tribal villages should be developed as tourist villages. NABARD may assist the State Government in selection of potential pockets in the State for development as a tourism cluster. The tourism clusters may be developed taking into account the infrastructural requirements, capacity building needs of the service providers and the credit requirements thereof. The tourism cluster will be a multi activity cluster involving entrepreneurs providing accommodation, catering, entertainment, educative inputs, health and fitness related activities, tour operators, travel guides and other service providers. The commercial banks should extend credit facilities for development of such tourism cluster for infrastructure requirements on the line of guidelines issued by Reserve Bank of India. [Para 5.10] **Action: State Government**

70. One Tambon One Product Model: Souvenirs and cuisine are integral to tourism anywhere in the world. The Government of Thailand has launched "One Tambon (one village) One Product (OTOP)" project in 2001 to identify and promote unique products made by village communities (Tambons) as a means of expanding the country's domestic and international trade as well as improving incomes of villagers. With local wisdom and resources, each community has improved their local products and turned them into high quality and income producing ones to meet the global standard so that they can be sold domestically and internationally. In the remote hilly areas of Uttaranchal, the tribal groups have their own culture and they are engaged in making of variety of handicrafts and various other products made out of locally available resources, such as weaving of shawls and carpets, copperware handicrafts (manufactured in Bageshwar area), etc. The State Government may go in for promoting the traditional arts and crafts of the villages by adopting the "One Tambon One Product" model of Thailand. The project could be encouraged by formation of SHGs, in particular women SHGs. This will even encourage setting up of SSIs and Medium enterprises in the villages. The State Government may also assist the villagers in marketing their products domestically as well as internationally. [Paras 5.11.1 & 5.11.2] **Action: State Government**

71. Publicity and marketing of the tourist attractions of Uttaranchal at the national and international level have been inadequate. Planned and coordinated efforts with the fullest

utilization of information technology are required to be made in this direction. Above all, Uttaranchal Tourism needs to develop its own brand name and image. State Government may take necessary steps for effective publicity and marketing of tourist attractions of the State. [Para 5.12] **Action: State Government**

72. Special arrangements and up-gradation of existing institutions and facilities will be necessary for developing tourism entrepreneurship, management capabilities and training in specialized services such as guides, porters, chefs, etc. Facilities may be developed by the State Government at the potential tourist centers to provide international level amenities to the foreign visitors. [Para 5.13] **Action: State Government**

73. Foreign tourists face difficulties in exchanging their foreign currencies in banks and hotels in the State. This may be mainly on account of fear/lack of knowledge on the part of concerned staff to differentiate between the genuine and counterfeit currency. There have also been problems in making payments through national/international credit/debit cards by both domestic as well as foreign tourists. In view of lack of knowledge in handling the foreign currency by the staff of banks, hotels, shops and emporia, RBI and banks may organize seminars/workshops in matters relating to foreign exchange at major centres in the State at regular intervals. [Para 5.14.3] **Action: RBI / Banks**

74. Banks having bigger share of foreign exchange business in the State, may review the present status of these facilities at various tourist centres and make arrangements for providing foreign exchange facilities at all district headquarters and other strategic locations. [Para 5.14.4] **Action: Banks**

75. Urban Co-operatives Banks and RRBs satisfying the laid down criteria can apply to the RBI for permission to undertake non-trade related current account foreign exchange business. [Para 5.14.5] **Action: Banks / RBI**

76. In order to provide hassle free cash withdrawal from banks to the tourists, major banks operating in the State may set up Automated Teller Machines (ATMs) at Tourist Information Centres and Wayside Amenties Centres for the convenience of the tourists.

[Para 5.15] **Action: Banks**

77. Broadband connectivity will help the banks to establish ATMs at places of tourist interest - and accept international debit/credit cards from the foreign tourists. Bank branches dealing in foreign exchange may be provided with broadband connectivity immediately so that the foreign tourists are extended hassle-free conversion facilities without any delay. [Para 5.16] **Action: Banks/State Government**

Annex I

| Goals | Matrix | 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 over draft/GCC/KCC | Branch Level | 275 (or whatever that is fixed as applicable to the branch) new clients p.a. who are provided basic deposit account along with over draft/GCC/KCC (the accounts will include direct as also indirect viz., through SHGs) | Next 3 years programme may be reviewed at the end of each year | Above the target = Excellent below 60% 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 3 years programme may be reviewed at the end of each year | Above the target = Excellent below 60% 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 below 60% of target not satisfactory | |
| Increasing flow of credit to small borrowers | Percentage of credit to small borrowers (up to 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 60% of the target poor | |

| | | | | | | |
|--|---|---------------------|---|--------------------------------------|--|----------------------------|
| Increasing total credit flow | Setting Annual Credit Plan | Branch Level | Achievements as per ACP 25% increase over the previous year | On-going basis with quarterly review | Above the target Excellent, Below 60% of the target not satisfactory. | |
| To curtail excessive reliance on transfer Pricing Mechanism for profit and to make efforts for productive lending for improvement operating profit and incremental profit NPAs | To increase operating income and reduce expenses | Branch Level | Self set target of operating profit | Next 12 months | Greater than equal to target = excellent Less than 60%=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, simply of 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 insurances for account holders | Branch level | Self set target (provided by corporate/controlling office) | On going basis | Above the target Excellent, Below 60% of the target poor | |

ANNEX – II

As per information made available by State Bank of India, Zonal Office, Dehradun, the foreign tourists have visited the following major centres in Uttaranchal during the last 3 years:

| Place of Visit | 2003 | 2004 | 2005 |
|-----------------------|--------------|--------------|--------------|
| Dehradun | 11922 | 11972 | 12012 |
| Rishikesh | 6047 | 5918 | 5538 |
| Mussoorie | 2986 | 2683 | 3547 |
| Kotdwar | 7338 | 9372 | 14677 |
| Haridwar | 7532 | 11012 | 13624 |
| Almora | 2931 | 4106 | 4921 |
| Nainital | 4537 | 6277 | 6789 |
| Jim Corbett | 4170 | 5968 | 8199 |
| Joshimath | 684 | 922 | 1410 |
| Kedarnath | 2509 | 1257 | 4811 |
| Other Centres* | 12843 | 15274 | 17216 |
| Total | 63499 | 74761 | 92744 |

**At few other centers tourist inflow was below 1000 a year.*