IV CREDIT DELIVERY AND FINANCIAL INCLUSION

Improving credit delivery and financial inclusion have remained key priorities of the Reserve Bank. In this direction, one major step was the introduction of biometric smart card system for the kisan credit card (KCC), to be used in ATMs and hand held devices. The Financial Inclusion Plan (FIP), under which the commercial banks set their targets for financial inclusion activities, has been making substantial progress. The Reserve Bank has recently issued guidelines on the implementation of Electronic Benefit Transfer (EBT) and its convergence with FIP. This simple and convenient model is expected to further boost financial inclusion efforts. The Reserve Bank's own outreach programmes have also been helpful in spreading awareness and improving financial literacy. However, in view of the colossal task of financial inclusion, there is a need for the banks to upscale and mainstream their financial inclusion efforts.

IV.1 Financial inclusion has been accorded high importance by the Reserve Bank to aid the inclusive growth process for the economy. There have been formidable challenges in this area such as bringing sections of society that are financially excluded within the ambit of the formal financial system, providing financial literacy and strengthening credit delivery mechanisms. Apart from the priority sector lending policy which has been in existence for a long time, a host of initiatives have been taken in recent years which include the rollout of Financial Inclusion Plans and expanding the scope of the Business Correspondent (BC) model, improving credit delivery procedures for the micro and small enterprises (MSE) sectors and encouraging the adoption of Information and Communication Technology (ICT) solutions.

IV.2 The focus of the present chapter is two-fold: one, analysing the progress of credit delivey and financial inclusion and two, providing a snapshot of Reserve Bank's policy initiatives in these areas. The present chapter is divided in three parts: credit delivery, financial inclusion and financial literacy. The credit delivery section is further divided into priority sector lending, lead banks scheme, North-East region special dispensation scheme, rural co-operative banks and regional rural banks.

CREDIT DELIVERY

Priority Sector Lending

IV.3 Priority sector lending aims at encouraging and enhancing credit availability to sectors of the economy that would otherwise find it difficult to get credit from banks. Agriculture and micro and small enterprises (MSE) are two major sectors that receive priority sector lending apart from education, housing *etc.* Presently, the target for aggregate advances to the priority sector is 40 per cent of the ANBC or the credit equivalent of OBE, whichever is higher for domestic banks and 32 per cent for foreign banks (Table IV.1). A need was felt to revisit the guidlines relating to priority sector lending in view of the recomendations of Malegam Committee on Micro-Finance Institutions (MFIs) and similar requests from other stakeholders. The Reserve Bank constituted a committee in this respect, which submitted its report in February 2012. The report of the committee was placed on the Reserve Bank's web-site for comments and suggestions (Box IV.1). Based on the interaction with various stakeholders and in the light of comments/

Table IV.1: Priority Sector Lending by SCBs

(Amount in ₹ billion)

As on the Last Reporting Friday of March	Public Sector Banks	Private Sector Banks	Foreign Banks
1	2	3	4
2011	10,215	2,491	667
	(41.0)	(46.7)	(39.7)
2012	11,299	2,864	805
	(37.4)	(39.4)	(40.8)

Notes: 1. Figures in parentheses are percentages to ANBC or credit equivalent of off balance sheet exposure (OBE), whichever is higher, in the respective groups.

2. Data for 2012 is provisional.

Box IV.1
Committee on Priority Sector Lending

The sub-committee of the Central Board of Directors of the Reserve Bank to study issues and concerns in the micro finance sector (Malegam Committee) recommended that the existing guidelines on bank lending to the priority sector be revisited. There were also requests from various quarters to have a relook at the definition of the priority sector, especially where bank finance was being routed through other agencies. Against this backdrop, the Monetary Policy Statement 2011-12 announced that "a committee to re-examine the existing classification and suggest revised guidelines with regard to priority sector lending classification would be appointed". Accordingly, a committee under the chairmanship of Shri M. V. Nair was appointed which submitted its report on February 21, 2012.

The Report of the Committee was placed on the Reserve Bank's website, seeking views and comments from banks, non-bank financial institutions, other institutions and members of the public.

The major recommendations of the Committee were as follows:

Targets for Domestic Banks

- The overall priority sector lending target may be retained at 40 per cent of Adjusted Net Bank Credit (ANBC) for domestic banks. Agriculture, MSE, micro credit, education, housing, off-grid energy solutions for households and export credit (for foreign banks only) may form part of the priority sector.
- Lending to the agriculture sector may cover the entire spectrum of 'agriculture & allied activities' without any distinction between direct and indirect agriculture lending and 18 per cent of ANBC may be retained as target for the agriculture sector.
- A focused sub-target of 9 per cent of ANBC may be fixed for loans extended by banks to small and marginal farmers, to be achieved in stages, by 2015-16 at the latest.
- A similar, focused sub-target of 7 per cent of ANBC may be fixed for loans extended by banks to micro enterprises, to be achieved in stages by 2013-14 at the latest.

Targets for Foreign Banks

- For foreign banks, the Committee recommended a target of 40 per cent for the entire priority sector, and a 15 per cent target each for MSE and export credit. Export credit up to a limit of ₹ 100 million may qualify for the purpose of reckoning under priority sector.
- In addition, a focused priority sector target, equivalent to 7 per cent of ANBC, is recommended for micro enterprises.

Off-grid Energy Solutions for Households

- Loans given to individuals to set up off-grid solar and other renewable energy solutions for households may be classified as priority sector.

Weaker Sections

- Priority sector loans to individual women and housing loans to economically weaker sections and lower income group segments may be considered as loans to weaker sections in addition to the existing categories of beneficiaries. The existing target level of 10 per cent of ANBC may be retained for weaker sections. Achievement of not more than 6 per cent of ANBC may be reckoned under lending to (a) eligible small and marginal farmers and (b) eligible village and cottage industries and artisans put together.

Differential Rate of Interest Scheme

- The differential rate of interest (DRI) scheme may be discontinued since other government sponsored schemes with better features target similar beneficiaries.

Loans to Non-Bank Financial Intermediaries

- Bank loans sanctioned to non-bank financial intermediaries for on-lending to specified segments may be reckoned for classification under the priority sector up to a maximum of 5 per cent of ANBC.

Priority Sector Lending Certificates

- Non-tradable Priority Sector Lending Certificates (PSLCs) may be allowed on a pilot basis with domestic scheduled commercial banks (SCBs), regional rural banks (RRBs) and foreign banks as market players.

Agriculture Credit Risk Guarantee Scheme

- The establishment of an Agriculture Credit Risk Guarantee Fund for small and marginal farmers, similar to Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), is recommended as an efficient mechanism to address the risk in lending to agriculture sector.

suggetions received from the central government, banks, financial institutions, NBFCs, associations of industries, public and Indian Banks' Association, revised guidlines on priority sector lending were issued on July 20, 2012. Under the new guidelines, overall target under priority sector is retained at 40 per cent and the targets for both direct and indirect agricultural lending have also been kept unchanged.

Foreign banks having 20 or more branches in the country are being brought on par with domestic banks for priority sector targets in a phased manner over a five year period starting from April 1, 2013.

Flow of Credit to Agriculture Sector

IV.4 A target of ₹4,750 billion for agricultural credit in 2011-12 was announced in the Union Budget. Against this target banks including co-operative banks and RRBs disbursed ₹5,110 billion forming 108 per cent of the target as at the end-March 2012. For the year 2012-13, the government has fixed a target of ₹5,750 billion for disbursement to agriculture by all agencies. Banks have been asked to step up direct lending to agriculture and credit to small and marginal farmers.

Recovery of Direct Agriculture Advances

IV.5 The data for the last three years (up to June 2011) indicate marginal decline in recovery of direct agriculture advances (Table IV.2).

Table IV.2: Recovery of Direct Agriculture Advances

(₹ in billion)

Year ended June	Demand	Recovery	Overdues	Per cent of recovery to demand
1	2	3	4	5
2009	1,190	907	284	76.1
2010	1,244	922	322	74.1
2011*	1,282	945	332	73.7

*Provisional data.

Kisan Credit Card Scheme

IV.6 The Kisan Credit Card (KCC) is an effective instrument for making agricultural credit available to farmers. The Union Budget 2011-12 announced that the KCC scheme would be modified to introduce smart cards that could be used at ATMs. To simplify and align the KCC scheme with current requirements and to facilitate the issuing of electronic KCC, a working group (Chairman: Shri T. M. Bhasin, CMD, Indian Bank) was constituted. The working group made recommendations about introducing standardised KCCs and specified technical details to make the biometric smart card compatible for use in ATMs and hand-held swipe machines and capable of storing adequate information on farmers' identity, assets, land holdings and credit profile. The recommendations of the working group, were accepted by the government and subsequently the KCC Scheme was revised by the Reserve Bank.

Interest Rate Subvention Scheme

IV.7 The Union Budget 2011-12 increased the rate of interest subvention for short-term production credit up to ₹0.3 million to 2 per cent from 1.5 per cent while the additional interest subvention for farmers who paid promptly was increased to 3 per cent from 2 per cent, reducing the effective interest rate charged to such farmers to 4 per cent per annum.

Agricultural Debt Waiver and Debt Relief Scheme

IV.8 Under the agricultural debt waiver and debt relief scheme, 2008, the government has been reimbursing lending institutions in a staggered manner (Table IV.3).

Table IV.3: Amount Reimbursed by the Central Government to Lending Institutions

(₹ in billion)

Lending Institutions	1st instalment Sept 2008	2nd instalment July 2009	3rd instalment January 2011	4th instalment November 2011	5th instalment March 2012
1	2	3	4	5	6
RRBs and Co-operatives	175.0	105.0	12.4	0.4	0.0
SCBs, UCBs and LABs	75.0	45.0	101.0	10.4	1.0
Total	**250.0**	**150.0**	**113.4**	**10.8**	**1.0**

Note: Data based on the current provisional estimates.

IV.9 The government has so far sanctioned and disbursed ₹525 billion in five instalments. Of this, ₹293 billion was passed on to NABARD for reimbursement to RRBs and co-operative credit institutions. The remaining amount of ₹232 billion was reimbursed to SCBs, local area banks (LABs) and urban co-operative banks (UCBs).

Flow of credit to Micro, Small and Medium Enterprises

IV.10 Credit to the MSE sector by SCBs registered a sharp deceleration in 2011-12 (Table IV.4).

Rural Infrastructure Development Fund

IV.11 Domestic SCBs, both in the public and private sector, that fail to achieve the priority sector targets/ sub-targets, are required to deposit the shortfall to the extent of corpus of funds announced by the central government into the Rural Infrastructure Development Fund (RIDF) set up with the National Bank for Agriculture and Rural Development (NABARD) and other funds set up with the Small Industries Development Bank of India (SIDBI) and the National Housing Bank (NHB). Foreign banks operating in India, that fail to achieve the priority sector targets/ sub-targets, are also required to deposit the shortfall to the extent of corpus of funds announced by the central government into certain funds set up with SIDBI or other financial institutions, as decided by the Reserve Bank.

Table IV.4 : Credit to MSE sector by SCBs

As on last Friday of March	Outstanding Credit to MSE sector		MSE credit as per cent of ANBC
	Number of accounts (in million)	Amount outstanding (₹ billion)	
1	2	3	4
2011	9.3 (9.4)	4785.3 (32.1)	15.0
2012	9.9 (6.45)	5,286.2 (10.47)	13.4

Note: 1. Data for 2012 are provisional.
2. Figure in parentheses indicate y-o-y change in per cent.

IV.12 The Union Finance Minister in his Budget Speech for the year 2012-13 announced that RIDF XVIII, with a corpus of ₹200 billion, including a separate window under RIDF for financing warehouse infrastructure with a corpus of ₹50 billion, would be set up with NABARD. In addition, an MSME (Refinance) Fund with a corpus of ₹50 billion, a Short-Term Co-operative Rural Credit (STCRC) (Refinance) Fund with a corpus of ₹100 billion and a Rural Housing Fund with a corpus of ₹40 billion, would be set up with SIDBI, NABARD and NHB, respectively. The Union Finance Minister has also announced a plan of setting up two new funds *viz*., the Short Term RRB Credit Re-Finance Fund and the India Opportunities Venture Fund in the year 2012-13 with a corpus of ₹100 billion and ₹20 billion, respectively.

Lead Bank Scheme

Roadmap for Opening Banking Outlets in Unbanked Villages

IV.13 In pursuance of the announcement made in the Monetary Policy Statement of April 2010, the roadmap to provide banking services in every village with a population above 2,000 was finalised by state level bankers' committees (SLBCs). Under the roadmap, 74,414 villages with population above 2,000 were identified as unbanked, which were allocated to various banks, including RRBs for providing banking services by March 2012. Banks have covered 74,199 (99.7 per cent) of these unbanked villages. Now the challenge is to cover all the unbanked villages of the country. Accordingly, SLBCs have been mandated to prepare a roadmap covering all unbanked villages of population less than 2,000 and notionally allot these villages to banks for providing banking services in a time-bound manner.

State Level Bankers' Committee (SLBC) Meetings

IV.14 During the year SLBC convener banks were advised to prepare an annual calendar for the year 2012 to ensure that their offices blocked the dates of senior functionaries who were expected to attend the four meetings. A mechanism has been put in place to continuously monitor holding of SLBC meetings.

IV.15 In order to make web-site an effective communication channel, banks have been advised that the SLBC websites of various states should at least contain standardised information and data which may be updated regularly.

Lead Bank Responsibility for Districts

IV.16 The number of districts assigned to lead banks increased from 625 in March 2011 to 630 in March 2012. Punjab National Bank was assigned lead bank responsibility in two new districts in Punjab and one new district in Uttar Pradesh, while lead bank responsibility for two new districts in Uttar Pradesh was assigned to Syndicate Bank.

North East Region- Special Dispensation Scheme

IV.17 During the year 2008, the Reserve Bank devised a Special Dispensation Scheme (SDS) to encourage banks to open branches at commercially unviable centres in the North-East Region. Under the scheme, the Reserve Bank would bear a one-time capital cost and the recurring expenses for a period of five years while the state government would provide premises, security for the branch and rental accommodation for the bank staff. SLBCs in consultation with the state government identified 42 'agreed centres' in five North-East states. Up to June 2012, branches had been opened at 34 of these centres.

IV.18 The SDS was introduced on the premise that banks have not been able to expand their network in North-East region, mainly due to the cost factor, and if the Reserve Bank bears the cost, it will lead to large scale expansion of bank branches in the unbanked areas. The trends in opening of branches under the SDS clearly indicate that rather than cost, it is the lack of basic infrastructure like roads and digital connectivity that impedes the expansion of the banking network in these parts. Thus, expansion of the banking network depends on efforts by the respective state governments to provide basic infrastructure.

IV.19 In view of above factors and the fact that dispensation scheme cannot continue indefinitely, banks were advised to open branches in the allotted agreed centres, latest by June 30, 2012 so as to avail the benefits of reimbursement of the cost by Reserve Bank.

Rural Co-operatives

Revival of Rural Co-operative Credit Structure

IV.20 Based on the recommendations of the Task Force on Revival of Rural Co-operative Credit Institutions (Chairman: Prof. A. Vaidyanathan) and in consultation with state governments, the Government of India had approved a package for revival of the Short-Term Rural Cooperative Credit Structure (STCCS). The package sought to provide financial assistance to improve the health of the system, introduce legal and institutional reforms necessary for its democratic, self reliant and efficient functioning and take measures to improve the quality of management. The states willing to participate were required to enter into a Memorandum of Understanding (MoU) with the central government and NABARD. In all, 25 states have executed MoUs with the central government and the NABARD as envisaged under the package. This covered more than 96 per cent of the STCCS units in the country. Twenty one states have amended their respective State Cooperative Societies Act through legislative process.

IV.21 An aggregate amount of ₹90 billion has been released by NABARD up to March 31, 2012 as central government's share for recapitalisation of PACS in seventeen states, while the state governments have also released ₹9 billion as their share. The National Implementing and Monitoring Committee, set up by the central government, is guiding and monitoring the implementation of the revival package on an all-India basis.

Regional Rural Banks

IV.22 RRBs have been established primarily for the purpose of developing the rural economy by providing credit and other facilities particularly to the economically weaker / disadvantaged sections of the society such as small and marginal farmers, agricultural labourers, artisans and small entrepreneurs. Thus, they occupy a special place in the multi-agency approach adopted to provide agricultural and rural credit.

Status of CBS Implementation

IV.23 In order to prepare RRBs to adopt appropriate technology and migrate to Core Banking Solutions (CBS) for better customer services, a Working Group was constituted by Reserve Bank (Chairman: Shri G. Srinivasan) for technology upgradation of RRBs. The report *inter alia,* set September 2011 as the target date for all RRBs to move towards CBS. It has also stipulated that all branches of RRBs opened after September 2009 should be CBS compliant from day one. Presently, 82 RRBs are operating in the country. As on March 31, 2012, CBS has been implemented in 80 RRBs covering 16,741 branches. Two RRBs namely, Kshetriya Kisan Gramin Bank and Jammu and Kashmir Grameen Bank are yet to migrate to the CBS platform.

FINANCIAL INCLUSION

IV.24 A financial inclusion survey was conducted by World Bank team in India between April-June, 2011 which included face to face interviews of 3,518 respondents. The sample excluded the north-eastern states and remote islands representing approximately 10 per cent of the total adult population. The results of the survey suggest that India lags behind developing countries in opening bank accounts, but is much closer to the global average when it comes to borrowing from formal institutions. In India, 35 per cent of people had formal accounts *versus* the global average of 50 per cent and the average of 41 per cent in developing economies (Table IV.5) . The survey also points to the 'slow growth of mobile money in India, where only 4 per cent of adults in the Global Findex sample report having used a mobile phone in the past 12 months to pay bills or send or receive money'.

IV.25 Keeping in view the goal of bringing banking services to identified 74,414 villages with population above 2,000 by March 2012, and thereafter progressively to all villages over a period of time, the Reserve Bank advised commercial banks that while preparing their Annual Branch Expansion Plan (ABEP), they should allocate at least 25 per cent of the total number of branches proposed to be opened during the year in unbanked rural centres (unbanked rural centres are Tier 5 and Tier 6 centres that do not have a brick and mortar structure of any SCB for customer based banking transaction).

IV.26 To provide enhanced banking services in Tier 2 centres, the general permission available to domestic SCBs, for opening of branches in Tier 3 to Tier 6 centres, has been extended to Tier 2 centres (with population 50,000 to 99,999 as per Census 2001).

Table IV.5: Key Statistics on Financial Inclusion in India: A Survey

(Per cent)

	Share with an account at a formal financial institution			Adults saving in the past year		Adults originating a new loan in the past year		Adults with a credit card	Adults with an outstanding mortgage	Adults paying personally for health insurance	Adults using mobile money in the past year
	All adults	Poorest income quintile	Women	Using a formal account	Using a community-based method	From a formal financial institution	From family or friends				
1	2	3	4	5	6	7	8	9	10	11	12
India	35	21	26	12	3	8	20	2	2	7	4
World	50	38	47	22	5	9	23	15	7	17	7

Source: Asli Demirguc - Kunt and Klapper, L. (2012): 'Measuring Financial Inclusion', *Policy Research Working Paper,* 6025, World Bank, April.

IV.27 In order to further facilitate financial inclusion, interoperability was permitted at the retail outlets or sub-agents of BCs (*i.e.* at the point of customer interface), subject to certain conditions, provided the technology available with the bank, which has appointed the BC, supported interoperability. However the BC or its retail outlet or sub-agent at the point of customer interface would continue to represent the bank, which has appointed the BC.

IV.28 Based on the announcement made in the Budget Speech of the Finance Minister for 2012-13 as well as the Annual Monetary Policy of the Reserve Bank for the year 2012-13, banks have been advised that they may set up intermediate brick and mortar structures (in rural centres) between the present base branch and BC locations, so as to provide support to a cluster of BCs (about 8-10 BCs) units at a reasonable distance of about 3-4 kilometres. Such branches should have minimum infrastructure, such as a Core Banking Solution (CBS) terminal linked to a pass book printer and a safe for cash retention for operating large customer transactions and would have to be managed full time by bank's own officers/ employees. It is expected that such an arrangement would lead to efficiency in cash management, documentation, redressal of customer grievances and close supervision of BC operations.

Financial Inclusion Plan of banks

IV.29 The Reserve Bank had advised all public and private sector banks to prepare and submit their board approved financial inclusion plans (FIPs) to be rolled out in 3 years from April 2010 to March 2013. These FIPs contained self-set targets in respect of opening of rural brick and mortar branches, deployment of business correspondents (BCs), coverage of unbanked villages through various modes, opening of no-frills accounts, Kisan Credit Cards (KCCs) and General Credit Cards (GCCs) to be issued *etc*.

IV.30 The progress by commercial banks (excluding RRBs) since the launch of FIPs clearly indicate that banks are progressing in areas like deploying BCs, opening of banking outlets, opening of no-frills accounts, grant of credit through KCCs and GCCs (Table IV.6). The penetration of banks in rural areas has increased sharply in two years of the FIP implementation. With a view to

Table IV.6: Progress of SCBs in Financial Inclusion Plan (excluding RRBs)

(Amount in ₹ billion)

Particulars	March 2010	March 2011	March 2012	Variation March 2012 over March 2010
1	2	3	4	5
No. of BCs/BC Agents deployed	33,042	57,329	95,767	62,725
Number of banking outlets in villages with population above 2,000	27,353	54,246	82,300	54,947
Number of banking outlets in villages with population less than 2,000	26,905	45,937	65,234	38,329
Total number of banking outlets in villages	**54,258**	**1,00,183**	**1,47,534**	**93,276**
Of which				
a) Through branches	21,475	22,662	24,701	3,226
b) Through BCs	32,684	77,138	1,20,355	87,671
c) Through Other Modes	99	383	2,478	2,379
Urban Locations covered through BCs	433	3,757	5,875	5,442
No-Frill accounts				
Number (millions)	50.3	75.4	105.5	55.2
Amount (₹ billions)	42.6	57.0	93.3	50.7
Overdraft availed in No - Frill Accounts				
Number (millions)	0.1	0.5	1.5	1.4
Amount (₹ billions)	0.1	0.2	0.6	0.5
Kisan Credit Card (KCC)				
Number of Accounts (millions)	15.9	18.2	20.3	4.4
Outstanding amount (₹ billions)	940.1	1237.4	1651.5	711.4
General Purpose Credit Card (GCC)				
Number of Accounts (millions)	0.9	1.0	1.3	0.4
Outstanding amount (₹ billions)	25.8	21.9	27.3	1.6
ICT Based Accounts through BCs				
Number of Accounts (millions)	12.6	29.6	52.1	39.5
Number of transactions during the year (millions)	18.7	64.6	119.3	183.9

encouraging transactions in no-frill accounts, banks were advised to provide small overdrafts (ODs) in such accounts, which helped in a strong growth of such accounts. The impact of Information and Communication Technology (ICT) based BC model in facilitating door step delivery of services can be seen from the ascending trends of transactions.

IV.31 The number of transactions through ICT based BC outlets, though encouraging, are still very low as compared to the manifold increase in the number of banking outlets. The focus of monitoring is now more on the number and value of transactions in no-frills accounts and also on the credit disbursed through ICT based BC outlets. In this direction, banks have been advised that FIPs prepared by their head offices may be disaggregated at the respective controlling offices and further at branch level and its progress may be monitored periodically.

IV.32 The Electronic Benefit Transfer (EBT) had been implemented on a pilot basis in select districts under the "One District – One Bank" Model. The experience gained suggested that the "One District – One Bank" Model had not been able to achieve the objective of financial inclusion. This issue was raised in various fora by the state governments and banks. As part of the financial inclusion initiative, the penetration of banks in rural areas has increased manifold. Hence a need was felt to scale up EBT implementation throughout the country by ensuring convergence of EBT implementation with the financial inclusion plan of banks. For clearer conceptual understanding and based on detailed consultative meetings and interface with stake holders, "Operational guidelines on implementation of Electronic Benefit Transfer and its convergence with Financial Inclusion Plan" has been formulated. Under these guidelines 'one district-many banks-one leader bank model' has been recommended so as to give a fillip to financial inclusion efforts (Box IV.2).

Box IV. 2

Electronic Benefit Transfer (EBT) and its convergence with Financial Inclusion Plan (FIP)

In accordance with its vision of inclusive growth, the Reserve Bank has been pursuing the objective of providing access to efficient banking services at an affordable cost to the hitherto unbanked population of the country. For this purpose, a technology based "bank-led" model of financial inclusion was adopted. In view of the effort taken by banks in spreading the banking network to the hitherto unbanked villages of the country under the financial inclusion plan, a need was felt to further scale up the EBT initiatives and thereby ensure a convergence between the EBT implementation and the FIP of banks. In this direction, the Reserve Bank, on August 12, 2011, issued "Operational guidelines for implementation of Electronic Benefit Transfer and its convergence with Financial Inclusion Plan". The Reserve Bank has advocated use of the "One District – Many Banks – One Leader Bank Model" for EBT implementation.

In this model, all the banks present in the district would participate in EBT, though for administrative convenience the state government is required to deal only with one leader bank. State government shall designate the leader bank, in consultation with the regional office of the Reserve Bank and the SLBC, who will obtain the funds from the state government and in turn will arrange to transfer funds through inter-bank transfer to other banks for credit to the accounts of ultimate beneficiaries. State government shall designate a nodal department for administration of each of the social benefit schemes. The nodal department shall provide the list of beneficiaries and banks shall arrange for enrolment and creation of their bank accounts. The nodal department shall maintain a savings account in its name with the leader bank. The department's account in the bank will be credited with a consolidated amount by the treasury bank of the state government. The department will send instructions to the leader bank each month containing the updated list of beneficiaries in electronic form. The bank will then debit the savings bank account of the nodal department and arrange for crediting the accounts of beneficiaries. The management information system as required by the state governments will be strengthened automatically as payment information will flow electronically and seamlessly from end to end so that a data-base is created for generating various types of reports.

As EBT scheme is a part of the overall FIP, EBT account holders will also be provided whole range of permissible banking services *viz.,* a saving account with in-built overdraft, remittance and entrepreneurial credit products in the form of GCC/KCC. Thus, EBT implementation will enable the beneficiaries to get the social security benefits directly credited to their accounts and at the same time it will relieve the government functionaries of the cost and time involved in manually administering the high volume and low value payments.

FINANCIAL LITERACY INITIATIVES

IV.33 Financial Literacy is considered an important adjunct for promoting financial inclusion, consumer protection and ultimately financial stability. Financial inclusion and financial literacy need to go hand in hand to enable the common man to understand the need and benefits of the products and services offered by formal financial institutions. In India, the need for financial literacy is even greater considering the low levels of literacy and the large section of the population that are still out of the formal financial set-up. Financial literacy has assumed greater importance in recent years as financial markets have become increasingly complex and the common man finds it very difficult to make informed decisions. Further, in view of higher percentage of household savings in our country, financial literacy can play a significant role in the efficient allocation of household savings and the ability of individuals to meet their financial goals. The outreach programmes by the Reserve Bank has helped in spreading awareness and improving financial literacy in recent years (Box IV.3).

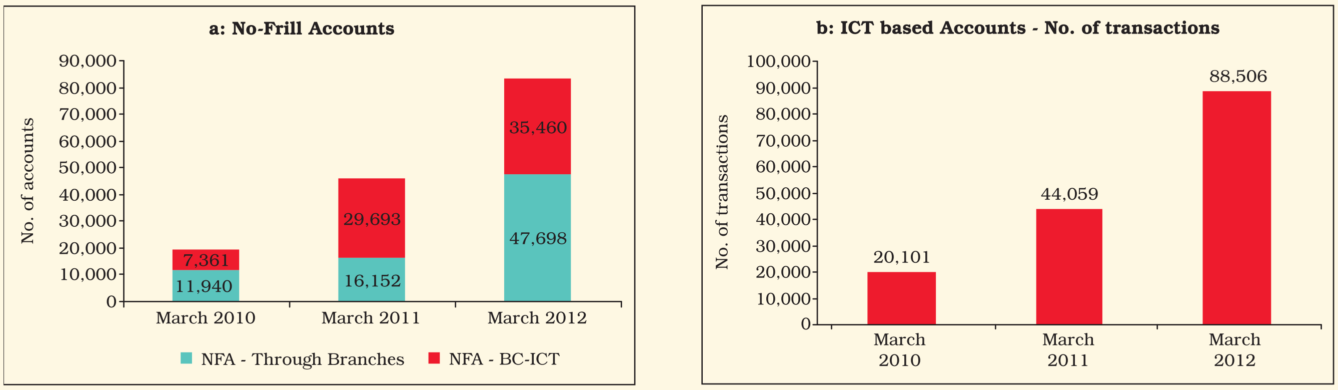
IV.34 Financial literacy is being promoted by various stakeholders as an important demand side input towards achieving the goal of financial inclusion. In order to ensure effective coordination of the efforts made by all the financial regulators and other stakeholders, a Technical Group on Financial Inclusion and Financial Literacy has been

Box IV.3
Outreach Programme of the Reserve Bank

The outreach programme of the Reserve Bank involves top management - Governor, Deputy Governors and Executive Directors who visit villages across the country. They encourage banks, financial institutions and local government to boost economic activities by involving rural masses in particular. They interact with the villagers to understand their problems and expectations, at the same time they also tell them about Reserve Bank's policy initiatives and what they can expect of the Reserve Bank. During the outreach visits, messages on advantages of being linked to formal banking sector and functions and working of Reserve Bank are disseminated through lectures, skits, posters, short films, pamphlets, distribution of comic books on financial literacy (Raju and the Money Tree, Money Kumar *etc.*), quiz competitions and essay competitions for school children, kiosk at the venue where besides providing information, notes and coins are exchanged. The target groups included students, Self-Help Group (SHG) members, villagers, farmers, NGOs, bankers, government employees, senior citizens, housewives, panchayat members, daily wage earners and defense personnel.

During last 3 years, outreach visits have been undertaken by Reserve Bank's top executives in 115 villages spread throughout the country. An analysis of the progress of financial inclusion in these villages indicates 73 per cent of the villages are getting banking services through ICT based BC model whereas remaining villages are covered through brick and mortar branches. The number of accounts, especially no-frill accounts has increased multifold (Chart 1). The transactions are being done through business correspondent in user friendly way by using smart cards on hand held devices. The social benefits are getting credited directly to their bank accounts. The outreach programmes of the Reserve Bank have thus helped in improving the overall welfare in many small villages.

Chart 1: Progress in Villages Covered under Outreach Programme



constituted under the aegis of Financial Stability and Development Council, having representations from the Reserve Bank, SEBI, PFRDA, IRDA, Government of India, State Governments and Central Education Board *etc*. The group meets at quarterly interval with the first meeting held in November 2011, followed by two more meetings in February and May 2012. The group is in dialogue with NCERT, CBSE and state education boards for inclusion of financial literacy in school curriculum.

IV.35 A national strategy on financial education has been prepared and the document has been placed on the Reserve Bank's web-site for wider consultation. The strategy will cater to all sections of the population. Since the challenge is to link large number of financially excluded people to the formal financial system, the focus of the strategy at the base level will be to create awareness about basic financial products. For the purpose, the financial literacy efforts would primarily be directed towards dissemination of simple messages of financial prudence in vernacular language through large campaigns across the country combined with vigorous roll out of financial inclusion plans by banks, insurance, pension funds and others. For the financially included, *viz*., the lower and middle income groups and high net-worth individuals, financial literacy is about enhancing their knowledge about the market and various new products. The objectives of the strategy include providing knowledge through awareness and education on access to financial services, availability of various types of products and their features. It also aims at changing attitudes to translate knowledge into behaviour and making customers understand their rights and responsibilities as clients of financial services.

Financial Literacy Centres (FLC)

IV.36 Reserve Bank had advised banks in February 2009 to set up Financial Literacy and Credit Counseling Centres (FLCCs) to provide free financial literacy, education and credit counseling. Under the scheme, up to March 2012, 429 FLCCs were set up. Since the scheme had been in operation for about 3 years, it was decided to evaluate the efficacy of this scheme and its impact on the spread of financial literacy in the country. Accordingly, a study on the functioning of the FLCC was conducted through a nationwide sample survey. The study covering 30 FLCCs spread over 16 states revealed various shortcomings and limitations in the FLCC scheme like concentration of these centres in urban and semi urban areas rather than rural areas, serving only walk-in clients instead of outdoor literacy drives, FLCCs effectively functioning at the behest of sponsor banks instead of maintaining arms-length relationship *etc*. Based on the findings of the study and with the objective of scaling up financial literacy efforts manifold, the existing scheme has been revised and banks have been advised to set up Financial Literacy Centres (FLCs) in more than 630 offices of the lead district managers (LDMs). Further, 35,000 plus rural branches of SCBs including RRBs would also undertake financial literacy activities. The FLCs, including all existing FLCCs will now be termed as financial literacy centres. Banks are also advised to set up FLCs in other location as per requirement. The FLCs are expected to impart financial literacy in the form of simple messages like why save with banks, why borrow from banks, why borrow as far as possible for income generating activities, why repay in time, why insure yourself, why save for your retirement *etc*. The FLCs and rural branches of the banks are also required to conduct outdoor financial literacy camps with focus on financially excluded people at least once a month. As the focus of the FLCs is on simple messages of financial literacy, no risks of mis-selling are expected.

IV.37 The Reserve Bank has taken several steps to promote financial inclusion with a view to extending the benefits of banking to those who do not have access to these services. However, the task is gigantic and the progress lags behind necessity. As such upscaling and mainstreaming this programme would be needed.