

# IV

## CREDIT DELIVERY AND FINANCIAL INCLUSION

*The Reserve Bank kept up its efforts to ensure universal access to banking services throughout the country and improving credit delivery during the year. Apart from continued emphasis on enhancement of credit to agriculture, the major thrust during the year was on improving availability of credit to the micro, small and medium enterprises to help the sector realise its full potential. The launch of the Pradhan Mantri Jan Dhan Yojana (PMJDY) provided an added impetus to the various initiatives undertaken by the Reserve Bank towards furthering financial inclusion and financial literacy.*

IV.1 Within the developmental and regulatory role of the Reserve Bank as a full service central bank, efficient and comprehensive credit delivery through panoply of channels/institutions for provision of financial products has always been accorded priority with a view to ensuring adequate financing for the productive sectors of the Indian economy. Over the years, the credit delivery system has been scaled up and expanded with innovations that reach out to the diverse financing needs of society. More recently, the effort has been to spread the economies of scale and scope and experience gained in urban and semi-urban areas to geographical regions and sections of society that asymmetric credit markets tend to exclude in view of their lack of pricing power. In 2014-15, the focus was on improving the availability of credit to micro, small and medium enterprises (MSMEs), revising priority sector guidelines to foster greater inclusiveness and enhancing the flow of credit to agriculture.

IV.2 In line with this, the Financial Inclusion and Development Department (FIDD) being the nodal department for financial inclusion focused on creating an enabling environment for providing universal access to banking services throughout the country and ensuring timely and smooth flow of credit to the priority sectors of the economy with a view to developing an efficient and inclusive financial system.

### Agenda 2014-15: Implementation Status

IV.3 Guided by its core objective of fostering greater inclusiveness, the Reserve Bank's endeavour during the year was to continue its efforts to ensure extension of banking facilities to all unbanked villages and make financial inclusion a viable proposition for banks to improve credit delivery. Under the on-going Phase-II of the roadmap for financial inclusion, which envisages opening of banking outlets in all unbanked villages with population less than 2,000, the strategy included identifying unbanked villages and allotting such villages to banks for coverage. To address the need for aligning priority sector lending guidelines with national priorities, the Reserve Bank constituted an Internal Working Group to revisit the guidelines.

IV.4 In pursuance of its developmental role, the Reserve Bank accords priority to efficient and comprehensive credit delivery, particularly to priority sectors comprising primarily of the agricultural and MSME sectors, and the weaker sections of society. The guidelines on priority sector lending were revised during the year with a view to widening the scope of the sector and improving the flow of credit. Financial inclusion efforts received a big fillip with the launch of the *Pradhan Mantri Jan Dhan Yojana (PMJDY)* coupled with synchronised efforts by the Reserve Bank. To simplify credit dispensation, the need to submit 'no due certificates' to scheduled commercial banks by individual borrowers, including self help groups (SHGs) and

joint liability groups (JLGs) for all types of loans, irrespective of the amount involved, was discontinued. Innovative steps to provide support to MSMEs like guidelines for introduction of a mechanism to address the issue of delayed payment in the form of a technology enabled Trade Receivables Discounting System (TReDS), conducting research on matters relating to MSMEs, design and conduct of training programmes for the MSME division-in-charges and trainers in commercial banks were initiated during the year. Additionally, MSME divisions were opened by regional offices of the Reserve Bank to focus on issues concerning lending to the sector in their respective jurisdictions.

### CREDIT DELIVERY

#### Priority Sector Lending

IV.5 Priority sector refers to those sectors of the economy which, though viable and creditworthy, may not get timely and adequate credit in the absence of a special dispensation. Typically, priority sector loans are small value loans to farmers for agriculture and allied activities, micro and small enterprises, poor people for housing, students for education, other low income groups and weaker sections. Such sectors are spread across the length and breadth of the country and especially prevalent in the hilly and coastal regions. Priority sector

**Table IV.1: Performance in Achievement of Priority Sector Lending Targets**

(Amount in ₹ billion)

Outstanding as on March 31	Public Sector Banks	Private Sector Banks	Foreign Banks
1	2	3	4
2014	16,190 (39.4)	4,645 (43.9)	907 (35.8)
2015	17,512 (37.3)	5,303 (42.8)	970 (35.9)

**Notes:** 1. Figures in parenthesis are percentages to ANBC or CEOBE, whichever is higher in the respective groups.  
2. The data for 2015 are provisional.

lending needs to be extended by banks as part of their normal business operations and should not be viewed as a corporate social responsibility. Towards this end, pricing of all credit has been made free, though with the expectation that pricing should not be exploitative (Table IV.1).

IV.6 Drawing upon the recommendations of an Internal Working Group, revised guidelines on priority sector lending were issued in April 2015. With the intention of giving a thrust to the MSME sector, medium enterprises were brought in the ambit of the priority sector. Additionally, a specific target was introduced for lending to micro enterprises. In addition to medium enterprises, two new categories, viz., social infrastructure and renewable energy were included under the priority sector (Box IV.1).

#### Box IV.1

#### Priority Sector Lending – A Fresh Look

The salient features of the revised priority sector lending guidelines are:

- Separate targets of 8 per cent for small and marginal farmers (within the agriculture target of 18 per cent) and 7.5 per cent for micro industries have been prescribed to be achieved in a phased manner by 2017. These targets will be made applicable to foreign banks with 20 branches and above post 2018 after a review in 2017.

- Priority sector widened to include medium enterprises, social infrastructure and renewable energy.
- Monitoring of priority sector lending compliance on a 'quarterly' average basis at the end of the respective year from 2016-17.
- Priority Sector Lending Certificates (PSLCs) will be an eligible tradable instrument for achieving priority sector targets. The buyer (a deficient bank) will pay a 'price/

(Contd...)

fee' to the seller bank (a bank which has over achieved its PSL requirements) for purchasing a specified amount of PSL obligation applicable for a particular date.

- Educational loans (including loans for vocational courses) up to ₹1 million irrespective of the sanctioned amount to be considered as eligible for the priority sector.
- Export credit up to 32 per cent of adjusted net bank credit (ANBC) or credit equivalent amount of off-balance sheet exposure (CEOBE), whichever is higher, to be eligible as part of the priority sector for foreign banks

with less than 20 branches. For domestic and foreign banks with 20 branches and above, the incremental export credit over the corresponding date of the preceding year will be reckoned up to 2 per cent of ANBC or CEOBE (whichever is higher), as part of the priority sector.

- Foreign banks with less than 20 branches are required to achieve the total priority sector target of 40 per cent of ANBC or CEOBE, whichever is higher, in a phased manner by 2020.

### Flow of Credit to Agriculture

IV.7 The target for agricultural credit is fixed by the Government every year. Led by the performance of scheduled commercial banks (SCBs), the actual flow of credit to the agriculture sector has been consistently higher than the target in recent years. Co-operative banks and regional rural banks (RRBs), however, could not achieve their targets for 2013-14 and 2014-15 (Table IV.2).

### Stressed Assets in Agriculture

IV.8 SCBs' non-performing assets (NPAs) in the agriculture sector have been rising steadily since 2010, reflecting, *inter alia*, a decline in the recovery of agriculture advances (Tables IV.3 and IV.4).

IV.9 Although the Government has been incentivising repayment of agricultural loans through the interest subvention scheme, this has not helped in improving the asset quality. The Government has been examining various measures

to improve the efficacy of the scheme. The scheme has been extended for 2015-16.

### Credit Flow to Micro and Small Enterprises (MSEs)

IV.10 Reflecting the focus of the Government and the Reserve Bank on enhancing credit flow to the MSE sector, credit to the sector showed a growth of 13.6 per cent as compared to the overall bank credit growth of 9.0 per cent during 2014-15 (Table IV.5).

### Initiatives for the MSME Sector

IV.11 Continuing its efforts of promoting financial inclusion in the MSME sector, the Reserve Bank launched several initiatives during the year to address impediments in the credit flow to the sector. To address the issue of delayed payments to the MSME sector, TReDS has been conceptualised as an authorised electronic platform to facilitate discounting of invoices/bills of exchange of MSMEs (see Chapter IX for details). TReDS is expected to speed up the

**Table IV.2: Targets and Achievements for Agricultural Credit**

(₹ billion)

End March	Scheduled Commercial Banks		Cooperative Banks		RRBs		Total	
	Target	Achievement	Target	Achievement	Target	Achievement	Target	Achievement
1	2	3	4	5	6	7	8	9
2013-14	4,750	5,090	1,250	1,199	1,000	827	7,000	7,116
2014-15*	5,400	5,997	1,400	1,384	1,200	1,025	8,000	8,406

\*: Provisional.

**Table IV.3 : NPAs in the Agriculture Sector**

End-March	Agriculture Loans Outstanding (₹ billion)	Gross NPAs in Agriculture* (₹ billion)	Ratio of Gross NPAs (Agriculture) to Agriculture Loans Outstanding (per cent)
1	2	3	4
2010	4,636	104	2.2
2011	5,072	167	3.3
2012	5,802	248	4.3
2013	6,428	302	4.7
2014	7,698	340	4.4
2015	8,295	391	4.7

\*Only SCBs.

realisation of receivables and reduce the incidence of sickness in this sector.

IV.12 Regional offices of the Reserve Bank have set up MSME specific divisions to: (i) collate and analyse data on credit flow and sickness from the region; (ii) monitor banks' efforts towards nursing and rehabilitation of MSME units in the region; (iii) monitor the level of banking activity in identified and unidentified clusters and initiate steps to enhance banking activity, wherever required; (iv) organise capacity building activities for bank functionaries involved in lending to the MSME sector; and (v) conduct research on matters relating to MSMEs, such as credit issues, availability of banking services in clusters, sickness and capacity building.

IV.13 As part of capacity building of MSME divisions in banks and to develop entrepreneurial sensitivity, the Reserve Bank's College of Agricultural Banking (CAB), Pune has designed training programmes for the MSME division-in-charges and

**Table IV.4: Recovery of Direct Agriculture Advances**

Year	Total Demand (₹ billion)	Total Recovery (₹ billion)	Per cent of Recovery to Demand
1	2	3	4
2012	1,917.7	1,428.9	74.5
2013	2,596.2	1,975.7	76.1
2014	2,814.9	2,066.0	73.4

**Table IV.5: Credit Flow to MSEs**

Year	Number of Accounts (million)	Amount Outstanding (₹ billion)	MSE credit as per cent of ANBC
1	2	3	4
2014	12.6 (12.3)	8,510.9 (23.9)	15.7
2015	13.8 (10.1)	9,664.8 (13.6)	17.8

**Note:** 1. Data for 2015 are provisional.  
2. Figures in parentheses indicate y-o-y change in per cent.  
**Source:** Scheduled commercial banks.

trainers in commercial banks. CAB, Pune has also developed a syllabus for the regional offices of the Reserve Bank, which, in turn, will conduct workshops for capacity building for branch managers of specialised MSME branches in their jurisdictions.

## FINANCIAL INCLUSION

### *Roadmap for Provision of Banking Facilities in Unbanked Villages with Population less than 2,000*

IV.14 The Reserve Bank continued with its efforts to ensure extension of banking facilities to all unbanked villages. For this, about 490,000 unbanked villages with population less than 2,000 were identified and allotted to banks for coverage under the ongoing Phase-II of the roadmap. At end-March 2015, as reported by State Level Bankers Committees (SLBCs), 390,387 villages were covered by 14,207 branches, 357,856 business correspondents (BCs) and 18,324 other modes, such as automated teller machines (ATMs) and mobile vans. In view of the ongoing implementation of PMJDY, banks were advised to complete Phase-II coverage by August 14, 2015 instead of March 31, 2016 as prescribed earlier.

### *Pradhan Mantri Jan Dhan Yojana (PMJDY)*

IV.15 The Government of India launched PMJDY on August 28, 2014, for extending formal financial services to the excluded population. The major features of the scheme include: (i) the facility to open a basic saving bank deposit (BSBD) account

in any bank branch or BC outlet; (ii) accidental insurance cover (₹ 0.1 million) and life insurance cover (₹ 30,000); and (iii) an overdraft (OD) facility after satisfactory operation of the account for six months. Since the inception of the scheme, 165.7 million accounts had been opened by June 30, 2015. The Government of India has initiated routing of subsidy payments and also introduced insurance and pension products for BSBD account holders including for those accounts opened under PMJDY. To ensure increased activity in these accounts, the efforts that needed to be taken include: (i) rolling out direct benefit transfer (DBT) for all Central and State Government payments; (ii) offering appropriate credit products (farm and non-farm sector) after due diligence; (iii) strengthening the BC network; and (iv) increasing awareness through financial literacy initiatives.

IV.16 Reflecting the focus of the Reserve Bank on financial inclusion, the 80<sup>th</sup> anniversary celebrations of the Reserve Bank were held in Mumbai on April 2, 2015, with financial inclusion as the central theme (Box IV.2).

#### *Financial Inclusion Plan (FIP)*

IV.17 The Reserve Bank has been encouraging banks to adopt a structured and planned approach to financial inclusion with commitment at the highest levels by preparing board-approved FIPs. Out of 3,445 rural bank branches opened during 2014-15, 2,230 branches were opened in unbanked rural centres. Around 155 million basic savings bank deposit accounts (BSBDAs) were added taking the total BSBDAs to 398 million. This includes 147 million accounts opened under PMJDY. With the addition of 2.6 million small farm sector credits (kisan credit cards-KCCs) and 1.8 million small non-farms sector credits (general credit cards-GCCs), the total number of such accounts went up to nearly 42.5 million and 9.2 million respectively (Table IV.6).

#### *Constraints in Financial Inclusion*

IV.18 Though the initiative under financial inclusion has led to opening of large number of basic bank accounts of people from the excluded segment, the effort for ensuring that these accounts remain operational has to continue. This is possible

### **Box IV.2**

#### **RBI@80: Conference on Financial Inclusion**

A financial inclusion conference was organised by the Reserve Bank in Mumbai on April 2, 2015. The Prime Minister of India was the chief guest on the occasion. Other dignitaries who attended the conference included the Governor of Maharashtra, the Finance Minister of India and the Chief Minister of Maharashtra, apart from experts from the banking and finance fraternity. The Prime Minister released the *Concise History of Reserve Bank of India: 1935-1981* at the function.

The Prime Minister encouraged the Reserve Bank to prepare a roadmap for achieving financial inclusion objectives by setting targets in a phased manner till the centenary year of the establishment of the Reserve Bank.

Panel discussions were held on the following topics as part of the conference: (i) 'Financial Inclusion - Let All Efforts Bloom'; (ii) 'Building the Business Case for Financial Inclusion - Whether BC Model is the Way to Go?'; (iii) 'Financial Inclusion - the Way Forward'; and (iv) 'The linkage between Financial Inclusion, Financial Literacy and Consumer Protection'. Some of the key points which

emerged from the discussions are:

- Concerted efforts of the Government of India, the Reserve Bank and banks are necessary to further the financial inclusion agenda. The strategy to realise this goal will comprise of a mix of conducive policy environment, use of innovative channels/technology and optimal utilisation of the BC model.
- The risks associated with the BC model can be mitigated by putting in place a secure system, use of appropriate technology, effective supervision, efficient cash management services and capacity building.
- Raising the level of acceptance of technology by customers will require sustained financial literacy initiatives on the part of bankers.
- Customers' awareness about their rights and duties is integral to developing a conducive consumer protection environment. This will also necessitate banks to develop strong internal grievance redressal mechanisms.

**Table IV.6: Financial Inclusion Plan-Summary Progress of All Banks Including RRBs**

Particulars	Year ended March 2010	Year ended March 2014	Year ended Mar 2015	Progress April 2014 - Mar 2015
1	2	3	4	5
Banking Outlets in Villages - Branches	33,378	46,126	49,571	3,445
Banking Outlets in Villages – Branchless mode	34,316	337,678	504,142	166,464
Banking Outlets in Villages -Total	67,694	383,804	553,713	169,909
Urban Locations covered through BCs	447	60,730	96,847	36,117
Basic Savings Bank Deposit A/c through branches (No. in million)	60.2	126.0	210.3	84.3
Basic Savings Bank Deposit A/c through branches (Amt. in ₹ billion)	44.3	273.3	365.0	91.7
Basic Savings Bank Deposit A/c through BCs (No. in million)	13.3	116.9	187.8	70.9
Basic Savings Bank Deposit A/c through BCs (Amt. in ₹ billion)	10.7	39.0	74.6	35.6
BSBDAs Total(No. in million)	73.5	243.0	398.1	155.1
BSBDAs Total (Amt. in ₹ billion)	55	312.3	439.5	127.3
OD facility availed in BSBDAs (No. in million)	0.2	5.9	7.6	1.7
OD facility availed in BSBDAs (Amt. in ₹ billion)	0.1	16.0	19.9	3.9
KCCs (No. in million)	24.3	39.9	42.5	2.6
KCCs (Amt. in ₹ billion)	1,240.1	3,684.5	4,382.3	697.8
GCC (No. in million)	1.4	7.4	9.2	1.8
GCC (Amt. in ₹ billion)	35.1	1,096.9	1,301.6	204.7
ICT A/Cs BC Transaction (No. in million)*	26.5	328.6	477.0	477.0
ICT A/Cs BC Transactions (Amt. in ₹ billion)*	6.9	524.4	859.8	859.8

\*: During the financial year.

if all government payments are routed through the banking channel. A step ahead will be to remunerate banks appropriately for routing these transactions through the banking channel. In addition, since the last mile delivery of all banking services is expected to be done mostly through the large BC network created across the country, it is necessary to ensure that appropriate control system for oversight over BC operations is provided by banks. The success of the Information and Communication Technology based BC model critically depends upon the availability of proper network connectivity across the country.

#### *Simplifying Credit Dispensation*

IV.19 SCBs have been advised to dispense with no due certificate from individual borrowers (including SHGs and JLGs) for all types of loans, irrespective of the amount involved. Banks have been encouraged to use an alternative framework

of due diligence for credit appraisal, which could consist of one or more of the following : (i) credit history check through credit information companies; (ii) self-declaration or an affidavit from the borrower; (iii) central registry of securitisation asset reconstruction and security interest (CERSAI) registration; (iv) peer monitoring; (v) information sharing among lenders; and (vi) information search (writing to other lenders with an auto deadline).

### **FINANCIAL LITERACY**

#### *Financial Literacy Camps*

IV.20 Apart from direct initiatives, the Reserve Bank's efforts to expand financial literacy are channelled through banks. In terms of current instructions, financial literacy centres (FLCs) and rural branches of banks are required to conduct financial literacy camps at least once a month with focus on financially excluded people. Additionally,

**Table IV.7: Activities Undertaken by Financial Literacy Centres**

Particulars	2013-14 (April-March)	2014-15# (April-March)
1	2	3
No. of operational FLCs	942	1,181
No. of activities conducted*	56,985	84,089
Total no. of participants*	3,826,068	5,238,358
No. of participants opened accounts after attending the camps	NA	1,442,546
No. of participants already having accounts while attending camps	NA	2,890,204

\*: Includes both outdoor and indoor activities. However, indoor activities have been discontinued w.e.f. April 2014.

NA: Not available. #: Provisional.

banks are encouraged to conduct such camps in unbanked locations. As at end March 2015, 1,181 FLCs were operational in the country, up from 942 as at end March 2014. During the period April 2014 to March 2015, financial literacy camps were conducted by 32,509 rural branches of banks and 1.4 million and 5.7 million participants opened accounts in the camps organised by the FLCs and rural branches of banks, respectively (Table IV.7 and IV.8).

### Agenda for 2015-16

IV.21 Going forward, the mechanism for issue of priority sector lending certificates (PSLCs) will be made operational. This will provide banks with an instrument to aid them in priority sector target achievement and allow leveraging of their comparative advantage in lending to the priority sector. To work out a medium-term (five year) measureable action plan for financial inclusion, the Reserve Bank has constituted a Committee on

**Table IV.8 : Activities Undertaken by Rural Branches**

Particulars	2014-15*
1	2
No. of Rural branches	52,934
No. of Rural branches conducted camps	32,509
No. of camps conducted	306,188
Total no. of participants	14,826,647
No. of participants opened accounts after attending the camp	5,657,092
No. of participants already having accounts while attending camps	6,686,518

\*: Provisional.

Medium-term Path on Financial Inclusion (Chairman: Shri Deepak Mohanty). Studies will be conducted to assess the efficacy of existing schemes on lead bank, credit guarantee trust for micro and small enterprises (CGTMSE), KCC, SHG - bank linkage and the BC model.

IV.22 Operationalisation of TReDS, which has been conceptualised as an authorised electronic platform to facilitate discounting of invoices/bills of exchange of MSMEs, will be taken up during the course of the year. In pursuance of the objective of fostering a conducive policy environment for the MSME sector, there will be continuous monitoring of banks' efforts towards nursing and rehabilitation of MSME units, collation and analysis of data on credit flow and sickness in such units. With a view to developing 'entrepreneurial sensitivity' and improving the skills of dealing functionaries of banks, the Reserve Bank proposes to roll out a national capacity building programme. This is expected to help the functionaries understand the genuine credit needs of MSME entrepreneurs and provide timely response.