FEASIBILITY STUDY OF BUSINESS CORRESPONDENT/BUSINESS FACILITATOR MODELS FOR FINANCIAL INCLUSION IN UTTAR PRADESH

by

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EXECUTIVE SUMMARY

1. Introduction

1.1 In India, we have been experimenting with various alternatives to reach the banking services, primarily credit, in rural areas through several initiatives since last forty years to bring the equality. Early initiatives in this regard were taken by building an institutional framework beginning with the focus on the cooperative credit institutions followed by the nationalization of major domestic banks and later creation of the Regional Rural Banks (RRBs). Simultaneously, several measures including establishment of the Lead Bank Scheme, directed lending for the Priority Sectors, banking sector's linkage with the Government sponsored programmes targeted at the poor, Differential Rate of Interest Scheme, the Service Area Approach, the SHG-Bank linkage programme and introduction of the Kisan Credit Card (KCC) were undertaken.

1.2 Various new and innovative banking channels including the information & communication technologies have been developed and implemented to bring maximum number of people under the formal banking system through the use of the vast network of rural and semi urban bank branches. Despite these endeavour, the fact remains that the banking services are not made available to the majority of the population residing in the rural and semi-urban areas and one glaring example of the same is that only 27% of total farm households are indebted to formal sources (of which one-third also borrow from informal sources). Farm households' not accessing credit from formal sources as a proportion to total farm households is especially high at 95.91%, 81.26% and 77.59% in the North Eastern, Eastern and Central Regions respectively. Thus, apart from the fact that exclusion in general is large, it also varies widely across regions, social groups and asset holdings. The poorer the group, the greater is the exclusion.

2. Objectives of the study

2.1 With the objective of ensuring greater financial inclusion and increasing the outreach of the banking sector, the Reserve Bank of India has issued guidelines in January 2006 enabling banks to use the services of NGOs/ SHGs, Micro Finance Institutions registered societies, trusts, section 25 companies and post offices as agents to act as Business Facilitator and Business Correspondents and carry out minimum banking transactions at their place of business so that banking facilities can be offered closer to the customer at a lower transaction cost. While a few leading public sector banks have implemented these models as a part of their operations, still a majority of them are at the planning stage.

2.2 The study was conducted in the select districts of State of Uttar Pradesh with the undernoted objectives.

- To study the existing formal and informal delivery channels of financial services in the unbanked areas and to explore the extent of financial exclusion.
- To study the effectiveness of formal financial delivery channels in terms of cost of transaction in case of both Demand & supply side.
- To examine the existing eligibility criteria of appointing Business Correspondent/Business Facilitator and the scope of further simplification in the process.
- To list out the important challenges being faced by the commercial banks for outsourcing the core banking activities through the Business Correspondent model and suggest the enabling factors.
- To study the code of conduct and business ethics of the appointed Business Correspondent and suggests the measure for streamlining Bank - Business Correspondent relationship.

- To examine the capacity building and training need of the appointed Business Correspondent/Business Facilitator to improve the qualitative aspects.
- To examine the systems and extent of payment of fees/ commission to the Business Correspondent/Business Facilitator by the appointing commercial banks and its impact on the cost of financial services to the customers.
- To study the technological & infrastructural support available from the banking system to the Business Correspondent/Business Facilitator.
- To study the level of satisfactory fulfillment of the customers' need and to evolve a system of continual assessment of the same both under branch banking model & Business Correspondent/Business Facilitator model.
- To study the impact of recent stipulation of RBI on restriction/limitation in the area of operation of the Business Correspondent/Business Facilitator.
- To suggest the effective control and monitoring mechanism by the commercial banks to ensure effective delivery of services by the Business Correspondent/ Business Facilitator so appointed by them.
- Finally to document the findings of the study for future references by the commercial banks while implementing the guidelines of the Reserve Bank of India for utilising the services of Business Correspondent/Business Facilitators.

3. Methodology of study

3.1 In view of the background and the objectives defined in Chapter-1 and the size of the population under reference, we have used the sampling techniques and for this reason random number table was used for greater precision in the results of the study. In this connection, the following samples has been studied:-

a) In order to draw conclusions about the feasibility of Business Correspondent/Business Facilitators as an improvised channel of inclusive growth, sample of both financially excluded and financially included districts in the State of Uttar Pradesh been considered in the present study.

b) Sample was also drawn from branches of different Public/ Private Sector Banks and Regional Rural Banks operating in those randomly selected district (Banks under both the categories which have already implemented the Business Correspondent/Business Facilitator model and which have not yet implemented the Business Correspondent/Business Facilitator model).

c) The sample was also drawn from the end users of branch banking facilities and the people who do not have any relationship with the formal financial system available from the rural and semi urban areas in those selected districts.

3.2 The sample design includes multiple steps in order to reduce response bias. This sampling design carried out in different stages involving more than one sampling method (multi-stage sampling). We used sampling designs that ensure the generalisability to the greatest extent possible, within a given geographical region.

Stage – I: - Sampling of Districts

Step-1: Subdivision of 71 districts in to 3 broad geographical regions

Step-2:- Two (2) Cluster of Districts for each region

a) Districts with **High** level of financial inclusion (>80%)

b) Districts with **Low** level of financial inclusion (<80%)

Total Sample Size of the Districts: 3*2*2 = 12 Districts

This study aims at assessing the effectiveness existing banking facilities vis-à-vis opportunities and challenges of Business Correspondent/ Business Facilitator model for greater financial inclusion in the State of Uttar Pradesh. Keeping in view the population size for the study and the multi stage sampling, the desirable sample size been determined after setting the parameters of the study under reference. While setting the parameters we kept in mind the fact that more varied the data are, the larger the sample size needs to be to obtain to arrive at an adequate level of accuracy in generalising the results. Group sampling was also been considered to ensure a balanced representation of the different categories of customers.

Stage – II: Sampling of banks

Total **Sample Size: 4 PSBs + 2 RRBs = 6 Banks**.

Stage – III: - Sampling of Bank Branches

Total **Sample Size: 5 X 12 = 60 Branches** (5 branches in each 12 districts)

Stage – IV: - Sampling of Customers

Total **Sample Size: (5 X 5 X 12) + (5 X 5 X 12) = 600 Customers** (300 customers of the bank and 300 respondents does not have any bank accounts).

4. Findings of the study

4.1 The average area covered by each bank branch in UP was 29 sq. Km in 2001 which reduced to 26 Sq.km. It was found that the respondents who are not yet the customers of the bank are residing at an average distance of 11.92 Km. and the average cost to be incurred for each visit to the bank branch was calculated as Rs.42. This might be one of the major reasons for not availing the banking facilities. While comparing the distance from branches in case of the customers and non customers, it reveals that the average distance in case of bank customers was 10 Km which is also very high in terms of the cost involvement. The average distance was highest in the eastern region of UP than the central region while the western region shows the lowest average distance.

4.2 The population covered by each bank branch during 2001 was 20155 which increased to 22335 during 2009. It is clear from the available data that the increase in bank branches is not commensurate with the rate of growth in population. As per Reserve Bank of India, the average population covered by each bank branch in India as on 30.06.2008 was 15,000 and for Uttar Pradesh it was 21,000. This shows that the State is far below the all India average which is alarming and at the same time increases the potentiality of the growth of banking services. The present study shows that each branch is covering a population of 26,013 with coverage of 13,634 adult populations.

4.3 As per the present study, each rural/semi-urban branches in Uttar Pradesh is serving on an average 18 villages and 204 customers visit the branch on daily basis.

4.4 The study reveals that the average number of accounts in the Commercial Banks and RRBs (including all types of accounts) in the State of UP was 7756. The regional average shows that the average of Central UP is highest (8220) followed by western UP (7667) and lowest in eastern UP (7380). The average number of accounts was skewed in the districts of Raebareli (10320) in central UP and Pratapgarh (8880) in eastern UP.

4.5 In the present study, the average financial inclusion of Uttar Pradesh recorded at 57%. The region wise figures show that financial inclusion is highest in the central region (61%) followed by eastern region (57%) and western region (53%). Raebareli district under central region recorded the highest (72%) financial inclusion amongst all the districts surveyed closely followed by Sitapur district (69%) and Rampur (66%).

4.6 The average number of employees (includes all employees on roll) per branch in the State of Uttar Pradesh was 6 and per employee handling was 1293 number of accounts in those branches. The highest number of accounts was being handled by each employee of Unnao district (1950) followed by Sitapur district (1728).

4.7 The average business per branch in Uttar Pradesh was recorded at Rs.478.33 lakhs and this was the highest (Rs.622 lakhs) in case of banks in the Central Region followed by western region (Rs.505 lakhs) and the lowest (Rs.307.50 lakhs) in case of eastern region. The average per employee business of Uttar Pradesh was Rs.79.72 lakhs which is far below the all India average of Rs.178 lakhs.

4.8 The average number of transactions per day in each branch of the banking system in Uttar Pradesh was 388. The central region of UP recorded highest (475 per day) followed by western UP (375) and the lowest being eastern UP (313).

4.9 Average number of insurance sold by the branches in UP was 36**.** Further probe in this aspect revealed that the selling of micro insurance is not profitable to the branches as the premium is very low and non remunerative to the branches.

4.10 The data as per the present survey reveals that the average number of “No Frills” accounts in each of the bank branches in the State of Uttar Pradesh was 1044. Eastern region of the State recorded the highest number (1285) of “No Frills” accounts followed by the central region (1047). The lowest number (800) of “No Frills” accounts were opened by the western region of the State. Average number of GCC opened by each branch in UP was 17 which was highest (21per branch) in the districts of Baghpat and Raebareli followed by Pratapgarh, Unnao and Badaun Districts (19 per branch). The average loan size of Uttar Pradesh stood at Rs.72500. The Central region recorded the highest (Rs.88750) average size of loan followed by the western region (Rs.712500). The lowest average loan size of Rs.57500 was reported from eastern region of the State.

4.11 As per the study, 70% of the respondents having bank accounts are more than 35 years old and these remains constant across all the three regions of the State of Uttar Pradesh. On the other hand, 73% of the respondents who do not have any bank linkage are of the age group of over 35 years. 52% of the respondents of Uttar Pradesh with Bank linkage are having Pukka House and 28% of the respondents are getting electricity in their houses with an exception of 10% of the people who have bank accounts and are residing in a kachha house and without electricity.

4.12 Amongst the account holders in Uttar Pradesh, a nuclear family is having the highest (35.91%) earning members to total members than the joint family (28.74%). This is true across all regions in Uttar Pradesh. In case of the respondents without any bank linkage the earning members to total members in the joint family, is slightly higher (40.15%) than the nuclear family (39.31%).The maximum number of earning members was recorded in the western region in case of joint family. While analyzing the data on the ratio of earning female to male, some striking features have surfaced. The earning female is 1.49 times more than the earning male in the western UP who are having a bank linkage but the whole of Uttar Pradesh recorded that the female earner is 0.97 times than the male earners with bank accounts which is more or less same in case of joint family also. The female earners are 1.27 times of the male earner in nuclear families of western UP without any bank linkage (which was 0.86 times in the whole of the State).

4.13 In Uttar Pradesh, 74% of the bank account holders are of APL category with a literacy of 75%. The major livelihood of the bank account holders was farming (76%) and only 24% of the bank account holders were from non-farm activity. Out of the respondents without bank linkage, 61% belongs to the APL category with a literacy rate of 67%. Again, amongst the unbanked population 71% belong to the farm sector alone.

4.14 Although banks across the State are charging only 9% interest on the loan accounts, the costs of transaction were higher than this due to the reason that the customers were travelling a distance for which they have to incur a cost of 1.03% annually. Probably, this has impacted the cost of transaction and the effective average cost of transaction stood at 10.05% in UP which was as high as 11.04% in case of eastern UP and highest (13.04%) was recorded in Chitrakoot district. The average rate of interest being paid by the unbanked population of UP to the informal sector was 28.67%.

4.15 Out of the existing customers 63% are willing to avail door step banking in Uttar Pradesh and almost all the respondents without bank accounts are willing to avail doorstep banking services. Above 90% of the respondents (both bank-linked and non-linked) prefer all types of door step banking services i.e savings as well as credit and other value added services. On an average 97% of the customers of the banking channels are satisfied with the existing products of the banks but only 77% of them are satisfied with the services of the banks.

4.16 Out of the rural branch managers with whom we have interacted at least 65% do not consider formation and linkage of SHGs as a sound business proposition. This study shows that SHGs account for only about 2.5% of the loan portfolio of a bank branch at present. They are also not perceived as an important and stable client group of the banks. The number of SHGs linked with the banks is highest (51 per branch) in the districts of central UP and lowest (23 per branch) in the districts of Western UP.

4.17 75% of the branch managers surveyed is not in favour of utilising the post offices as they feel that the post offices are their competitors in terms of mobilizing the savings bank deposits. Around 80% of the bank branches are of the opinion that the bank's products are superior to the post offices. Out of the 60 respondents, 90% of them feel that the post offices can be utilised for disbursement of small value loan products and also they can be used for recording the KYC norms. Almost 55% of the respondents in branches feel that the postal agents can become an important part of the extension of financial services by banks in future.

4.18 Although the use of Recovery agents in the rural semi-urban branches is very limited, still 75% of the respondents are in favour of use of the network of Recovery agents as business facilitators. This study reveals that 40% of the respondent bank branches feel that the credibility of these organizations are doubtful and entrusting any banking activities to them will hamper the bank's credibility in the local areas. As the fees and commission structure has not directed by the RBI, it reveals that 80% of them want that the fee structure should be advised by their respective Head Office and the rest (20%) of them will prefer to pay the fees based on local negotiation.

4.19 The survey results show that only 45% of the bankers are in favour of engagement/appointment of NGOs as Business correspondents for their banks. This low response was probably due to the low credibility of the NGOs in the State of Uttar Pradesh. It is also accepted by the respondents that there are very good reputed NGOs in their locality but they are not interested in taking up this responsibility of BCs as they have lot of other engagements. It was found that 76% of the respondents are in favour of engaging the Section 25 companies as the BCs. The idea of engaging the MFIs as the BCs was favoured by 65% of the respondents. The others were not favouring this idea probably due to the fact that they believe that the MFIs are the biggest competitors of the rural and semi-urban branches for small ticket transactions. It was found from the present research that 73% of the respondents are in favour of engaging the cooperative societies as Business Correspondents. As per the survey, 75% of the respondents amongst ex-bankers are not preferable for appointment of BCs. On the other hand about 65% responded favouring Ex-Servicemen as more efficient BCs.

4.20 It is agreed upon by all the bank branches and the Zonal/Regional Heads of the banks surveyed that the most important use of the technology will be the real time recording of all the transactions. All transactions should be done through a Point of Sale (POS) terminal deployed and managed – and hence trusted – by the bank. All transactions must be initiated by the customer and are automatically recorded electronically by the bank through the POS terminal. No transaction should be processed "on behalf of" the client or "over the store counter" without using the POS device.

5. Recommendations

5.1 The banks need to develop pro-poor financial services model and deliver the same at their doorstep. The banks are required to find out the different ways and means to provide the doorstep banking to the unbanked people and also there are ample scope of innovation in different products and services under the present scenario of facilitating role played by the regulatory institutions.

5.2 The branchless banking through the BF/BC model can offer basic banking services to customers at a cost of at least 50 percent less than what it would cost to serve them through traditional branch banking channels. Branchless banking helps address the two biggest problems of access to finance: the cost of roll-out (physical presence) and the cost of handling low-value transactions.

5.3 We recommend that the lifting of the PLR constraint would be one way -which has been suggested by many bankers during our present study or there can be a setting of a limit expressed in the form of a PLR plus rate, e.g. 6-8% above PLR only in case of doorstep banking to the unbanked areas. Alternately, the BCs could be allowed to charge a small fee to the clients. Otherwise, banks may have to impose some form of "service fees" over and above the PLR-based interest rate in order to meet the cost of remuneration of the BCs/BFs.

5.4 In connection with appointment/engagement of BCs, we recommend to permit the commercial entities like shopkeepers, PCOs, Fertilizer dealers etc who are having a permanent establishment in the rural and semi-urban areas to act as business correspondents and use their available infrastructure, subject to specific criteria. The other most important players like mobile phone operators who by this time have already established their deep rooted presence in the rural and semi-urban areas, can also be one of the best players for greater financial inclusion.

5.5 As most of the banks have already put in place a robust risk management policies and practices, similar risk management policy for the outsourcing of delivery of the banking products and services through BC model is urgently required to build the level of confidence of the bankers at the field level to adopt this model of financial inclusion.

5.6 NABARD can be entrusted to develop a common IT system for the financial inclusion in the whole of the country. The Financial Inclusion Technology Fund (FITF) can be utilised for this purpose. Instead of piecemeal development of the technology, the NABARD can create a common umbrella for the banks (both CBs & RRBs). As pilot, the RRBs can be considered in any one of the State and after assessing the success of the pilot, this can be replicated in other banks.

5.7 The RBI may permit nonbanks to engage in e-money issuance subject to certain requirements, including minimum capital and liquidity requirements, reporting requirements, AML/CFT compliance, and rules on appropriate investment of funds and security of funds held. This will help the mission of financial inclusion in the far-flung areas of the country.

5.8 The robust structures of the State government can also be utilised for the benefit of the people of the State. In Uttar Pradesh, the agriculture marketing organizations like co-operatives and mandis are very strong with a presence in various places. The services of these organizations can be utilised as an improvised tool of financial inclusion.

5.9 There is a greater need to increase financial literacy among the poor. This includes greater awareness of products and services available, their use/relevance in meeting needs and their contribution to risk management strategies. Financial literacy of the poor is also very critical to building a vibrant and competitive low income financial services sector that facilitates affordable and need based access to financial services rather than mere access alone.

5.10 The SLBC, UP may consider the establishment of at least 100 Financial Inclusion Centers in the focus districts with very low financial inclusion, akin to STD booths, which are locally present in a cluster of villages. These will facilitate access by the poor to a range of financial services.

5.11 Capacity building of the appointed/engaged BFs & BCs is very important aspects. In case of section 25 companies/MFIs/NGOs/Trusts etc, the banks can develop separate modules of training for the products and services and also for the use of technology. The individual BCs can be given a training both on products and services as well as the soft skills relating to customer services.

6. Conclusion

6.1 The BF and BC models have not generated the enthusiasm that would have been normally expected. Several applications related to the use of BFs and BCs, particularly in extension of doorstep banking services, loan recovery and promotion of SHGs have already been enabled by other recent measures and the initiatives taken by banks. However, public sector banks are only just beginning to formulate schemes for the utilization of the services of such agents.

6.2 The development of technological platform has taken the centre stage in implementation of this BF/BC model and also the appointment/engagement of the right entities as the agents by the banks in India has the major role to play for financial inclusion in the country. The legal status of the BFs/BCs is also not very clear which requires further clarification from the Reserve Bank of India.

1

INTRODUCTION, OBJECTIVES, REFERENCE & LIMITATION OF THE STUDY

1. Introduction

1.1. The Indian economy was growing for last five years at a steady rate of 8.5 percent to 9 percent or so till 2008. Most of the growth is from industry and service sector. Agriculture was growing at a little over 2 percent. As per the latest estimates available from different sources, the growth rate may be restricted to 6-7 percent due to the impact of global meltdown and economic recession during the current fiscal (2008-09). Keeping in view the present global scenario, and its impact on the developed countries, our country has the potential to become the fastest economy in the world in the coming decades and also can emerge as the leader. The economists throughout the world accepted the fact that the potential for growth in both the Farm & Non-Farm sector is enormous in India. The major drivers of the growth acceleration in India are demographic dividend, greater domestic and international competition, sharp increase in total factor of productivity, blossoming of entrepreneurship and India`s acceptance of globalization. This growth acceleration is accompanied by reduction in the percentage of the people below poverty line. With the current growth momentum, almost one million of our citizens are moved above the poverty line month after month (Kelkar, 2007).

1.2. Although the achievements mentioned above are indeed impressive, but this is only a part of the whole story. We are still a home of over one third of the world's poor population and what is even more disturbing is that we have now the world`s largest number of under-nourished children. The growth process of our country is also accompanied by growing inter-regional, intra–regional and inter-personal inequalities in wealth and income. The urban –rural difference is getting wider and according to a recent report of Arjun Sengupta, almost 370 million people are some form of deprivation. In particular, rural and tribal areas are becoming acute victim of deprivation. So, we should not be surprised by the growth of extremism in these areas. What is clear is that present economic growth process is not inclusive enough and the political economy suggests that this is not sustainable for maintaining growth or stability or unity of the country. Clearly, we need to something urgently. It is heartening that 11th Five year plan is aimed at promoting greater inclusive growth.

1.3. Further analysis in this regard brings out the fact that poverty is being concentrated continuously in the poor States (known as BIMARU States). As per the NSSO (60th round) data, In terms of absolute number, Uttar Pradesh, Bihar and Jharkhand accounted for about 27% of the country's population but 41% of the Indian poor lives in these three States. These data further reveals that 45.9 million farmer households in the country (51.4%) out of a total of 89.3 million households, do not access credit, either from institutional or non institutional sources.

1.4. Limited access to affordable financial services such as savings, loan, remittance and insurance services by the vast majority of the population in the rural areas and unorganized sector is believed to be acting as a constraint to the growth impetus in these sectors. Access to affordable financial services especially credit and insurance enlarges livelihood opportunities and empowers the poor to take charge of their lives. Such empowerment aids social and political stability as well. Apart from these benefits, Financial Inclusion imparts formal identities. It provides access to the payment system and to the saving safety net like deposit insurance. So, Financial Inclusion is considered to be the most critical component for achieving Inclusive Growth; which itself is required for ensuring overall sustainable growth in the country.

1.5. We have been experimenting with various alternatives to reach the banking services, primarily credit, in rural areas through several initiatives since the last forty years to bring the equality. Early initiatives in this regard were taken by building an institutional framework beginning with the focus on the cooperative credit institutions followed by the nationalization of major domestic banks and later the creation of the Regional Rural Banks (RRBs). Simultaneously, several measures including implementation of the Lead Bank Scheme, directed lending for the Priority Sectors, banking sector's linkage with the Government sponsored programmes targeted at the poor, Differential Rate of Interest Scheme, the Service Area Approach, the SHG-Bank linkage programme and introduction of the Kisan Credit Card (KCC), were undertaken. Various new and innovative banking channels including the information & communication technologies, have been developed and implemented to bring maximum number of people under the formal banking system through the use of the vast network of rural and semi urban bank branches. Despite this endeavour, the fact remains that the banking services are not made available to the majority of the population residing in the rural and semi-urban areas and one glaring example of the same is that only 27% of total farm households are indebted to formal sources (of which one-third also borrow from informal sources). Farm households' not accessing credit from formal sources as a proportion to total farm households is especially high at 95.91%, 81.26% and 77.59% in the North Eastern, Eastern and Central Regions respectively. Thus, apart from the fact that exclusion in general is large, it also varies widely across regions, social groups and asset holdings. The poorer the group, the greater is the exclusion.

1.6. It is important to understand both the supply and the demand side perspectives that lead to such a wide gap in availability of financial services. The exclusion of large numbers of the rural population from the formal banking sector may be for several reasons from both the **supply and demand side**.

1.6.1 Some of the reasons from supply side are listed out below:
(a) Persons are unbankable in the evaluation/perception of bankers,
(b) The loan amount is too small to invite attention of the bankers,
(c) The person is bankable on a credit appraisal approach but distances are too long for servicing and supporting the accounts and expanding branch network is not feasible and viable,
(d) High transaction costs particularly in dealing with a large number of small accounts, (e) lack of collateral security,
(f) Inability to evaluate and monitor cash flow cycles and repayment capacities due to information asymmetry, lack of data base and absence of credit history of people with small means,
(g) Human resources related constraints both in terms of inadequacy of manpower and lack of proper orientation/expertise,
(h) Adverse security situation prevailing in some parts of rural India, (i) lack of banking habits and credit culture,
(j) Information-shadow geographical areas, and
(k) Inadequacy of extension services which is crucial to improve the production efficiency of the farmers leading to better loan repayments.

1.6.2 From the **demand side,** there are several reasons for the rural poor remaining excluded from the formal banking sector, such as:
(a) High transaction costs at the client level due to expenses such as travel costs, wage losses, incidental expenses,
(b) Documentation,
(c) Lack of awareness,
(d) Lack of social capital,
(e) Non-availability of ideal products,
(f) Very small volumes / size of transactions which are not encouraged by formal banking institutions,
(g) Hassles related to documentation and procedures in the formal system,
(h) Easy availability of timely and doorstep services from money lenders/informal sources and
(i) Prior experience of rejection by/indifference of the formal banking system.

2. Objectives of the Study

2.1 With the objective of ensuring greater financial inclusion and increasing the outreach of the banking sector, the Reserve Bank of India has issued guidelines in January 2006 enabling banks to use the services of NGOs/ SHGs, Micro Finance Institutions registered as societies/trusts, non-profit section 25 companies and post offices as agents to act as Business Facilitator and Business Correspondents and carry out minimum banking transactions at their place of business so that banking facilities can be offered closer to the customer at a lower transaction cost. While a few leading public sector banks have implemented these models as a part of their operations, still a majority of them are at the planning stage. Despite of the regulatory clearance for implementing this business model for greater outreach, majority of the public sector banks were still of the view to increase their outreach through the existing branch networks rather than seeking out Business Correspondents/Facilitators intermediaries.

2.2 The present study was undertaken to bring out a status report on the initiatives and readiness of the commercial banks for implementing the Business Correspondent/Business Facilitator models as prescribed by the Reserve bank of India for greater financial inclusion, the challenges and the suggested measures to improve these models to fit into the overall business model of the banks.

2.3 The study was conducted in the select districts of State of Uttar Pradesh with the undernoted objectives.

a) To study the existing formal and informal delivery channels of financial services in the unbanked areas and to explore the extent of financial exclusion.
b) To study the effectiveness of formal financial delivery channels in terms of cost of transaction in case of both Demand & supply side.
c) To examine the existing eligibility criteria of appointing Business Correspondent/Business Facilitator and the scope of further simplification in the process.
d) To list out the important challenges being faced by the commercial banks for outsourcing the core banking activities through the Business Correspondent model and suggest the enabling factors.
e) To study the code of conduct and business ethics of the appointed Business Correspondent and suggests the measure for streamlining Bank - Business Correspondent relationship.
f) To examine the capacity building and training need of the appointed Business Correspondent/Business Facilitator to improve the qualitative aspects.
g) To examine the systems and extent of payment of fees/commission to the Business Correspondent/Business Facilitator by the appointing commercial banks and its impact on the cost of financial services to the customers.
h) To study the technological & infrastructural support available from the banking system to the Business Correspondent/Business Facilitator.
i) To study the level of satisfactory fulfillment of the customers' need and to evolve a system of continual assessment of the same both under branch banking model & Business Correspondent/Business Facilitator model.
j) To study the impact of recent stipulation of RBI on restriction/limitation in the area of operation of the Business Correspondent/Business Facilitator.
k) To suggest the effective control and monitoring mechanism by the commercial banks to ensure effective delivery of services by the Business Correspondent/Business Facilitator so appointed by them.
l) Finally, to document the findings of the study for future references by the commercial banks while implementing the guidelines of the Reserve Bank of India for utilising the services of Business Correspondent/Business Facilitators.

3. Terms of Reference of the Study

3.1. Indian Institute of Banking & Finance, Mumbai vide their website notification invited proposals to undertake purposeful research in five areas of Banking & Finance in the name of *Macro Research Project-2008-09*.

3.2. Out of those topics, the most concurrent topic of public agenda and of course concern for the Indian Banking Industry – "Feasibility of Business Correspondent (BC)/Business Facilitator (BF) for Financial Inclusion" was identified and submitted to the Institute. The Research proposal was submitted through proper channel and after taking requisite permission.

3.3. The objectives of the present research proposal were approved by the Institute to carry out detail research with a mandate to complete the same in about four months. The research was started in the month of November, 2008 and the mid-term report was submitted on 31st January, 2009.

4. Limitations of the Study

The Business Correspondent/Facilitator (BC/BF) model to facilitate the financial inclusion in the State of Uttar Pradesh has not yet been accepted by the formal financial system and the Commercial Banks are still depending on the branch banking model and the existing delivery channels. It was also observed that even after lapse of more than 3 years, the business model of appointing of BF/BC is very limited and the availability of the data is also scanty. The other problems we faced during the study was that the Banks and the appointed Business Correspondent/Business Facilitators (BC/BF) are not ready to divulge the number of customers they are serving and also the commission they are paying to these intermediaries.

2

METHODOLOGY OF THE STUDY

2.1. Sample Design and Sample Size

2.1.1 Sample Design

In view of the background and the objectives defined in Chapter-1 and the size of the population under reference, we have used the sampling techniques and for this reason random number table was used for greater precision in the results of the study. In this connection the following samples has been studied:-

a) In order to draw conclusions about the feasibility of Business Correspondent/Business Facilitators as an improvised channel of inclusive growth, sample of both financially excluded and financially included districts in the State of Uttar Pradesh been considered in the present study.
b) Sample was also drawn from branches of different Public/ Private Sector Banks and Regional Rural Banks operating in those randomly selected district (Banks under both the categories which have already implemented the Business Correspondent/Business Facilitator model and which have not yet implemented the Business Correspondent/ Business Facilitator model).
c) The sample was also drawn from the end users of branch banking facilities and the people who do not have any relationship with the formal financial system available from the rural and semi urban areas under those selected districts.

2.1.2 The sample design includes multiple steps in order to reduce response bias. This sampling design carried out in different stages involving more than one sampling method (multi-stage sampling). We used sampling designs that ensure the generalisability to the greatest extent possible, within a given geographical region.

2.1.3 This study aims at assessing the effectiveness existing banking facilities vis-à-vis opportunities and challenges of Business Correspondent/ Business Facilitator model for greater financial inclusion in Uttar Pradesh State. Keeping in view the population size for the study and the multi stage sampling, the desirable sample size been determined after setting the parameters of the study under reference. While setting the parameters, we kept in mind the fact that more varied the data are, the larger the sample size needs to be to obtain to arrive at an adequate level of accuracy in generalising the results. Group sampling was also been considered to ensure a balanced representation of the different categories of customers.

2.1.4 Sample size

Stage – I: - Sampling of Districts

Step-1: Subdivision of 71 districts in to 3 broad geographical regions

Step-2:- Two (2) Cluster of Districts for each region

a) Districts with **High** level of financial inclusion (>80%)

b) Districts with **Low** level of financial inclusion (<80%)

Total **Sample Size of the Districts: 3*2*2 = 12 Districts**. The list of the Districts appended

Sl. No	Districts of Eastern UP		Districts of Central UP		Districts of Western UP	
	Name of the District	Financial Inclusion (%)	Name of the District	Financial Inclusion (%)	Name of the District	Financial Inclusion (%)
1	Mirzapur	88%	Rae Bareli	89%	Pilibhit	93%
2	Pratapgarh	87%	Unnao	84%	Baghpat	91%
3	Chitrakoot	78%	Sitapur	79%	Badaun	78%
4	Banda	76%	Jhansi	75%	Rampur	77%
Source: SLBC, Bank of Baroda, Lucknow						

Stage – II: - Sampling of Banks

While sampling the banks, we have not considered the private sector banks as they are utilising the Direct Selling Agents (DSAs) as their representatives in their area of operation. We have considered the Public Sector Banks and the Regional Rural Banks. As a multiple variables, we have also considered those Public Sector Banks who have strong presence in the State of Uttar Pradesh. While selecting the Regional Rural Banks, we have considered their presence in the Economic zone subdivided by us.

Step-1: Out of the Public Sector Banks operating in Uttar Pradesh those who have implemented BC/BF model for financial inclusion, we have considered two (2) Banks for the present study. They are Punjab National Banks and Syndicate Bank.

Step-2: Out of the Public Sector Banks operating in Uttar Pradesh those who have not implemented BC/BF model for financial inclusion, we have considered two (2) banks. They are Bank of Baroda (SLBC Convener) and Allahabad Bank

Step-3: We have also considered two (2) Regional Rural Banks (RRBs) keeping in view of their importance in credit delivery system in Uttar Pradesh. These banks have not implemented BC/BF mode for financial inclusion. They are Aryavart Gramin Bank and Triveni Gramin Bank

Total **Sample Size: 4 PSBs + 2 RRBs = 6 Banks**. The list of the banks are given in district profile in **Annexure-I.**

Stage – III: - Sampling of Bank Branches

Step-I: Cluster sampling of five (5) branches of the lead bank (identified Public Sector Banks) of each of the nine (9) districts.

Step-II: Cluster sampling of five (5) branches of the Regional Rural Banks in each of the three (3) districts where they have the significant presence.

Total **Sample Size: 5 X 12 = 60 Branches**. The list of the bank branches appended in district profile in **Annexure-I.**

Stage – IV: - Sampling of Customers

Step-I: Cluster sampling of ten (10) Customers of each five (5) bank branches surveyed in all the twelve (12) districts considered under the present study who have **Bank accounts**.

Step-II: Cluster sampling of ten (10) people who **do not have any bank account** in the command area of each five (5) branches in all the twelve (12) districts considered under the present study.

Total **Sample Size: (5 X 5 X 12) + (5 X 5 X 12) = 600 Customers**.

2.2 Segmentation of Districts in Uttar Pradesh for the Research

The State of Uttar Pradesh (UP) has been divided into 3 major economic regions – Eastern, Central and western. Although as per agro-climatic zone, the State has been divided into 9 parts. But for our research purpose, we have considered only economic region. Eastern UP consists of 27 districts, Central UP consists of 22 districts and Western UP consists of 21 districts. (Shown in the map – Annexure-1)

2.3 Data of Financial Inclusion

The financial inclusion data of the State was studied from the SLBC reports available from the Office of convener bank (Bank of Baroda) at Lucknow and other public domain. We then listed out the magnitude of the financial inclusion of all the districts of the State.

2.4 Sampling of the Districts to be Studied

According to the magnitude of the financial inclusion the districts of the each economic zone was divided into districts with high financial inclusion and with low financial inclusion. For this purpose we have considered 80% as the Benchmark achievement. After discussion with the NABARD and RBI

Officials, it was decided to consider 4 districts in each of the three economic zone of the State.

2.5 Study of the formal Banking System in Uttar Pradesh

As such, we have studied the entire formal Banking system operating in the State of Uttar Pradesh from various available secondary data. To study the formal banking system and their readiness to accept the BF/BC model, we have considered 4 major banks in public sector (Bank of Baroda, Punjab National Bank, Allahabad Bank and Syndicate Bank) and 2 Regional Rural banks (Aryavart Gramin Bank & Triveni Gramin Bank) as sample for the current study. The selections of the Banks were done based on their presence in the State of UP and also after discussion with the RBI, NABARD and Bank of Baroda (SLBC convener Bank).

2.6 Sampling of the Branches of the Banks considered

In consultation with the controlling offices of the above mentioned banks, we identified minimum 10 branches in the rural and semi urban areas in each districts (already identified in our study) as sample of bank branches for the current study. The selection of the bank branches were made in consultation with the controlling office. For the purpose of sampling, only 5 branches were taken out of the 10 identified branches.

2.7 Methodology Used

2.7.1 Preparing Questionnaire

Questionnaires for different stake holders were prepared. Questionnaire for the Bank's controlling office and branches, rural & semi-urban customers. Different set of questionnaires were prepared for the banks operating in the districts with high as well as low financial inclusion. Different set of questionnaires were also prepared for the banks who have already implemented the BC/BF model and those who have not yet implemented the BC/BF model. A separate set of questionnaire were also prepared for the customers who are the beneficiary of both the branch banking and BC/BF model. We have also prepared of a set of questionnaire for both the Business Facilitator (BF) and the Business correspondents (BC) operating in the State of Uttar Pradesh.

2.7.2 Pilot testing of questionnaires

Pilot testing of the questionnaires were administered with the controlling offices of the identified banks at **Bhubaneswar** who are not participating in the present study. We discussed with the RBI and NABARD officials at Bhubaneswar along with the questionnaire and reviewed the same. The questionnaires were refined after discussing with the all the stake holders.

2.7.3. Preparing a team for field visit

We have selected 6 of our post graduate students of Rural Management and train them for a week for the field survey and collection of primary data.

2.7.4. Field Visits & collection of primary data

The field visit started during the first week of January, 2009 and as Stated earlier, the 6 students were divided in to three groups to cover the 12 districts as per our study schedule. Each group consists of two students were assigned Eastern/Central/western UP. I personally visited each district for pilot study and had the focus group discussion with the Lead District Managers and the District authorities and the rest of the survey done by the group of two students. The Lead District Managers were contacted first through their respective controlling offices and the branches were visited with the help of LDM. The LDM also helped the team to discuss with the district officials to note down their views on this particular issue.

2.7.5. Data Collection and Tabulation

The primary data collection through the questionnaire from the sample districts, branches and the customers were completed during the last week of January, 2009. Tabulation of the primary data so collected was done based on the objective of the present study.

2.7.6. Focus Group Discussion

There is a continuous discussion with the stake holders and the people in the policy making and experts in the multidisciplinary areas which has significant impact on the implementation of the BF/BC models for greater financial inclusion. The agenda for the focus group discussion with the Zonal Heads/RBI/NABARD etc. was fixed during the last week of February, 2009.

2.7.7. Consultation of the Secondary sources of data

The secondary sources of data have been continuously consulted during the course of the study.

2.7.8. Tabulation of the data & analysis

The primary data were tabulated in excel sheet and the services of the specially designed software named SPSS-10 and SPSS-14 were also used for carrying out the analysis part.

3

REVIEW OF LITERATURE

3.1 Outsourcing of Banking Services – International Experience

While there were a number of research studies carried out worldwide on outsourcing practices in Banking and financial Services [Loh and Venkatraman (1992)] and theoretical frame work have been established [Federal Reserve Bank of New York (1999)] but the first documented best practices on outsourcing of banking services was first published by the Basle Committee (2004). In 1999, Federal Reserve Bank of New York conducted survey on banking industry practices for outsourcing arrangements. Findings suggest that banks outsource financial services for a number of reasons, such as, enhanced performance; costs reduction; access to superior expertise; and strategic reasons. In addition, the study indicates that although there are many benefits derived from outsourcing of financial services, the arrangement give rise to potential risks. The risks identified are: strategic, reputation, credit, compliance, transaction and country risk.

Similarly, in 2004 Federal Reserve Bank of San Francisco, conducted survey on outsourcing by financial services firms, and notes a number of motives for outsourcing, namely, operational efficiency; efficient use of resources; and quick and reliable service delivery. Similarly, a survey conducted by European Central Bank in 2004 reveals that although the benefits of outsourcing are evident, in practice, many banks believe that outsourcing introduces new challenges and risks. The study highlights the benefits of outsourcing, suggesting; cost reduction; access to better technology and infrastructure and strategy of focusing on core activities; economies of scale which leads to improvement in synergies achieve diversification benefits or streamline services; focusing on core activities; free scarce resources; quality services; and flexibility. As with US studies, the European study also reveals several risks associated with outsourcing, namely, operational, legal, strategic risk, country risk reputational risk, loss of flexibility, loss of control and cultural/social problems.

3.2 Outsourcing of Financial Services – Indian Approach

As stated in the Khan report, the pygmy deposit scheme which involved daily/weekly collection of tiny deposits at the depositors' doorstep by engaging local people as agents, was operated in the past by a few banks which was banned by RBI during 1983. Harper (2005) reports that while RBI regulations forbade anyone except bank employees from collecting savings on a bank's behalf, Syndicate Bank's agents were paid to do so on a commission basis. However, they signed specially worded letters that allowed them to be treated as employees by the RBI for deposit collection. This was further allowed by RBI in April 2005 (Vide Circular DBOD.No.BL.BC.86/22.01.001/2004-05 dated 30 April 2005). Banks can now offer banking services to government departments and institutions at their premises. For individuals, permission of the bank board and the Reserve Bank is necessary.

In India the outsourcing of Banking Services were introduced in a structured way by the Private Banks and the Foreign Banks during mid ninety's through the Direct Selling Agents (DSAs), but the services provided by the DSAs were directed towards the High Net-worth Individuals (HNIs) and the real needy people were left out. The Reserve Bank of India issued its first draft guidelines on Outsourcing of Financial Services by the Banks on 6th December, 2005. This section documents finding of relevant research papers, summarise the theoretical framework, and specifies the hypotheses of the present research.

3.3 Business Correspondents/Facilitators (BC/BF) model

The Banking Correspondent and the Banking Agent Model to improve the out-reach of the Banking and financial services was first introduced in Brazil by their second largest bank Caxia Economica Federal (CEF) during the year 2000, which was a big success and other banks in Brazil followed the same model to increase their outreach.

The World Bank working paper no.85 (2006) on *Expanding Bank Outreach through Retail Partnership* by Anjali Kumar et.al. explores the extent to which formal, regulated financial institutions such as banks have been able to partner with 'Correspondents'. The paper illustrates the case of Brazil, where banks recently have developed extensive network of such 'Correspondents'. The paper found out that such arrangement results in lower cost and shared risks for participating financial institutions.

The first documented research findings on outsourcing of Agricultural Credit through Banking Correspondents in the rural and semi-urban areas to increase the flow of credit to agriculture by the banking system in India was reported by Das and Baria (2005). The report stressed about the importance of the outsourcing agents as a new and cost effective delivery channel to increase the flow of credit to agriculture in the rural and semi-urban areas.

Khan Committee (2005), appointed by the Reserve Bank of India recommended the Business Correspondent/Facilitator (BC/BF) model as outsourcing agency for greater reach-out and financial inclusion by the commercial Banks. The Reserve Bank of India (RBI) on January 25, 2006 first introduced the BC/BF model for the Commercial Banks and there after some amendment were made to improve the operational efficiency of the model.

Ajay Tankha (2006) in the status report on the challenges and potential for Indian banks to implement the BF/BC model concluded that the BF/BC model have not generated the enthusiasm that would have been normally expected. The Public Sector Banks are little bit skeptical about implementation of the model recommended by the RBI.

The study made by Khan and Dash (2007) in the state of Orissa on the effectiveness of the BF/BC model in financial inclusion revealed that to get a better operational efficiency the BF/BC selected/engaged should be from the local area. They also found that both the individual and SHG model of delivery of financial products & services through the BC model are equally effective.

3.4 Financial Inclusion

The Reserve Bank of India during November, 2005 issued the circular to the banking fraternity and urged to open the ***"NO FRILL A/C"*** with minimum or no balance for the people who are deprived of banking facilities, which is the kick start of the holistic approach towards the financial inclusion movement in India.

The theme of the Annual Bankers' Conference, BANCON, 2006 held at Hyderabad during November, 2006 was ***"Inclusive Growth"*** which was predominantly dealt with the financial inclusion in the emerging economic scenario.

Rangarajan Committee on Financial Inclusion submitted its report during January, 2008 deeply analysed the extent of exclusion and the factors (both demand & supply side) for exclusion. They recommended that a National Mission on Financial Inclusion (NaMFI) comprising representatives from all stakeholders may be constituted to aim at achieving universal financial inclusion within a specific time frame. The Mission should be responsible for suggesting the overall policy changes required for achieving the desired level of financial inclusion, and for supporting a range of stakeholders – in the domain of public, private and NGO sectors – in undertaking promotional initiatives.

Aloysius P Fernandez (2006) of MYRDA in the approach paper for the Eleventh Plan, titled "Towards Faster and More Inclusive Growth", reiterated the role of Self Help Affinity Groups in Promoting Financial Inclusion of Landless and Marginal/Small Farmers' families**.** The paper opined that the small and marginal farmers cannot survive on agriculture alone and depend on the SHGs to provide them with credit for non-farm income generating activities, skills training and consumption.

According to the study of Mandira Sarma (2007) the access to banking services is still not universal in the country, though the country's banking regulator, the Reserve Bank of India (RBI), had identified this as a focus area for banks two years ago. India's index score according the o study is 0.197 with a rank of 38 among the 81 countries studied. Canada comes on top with an index score of 0.853. The US is at No. 10, China at 19 and the UK at 20.

Usha Thorat (2008), Dy. Governor, Reserve Bank of India in her key note address on 'Financial Inclusion and Information Technology' at the seminar on 'Vision-2020- Indian Financial Services Sector' hosted by NDTV at Mumbai stressed that the Financial Inclusion will be the key for sustaining the growth and development of India. She said that the challenges are for banks using multiple channels for delivery of variety of financial services, developing synergies with MFIs and SHGs by introducing seamless ICT based models linked to such intermediaries, availability of skilled manpower to facilitate the adoption of IT on such large scale, use of IT for credit information and efficient credit delivery and risk management in a much bigger way.

In an article "Technology for Financial Inclusion: What Works?" by Ankit Madhogaria (2008) published in Microfinance insights, an intellecap publication discussed about the financial inclusion perspectives and also about the key challenges and opportunities involving the use of technology for financial inclusion. It concluded that capturing transactions electronically creates enough information about a borrower to not only establish his identity and credit record, but also identify what he needs to move up and achieve a greater standard of life.

4

GENERAL PROFILE OF UTTAR PRADESH STATE

4.1 General Profile of the State

4.1.1 Uttar Pradesh is located centrally in the Indo-Gangetic Plain and to the southeast of New Delhi. With a land area of 240,928 sq. km, approximately 242.02 lakh hectares and Uttar Pradesh accounts for 7.3% of India's total land area. The State is divided into 17 administrative divisions and has 70 districts, 813 blocks containing 1, 07,452 villages.

4.1.2. While the State has 7.3 % of the land area of the country it is the home for as much as 16.17 % of the country's population. Thus, Uttar Pradesh is the most populous State in the country with a population of 166 million (census, 2001). Consequently, the population density of the State is the forth largest in the country at 689 per square kilometer. The population is highly rural-centric with as much as 79 percent of the State's population living in rural areas. This implies that only 21 percent of the population lives in urban areas.

4.1.3 The State has a sex ratio of 898 females per 1000 males. According to the 2003 Sample Registration System estimates, the infant mortality rates in Uttar Pradesh at 76 per 1,000 live births is higher than the all India rate of 60 per 1,000 live births and is the third highest in the country. The population and birth rates of the State remain a matter of concern. The decline in the birth rate of the State has been rather slow and has been stagnating in recent years. The State Registration Survey figures show that the total fertility rate (TFR) in the State declined from 6.6 births in 1971 to 4.7 births in 2000.

4.1.4. The overall literacy rate of the State is 57 percent with a huge disparity between male and female literacy rates. While the male literacy rate stands at 70 percent, the female literacy rate is only 43 percent. Though the gender gap in the literacy rate has declined by four percentage points between 1991 and 2001, it remains high at 27 percentage points (Sa-Dhan, 2008).

4.1.5. The State economy is predominantly agrarian and more than 70% of the work force is engaged in agriculture and allied activities. The importance of agriculture in the State economy can be gauged from the fact that share of agriculture in State Domestic Product is 35% as against 22% share in the National GDP.

4.1.6 Findings of Census 2001 show that 53,983,824 persons or approximately 32 percent of the population of the State is working. Of this, 73 percent or total of 39,337,649 persons are main workers and the remaining 17 percent are marginal workers. However, there is a large male female differential with 40,981,558 persons or approximately 76 percent of the working population consist of males and only the remaining 24 percent consist of females (as shown in diagram-1 and 2).

Diagram-1

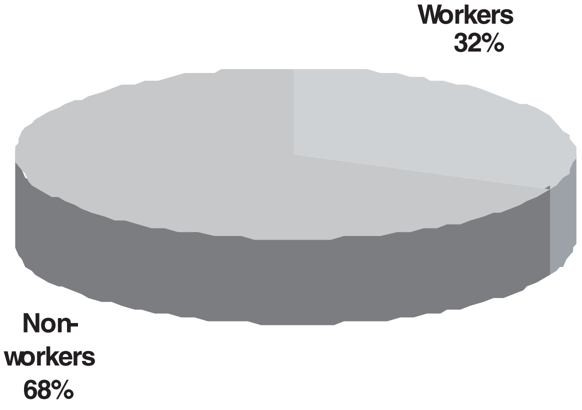
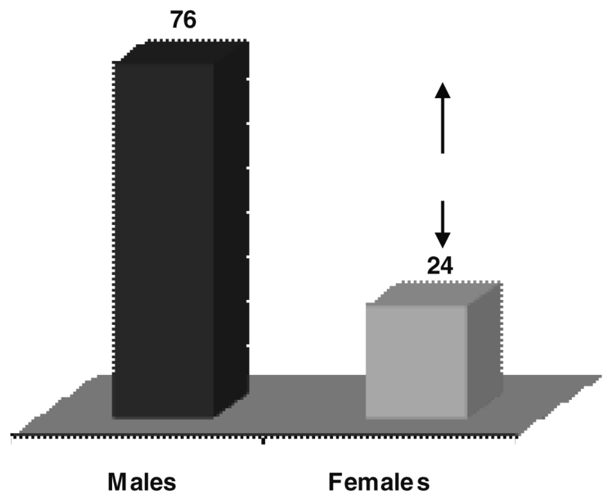


Diagram-2



4.1.7 Uttar Pradesh with more than 16 percent of India's population provides potential for a huge market base, which could be an important engine of growth for the rest of the country.

4.2. Economic & Demographic Division of UP

Both demographically and economically, Uttar Pradesh has been divided into three broad regions : Western, Central (Jhansi from Bundelkhand included) and Eastern (includes Bundelkhand area of Uttar Pradesh) regions having 21, 16 and 33 Districts respectively. The details of the division and the districts thereof are given in Table1.

Table1. Districts under three broad regions of Uttar Pradesh

Districts under Eastern Region	*Districts under Western Region*	*Districts under Central Region*
Allahabad, Ambedkarnagar, Azamgarh, Bahraich, Balarmpur, Basti, Barabanki,Balia, **Banda,** Chandauli, **Chitrakoot,** Deoria, Faizabad, Ghazipur, Gorakhpur, Gonda, Hamirpur, Jaunpur,Jalaun, Lalitpur, Mahoba, Kushinagar, Maharajganj, **Mirzapur**, Mau, **Pratapgarh**, SK Nagar, Siddharth Nagar, SR Nagar,Shravasti, Sonebhadra, Varanasi **(33 Districts)**	Bijnaur, Saharanpur, **Pilibhit,** Muzaffarnagar, Meerut, **Baghpat,** GB Nagar, Ghaziabad, Bulandshahar, Bareilly, **Badaun,** Moradabad, **Rampur**, JP Nagar, Aligarh, Mathura, Agra, Firozabad, Hathras, Etah, Mainpuri **(21 Districts)**	Shahjahanpur, Farrukhabad, Hardoi, Kannauj, Auriya, Kanpur (Dehat), Kanpur (N), **Unnao**, Lucknow, **Raebareli**, Fatehpur, Kaushambi, Etawah, **Sitapur**, Lakhimpur-Kheri, **Jhansi** **(16 Districts)**

Source: State Focus Paper-2008-09, NABARD

4.3 Intra-State Disparity in Development

There is a distinctive disparity in the different development indicators amongst the regions of the State. The details are given in Table2.

Table 2: Region wise development indicator

Sl. No	*Development Indicators*	*Eastern Region*	*Western Region*	*Central Region*	*Total UP*
1	Population (2001) in Lakhs	749.43	611.95	301.59	1662.97
2	Area (2001) in sq. km	115263	79831	45834	240928
3	Density of population (per sq.km)	726	767	658	690
4	Literacy (%) - 2001	54.89	57.36	57.58	56.27
5	Literacy (%) of female - 2001	40.02	43.96	45.52	42.22
6	% of net area irrigated to net area sown	69.7	92.4	81.0	79.0
7	% of holding less than 1 ha (1995-96)	81.5	68.8	76.6	75.4
8	Productivity of major crops (quintal per hectare)	19.76	25.72	21.95	21.91
9	Per capita net sown area (hectare)	0.12	0.09	0.10	0.10
10	Gross value of agricultural output per hectare of gross cropped area	11757	15939	13556	13898
11	Per capita income at constant price (2004-05)	5,422	7,673	6,430	6,138
12	Per capita Gross value of Industrial output (Rs. '000)	1567	8593	3834	4544

Source: Eco-Stat Department, Uttar Pradesh

- The density of population is highest in the western region (767 per sq.km) followed by eastern region (726 per sq.km) as against the average population of 690 per sq.km.
- Evaluating the overall development from the above table, the per capita income at constant prices (at 1993-94 rates) (Provisional) in 2004-05 was highest in Western region at Rs.7673 followed by Rs.6430 for Central and Rs.5422 for Eastern region, which is the lowest. The State average in this regard is Rs.6138.
- According to 2001 census, literacy percentage is lowest (54.27 percent) in the Eastern region. The same position is witnessed in the case of female literacy; this may be due to lower number of primary school in the eastern part of the State.

- Western region having productivity of 25.72 qt/ha is the most developed region in the State. Gross value of agricultural output per hectare of gross cropped area (at constant price, based on 1993-94) in eastern region was lowest Rs.11757 among all regions. This may be due to the fact that this region includes the Bundelkhand area where the topography being rocky plateau, it reduces the moisture retaining capacity of the land and thereby unsuitable for intensive cultivation. Western region having gross value of Rs.15939 of agricultural output per hectare of gross cropped area is the most developed region of the State.
- Per capita income in the western region was highest (Rs.7673) amongst the regions and also higher than the average income of Uttar Pradesh (Rs.6138). Eastern UP recorded the lowest per capita income (Rs.5422) followed by Central UP.

4.4 Livelihood Profile of Uttar Pradesh

4.4.1 The total workers in the State comprise of cultivators (41%), agricultural labours (43%), household industrial workers (6%) and other workers (10%). This shows the predominance of agriculture as a means of livelihood in the State. Traversed by several rivers and canals, especially the Ganges and Jamuna, the fertile State is the largest producer of food grains in India. In addition, sugar and edible oils are important farm produce. There is considerable industrialization in the State. Among goods produced in Uttar Pradesh are paper, chemicals, glass, distilled spirits, farm implements, leather and footwear, textiles, copper, coal, limestone, bauxite, silica, phosphorus and pyrophillite. Uttar Pradesh has also performed reasonably well in organized manufacturing, communication, banking and primary sectors during 1999-00 to 2004-05.

4.4.2 However, despite the large agricultural base, fairly well spread industrial activities, and some of the best learning centers in the country, the economic performance of the State has fallen behind the average performance for the country.

- Uttar Pradesh has lagged in vital segments of infrastructure such as power, water supply, and railways. Similarly growth in real estate and trade, hotels and restaurants, and unorganized manufacturing has also suffered.
- This is reflected in the share of agriculture, industrial and service sector of the State. The dominance of agriculture has not reduced significantly in Uttar Pradesh as compared to the rest of the country. While at the national level, the share of industry and service during 2002-03 has gone up to 27.34 per cent and 51.17 per cent respectively in Uttar Pradesh, the corresponding numbers are 25.64 per cent and 41.99 per cent. This means that at the national level the dominance of agriculture has reduced significantly compared to Uttar Pradesh. All this shows that manufacturing activity in Uttar Pradesh must increase in size, scale and scope to propel the growth in the State.

4.5 Region-wise Position of Industrialization in Uttar Pradesh

Western UP (being in vicinity of Delhi) with higher degree of urbanization has well-developed floriculture with better cold storage, marketing & processing facilities. Besides, rose cultivation is taken up on traditional basis in Ballia, Etah and Kannauj mainly for the purpose of extracting rose water & rose oil. Gladiolus and tuberose cultivation has picked up in some districts like Muzzaffarnagar and Etah. However, development of horticulture in the middle-gangetic plains has not picked up, notwithstanding its tremendous potential. One finds a tendency here of credit flow towards development of a few crops only (mostly Mango and Papaya to the neglect of others. Although forest constitute only about 4.5% of UP's land area. Forestry hold significant potential in much of the Tarai region, Lakhimpur Kheri, Chitrakoot, Sonebhadra & some other areas, if practiced on a sustainable basis. The method of sustainable forestry is through incentivising growth of forests on wastelands. In Bundelkhand region, the development of industry is inadequate. The number of persons engaged in registered factories per lakh of population during 2002-03 is only 67 persons in this region, while the western region is most developed with 435 persons followed by 218 persons in central region and 106 persons in eastern region. The region wise percentage distribution of the industries in Uttar Pradesh is given as under:

Table 3. Region-wise distribution of industries

Sector	*Western Region*	*Central Region*	*Eastern Region*
1. Heavy & Medium Industries	59	22	19
2. SME Sector	52	15	33
3. Unorganized Sector	56	9	35
Source: State Focus Paper-2008-09, NABARD			

An analysis of units registered by March, 2006 reveals that almost 50% of the industries have come up in western U.P. and within this region Ghaziabad and NOIDA have emerged as focal points of industrial development. Eastern U.P., relatively densely populated area, could attract approximately 33% of SME units although geographically these two regions (western UP and eastern UP) have 21 and 33 districts respectively.

4.6 Ranking of Districts According to Composite Index of Development (CID) in UP.

The State government has identified the level of development of districts on the basis of 36 indicators which includes 9 indicators of agriculture and allied activities, 8 of industry sector, 10 of economic infrastructure. On the basis of these selected 36 indicators, a composite index of development has been worked out by Ranking Method at district level. On the basis of this method, the districts have been placed in five ranges as Stated in table-4.

Table 4. Ranking of districts according to CID

Ranges & Ranking	*No of Districts*	*Name of the Districts with CID*
Most Developed Districts (CID 125.00 above)	7	Gautam Buddha Nagar (402.71), Ghaziabad (180.76), Meerut (150.57), Lucknow (146.33), Agra (136.72), Kanpur Nagar (134.06), Varanasi (130.02)
High Medium Developed Districts (CID 105.00-125.00)	13	Mathura (122.96), Kannauj (108.93), Muzaffar Nagar (117.26), Saharanpur (116.16), Jyotiba Phule Nagar (115.06), Bulandshahr (111.54), **Jhansi** (110.37), Moradabad (110.00), Kanpur Dehat (107.47), Bijnor (107.44), **Baghpat** (107.20), Bareilly (105.78), Allahabad (105.47)
Medium Developed Districts (CID 86.00-105.00)	21	Hatthras (102.03), Faizabad (97.29), Etawah (101.10), Sant Ravidas Nagar (100.95), Jalaun (100.66), Aligarh (100.36), Firozabad (100.35), Farrukhabad (100.06), Sonbhadra (99.20), **Rampur** (98.59), Gorakhpur (98.47), Hamirpur (98.01), Sultanpur (95.07, **Unnao** (94.08), Barabanki (93.68), Mainpuri (91.76), **Pilibhit** (89.89), Mahoba (89.10), Shahjahanpur (87.23, **Sitapur** (87.07), Basti (86.53
Low Medium Developed Districts (CID below 75.00)	15	Mau (85.68), **Mirzapur** (79.27), **Budaun** (85.30), Lakhimpur-Kheri (85.13), Etah (83.87), **Raebareli** (82.83), Fatehpur (81.87), Chandauli (80.98), Lalitpur (79.30), Kaushambi (78.20), Deoria (76.76), Jaunpur (76.50), Gonda (76.16), Auraiya (75.76), **Pratapgarh** (75.14)
Most Backward Districts (CID Below 75.00)	14	Ghazipur (74.65), Azamgarh (69.85), Ambedkar Nagar (74.00), Ballia (73.53), Hardoi (72.58), Kushi Nagar (71.39), Bahraich (71.01), **Chitrakoot** (70.12), **Banda** (69.26), Balrampur (67.95), Maharajganj (66.17), Sant Kabir Nagar (64.28), Siddharth Nagar (62.06), Sharawasti (52.70)
TOTAL	70	
Source: State Focus Paper-2008-09, NABARD		

In the present study, we have considered two high-medium developed districts (Jhansi & Baghpat), four from medium developed districts (Rampur, Unnao, Pilibhit and Sitapur)), four from low-medium developed districts (Badaun, Mirzapur, Raebareli and Pratapgarh) and two from most backward districts (Chitrakoot & Banda). We have not considered any districts from the category of most developed Districts of Uttar Pradesh which shows the unbiased selection of districts for the present study.

4.7. Region-wise Credit Flow in UP

Institutional finance is also one of the important sources of investment. The State has a wide network of banks. It is being served by 43 commercial banks, 13 RRBs and 50 District Cooperative Banks. The outreach of credit institutions, whether commercial banks or cooperative institutions is very low. Out of 2 crore farmer households in the State, the actual coverage of farmers by institutional credit would be less than 20 per cent. Despite the State contributing about 13 percent in the agricultural gross domestic product of the country in 2002-03 and producing about 20% of the total food grain production in the country, agricultural crop loan disbursed in the State was only 7.97 percent of total loans and advances disbursed in the State during 2002-03, 8.31 percent in 2003-04, 9.81 percent in 2004-05 and 11.37 percent in 2005-06. Small and marginal farmers constitute about 80% of the cooperative membership. Thus, cooperatives serve those who are poor and risk prone. Cooperatives play a vital role in augmenting the rural economy with its 30% contribution in fertilizer distribution, 30% share in short term loan, 60% in long term loan distribution. Cooperatives essentially meet the requirements of short term credit through its three tier credit structure consisting of 50 District / Central Cooperative Banks with 1277 branches and 7479 primary agricultural cooperative societies (PACS) at the Nyay Panchayat level. Similarly, long term credit needs are being met by U.P. Sahkari Gram Vikas Bank Ltd. with its 315 branches operating all over the State. There are 7479 Cooperative Societies functioning at Nyaya Panchayat level which constitute the main point of interface between the farmer and the Cooperative Society for disbursement of short-term, long-term agricultural loans, provision of HYV seeds, pesticides, fertilizers, improved agricultural implements etc.

It could be observed from the past trends that among the three regions- Central, Western and Eastern, the Western region is absorbing the major share of Ground Level Flow of Credit (GLC) with an average of 61%, followed by the Eastern region with 24% and Central region with 10% share. The target and achievements under Service Area Plan for the three regions, broad sector wise, during the last three years is furnished below.

Table 5. Sector-wise/Region-wise Target & Achievement under service Area Plan

Region / Board Sectors	*2004-05*		*2005-06*		*2006-07*	
	Target	*Ach.*	*Target*	*Ach.*	*Target*	*Ach.*
Eastern						
Agri	3618.68	2993.03	4251.69	3326.82	5164.64	4099.72
NFS	834.52	600.25	910.07	555.88	832.43	744.81
OPS	938.23	1195.05	1287.82	1316.74	1645.22	1604.60
TOTAL	5391.43	4788.33	6449.58	5199.44	7642.29	6449.13
Western						
Agri	6144.83	5902.85	7364.69	6866.79	9335.54	9193.28
NFS	1570.14	1307.75	2101.10	1954.09	5082.48	4414.45
OPS	1841.07	2143.62	2359.49	2957.00	3021.71	3106.32
TOTAL	9556.04	9354.22	11825.3	11777.88	17439.7	16714.1
Central						
Agri	1830.49	1819.18	2701.31	2768.35	3517.28	4170.93
NFS	233.86	243.63	369.16	360.03	484.14	403.50
OPS	477.70	464.74	621.66	619.80	876.78	722.88
TOTAL	2542.05	2527.55	3692.13	3748.18	4878.20	5297.31
State Total	18271.81	17077.7	22343.4	21739.22	28571.4	27423.8

Agri - Finance to Agriculture (both direct & indirect)

NFS - Finance to Non-Farm Sector

OPS - Finance to Other Priority Sector

Source: Focus Paper 2008-09, NABARD, Lucknow

- The GLC growth rate in Eastern region in 2006-07 has been around 24% as against 9% during the previous year. The share of agriculture credit in the total GLC has been around 64% during 2006-07 and 2005-06 year as against 63% in 2004-05 out of total GLC flow in this region. The achievement vis-à-vis target was 84% during 2006-07 (79% during 2005-06). The share of NFS to the total GLC declined to 11% during 2005-06 as against 15% share during the previous year but increased to 12% in 2006-07. The slow growth under this sector in this reason is mainly due to poor infrastructure, erratic power supply and migration of skilled labour to other States. The share of the service sector remained constant at 25% in all the three years. The law and order situation in Eastern is considered not very conducive for setting up of industries. Infrastructural facilities like power, rural roads etc are not adequate, leading to poor off-take of agricultural credit. The demographic profile of this region exhibits large-scale migration of the labour force to the industrially developed cities like Mumbai and Kolkata as well as to Gulf countries for employment. Consequently, the banks are flush with deposits and inward remittances, manifested in a poor CD ratio. Majority of DCCBs in the region are not complying with section 11 of the BR Act. The social and political milieu is also not conducive for development.
- Western region is the most developed as compared to the other three regions. The disbursements under all the sectors in Western Region had shown a tremendous growth during 2006-07 over the previous year as against 26% during the year 2005-06 with an achievement of 96% of the plan. The major share of GLC in this region is held by agriculture sector which has declined to 55% in 2006-07 from 58% during 2005-06. The average share of NFS in this region is low but increasing steadily over the last three years i.e. 14% in 2004-05 to 17% in 2005-06 and further to 26% in 2006-07. There is a concentration of large and small scale industries in the region, particularly in the districts of Agra, Ghaziabad, Gautam Buddh Nagar, Meerut, Moradabad and Bulandshahar.

These districts being close to Delhi enjoy better market facilities and better connectivity in the form of roads and communication for easy transportation of raw material and finished goods. Less fragmentation of land holdings, intensive use of farm implements and better fertilizer consumption are a few indicators of a better Farm Sector growth in this region. Moreover, this region is also not exposed to natural calamities like floods and droughts as compared to other regions. The Terai belt of western region comprising pilibhit, Lakhimpur and Rampur districts has sizable populations of farmers from Punjab, which has facilitated technology transfer from Punjab and the adoption of good agricultural practices followed thereat, to this region. The better power situation has also positively contributed in development of irrigation facilities in this region. The availability of better infrastructure like roads, irrigation facilities, power and connectivity are the important factors contributing to the development of this region.

- In the Central region, the growth in GLC was around 41% during 2006-07 as against 48% during 2005-06 and 37% in the year 2004-05. The share of agriculture sector was maximum at 79% of total GLC. The share of NFS was the lowest at 10% during2005-06 which has further declined to 8% during2006-07. GLC flow in the service sector through gone up by 33% during 2005-06 over the previous year, declined to 17% during 2004-05 to 17% in 2005-06 and further to 14% in 2006-07. Disbursements to the Non-Farm sector have either stagnated or even decreased. Likewise, its share in total GLC is also seen to be coming down, indicating a reverse movement of credit.

5

DELIVERY CHANNELS OF FINANCIAL PRODUCTS AND SERVICES IN UP

5.1 Banking Network

5.1.1 The State has a wide network of banks. It is being served by 43 Commercial Banks, 12 RRBs and 2 Cooperative Banks. Out of total 9123 branches of All Scheduled Commercial Banks (including RRBs) operating in the State, 4866 branches are operating in the rural areas and 1594 in Semi-urban areas. In addition to this 1641 branches of District/Central Cooperative and Land Development Banks are also serving in the State. Apart from this 70 Urban Cooperative Banks are also functioning through their 184 branches in the State. The per branch population comes to around 16076 as at 31.07.2007. The details of the key parameters and number of branches in different population group (Rural, Semi-Urban & Urban) are given in Table 1.

5.1.2 Total deposits with the banking sector in the State increased by 19.91% in 2007-08 over 2006-07. At the end of March 08, the total deposits stood at Rs.224348.46 crore. Commercial Banks which have the maximum share (86.22%) in total deposits registered a growth of 20.95%. Deposits of RRBs and Cooperative Banks registered a growth of 17.64% and 5.73% respectively over the last year. Similarly, during the same period, the total advances with the banking sector increased by 10.69%. At the end of March 2008, the total outstanding advances stood at Rs.112444.81 crore. The growth registered by Commercial Banks was 13.27%, while outstanding loans of RRBs registered a growth of 19.89%. Cooperative Banks have registered a negative growth of 17.65% compared to their last year level. The share of Commercial Banks in total advances was 86.22% whereas the share of RRBs & Cooperative Banks was 9.58% and 4.19% respectively. The CD Ratio of the State has witnessed a quantum jump during March 2006 and 2007. However, it has come down at March 2008. The CD ratio of the State is below the national level and it has become a prime concern for one and all.

5.1.3 Credit is an important instrument required for development and it should be utilized according to the national priorities. Certain sectors of the economy were declared as priority sectors for the purpose of providing bank credit to them. The concept of priority sector lending has been evolved to ensure that bank credit flows in an increasing manner to certain vital sectors of the economy. Banks in the State of U.P. are actively involved in the process of not only achieving but surpassing the prescribed targets over the years

5.1.4 Lead District responsibilities have been assigned to 9 Lead Banks in the State.

- Allahabad Bank
- Bank of Baroda
- Bank of India
- Canara Bank
- Central Bank of India
- Punjab National Bank
- State Bank of India
- Syndicate Bank
- Union Bank of India

The detailed lists of the Commercial Banks with lead responsibilities are given in Table 2.

5.1.5 Regional Rural Banks (RRBs)

There were 36 RRBs in the State but now after amalgamation process the number has reduced to 12. These RRBs are

Table 1. Key indicators of Banking services in the State of UP

(Amt in crore)					
Sl. No.	*Particulars*	*AS ON*			
		31.03.07	*30.09.07*	*31.03.08*	*30.09.08*
1	Deposit	178191.38	189961.19	214934.30	235239.70
2	Advances	91277.69	93421.34	103960.49	107321.42
3	CD Ratio (%)	51.22	49.18	48.37	45.62
4	Advances including Investments	114476.04	116062.52	127171.73	125540.55
5	Advances & Investment to Deposit Ratio (%)	64.24	61.10	59.17	53.37
6	Priority Sector Advances	58145.65	57588.11	67108.57	70013.74
7	% of Priority Sector Advances to Total Advances (Norm-40%)	63.70	61.64	64.55	65.23
8	Total Agriculture	28384.31	28393.21	32429.20	32094.40
9	% of Total Agriculture to Total Advances (Norm-18%)	31.10	30.39	31.19	29.90
10	Advances to SSI	8494.03	9983.96	11869.38	12760.88
11	% of SSI Advances to Total Advances	9.31	10.68	11.42	11.88
12	Advances to Other Priority Sector	21267.31	19210.94	22809.99	25159.23
13	% of OPS Advances to Total Advances	23.30	20.56	21.94	23.44
14	Advances to Weaker Section	14916.63	15263.99	17742.02	15758.64
15	% of Weaker Sections to Total Advances (norm-10%)	16.34	16.33	17.06	14.68
16	DRI Advances	84.10	238.81	170.10	153.46
17	% of DRI Advances to Total Advances	0.12	0.25	0.16	0.14
18	Branch Network (Commercial Banks including RRBs)	9123	9212	9306	9350
	a) Rural	4866	4832	4857	4776
	b) Semi-Urban	1594	1639	1626	1726
	c) Urban/Metro	2663	2741	2823	2848
(*Source:* Bank of Baroda, SLBC Convener, UP)					

sponsored by 10 banks and catering to the needs of people of 70 districts through their 2883 branches. List of Regional Rural Banks (With area of their operation and their sponsoring banks) is given in Table 3.

5.2 Micro Finance Operation

5.2.1 Performance of MFIs in India

Between October and November 2008, Sa-Dhan collected 6 Core Financial Ratios from 160 MFIs throughout India. These Financial Ratios track sustainability, efficiency and productivity of MFI-operations and have been benchmarked by Sa-Dhan. The 6 core financial ratios are as under:

- Operational Self Sufficiency (OSS)
- Portfolio at Risk (PAR60)
- Current Repayment rate (CRR)
- Operating cost Ratio (OCR)
- Total Cost Ratio (TCR)
- Active Borrowers per credit officer (ABCO)

Table-4 below depicts the details of the study made by Sa-Dhan on the different parameters of performance of MFIs in India.

Table 2. List of the Districts and corresponding lead Banks in UP

Sl. No.	*Name of the Banks with lead Responsibilities*	*No. Lead Districts*	*No. of Branches*	*Name of the Districts covered*
1	Bank of Baroda	14	579	Allahabad, Kaushambhi, Faizabad, Sultanpur, Fatehpur, **Raebareli,** Ambedkarnagar, **Pratapgarh,** Kanpur(Nagar), Kanpur (Dehat), Bareilly, **Rampur, Pilibhit**, Shahjahanpur.
2	Allahabad Bank	13	679	**Sitapur,** Lakhimpur Kheri, **Mirzapur,** Bahraich, **Banda, Chitrakoot**, Mahoba, Jalaun, Hamirpur, Sonebhadra, Gonda, Balrampur, Sravasti.
3	Punjab National Bank	7	842	Bulandshahr, Bijnore, **Badaun**, Muzaffarnagar, Saharanpur, **Jhansi,** Lalitpur.
4	Union Bank of India	7	466	Azamgarh, Jaunpur, Mau, Chandauli, Ghazipur, Varanasi, Sant Ravidasnagar.
5	Syndicate Bank	7	262	Moradabad, J.P. Nagar, Meerut, **Baghpat,** Ghaziabad, G.B. Nagar, Mathura.
6	Bank of India	7	254	Barabanki, Farrukhabad, Hardoi, Kannauj, Lucknow, Mainpuri, **Unnao.**
7	State Bank of India	6	1322	Sidharthnagar, Gorakhpur, Basti, Santkabirnagar, Maharajganj, Firozabad.
8	Central Bank of India	5	429	Deoria, Kushinagar, Ballia, Etawah, Auraiya.
9	Canara Bank	4	202	Agra, Aligarh, Etah, Hathras.
Total		70	5035	
(*Source:* Bank of Baroda, SLBC Convener, UP)				

Table 3. List of RRBs and corresponding sponsored Banks in UP

Sl. No.	*Name of Sponsoring Bank*	*Name of RRB*	*No. of Branches*	*Area of Operation (Districts)*
1	Bank of Baroda	Baroda UP Gramin Bank	655	**Raebareli**, Sultanpur, Kanpur (Nagar),Kanpur(Dehat), Fatehpur, Allahabad, Kaushambi, **Pratapgarh**, Faizabad, Ambedkar Nagar, Bareilly, **Pilibhit,** Shahjahanpur, **Rampur**
2	Allahabad Bank	Triveni Kshetriya Gramin Bank	207	Jalaun, Hamirpur, Mahoba, **Banda, Chitrakoot**, **Mirzapur**, Sonebhadra
		Lucknow Kshetriya Gramin Bank	243	**Sitapur,** Bahraich, Sravasti, Lakhimpur - Kheri
3	Punjab National Bank	Sarva UP Gramin Bank	267	Bijnor, Muzaffar Nagar, Ghaziabad, Bulandshahr, G.B. Nagar, Gonda, Balrampur, **Badaun**, **Jhansi**, Lalitpur
4	Union Bank of India	Kashi Gomti Samyut Gramin Bank	338	Varanasi, Chandauli, Sant Ravi Das Nagar, Jaunpur, Azamgarh, Ghazipur, Mau
5	Syndicate Bank	Prathama Bank	191	Moradabad, **Baghpat**, J.P. Nagar
6	Bank of India	Aryavart Gramin Bank	288	Farrukhabad, Kannauj, Barabanki, Lucknow, Hardoi, **Unnao**
7	State Bank of India	Purvanchal Gramin Bank	305	Basti, Siddharthnagar, Sant Kabir Nagar, Gorakhpur, Maharajganj, Deoria, Kushinagar
8	Central Bank of India	Etawah KG Bank	51	Etawah, Auraiya
		Ballia KG Bank	87	Ballia, Mau
9	Canara Bank	Shreyas Gramin Bank	188	Aligarh, Hathras, Etah, Agra, Firozabad, Mathura
10	U.P. Co-op. Bank	Kshetriya Kisan G Bank	63	Mainpuri, Firozabad
(*Source:* Bank of Baroda, SLBC Convener, UP)				

Table 4. Core Financial Ratios of Bharat Micro Finance

Sl. No.	*Standards Ratios*	*Ratios for the 2008-Sample**	*Ratios for the 2007-Sample***	*Ratios for the 2006-Sample****
1	Operational Self Sufficiency **(OSS)**	125.80%	112.90%	104.60%
2	Portfolio at Risk **(PAR-60)**	0.90%	1.00%	1.80%
3	Current Repayment rate **(CRR)**	99.10%	97.90%	94.00%
4	Operating cost Ratio **(OCR)**	8.50%	9.70%	15.40%
5	Total Cost Ratio **(TCR)**	17.60%	17.40%	23.40%
6	Active Borrowers per credit officer **(ABCO)**	411	339	239

* Calculated from data of 142 MFIs

** Calculated from data of 101 MFIs

*** Calculated from data of 83 MFIs

Source: Side-By-Side, 2008, Sa-Dhan

5.2.2 Micro Finance Operation in UP

Uttar Pradesh, while heavy weight among the country's population has not shown the same trend in terms of micro finance growth. For example, in 2001, the State ranked fifth in absolute size of SHGs. The level of SHG bank linkage in the State ranks even lower at a modest seventh. The current level of micro-*financiarization* of the State depicts that it has more to do with the level of growth of micro finance than with its starting. While some States like Rajasthan registered as much as a five-fold growth in the pace between the years 2000–2002, Uttar Pradesh only registered a growth of 1.5 times in the corresponding period.

The figures show the low penetration level of SHGs and micro-credit through them. It also shows the low level of repeat bank loans, which could reflect on credit disciplines of the groups, their repayment of the first loan, and consequently, on the quality of the groups and the SHPIs, that are often instrumental in shaping them.

Even within the State, the level and growth of micro finance shows disparity between the various pockets. In general, the eastern and the central regions lag behind the western region of the State which have a comparatively high density of groups and bank linkages. However, the picture even in these regions is gradually shading its gray hue through the concerted efforts not only of various government banks and institutions but also through intervention of various key private players. CASHPOR Financial and Technical Services, one of India's leading micro finance institutions (MFIs) and a pioneer in UP, has covered nearly all the Easter districts of UP. The Uttar Pradesh Government in 2006 reached an agreement with the National Bank for Agriculture and Rural Development, under which the lender would provide Rs.2,300 crore for strengthening the State's district cooperative banks and societies. These substantial investments from government and private players are expected to strengthen micro finance activities further in Uttar Pradesh.

Table 5. MFIs Portfolio at Uttar Pradesh as on 31.03.2008

State	*Uttar Pradesh*
No. of MFI's Head Office	11
No. of MFI's (HO & Branches)	18
Client Outreach	5,33,041
Portfolio Outstanding	Rs. 346,94,41,228.00
No of Districts Served	36
Out of which No of poorest districts	15

Source: The Bharat Micro-Finance Report-2008 published by Sa-Dhan.

There are 12 registered MFIs are head quartered in Uttar Pradesh. The details of the core financial ratios of the following 12 MFIs were studied by Sa-Dhan and the details are given in Table-6.

5.3. Engagement of Business Correspondents/ Facilitators (BC/BF) in UP

5.3.1 The Business Correspondent/Facilitator model to extend the financial services to the rural and semi-urban people at their doorstep in the State of Uttar Pradesh, was first taken up by the Private Sector Banks like ICICI Bank through their model of partnership with the reputed NGOs and MFIs. As the coverage of ICICI Bank is very limited in the State of Uttar Pradesh, it was felt that the Public Sector Banks should come also engage the BC/BF to increase their outreach and extending the banking and financial services to the door step of the poor people.

5.3.2 The Union Bank of India introduced 'doorstep banking' in the rural areas to reach out even to those who do not have a bank account. The bank will leverage on technology through the use of bio-metric smart cards and make use of business facilitators and correspondents. The Union Bank of India has the Lead Bank responsibilities in 4 Districts of UP started the initiative to engage BC/BF in the District of Chandauli and

Table 6. Core Financial Ratios of the MFIs in UP

(Position as on 31.03.2008)

Sl. No.	*Name of the MFIs Head-Quartered in UP*	*OSS*	*PAR >60 Day*	*CRR*	*OCR*	*TCR*	*ABCO*
1	Bhartiya Micro Credit	13.10%	0.00%	NA	45.90%	48.50%	24
2	CASHPOR Micro Credit	102.50%	1.60%	96.30%	12.90%	25.60%	252
3	Disha Social Organization	123.20%	1.10%	89.90%	6.10%	19.90%	107
4	Jaago Samajik Arthik & Harit Vikas Sangathan	26.50%	0.00%	NA	105.00%	105.00%	18
5	Margdarshak	37.30%	0.00%	100.00%	27.50%	32.50%	74
6	Network of Entrepreneurship & Economic Development (NEED)	146.60%	0.00%	100.00%	4.40%	12.30%	210
7	Nirman Bharti Samajik & Arthik Vikas Sangathan	121.70%	0.00%	100.00%	16.40%	26.10%	355
8	Peoples Action for National Integration (PANI)	133.80%	1.60%	98.60%	5.70%	14.10%	372
9	S.E. Investments Ltd.	98.50%	2.70%	97.20%	4.50%	5.90%	51
10	Shramik Bharti	144.30%	NA	NA	4.90%	13.20%	365
11	Sonata Finance Private Limited	101.50%	0.10%	99.90%	18.60%	32.10%	213
12	Trust Microfin Network	102.50%	0.00%	100.00%	3.50%	10.50%	NA

Source: Side-By-Side, 2008, Sa-Dhan

Varanasi. The bank is appointing Business Facilitators and Business Correspondents to offer services at the doorsteps of the customers resulting into scalability and reduction of transaction cost, making outreach a viable business proposition. The primary school teachers, ex-army personnel, heads of SHGs having good track record are preferred to be engaged as Business Facilitators. The Bank has also tied up with "*Drishtee*" through their Kiosks at Kanpur and Meerut districts in Uttar Pradesh. The bank is also exploring the possibilities of tie up arrangement with India Post as Business Correspondent for greater multiplier effect.

5.3.3 The State Bank of India has signed MOU with the Zero Mass foundation to work as their Business Correspondent on Pilot basis in few districts of Uttar Pradesh (e.g. Unnao). While contacted with the Zero Mass they refused to give the exact figure of number of Districts that will be covered under this agreement with State Bank of India. The total technological solution starting from issuance of "Smart Card" to all customers (S/B, NREGA, borrowers etc.) to recording of daily transaction in biometric devices and linking up the transaction with the main frame server will be provided by the Zero Mass Foundation.

5.3.4 Punjab National Bank**,** one of the very important players in the State of Uttar Pradesh with around 842 branches has started engaging Business Correspondent/Facilitator. The bank envisages utilizing services of Business Facilitator/Business Correspondent for the purpose of increasing the outreach of their products and services. The bank has launched Pilot project in Saharanpur District of Uttar Pradesh. Saharanpur District has 1278 villages covering a population of 29 lakh. Out of 4.5 lakh households in this District, 2 lakh families are not having any kind of bank account. The bank's aim is to include these families under financial inclusion project of the bank.

5.3.5 Bank of Baroda, the SLBC Convener Bank and having Lead District responsibilities of 14 Districts , has yet to take a decision on the engagement of the BC/BF for increasing their outreach. Allahabad Bank, another major Bank with lead district responsibilities in 13 districts, has also not taken any decision of appointing/engaging the BC/BF in the State of Uttar Pradesh. The other Lead Banks like Canara bank, Central Bank of India, Bank of India have also not yet engaged any BC/BF for increasing the outreach of their products and services.

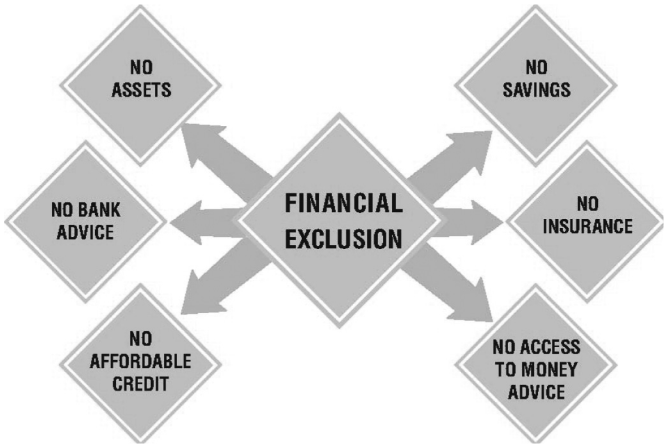
6

FINANCIAL INCLUSION – THE CHALLENGES AHEAD

6.1 Financial Exclusion

6.1.1 Definition: There is a growing divide, with an increased range of personal finance options for a segment of high and upper middle income population and a significantly large section of the population who lack access to even the most basic banking services. This is termed "Financial Exclusion". These people, particularly, those living on low incomes, cannot access mainstream financial products such as bank accounts , credit, remittances and payment services, financial advisory services, insurance facilities, etc. The financial exclusion can be best defined through the following diagram.

Diagram.1: Various facets of financial exclusion



6.1.2 Magnitude of Financial Exclusion

According to NSSO survey 59th round;

A) GENERAL

- 51.4%of farmer households are financially excluded from both formal/informal sources.
- Of the total farmer households, only 27% access formal sources of credit, one third of this group also borrow from informal sources.
- Overall, 73% of farmer households have no access to formal sources of credit.

B) REGION WISE

- Exclusion is most acute in Central, Eastern and North-Eastern regions- having a concentration of 64% of all financially excluded farmer households in the country.
- Overall indebtedness to formal sources of finance alone is only19.66%in these three regions.

C) OCCUPATIONAL GROUPS

- Marginal farmer households constitute 66% of total farmer households. Only 45% of these households are indebted to either formal or non-formal sources of finance.
- About 20% of indebted marginal farmer households have access to formal sources of credit.
- Among non-cultivator households, nearly 80% do not have access to any sources of credit.

D) SOCIAL GROUPS

- Only 36% of ST Farmer households are indebted (SCs and OBCs-51%) mostly to informal sources.
- Analysis of the data provided by RBI through its Basic Statistical Returns (BSR-1) reveal that critical exclusion(in terms of credit) is manifest in 256 districts, spread across 17 states and 1 UT, with a credit gap of 95% and above. This is in respect of commercial banks and Regional Rural Banks (RRBs).

6.1.3 Contributory Reasons for Exclusion: The contributory reasons for exclusion of such large number of rural population from the banking fold as observed by the Khan Committee (2005) are:

a) Unbanked Area
b) loan amount is too small to attract attention of banks
c) Distance of the bank branch is prohibitive
d) High transaction cost as deterring factor
e) Lack of collateral security
f) Inability of the bankers to evaluate cash flow cycle and repayment capacity.
g) Mind set of bank staff not properly aligned resulting indifference to the need of the farmers.
h) Easy availability and door step services of money lenders and other informal sources.

6.1.4 Consequences of Financial Exclusion

Financial exclusion is a serious concern among low-income households as well as small businesses, mainly located in semi-urban and rural areas. Consequences of financial exclusion will vary depending on the nature and extent of services denied. Financial exclusion complicates day-to-day cash flow management - being financially excluded the low-income households as well as the micro and small enterprises deal entirely in cash and are susceptible to irregular cash flows. Incase of low-income households, the absence of access to bank accounts and other saving opportunities result in lack of savings ; low investments ; lack of financial planning and security for old age ; difficulties in gaining access to credit or getting credit from informal sources at exorbitant rates ; increased unemployment due to lack of self –employment opportunities ; higher incidence of crime etc. The small business may suffer due to loss of access to middle class and higher-income consumers, higher cash handling costs, delays in remittances of money, lots of reliance on private money lenders for small credits. It may thus be concluded that financial exclusion not only widens the *'Rich-Poor divide '*, it also lead to *'Social Exclusion'*.

6.2 Financial Inclusion and Economic Development

6.2.1 Financial Inclusion – Not an Option but Compulsion:

What economic development paradigm has revealed is that equity is not axiomatic with economic development. Financial inclusion is an essential pre-condition to building uniform economic development, both spatially and temporally, and ushering in greater economic and social equity. There are several government and non-government programmes aimed at reducing poverty and bringing greater equity in the country. But few have proved to be inherently productive and sustainable. Financial inclusion can transform them into productive and self-sustainable projects.

6.2.2 Financial Inclusion: Supply Side Perspective

The concept of financial inclusion in banking scenario is delivery of banking services at an affordable cost to vast sections of disadvantaged and low-income groups. Banking services include credit, savings, insurance, payments and remittances which are essential and should be made available to the entire population without any discrimination. Financial inclusion is not only for social growth but a profitable proposition for banks. The micro-credit programme launched through numerous Non Government Organizations(NGOs), has found fancy with the banking industry and can prove to be an excellent tool to bring in greater equity through financial inclusion.

6.2.3 Financial Inclusion: Demand Side Perspective

No-frills account when promoted extensively plough backs the returns from these projects into bank coffers, thus encouraging the savings habit and ensuring that banks act as a repository of savings and sources of credit. This will make banking, enter into the daily routine of a common man. Besides nurturing the habit of saving among the masses, it will remove the apprehensions and fear from their mind towards the financial products and services. This will encourage un-banked/under-banked consumers to enter into or make better use of the financial mainstream. It will also persuade people to take credit for setting up new ventures. In a way, provision of easy credit will encourage the first generation entrepreneurs to initiate new venture; aggravate the capital formation in the society; create new employment opportunities and thus will help in escalating the economic development of the country. This also will automatically lower the increasing crime rates in the society.

6.2.4 Financial Inclusion: Market Perspective

There is a vast untapped market in India and the banks can reach out to cater to their financial needs. It is, therefore, imperative to roll out an action plan to cover the highly excluded areas / regions in a very definite, time bound manner. Hence the overall strategy for financial inclusion, especially amongst the poor and disadvantaged segments of the population, should ideally comprise of:

- Ways and means to effect improvements within the existing formal credit delivery mechanism.

- Suggest measures for improving the credit absorption capacity, especially amongst the marginal and sub marginal farmers.
- Evolve new models for extending outreach.
- Leverage on technology solutions to facilitate large scale inclusion.

6.2.5 Role of Financial Education vis-à-vis Financial Inclusion

Financial education can be comprehensively defined as "the process by which financial consumers/investors improve their understanding of financial products, concepts and risks and, through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being". Financial education thus goes beyond the provision of financial information and advice. The focus of any discussion on financial education is primarily on the individual, who usually has limited resources and skills to appreciate the complexities of financial dealings with financial intermediaries on matters relating to personal finance on a day to day basis.

In the context of 'financial inclusion', the scope of financial education is relatively broader and it acquires greater significance since it could be an important factor in the very access of such excluded groups to finance. Further, the process of educating may invariably involve addressing deep entrenched behavioral and psychological factors that could be major barriers. However, the complementary relationship between microfinance and financial education is obvious and financial literacy can increase the decision making power and prepare them to cope with the financial demands of daily life. In a country like India, with diverse social and economic profiles , financial education is particularly relevant for people who are resource poor and who operate at the margin and are vulnerable to persistent downward financial pressures. With no established banking relationship, the un-banked poor are pushed towards expensive alternatives. The challenges of household cash management under difficult circumstances with few resources to fall back on, could be accentuated by the lack of skills or knowledge to make well informed financial decisions. Financial education can help them prepare ahead of time for life cycle needs and deal with unexpected emergencies without assuming unnecessary debt.

6.3 The Model for Financial Inclusion

Deepening the financial system and widening its reach is crucial for both accelerating growth and for equitable distribution, given the present state of development, of our country. After analyzing in depth the underpinning reasons of financial exclusion in India and going through the success stories of UK and USA , and interacting with NGOs mainly operating in different states of central India, it becomes obvious that we have to continue with our tireless endeavor to combat monsters like illiteracy, poverty, ignorance, cultural and psychological hurdles and simultaneously design innovative, lucrative and low cost banking products and services to lure public, to join the mainstream. Need was felt to reorient the attitudes of the operating staff to make them appreciate the benefits of extending the reach to wider sections of the society. The model discussed below will be instrumental in bring hundred percent financial inclusion in our country.

Stage I: Create Awareness & Financial Literacy

Intensive awareness, education and promotion drive to create an in-depth impact on the masses, can become reality through the following methods:

- Government should promote introduction of basic banking – relevance, services, merits as a topic in secondary and higher secondary classes in all educational institutions.
- Government sponsored publicity campaigns be launched through all medias – radio; television; newspapers; e-choupal; village panchayat; movies; local stage shows, etc.
- Banks should design and organize aggressive education-cum-promotion campaigns in un-banked parts of urban, semi–urban and rural areas to enhance financial literacy and awareness, as well as to remove the doubts and apprehensions that the masses have towards the banking sector.
- Banks should involve the knowledgeable and well-informed local inhabitants in such activities. This will help the banks to consolidate and ensure prompt and extensive response from populace.
- Banks should gather support from the NGOs, retired bank personals, academic institutions, to reach the desired numbers within a limited span of time. Once the fallacy is removed from the minds of the general public, they automatically will join the mainstream. The all-round awareness and education simulation will drive them to open savings and current accounts. This will mark the beginning of basic banking in true sense.

Stage II: Basic Banking

The banks need to adopt a considerate approach towards this new clientele, to remove their qualms and disbeliefs. It is necessary that the basic banking should be comprehensive in scope and have attractive USPs that can lure people at large:

- All banks should allow no frill accounts i.e. savings accounts which can be opened with a nominal amount of Rs.5/- or even with zero balance .They should allow 6-7 withdrawals in the accounting period and should not restrict the number of deposits.

- RBI along with banks should toil hard to reduce the amount of paper work in relation to the opening of an account as well as in getting small credits . This would reduce the complexity and also speed up the processing at banks.
- Banks should make sure that local people are positioned in the front offices, so that the general public does not have to endure with language problem and does not have to suffer perceived / actual racial discrimination.
- It is all the more necessary for the banks that besides offering the conventional products and services they should set up teams who can understand the needs and requirements of the common man and design innovative products and services having greater suitability and desirability. Also banks should work as one stop store and offer diversified products in banking and insurance .
- Despite the risk, financing of first time entrepreneurs is a must for financial inclusion and growth. Banks should arrange and provide technical advice for these entrepreneurs. They will have to tone up their risk assessment and risk management capacities, and provide for these facilities.
- Banks should give free financial counsel to low-income households and small entrepreneurs.
- The pricing of the product should be also done keeping in mind the pockets of the potential clientele. The cost burden should proportionately be shifted to high potential sectors, who can afford a little upswing in their banking cost.

Stage III: Innovative Strategies

Basic banking itself needs to be supported by innovative strategies, in order to improve the reach and reduce the operating cost of the banks as follows:

- Infrastructure sharing amongst banks and other organizations will help in lowering the operating cost and thus the cost benefit can be transferred to customers.
- Bank should open small extension counters at organization providing public utility services such as local schools, primary health care centres, village mandies, farmers` associations, cold storages and warehouses, railway stations, bus stops etc.
- This should simultaneously be supplemented by mobile banks on Van wherever it is not economical to set up a branch. Credit camps / loan 'melas' must be organized on weekly basis , to disburse small loans on easy terms .
- Greater use of technology should be made by the banks to improve their reach, speed of processing, as well as to cut down the operating cost .
- Last but not the least, the Government of India should initiate a 'civil rights law' prohibiting discrimination by banks against low and moderate income neighborhoods. This will create a pressure on banks to play an important role in bringing financial inclusion in the country.

The above mentioned stages of the model will result in: improved financial literacy; make banking enter into the daily routine of the masses; broaden the deposit base; wider disbursement of credits, larger number of transactions. It will also lead to formalized and systematic banking; faster economic growth; new employment opportunities in the society and financial as well as social inclusion.

6.4 Some Examples of Social Transfer Programmes in India

The following social transfer require the help of the banking system in India which are really unable to extend this services without the help of Business Correspondent/ Facilitators

Social Transfer Programme	*Estimated outlay under 2008-09 Union Budget (crore rupees)*
NREGA	29000*
Indira Awas Yojana	5400
National Old Age Pension Scheme	3772
SGSY	2150
Conditional Cash Transfer to the Girl child	13.5
	40335.5 (1/3 of all money spent by central government on rural development or social services)

Source: *Updated budget estimate as of October, 2008. Original budget estimate was 16000.

7

STEPS TOWARDS ACHIEVING FINANCIAL INCLUSION IN UTTAR PRADESH STATE

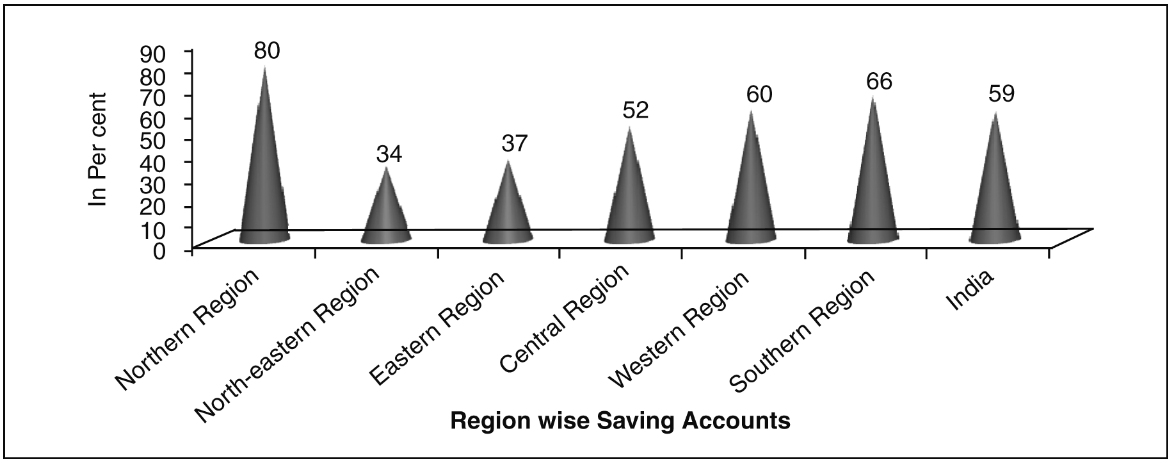
7.1 Magnitude of Financial Exclusion

7.1.1 Financial Inclusion can be broadly thought of into ways – One is exclusion from the safety net of payment system – i.e. not having access to a bank account. The second type of exclusion is from formal credit markets, requiring the excluded to approach informal and exploitative markets. After nationalization of major banks in India in1969, there was significant expansion of branch network to unbanked areas and stepping up of lending to both farm sector and non-farm sector. More recently the focus is on establishing the basic right of every person to have access to affordable basic banking services.

7.1.2 One very common measure of Financial Inclusion is the percentage of adult population having bank accounts **(Chart-1).** Going by the available data on the number of saving bank accounts and assuming that one person has only one account, (which assumption may not be correct) as many persons could have more than one bank account) we find that on an all India basis 59% of adult population in the country have bank accounts, in other words 41% population is unbanked. In rural areas, the coverage is 39% against 60% in urban areas. The unbanked population is highest in the north eastern region followed by eastern and central zone.

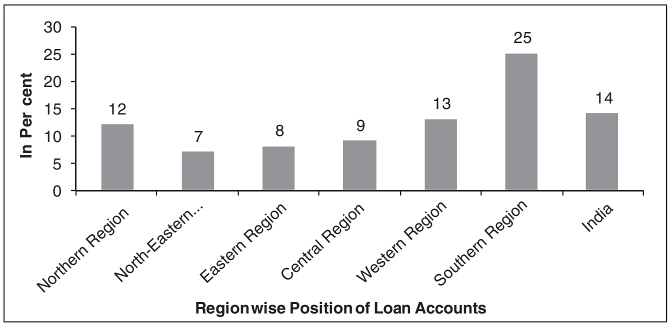
7.1.3 The extent of exclusion from credit markets is much more. As number of loan account constituted only 40% of adult population **(Chart-2).** In rural areas, the coverage is 9.5% against 14% in urban areas regional differences are significant with the credit coverage at25% for the southern India as low as 7, 8 and9% respectively in north-eastern, eastern and central regions.

Chart-1: Saving Accounts to the Adult Population-2007



Source: RBI, 'Report on Currency and Finance' 2006-08.

Chart-2: Loan accounts to the Adult population, 2007



Source: RBI, 'Report on Currency and Finance' 2006-08

7.1.4 The extent of exclusion from credit market can be observed from a different view point. Out of 2003million households in the country, 147million are in rural areas-89million are farmer householdS,51.4% of farm household have no access to formal or informal credit while 73% have no access to formal sources of credit . Similar data are not available for non farm and urban household.

7.1.5 Looking at the different sources of credit it is observed that the share of non institutional sources reduced from 70.8% in 1971 to 42.9% in2002. However, after 1991 the share of non institutional sources has increased; specifically, the share of moneylenders in the debt of rural household increased from 17.5% in 1991 to 29.6% in 2002. In urban areas, the share of non institutional sources has come down significantly from 40% in 1981 to around 25% in 2002.

7.2 Recent Initiatives for Financial Inclusion by Reserve Bank of India

7.2.1 The period 1969 to 1991 show a huge increase in the branch outreach in India as the average population covered by a bank branch fell from 64,000 to 13,711. In 1991, along with reform for liberalizing and opening the economy, financial sector reform aimed at deregulation, increased competition and strengthening the banking sector through recapitalization and adoption of prudential measures. The Indian banking industry to-day is quite robust and strong to be able to take on the challenge of achieving greater financial inclusion.

7.2.2 As the economy began to grow at higher rates, the regional and societal disparities called for new strategies to ensure that the banking system met the requirements of inclusive growth. Such strategies needed to be fashioned in a manner that they did not undermine the stability and efficiency of the financial system. Accordingly, over the last four years or so, several measures have been taken by Reserve Bank and Government of India to ensure better banking penetration and outreach, particularly that the credit needs of agriculture and small enterprises are met while allowing sufficient flexibility to each bank to evolve its own policies and strategies for the purpose. We shall now discuss some of these initiatives

7.2.3 The Reserve Bank of India has recognised financial inclusion as thrust area and initiated a series of policy measures in recent years. The Bank's Annual Policy Statement for 2005-06, while recognizing the concern in regard to the banking practices that tend to exclude, rather than attract, vast section of the population, urged banks to review their existing practices to align them with the objective of financial inclusion. In November, 2005 the Reserve Bank of India (RBI) had issued a circular to all scheduled commercial banks and regional rural banks to make available a basic no-frills bank account (with nil or minimum balance) in order to make it accessible to greater sections of the population. With a view to achieving greater financial inclusion, RBI has asked bank to make available a basic banking 'No Frill' Account with either **Nil** or **very minimum** balances or charges that would make such accounts accessible to vast section of the population. This has been an important step.

7.2.4 Similarly, banks are encouraged to provide a General purpose Credit Card (GCC) facility up to Rs. 25,000, at their rural and semi-urban branches. The credit facility is in the nature of revolving credit entitling the holder to withdraw up to the limit sanctioned. Based on the assessment of household, cash flow limits are sanctioned without insistence on security or purpose. Interest rate on the facility is completely deregulated. In 2007-08, two Funds, i.e., Financial Inclusion Fund (FIF) for promotional interventions and Financial Inclusion Technology Fund (FITF) for meeting cost of technology adoption were also established with NABARD.

7.2.5 In order to ensure that persons belonging to low income group, both in urban and rural areas do not encounter difficulties in opening bank accounts, the Know Your Customer (KYC) procedures for opening accounts has been simplified for those persons with balances not exceeding Rs. 50,000 and credits in the accounts not exceeding Rs. 100,000 in a year. This simplified procedure allows introduction by a customer on whom full KYC drill has been followed.

7.2.6 A simplified mechanism for one time settlement of overdue loans up to Rs.25,000 has been suggested for adoption. Banks have been specifically advised that their borrowers with loans settled under the one time settlement scheme will be eligible to reassess the formal financial system for fresh credit. In January 2006, banks were permitted to utilize the services of Non Governmental Organizations (NGOs and SHGs), MFIs and other civil society organizations as intermediaries in providing financial and banking services through the use of Business Facilitator and Business Correspondent models (BC BF Models). The BC model allows banks to do cash in and cash out transactions at the location of the BC and allows branchless banking. Other measures include setting of pilots for credit counseling and financial education. A multilingual website in 13 Indian languages on all matters concerning banking and common person, has been launched by Reserve Bank on 18 June 2007.

7.3. RBI Mandate to Achieve 100% Financial Inclusion

7.3.1 The RBI is concerned about the slow progress in financial inclusion and has directed the banks to take several steps to step up the momentum on financial inclusion. There are two concerns here: one, to increase the number of people with bank accounts and two, to make the accounts so opened more operational. A decentralized strategy has been adopted by the Reserve Bank of India for ensuring financial inclusion. The SLBCs have been asked to identify at least one district in each State on pilot basis for 100 percent financial inclusion The steps suggested by RBI include providing banking services to account holders closer to their homes using a variety of channels including satellite offices, mobile offices, business correspondents, etc.

7.3.2 Further, RBI also suggests providing General Credit Card (GCC)/small overdrafts along with no-frills accounts to encourage them to actively operate the accounts. The RBI also suggests that banks conduct awareness drives and leverage technology to make financial inclusion more effective. It might be time to revisit financial inclusion and see what worked in the districts that have achieved 100 per cent financial inclusion or where financial inclusion has been more effective. That might provide some insight into factors that facilitate or help financial inclusion. Some of the successful examples of financial inclusion have tied opening of bank accounts with the issues of their livelihoods or fulfillment of their basic needs. In these cases the bankers have been very motivated and have taken proactive steps to make banking services available to the people at their door-step.

7.4 Strategies and Approach

7.4.1 At the regional level, a forum called the State Level Bankers Committee (SLBC) has been in operation since nationalization. SLBC is a group of bankers and government officers and is convened by a bank having major presence in the State called the SLBC convener bank. It meets quarterly and reviews the banking development in the State. At the district level, the district level committee functions; it is headed by the district commissioner and is convened by the designated lead bank for the district. In early 2006, one district in each State was identified by the SLBC for 100 percent financial inclusion. So far, SLBCs have reported having achieved 100 percent financial inclusion in the union territory of Puducherry and in some districts in Haryana, Himachal Pradesh, Karnataka, Kerala and Punjab. Reserve bank has undertaken an evaluation of the progress made in these districts through an independent external agency, to draw lessons for further action in this regard.

7.4.2 In the districts taken up for 100% financial inclusion, surveys were conducted using various data base such as electoral roles, public distribution system or other house hold data, to identify house hold without bank account and responsibility given to the banks in the area for ensuring that all those who wanted to have a bank account, were provided with one, by allocating the village to the different banks. Mass media was deployed for creating awareness and publicity. The banks used different approaches to communicate the advantages of having a bank account. Bank staff or their agents who are usually local NGOs or village volunteers, would contact the people at their household. Ration card / electoral ID cards of the families were taken for fulfilling the simplified KYC norms. Photographs of all the persons who opened bank accounts were taken on the spot by a photographer accompanying the bank team. In most States, the product used for launching the programme for financial inclusion is the ‘no frills’ accounts in one States the farmers credit card or KCC is being used ensuring first to credit rather than savings. In other States “no frills” accounts was followed by small overdraft facility or a general purpose revolving credit up to pre-specified limit. Recognizing the need for providing social security to vulnerable group, in some cases in association with insurance companies, banks have provided innovative insurance credit at affordable cost covering life, disability and health cover.

7.4.3 Cooperative banks and regional rural banks being local level institutions are well suited for achieving financial inclusion. These banks are being revived and strengthen with incentives for better governance. Being local institutions they are ideally suited for achieving FI. The role of an efficient payment system for FI cannot be overstressed and the efforts are being made to bring about improvements in the payment system especially in the relatively less developed part of the country.

7.5 Magnitude of Financial Exclusion in Uttar Pradesh

7.5.1 As per the NSSO survey (59th round) and the study made by the Rangarajan Committee it was found that the financial exclusion is most acute in Central, Eastern and North-Eastern regions – having a concentration of 64% of all

Table 1. Level of indebtedness across the region of India

{No. of Farmer Households (HH) in Lakh}									
Region	*Total HHs*	*Indebted HHs*	*% to total HHs*	*Non indeb-ted HHs*	*% to total HHs*	*Indebted to formal sources*	*% to total HHs*	*Excluded by formal sources*	*% to total HHs*
Northern	109.46	56.26	51.4	53.2	48.6	27.423	25.05	82.04	74.95
North Eastern	35.4	7.04	19.9	28.36	80.1	1.448	4.09	33.95	95.91
Eastern	210.61	84.22	40	126.39	60	39.467	18.74	171.14	81.26
Central	271.33	113.04	41.6	158.29	58.4	60.814	22.41	210.52	77.59
Western	103.66	55.74	53.7	47.92	46.3	45.586	43.98	58.07	56.02
Southern	161.56	117.45	72.7	44.11	27.3	69.072	42.75	92.49	57.25
Group of UTs	1.48	0.49	33.1	0.99	66.9	0.15	10.14	1.33	89.86
All India	893.5	434.24	48.6	459.26	51.4	243.96	27.3	649.54	72.7
NE, C & E Regions*	517.34	204.3	39.49	313.04	60.51	101.73	19.66	415.61	80.34
Share to All-India (%)	57.9	47.05		68.16		41.7		63.99	
Source: Report of Rangarajan Committee on financial inclusion (2008)									

financially excluded farmer households in the country. Overall indebtedness to formal sources of finance alone is only 19.66% in these three regions. Central Region of our country (consists of Uttar Pradesh, Madhya Pradesh, Chhattisgarh, Uttarakhand) is most vulnerable in terms of financial exclusion. If we refer the study made by Rangarajan Committee, it was observed that the farm household not accessing credit from formal sources as a proportion to total farm households is especially high at 95.91%, 81.26% and 77.59% in the North Eastern, Eastern and Central Regions respectively. In terms of absolute numbers these regions taken together account for 64% of farm households not accessing credit from formal sources as detailed below:

7.5.2 As per the study, the number of non indebted household in Uttar Pradesh was 102.38 lakhs which is 59.7% of the total farmer household in the State in comparison to all India figures of 51.4% i.e.459.26 lakh farming household are not indebted. Derived data indicate that only 27.3% of the total farm households in India were indebted to institutional sources as detailed in Table-2. The most striking feature is that only 69.11 lakhs farmer house hold (41.3%) of Uttar Pradesh is indebted to both formal and informal financial sources and out of this again 21.4% of the farming household is indebted to the formal financial sources.

7.5.3 Credit Gap in Uttar Pradesh

As credit is the most important component of financial inclusion and for the purpose of addressing the issue of

Table 2. Indebtedness of the Farmer Household across the region

Region	*Incidence of indebtedness to both formal and non formal sources*		*Indebtedness to institutional sources*	
	Lakh HHs	*(% to total HHs)*	*Lakh HHs*	*(% to total HHs)*
Northern	56.26	51.39	27.42	25.05
North Eastern	7.04	19.88	1.45	4.09
Eastern	84.22	40.01	39.47	18.74
Central	**113.04**	**41.66**	**60.81**	**22.41**
Western	55.74	53.77	45.59	43.98
Southern	117.45	72.7	69.07	42.75
Group of UTs	0.49	33.1	0.15	10.14
All India	**434.24**	**48.6**	**243.96**	**27.3**

(HHs – Households)
Source: Report of Rangarajan Committee on financial inclusion (2008)

critical exclusion, the Rangarajan Committee identified those districts where the exclusion is most severe and Per branch rural and semi-urban population above 19,272 (All India average) and Credit Gap is +95%. In this regard, 58 districts of Uttar Pradesh were identified where per branch population is more than the All India average and also the credit Gap is more than 95%. It was found that the credit gap (inclusive of all formal financial institution) in those identified 58 districts of UP is ranging from 95.1% to 98.6%.

7.6 Financial Inclusion in Uttar Pradesh

7.6.1 Role of the State Level Bankers' Committee (SLBC)

As per Annual Policy Statement for the year 2006-07 issued by Reserve Bank of India, SLBC Convener Banks in all States/ Union Territories were advised to initiate identification of a suitable district in each State/UT for the purpose of 100% financial inclusion and allocation of villages to the various banks operating in the State for taking on responsibility for ensuring 100% financial inclusion. Accordingly, the Bank of Baroda has taken up this matter with the banks operating in the State of Uttar Pradesh in different meetings. It was decided to start with the pilot district "Balia" for 100% financial inclusion. Later on 14 new districts were added in the list and as on 30.12.2008, 43 districts have been identified for full financial inclusion. As the ultimate goal of this noble project is to cover all the districts of the State and Uttar Pradesh being a quite large with sizeable population, all possible efforts were made for actualization of 100% financial inclusion in the identified districts. As on 30.12.2008, 12 districts have been declared as 100% financially included and the rest 31 districts are in process. The SLBC Convener bank and the Government representatives requested all the commercial banks, RRBs and Cooperative Bank representatives to act upon immediately and also assured them that to achieve the targets of 100% financial inclusion in the identified districts, necessary support from the State Govt. will also be provided/extended so that the banks can easily reach to the saturation in the identified districts as per the instructions of Hon'ble State Minister of Finance, GOI. The position of financial inclusion in the State of Uttar Pradesh as per the available data received from the SLBC Convener Bank- Bank of Baroda as on 30.12.2008 is given in Table 3.

Table 3. Statement of Financial Inclusion in UP as on 30.12.2008

Sl. No	*Name of the Lead Bank*	*No of Districts with lead bank Responsibilities*	*No. of districts identified for 100% Financial Inclusion*	*Name of the Districts yet to achieve 100% Financial Inclusion*	*Name of the Districts which has been declared financially included*
1.	Allahabad Bank	13	5	Sitapur, Balrampur, Sonebhadra, Chitrakoot, Hamirpur	NIL
2.	Bank of Baroda	14	5	Fatehpur	Rampur, Pratapgarh, Raebareli, Sultanpur
3.	Bank of India	7	2	Hardoi, Barabanki	NIL
4.	Canara Bank	4	4	Agra, Aligarh, Etah, Hathras	NIL
5.	Central Bank of India	5	5	Etawah, Auriaya, Deoria, Kushi Nagar	Ballia
6.	Punjab National Bank	7	6	Muzaffar Nagar, Jhansi, Saharanpur, Badaun, Lalitpur	Bijnor
7.	State Bank of India	6	5	Sant Kabir Nagar, Sidharth Nagar, Basti, Gorakhpur, Maharajganj	NIL
8.	Syndicate Bank	7	7	G.B. Nagar	Baghpat, Mathura, Meerut, Ghaziabad, Moradabad, J.P. Nagar
9.	Union Bank of India	7	4	Chandauli, Azamgarh, Jaunpur, Ghazipur	NIL
Total no. of distts. Identified		70	43	31	12

Source: SLBC, Uttar Pradesh

Table 4. Progress of SHGs under SGSY* scheme up to September, 2008

								(Amt. in crore)
Agencies	*No. of Groups formed*	*No of 1st graded groups*	*No. of groups sanctioned CCL*	*No of 2nd graded groups*	*Disbursement to Number of groups after 2nd grading*		*Av loan size after 2nd Grading (Rs. in lakhs)*	*No. of beneficiaries assisted*
					No.	*Amt.*		
Commercial Banks	132580	91367	82784	64476	61009	943.18	1.55	795029
RRBs	135328	78914	73824	47441	49446	687.11	1.39	579748
Co-op Banks	2927	2927	2927	2917	2927	27.83	0.95	33619
Grand Total	270835	173208	159535	114834	113382	1658.12	1.46	1408396

(*SGSY – *Swarnajayanti Gramin Swarojgar Yojana*)
Source: SLBC-UP, 30.12.2008

7.6.2 Progress of formation of SHGs under SGSY Scheme

The Commercial Banks, RRBs and Co-operative Banks in Uttar Pradesh is implementing the Swarnajayanti Gramin Swarojgar Yojana (SGSY) to extend banking facilities to the people of Below Poverty Line (BPL) through formation of SHGs. The individuals are also being financed under this scheme. The banks have financed 15170 individuals (Swarojgaries) in Uttar Pradesh till 30th September, 2008 under this scheme. The Table 4 below provides the progress of the scheme.

From Table 4, we can conclude that the total number of groups financed under SGSY after 2nd grading was 113382 which is 41.8% of the total number of SHGs formed (270835). The average loan size of the SHGs financed by the Commercial Banks was Rs.1.55 lakh followed by RRBs (Rs.1.39 lakhs) and Co-op banks (Rs.0.95 lakhs).

7.6.3 Progress of formation of Self Help Groups

With a view to evolve supplementary credit strategy to reach out the people with negligible or very little savings, banks are linking the Self Help Groups (SHGs) to deliver the banking facilities (both savings & credit) without any subsidy component. It is an alternative loan delivery system followed by the bank in the rural and semi-urban areas, which minimizes cost of operation for the banks on one hand and has a very good track record of recovery of bank dues on the other hand. The formation of SHGs is being taken up by the local NGOs and the farmer's club. The summary of the progress of forming and linking the SHGs are given in Table 5.

It is clear from the above table that 81.9% of the groups formed were linked to the bank and the average size of loan to SHGs in Uttar Pradesh is Rs.53000. The number of groups linked

Table 5. Progress of SHGs as at the end of September, 2008

Agencies	*Groups Formed (Cumulative position)*	*Groups Linked*				*Av. Size of loan to SHGs (Rs. in lakhs)*
		No.		**Amt. disbursed (Rs. in crore)**		
		Apr.-Sept.08	*Cumulative (up to Sept'08)*	*Apr.-Mar.08*	*Cumulative (up to Sept'08)*	
Comm. Banks	118588	6498	98798	57.91	752.65	0.75
RRBs	130602	3970	97994	17.67	329.43	0.34
Co-op. Banks	16292	269	6992	1.57	24.60	0.35
Total	**235689**	**30771**	**193047**	**164.93**	**1029.54**	**0.53**

Source: SLBC-UP, 30.12.2008

to the bank was almost same in case of commercial banks and RRBs but in terms of average loan size, the commercial banks financed at a rate of Rs.75000 which was Rs.34000 in case of RRBs.

7.6.4 Progress under "No Frill" account and General Credit Card (GCC) account

The banks in Uttar Pradesh are opening No Frill accounts as per the directives of the Reserve Bank of India and also allowing advances under the scheme GCC to the rural and semi-urban people who are otherwise not eligible to get any loan. Regarding the progress in these two major tools of financial inclusion the data is not available with the SLBC convener bank as there is no return submitted by the banks in this context.

7.6.5 Engaging/Appointing Business Facilitators & Correspondents (BFs/BCs) in Uttar Pradesh.

After the Reserve Bank of India allowed the banks to engage the BFs and BCs for greater outreach of the banking products and services, some of the banks have appointed the BFs and BCs to achieve the financial inclusion in the districts allotted to them. State Bank of India, Punjab National Bank and Union Bank of India are leading in this respect. The other major Banks operating in the State of Uttar Pradesh like Bank of Baroda, Allahabad Bank, and Syndicate Bank, are yet to implement this model. The data on number of BF/BC appointed/engaged by different Banks are not available at the SLBC level and cannot be reproduced here.

8

BF & BC MODEL OF RBI – SOME OPERATIONAL ISSUES

8.1 Eligible Entities, Activities and Terms of Engagement of BFs/BCs

The summary of the guidelines are given in Table-1 as contained in the RBI circular dated 25 January 2006 and subsequent amendments on 22.03.06, 15.04.08 and latest being 24th April, 2008 in respect of the eligible entities, their scope of activities and other terms and conditions to be met by banks in engaging the services of BCs and BFs in furtherance of the objective of increasing their outreach for greater financial inclusion.

8.1.1 Eligible entities and scope of activities

There is a clear basis for the demarcation between the activities of BFs and BCs. The role of BFs is limited to providing facilitation services to clients on behalf of banks. The activities of the BCs, in addition, cover those undertaken in the normal course of banking business. These include disbursal of loans, collection of savings and insurance premia and other payments as also recoveries of loan principal and interest. This allows banks freedom to outsource their operations to realize cost economies and to increase client outreach. The distinction between the two entities is such that BCs can undertake financial and banking functions while the role of BFs covers only non-financial functions.

The list of eligible entities in the case of BFs is larger and includes intermediaries such as NGO/Farmers Clubs, cooperatives and Community Based Organisations (CBOs), panchayats, village knowledge centers, insurance and postal agents, Agri-clinics and IT-enabled outlets, etc. BCs, however, are expected to be only drawn from the established forms of NGOs/MFIs set up under Societies/Trusts Acts, societies set up under Mutually Aided Cooperative Societies Acts of States, non-profit section 25 companies and post offices. Registered Non-Banking Finance Companies (NBFCs) not accepting deposits, were also initially included in the list, but now banks have been advised to defer the use of NBFCs (other than section 25 companies) as BCs through a subsequent RBI circular dated 22 March 2006. This development has been a factor in reducing the enthusiasm for the BC model among private sector banks and leading MFIs. However, the RBI vide their circular dated 22nd April, 2008 allowed the select individuals (Ex-Bankers, Ex-Servicemen, Retired Govt. Employees) to act as the BC depending on the confidence level of the individual Banks.

8.1.2 Restrictions

While in the case of BFs no permission is required from the RBI, the situation is not clear regarding whether RBI permission is to be sought before engaging BCs even though banks are permitted to devise schemes for using BCs within the provisions of the 25 January 2006 circular and also in the subsequent circulars. As the activities of BCs are to be conducted at places other than the bank premises, as per the existing policy of RBI, permission is required to conduct the business (RBI Circular No. DBOD.No.BL. BC.86/22.01.001/2004-05 dated 30 April 2005). The Khan Report (2005), however, had proposed that RBI permission be required on a scheme to scheme basis.

Further, with a view to ensuring adequate supervision over the operations and activities of the BCs by banks, it has been decided by the RBI that every BC will be attached to and be under the oversight of a specific bank branch to be designated as the *base branch*. The distance between the place of business of a BC and the *base branch*, ordinarily, should not exceed **15 Kms in rural**, **semi-urban and urban areas**. In **metropolitan**

centers, the distance could be up to **5 kms**. However, in case a need is felt to relax the distance criterion, the matter can be referred to the District Consultative Committee (DCC) of the district concerned for approval. Where such relaxations cover adjoining districts, the matter may be cleared by the State Level Bankers' Committee (SLBC), which shall also be the concerned forum for metropolitan areas. Such requests may be considered by the DCC/SLBC on merits in respect of under-banked areas or where the population is scattered over large area and where the need to provide banking services is imperative but having a branch may not be viable, keeping in view the ability of the base branch of the bank making the request to exercise sufficient oversight on the BC.

8.1.3 Payments to the BFs/BCs

Banks are allowed to pay reasonable commission/fees to the BFs and BCs, but these agents are specifically prohibited from charging any fee to the customers on behalf of the bank. This stipulation has an important bearing on the feasibility of the BC model and is discussed in detail in chapter 11.

8.1.4 Other terms and conditions

Agreements and contracts with the customer are to specify that the bank is responsible for the acts of omission and commission of the BFs and BCs. Attention is drawn in the circular to the risk to banks through the engagement of BFs and BCs and the need to manage the risk, among others, through limits on cash-handling by the BCs and through technology-based solutions. Another requirement is that transactions are accounted for and reflected in the bank's books by the end of day or next working day. This has implications for the of technology-based innovations, particularly for operations in remote areas. Creation of the technological platform by the BCs involves huge initial investment, which may not be available to the small size organizations and also the individual BC. This has allowed some big players like FINO, Zero Mass etc. to enter into the market and take the franchisee of different banks. Other issues covered in the circular relate to the grievance redressal mechanism for services rendered by the BFs and BCs and the need for flexibility in compliance with Know-Your-Customer (KYC) norms while extending financial services to the underprivileged and unbanked population.

Table 1: Criteria of the Business Facilitator (BF) and Business Correspondent (BC) Model

CRITERIA	*BUSINESS FACILITATOR*	*BUSINESS CORRESPONDENT*
Eligible Entities	Intermediaries such as NGOs/Farmers' Club, Cooperatives, Community Based Organisations (CBOs), IT enabled rural outlets of corporate entities, Post offices, Insurance agents, and Well functioning Panchayats, Village Knowledge Centres, Agri Clinics/Agri Business Centres, Krishi Vigyan Kendras and KVIC/KVIB units	NGOs/MFIs set up under Societies/Trust Acts, Societies registered under Mutually Aided Cooperative Societies Acts or the Cooperative Societies Acts of States, Section 25 companies Registered NBFCs not accepting public deposits, and Post offices.
		The RBI during April, 2008 also allowed select individuals (Ex-Bankers, Ex-Servicemen, Retired Govt. Employees) to act as the BC depending on the confidence level of the individual Banks. Banks may conduct thorough due diligence on such entities keeping in view the indicative parameters given in Annex 3.2 of the Report of the Internal Group appointed by RBI to examine issues relating to Rural Credit and Micro-Finance (July 2005). In engaging such intermediaries as BCs, banks should ensure that they are well established, enjoying good reputation and having the confidence of the local people. Banks may give wide publicity in the locality about the intermediary engaged by them as BC and take measures to avoid being misrepresented.
Scope of Activities	Identification of borrowers and fitment of activities Collection and preliminary processing of loan applications including verification or primary information/data Creating awareness about savings and other products and education and advice on managing money and debt counseling, Processing and submission of applications to banks, Promotion and nurturing Self Help Groups/ Joint Liability Groups/Credit Groups/others, and Follow-up for recovery	In addition to the activities of BF, BC includes: Disbursal of small value credit, Recovery of principal/collection of interest, Collection of small value deposits, Sale of micro insurance/mutual fund products/pension products/other third party products, and Receipt and delivery of small value remittances/other payment instruments

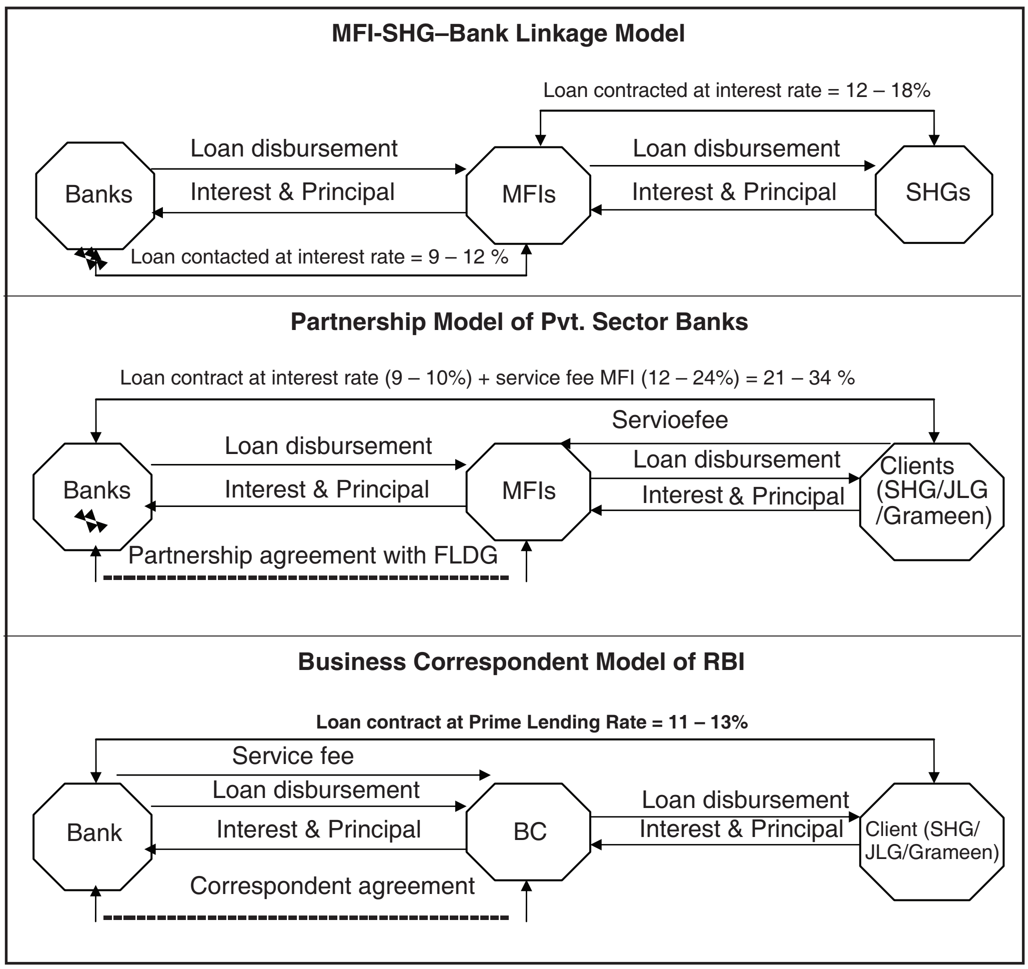
Table 1: Criteria of the Business Facilitator (BF) and Business Correspondent (BC) Model (continued)

CRITERIA	*BUSINESS FACILITATOR*	*BUSINESS CORRESPONDENT*
Restrictions	As these services are not intended to involve the conduct of banking business by BFs, no approval is required from RBI for using the above intermediaries for facilitation of services indicated above.	The activities to be undertaken by the BCs would be within the normal course of the bank's banking business, but *conducted through the entities indicated above at places other than the bank premises*. In furtherance of the objective of increasing the outreach of the banks for financial inclusion, in public interest, *the RBI permits banks to formulate a scheme for using the entities indicated above as BCs*. Banks should ensure that the scheme formulated and implemented is in strict compliance with the objectives and parameters laid down in the circular. The distance between the place of business of a BC and the *base branch*, ordinarily, should not exceed 15 Kms in rural, semi-urban and urban areas. In metropolitan centers, the distance could be up to 5 kms.
Some other important aspects of BF/BC model		
	BUSINESS FACILITATOR (BF) / BUSINESS CORRESPONDENT (BC) MODEL	
Payment	Banks may pay reasonable commission/fee to the BFs/BCs, the rate and quantum of which may be reviewed periodically. **The agreement with the BFs / BCs should *specifically prohibit them from charging any fee to the customers directly rendered by them on behalf of the bank*.**	
Other Terms and Conditions	As the engagement of intermediaries as BF / BC involves significant reputational, legal and operational risks, due consideration should be given by banks to those risks. They should also endeavor to adopt technology-based solutions for managing the risk, besides increasing the outreach in a cost effective manner.	
	The arrangements with the BFs / BCs shall specify: ° Suitable limits on cash holding by intermediaries as also limits on individual customer payments and receipts, ° The requirements that the transactions are accounted for and reflected in the bank's books by the end of day or next working day, and ° ***All agreements / contracts with the customer shall clearly specify that the bank is responsible to the customer for acts of omission and commission of the BF / BC***.	
Redressal of grievances	Banks should constitute Grievance Redressal Machinery within the bank for redressing complaints about services rendered by BFs and BCs and give wide publicity about it through electronic and print media. The name and contact number of designated Grievance Redressal Officer of the bank should be made known and widely publicised. The designated officer should ensure that genuine grievances of customers are redressed promptly. ° The grievance redressal procedure of the bank and the time frame fixed for responding to the complaints should be placed on the bank's website. ° If a complaint does not get satisfactory response from the banks within 60 days from the date of his lodging the complaint, he will have the option to approach the Office of the Banking Ombudsman concerned for redressal of his grievance/s.	
Compliance with KYC	Compliance with KYC norms will continue to be the responsibility of banks. Since the objective is to extend savings and loan facilities to the underprivileged and unbanked population, banks may adopt a flexible approach within the parameters of guidelines issued on KYC from time to time. The KYC guidelines issued vide RBI circulars dated November 29, 2004 and August 23, 2005 provide sufficient flexibility to banks. In addition to introduction from any person on whom KYC has been done, banks can also rely on certificates of identification issued by the intermediary being used as Banking Correspondent, Block Development Officer (BDO), Head of Village Panchayats, Post Master of the post office concerned or any public functionary, known to the bank.	

8.2 Existing Agency Model vis-à-vis BC model of RBI

While BFs have a comparatively limited facilitation role as agents of banks, the BCs can undertake a range of financial functions not permitted for the BFs. There are several outstanding issues that need to be addressed before the BC model can be fully operational and adopted on a large scale. The BC model essentially applies to the bank-MFI relationship (covering the several legal forms adopted by the latter). Since SHGs are unregistered entities they cannot act as BCs, though registered federations and associations of SHGs would qualify. SHGs could, however, be clients of banks through the medium of the correspondent MFIs.

As per the Khan Report (2005), "…in the recent times, several new generation banks who came into existence with a heavy reliance on technology but with a very limited branch network, have taken innovative steps, such as, bulk lending to microfinance institutions (MFIs), using them as pass through' agencies, to tap the rural credit market". In the Indian context, ICICI Bank has taken the lead in developing the partnership model, followed by Axis Bank and HDFC Bank. The Public sector Banks have at a later stage also adopted this model to increase their wholesale lending to rural areas. The BC model appeared to have been designed to set out the norms and to formalize the relationship between banks and their agents (or BCs) in increasing the outreach of financial services for the poor. It is instructive to compare the basic Bank-MFI partnership model and RBI's BC model. (However, forms of credit enhancement under variants of the Bank-MFI partnership will be excluded from the discussion.) **Figure 1** below illustrates the financial flows and relationships under the Bank-MFI partnership model, as implemented currently by ICICI Bank and some other banks (both private and public sector), and RBI's proposed BC model. These are also contrasted with the relationships and prevailing interest rates under the MFI-SHG-Bank linkage model as implemented through MFI intermediaries.



SHGs- Self Help Groups
JLGs- Joint Liability Groups

Figure 1. Existing Agency model vis-à-vis BC model of RBI

9

STUDY REPORT ON EXISTING AND POTENTIAL BANKING FACILITIES IN THE STATE OF UTTAR PRADESH

9.1 Availability of banking facilities

9.1.1 Area coverage by each bank branches in Uttar Pradesh

The decadal growth (1991-2001) of population of Uttar Pradesh as per the census report (Census-2001) was 24%. The eastern region of the State recorded highest growth of 25%. As the population of 2009 is not available, we have considered the decadal growth rate of different districts to arrive at the population in the State. In the same pattern we have also calculated the adult population of the State. While the density of the population in the State during 2001 was 689 per sq. km, it is expected that the density of population during 2009 will be 867 per sq. km. (The growth rate in density is 24%). **(Table-1).**

The number of branches (Commercial Banks & RRBs) at Uttar Pradesh during 2001 was 8236 which was increased to 9350 (The growth rate of bank branches is 14%). The average area covered by each bank branch was 29 sq. km in 2001 which has been reduced to 26 sq.km. The **Chart-1** below shows that the respondents who are not yet the customers of the bank are residing at an average distance of 11.92 km. and the average cost to be incurred for each visit to the bank branch was calculated as Rs.42. This might be one of the major reasons of not availing the banking facilities. While comparing the distance from branches in case of the customers and non customers, it reveals that the average distance in case of bank customers was 10 km which is also very high in terms of the cost involvement **(Chart-2).** The average distance was highest in the eastern region than central and western region shows the lowest distance. We have recorded a maximum average distance in Chitrakoot and Mirzapur Districts of Uttar Pradesh.

9.1.2 Coverage of average population by each bank branch

As per the available data, the population covered by each bank branch during 2001 was 20155 which were increased to 22335 during 2009 as per the census and SLBC sources (Table-1). It is clear from the data that the increase in bank branches is not in commensuration with the rate of growth in population. As per the available data of Reserve Bank of India, the average population covered by the each bank branch in India as on 30.06.2008 was 15,000 and for Uttar

Chart 1. Distance from Bank Branch and cost of each visit by the respondents

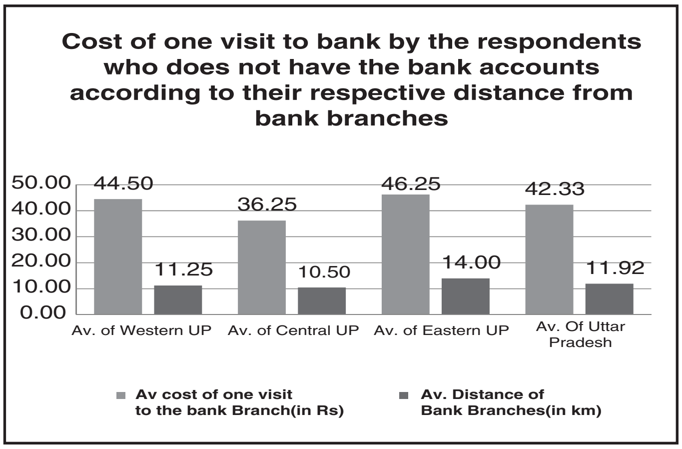
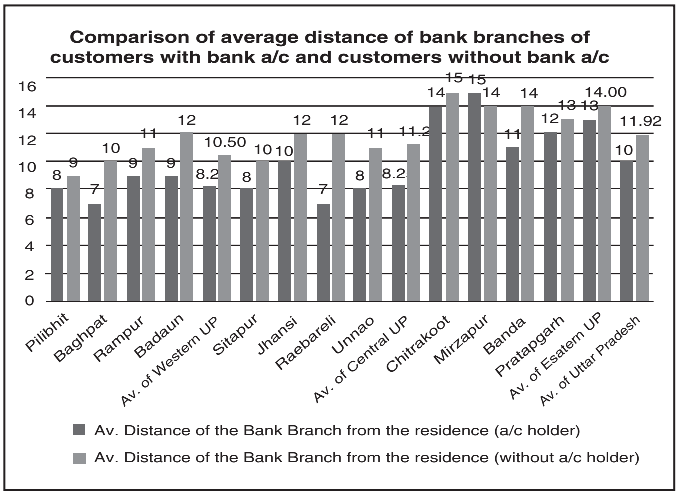
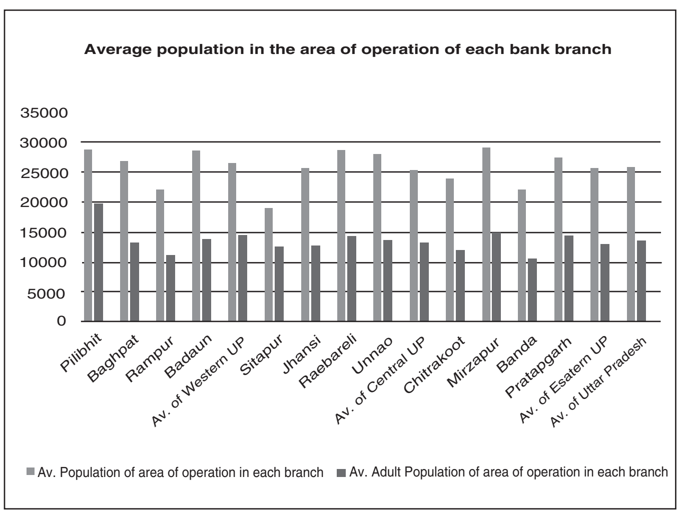


Chart 2. Distances of Bank Branch (both customers and non customers)



Source: Primary Data, 2009

Chart 3. Average population/adult population in Uttar Pradesh.



Source: Primary Data, 2009

Pradesh it was 21,000 (RBI, Trends & Progress-2007-08). This shows that the State is far below the all India average which is alarming and at the same time increases the potentiality of the growth of banking services. Our present study shows that each branch is covering a population of 26,013 with coverage of 13,634 adult populations. The difference in coverage with the secondary data is probably due to the fact that we have factored the expected growth of population in UP for last 9 years **(Table-2 and Chart-3).**

9.2 Financial Inclusion in Uttar Pradesh

9.2.1 No. of villages served by each bank branch

The average number of villages served by each branch is also an important parameter of financial inclusion. As per the present study, in Uttar Pradesh, each rural/semi-urban branches are serving on an average 18 villages and 204 customers visits the branch **(Table-3 and Chart-4 & 5).**

9.2.2 Average bank account in UP

The study reveals that the average number of accounts in the Commercial Banks and RRBs (including all types of accounts) in the State of UP was 7756. The regional average shows that the average of Central UP is highest (8220) followed by western UP (7667) and lowest in eastern UP (7380). The average number of accounts was skewed in the districts of Raebareli (10320) of central UP and Pratapgarh (8880) of

Chart 4. No. of villages served by each branch

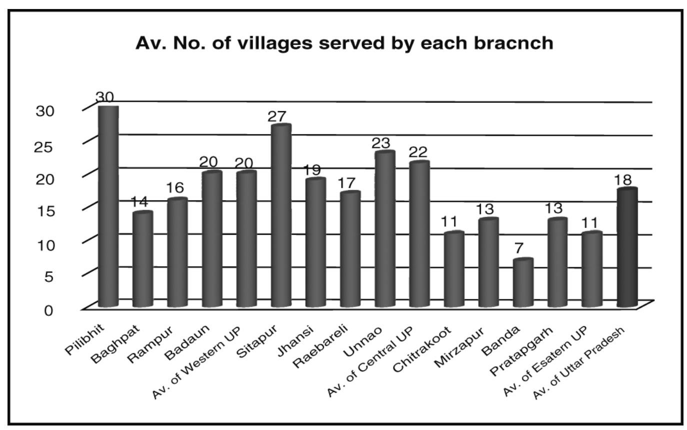
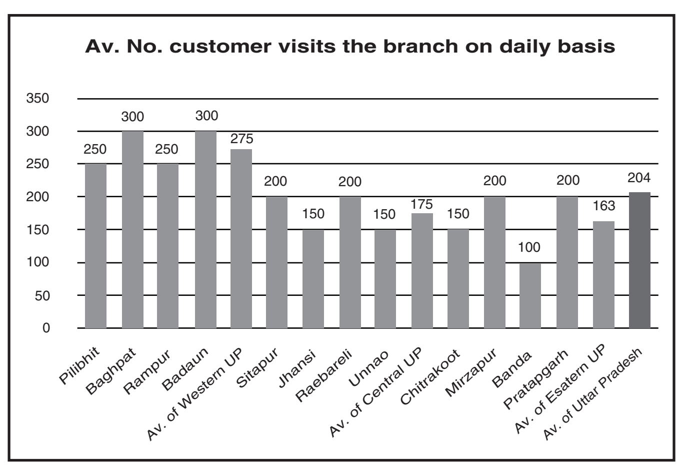
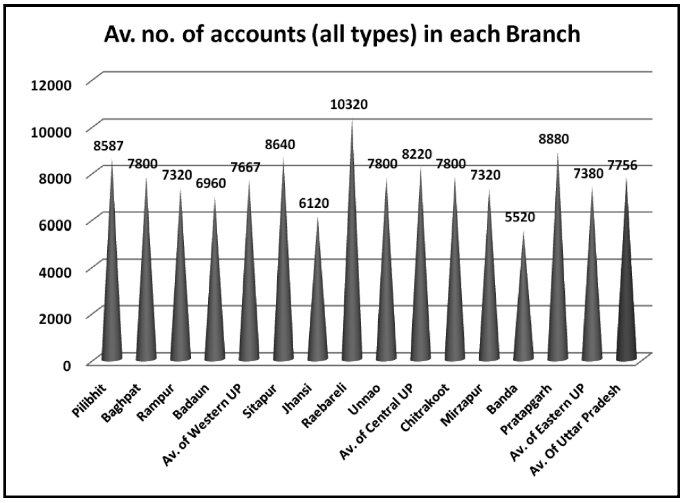


Chart 5. No of Customers visits bank branch on daily basis



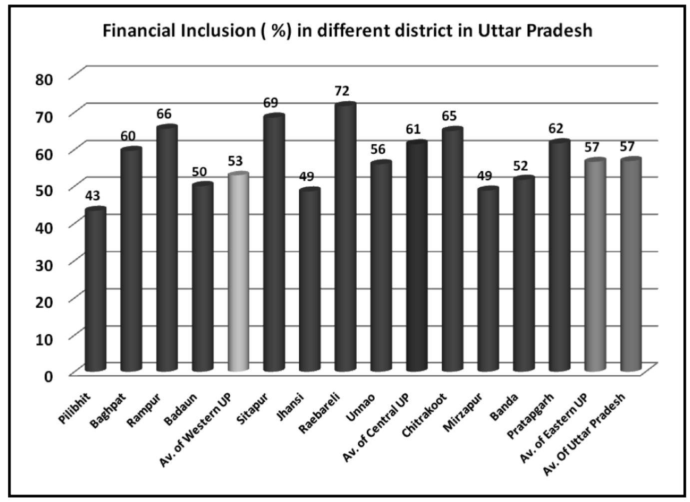
Source: Primary Data, 2009

Chart 6. Average number of accounts per bank branch



Source: Primary Data, 2009

Chart 7. Financial Inclusion in Uttar Pradesh



Source: Primary Data, 2009

eastern UP **(Table-2 & Chart -6).** As per the data available from the SLBC and the DCC at the time of research, it was found that the average number of bank accounts were 8500 including the co-operative banks operating in the State. In our study we have not considered the co-operative banks during our study.

9.2.2 Financial Inclusion in Uttar Pradesh

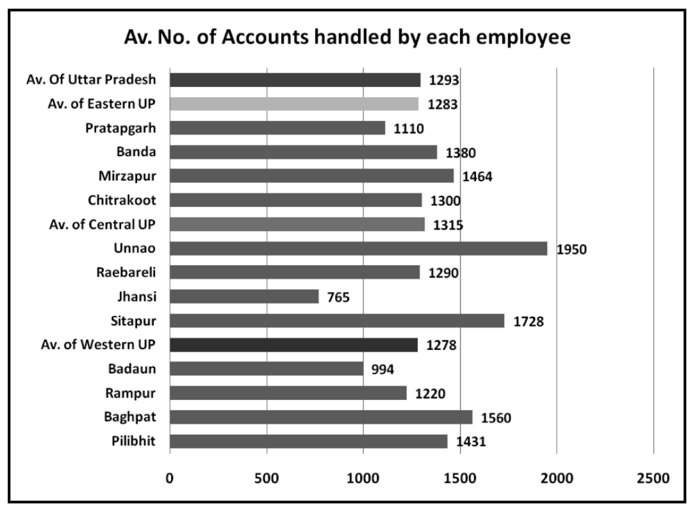
The financial inclusion in Uttar Pradesh was discussed in chapter 7 and it was revealed that the credit gap in the State is very high ranging from 92-96% (Rangarajan Committee, 2008). As per the SLBC, UP, the financial inclusion was 100% in 12 select districts. As there was no study in this particular aspect of financial inclusion, we have considered the SLBC figures as base data. As per the present study, the average financial inclusion of Uttar Pradesh recorded at 57%. The region wise figures show that the financial inclusion is highest (57%) in the central region followed by eastern region (57%) and western region (53%). Raebareli district under central region recorded highest (72%) financial inclusion amongst all the districts surveyed closely followed by Sitapur district (69%) and Rampur (66%) as given in **Table-2 & Chart-7**.

9.3 Business of the Banks in Uttar Pradesh

9.3.1 No. of accounts handled by each employees of the bank

The average number of employees (includes all employees on roll) per branch in the State of Uttar Pradesh was 6 and per employee handling 1293 number of accounts in those branches. The highest number of accounts (1950) being

Chart 8. Average no. of accounts handled by each employee



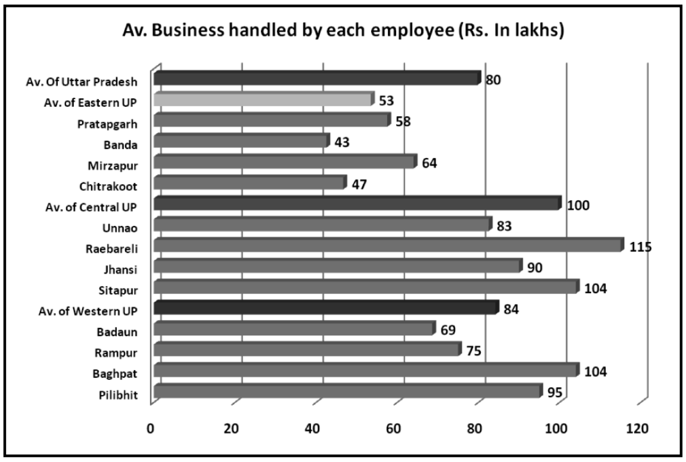
Source: Primary Data, 2009

handled by each employees of Unnao district followed by Sitapur district **(Table-4 and Chart-8).**

9.3.2 Average Business per Branch and per employee

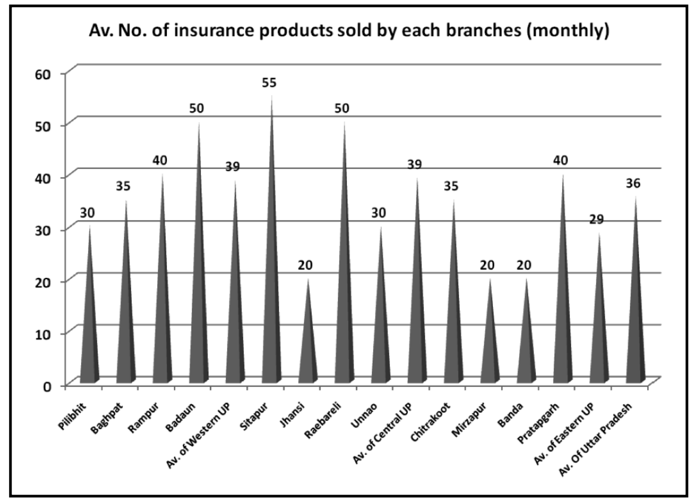
The average business per branch in Uttar Pradesh recorded at Rs.478.33 lakhs and this was highest (Rs.622 lakhs) in case of banks at Central Region followed by western region (Rs.505 lakhs) and the lowest (Rs.307.50 lakhs) in case of eastern region. The average per employee business of Uttar Pradesh was Rs.79.72 lakhs which is far below the all India average of Rs.178 lakhs (RBI, Trends & Progress, 2007-08). It was also revealed from the primary data collected from the

Chart 9. Average business handled by each employee of the banks



Source: Primary Data, 2009

Chart 11. Number of insurance products sold by each branch



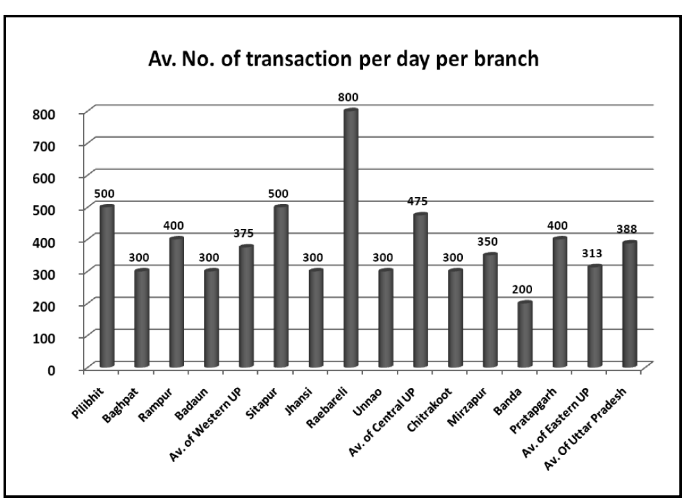
Source: Primary Data, 2009

field that each employees of Raebareli district are handling Rs.115 lakhs and the lowest being Banda district (Rs.42.50 lakhs) **(Table-4 and Chart-9)**

9.3.3 Average no of transaction per day per Branch

The average number of transaction per day in each branch of the banking system in Uttar Pradesh was 388. The central region of UP recorded highest (475 per day) followed by western UP (375) and the lowest being eastern UP (313). Per branch per day number of transaction in UP is higher as there are huge number of small transactions. **(Table 5 & Chart -10).**

Chart 10. Average no. of transaction per branch per day



Source: Primary Data, 2009

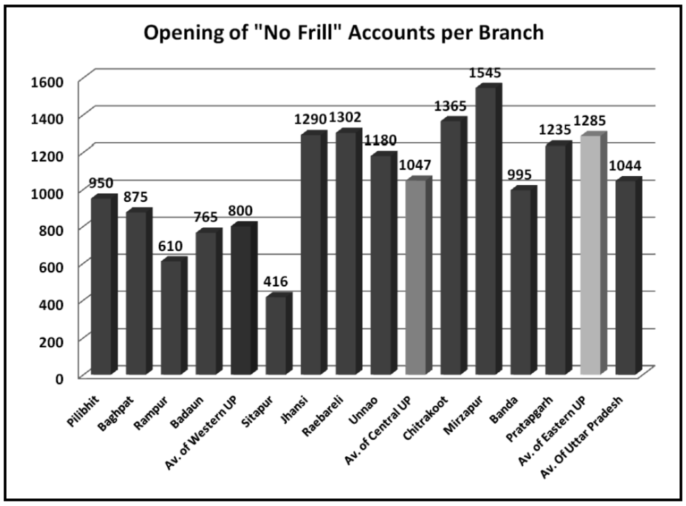
9.3.4 Average no of insurance products sold per Branch

All the commercial Banks in Uttar Pradesh has tied up with different insurance companies to sale their products through the vast network of bank branches. The banks are getting a solid income by selling the insurance products but at the same time the branches are also getting the new connections through the new customers. Most of the Insurance companies have introduced their micro insurance products but unfortunately, these are not very popular products for the banks we have surveyed, probably due to less amount of collection. The average number of insurance sold by the branches in UP was 36 **(Table-5 & Chart-11).** Further probe in this aspect revealed that the selling of micro insurance is not profitable to the branches as the premium is very low and thus non-remunerative to the branches.

9.4 Opening of "No Frills" Accounts

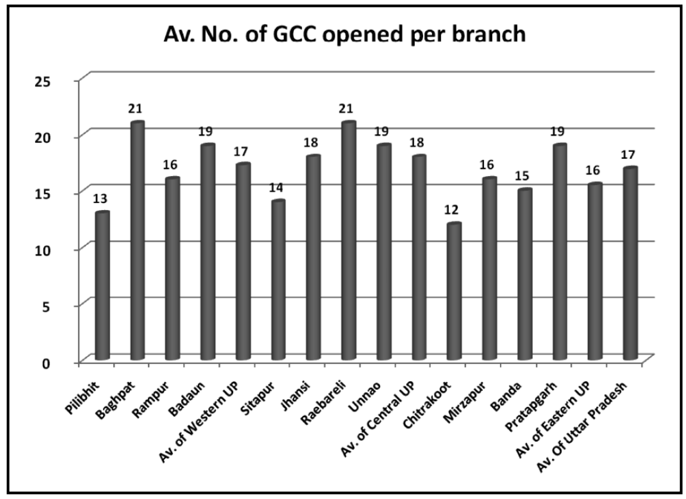
As discussed in Chapter-6, no data is available at SLBC level and we collected the data pertaining to "No Frills" accounts from the respondent branches in the sample districts of Uttar Pradesh. The data as per the present survey reveals that the average number of "No Frills" accounts in each of the bank branches in the State of Uttar Pradesh was 1044. Eastern region of the State recorded the highest number (1285) of "No Frill" accounts followed by the central region (1047). The lowest number (800) of "No Frills" accounts were opened by the western region of the State. Sitapur district has opened the lowest number (416) of No Frill account amongst all the districts studied, whereas highest number (1545) reported by Mirzapur district **(Table-6 & Chart-12).** As per the data available from RBI (Trends & Progress, 2007-08), total no. of

Chart 12. Opening of "No Frill" accounts



Source: Primary Data, 2009

Chart 13. General Purpose Credit Card issued per branch



Source: Primary Data, 2009

"No Frills" account opened by Scheduled Commercial Banks in India as on 31.03.2008 stood at 1,57,88,919 and the average per branch opening of "No Frill" accounts were 206. As such no data is available for UP on this count but it is clear from the present study that the opening of "No Frills" account in UP is higher than the all India average.

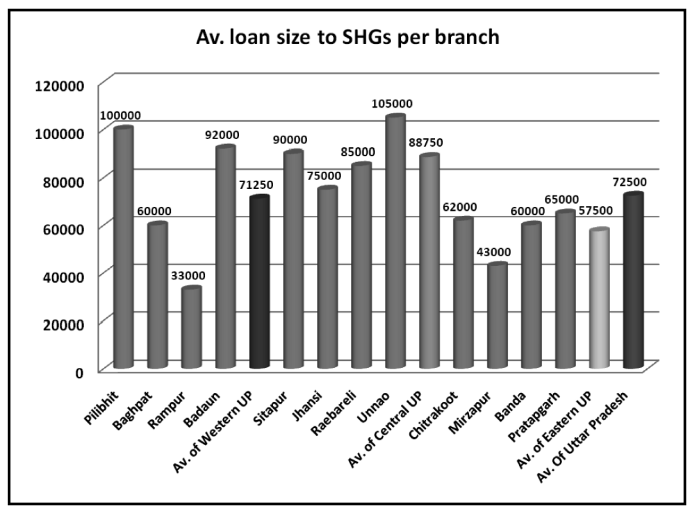
9.5 Advances Through Extending General Credit Card (GCC)

The General Credit Card (GCC) is another important tool for linking the people by extending loan by the bank that is not eligible otherwise to get loan. This is a very strong instrument of financial inclusion and the banks throughout the country are making their best efforts to open more and more General Purpose Credit Card. The study shows that average number of GCC opened by each branch in UP was 17 which was highest (21per branch) in the districts of Baghpat and Raebareli followed by Pratapgarh, Unnao and Badaun Districts (19 per branch) as shown in **Chart-13**. The SLBC has collected the data on General purpose Credit Card and as such we do not have any report on the GCC. As far as RBI is concern, they advised the commercial Banks (May, 2008) to classify the total credit outstanding as indirect finance to agriculture which will be an incentive for the banks who could not fulfill the statutory requirement of financing agriculture to the tune of18% of the Adjusted Net Bank Credit (ANBC).

9.6 Average Loan Size Extended to the SHGs

The loan extended to the SHGs and SGSY is a very important yardstick of the financial inclusion and we have studied

Chart 14. Average size of the extended to the SHGs



Source: Primary Data, 2009

the same in all the sample districts. As per the findings of the present study, the average loan size of Uttar Pradesh stood at Rs.72500. The Central region recorded the highest (Rs.88750) average size of the loan followed by western region (Rs.712500). The lowest average loan size of Rs.57500 was reported from eastern region of the State. As per the report of SLBC, Uttar Pradesh (30.12.2008), the average size of the loan extended to the SHGs were Rs.53000 and in case of commercial banks it stood at Rs.75000, RRBs it was Rs.34000 and in case of cooperative banks it was Rs.35000 **(Table 6 & Chart 14).**

10

OUTREACH OF THE FORMAL FINANCIAL SYSTEM IN UTTAR PRADESH – STUDY REPORT

We have collected data from different districts of the State in different parameters. In this chapter we will reproduce the results of the study of both the customers of the banks and also the potential customers who are not yet included in the banking system. We have studied the general livelihood of both the customers and non customers to feel the differences amongst them and also an endeavour was made to analyse the data based on the light of the findings. In this survey the sample was taken based on their linkage in the banking system in the State. We have taken 300 samples of customers who have any kind of bank accounts and 300 respondents who does not have any kind of bank accounts and depends on either own source or informal source of financing.

10.1 General Profile of the Respondents

10.1.1 Age group of the respondents

As per the study, 70% of the respondents having bank accounts are more than 35 years old and these remains constant across all the three regions of the State of Uttar Pradesh. This data shows that on an average the younger generation is not having the bank accounts which are a potential area to tap by the banks by designing new products and services for them. On the other hand 73% of the respondents those who do not have any bank linkage, are of the age group of over 35 years. This is another silver lining in the implementation of the BF/BC model and the door step banking can tap those potential customers of the age group of over 35 years. **(Table No 7 & 8 and Chart 1 & 2)**

10.1.2 Profile of the respondent on Housing pattern

In the present study, 52% of the respondents of Uttar Pradesh with Bank linkage are having Pukka House and 28% of the

Chart 1. Age Group wise distribution of respondents (with Bank accounts)

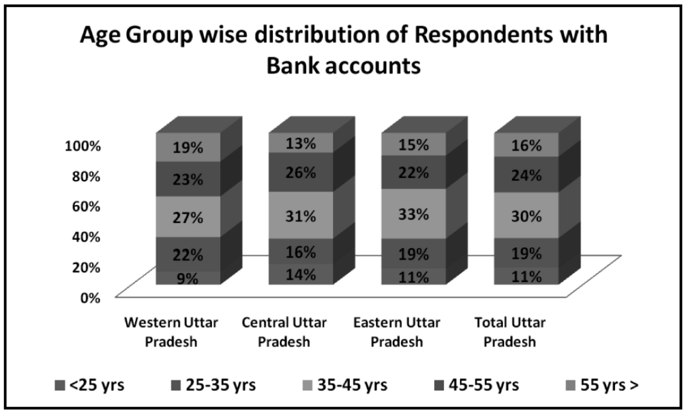
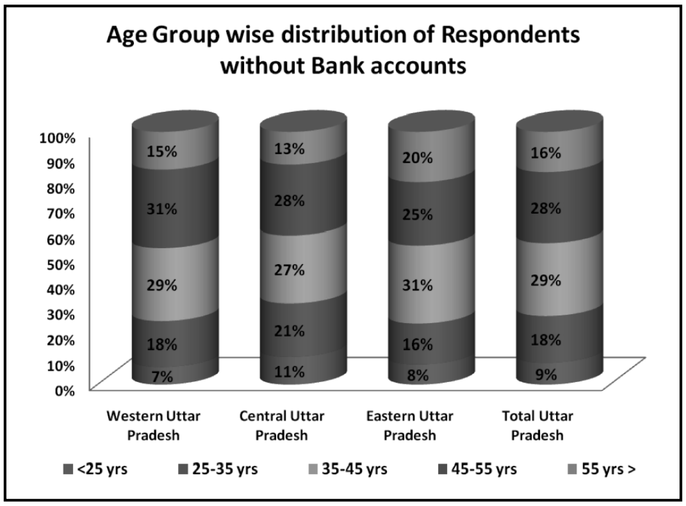


Chart 2. Age group wise distribution of respondents without bank accounts



Source: Primary data, 2009

Chart 3. Respondents with Bank accounts

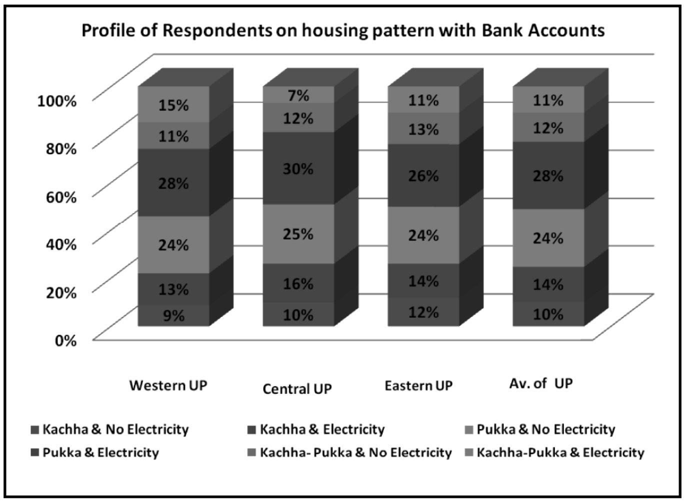
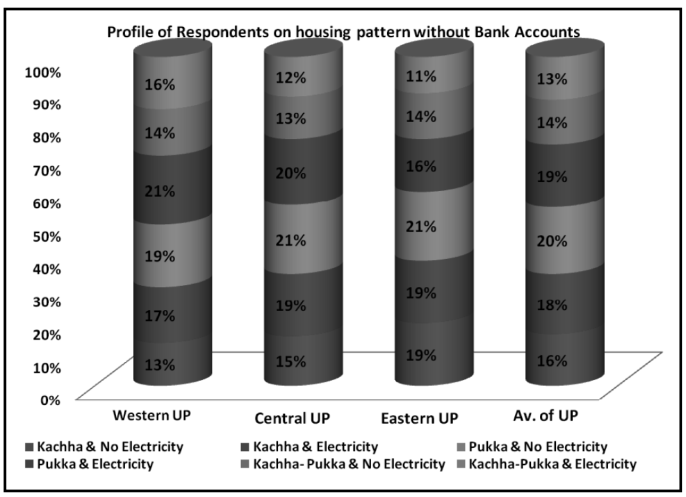


Chart 4. Respondents without Bank accounts



Source: Primary data, 2009

Chart 5. Type of the family of the respondents

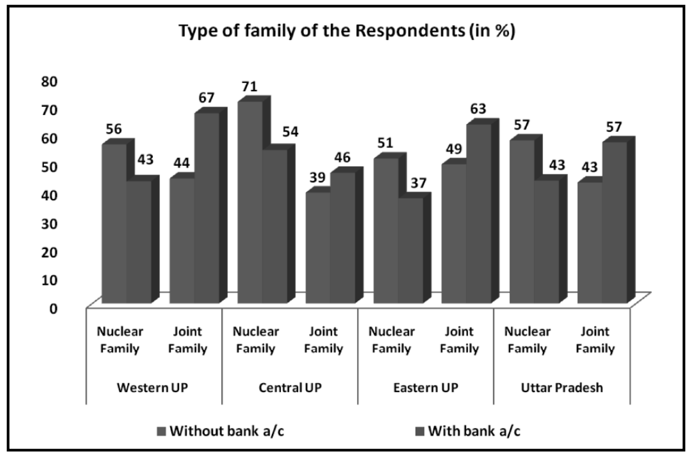
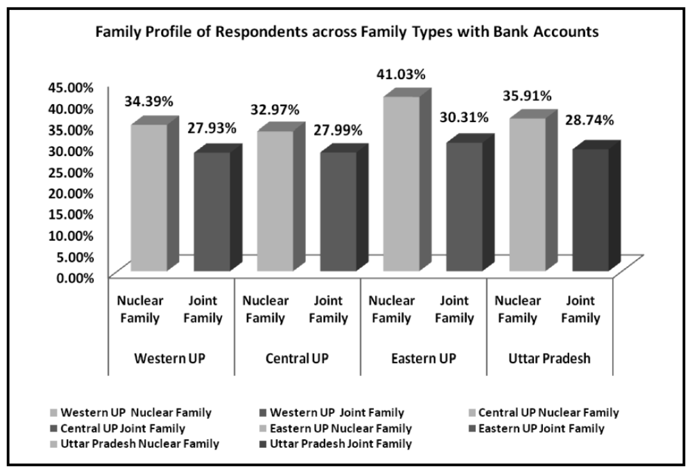


Chart 6. Profile of the respondents with bank accounts



Source: Primary data, 2009

respondents are getting the electricity in their houses with an exception of 10% of the people with bank accounts are residing in a kachha house without any electricity. The picture is more or less same across the region of the State. It also reveals from the study that 19% of the respondents without bank linkage are staying in a Pukka house with electricity. They are the potential customer of the BF/BC model of RBI. **(Table No 9 & 10 and Chart 3 & 4)**

10.1.3 Profile of respondents across family types

In Uttar Pradesh, the joint family is having more number of bank accounts than the Nuclear family. This holds good across all the three region of the State. The nuclear family is having very less number of accounts in the central region of the State.

It is also clear that the amongst the account holders in Uttar Pradesh, the nuclear family is having the highest (35.91%) earning members to total members than the joint family (28.74%) which is true across the region of the State of Uttar Pradesh.

In case of the respondents without any bank linkage, the earning members to total members in the joint family, is slightly higher (40.15%) than the nuclear family (39.31%). The maximum number of earning members was recorded at western region in case of joint family. While analyzing the data on the ratio of earning female to male, some striking features have been surfaced. The earning female is 1.49 times more than the earning male in the western UP who are having

Chart 7. Profile of the respondents without bank accounts

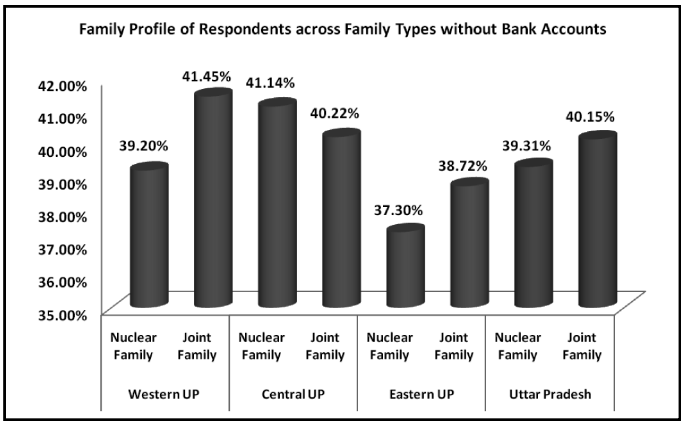
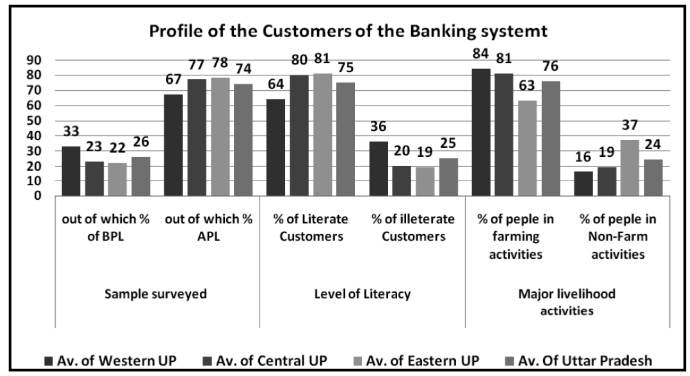
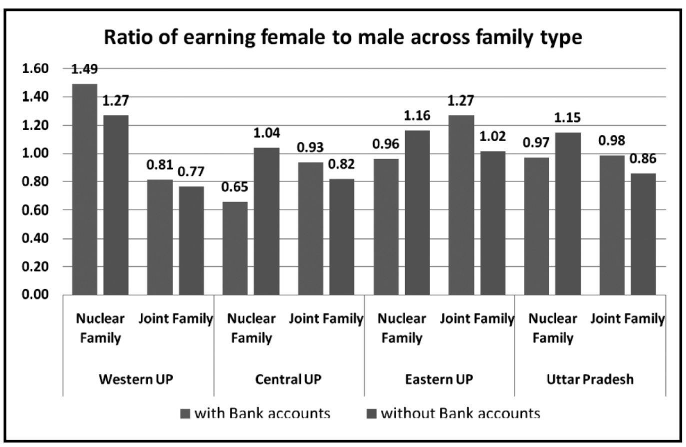


Chart 9. Profile of the respondents with bank linkage



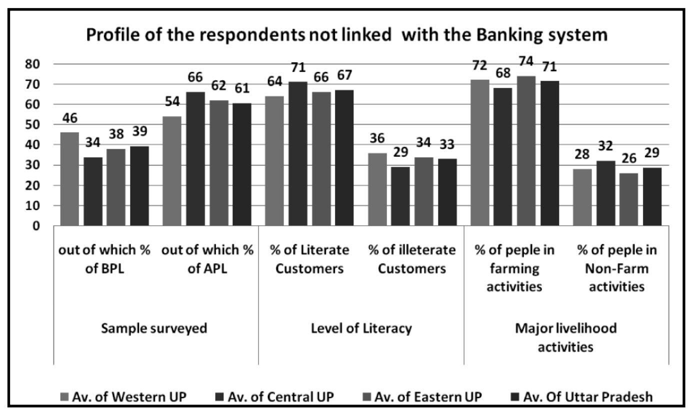
Source: Primary data, 2009

Chart 8. Ratio of earning female to male members across family type



Source: Primary data, 2009

Chart 10. Profile of the customers without bank linkage



Source: Primary data, 2009

a bank linkage, but the whole of Uttar Pradesh recorded that the female earner is 0.97 time than the male earners with bank accounts which is more or less same in case of joint family also. The female earners are 1.27 times of the male earner in nuclear families of western UP without any bank linkage which was 0.86 times in the whole of the State. **(Table 11 & 12, Chart 5, 6, 7 & 8).**

10.2 Livelihood Profile of the Respondents

In Uttar Pradesh, 74% of the Bank account holders are of APL category with a literacy of 75%. The major livelihood of the bank account holders was farming (76%) and only 24% of the bank account holders were from non-farm activity.

So it is clear that more number of farming communities in the State of Uttar Pradesh is maintaining bank accounts than the non-farm community. Out of the respondents without bank linkage, 61% belongs to the APL category with a literacy rate of 67%. Again, amongst the unbanked population, 71% belong to the farm sector alone. This is a very big chunk of people who can be easily brought into the banking umbrella through the doorstep banking **(Table13 & 14, Chart 9 & 10.)**

10.3 Cost of Transaction

Although the banks across the State is charging only 9% interest in the loan accounts, the cost of transaction were higher than this due to the reason that the customers were travelling a distance for which they have to incur a cost of 1.03% annually which impacted the cost of transaction and the effective average cost of transaction stood at 10.05% in UP which was as high as 11.04% in case of eastern UP and highest (13.04%) was recorded in Chitrakoot district. The average rate

Chart 11. Cost of transaction in case of existing customers

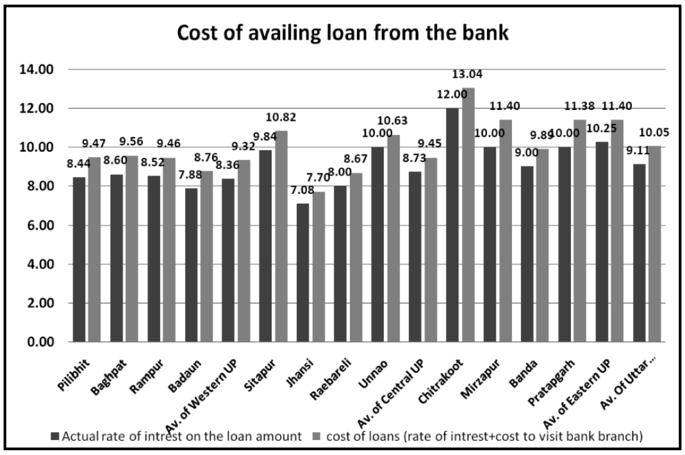
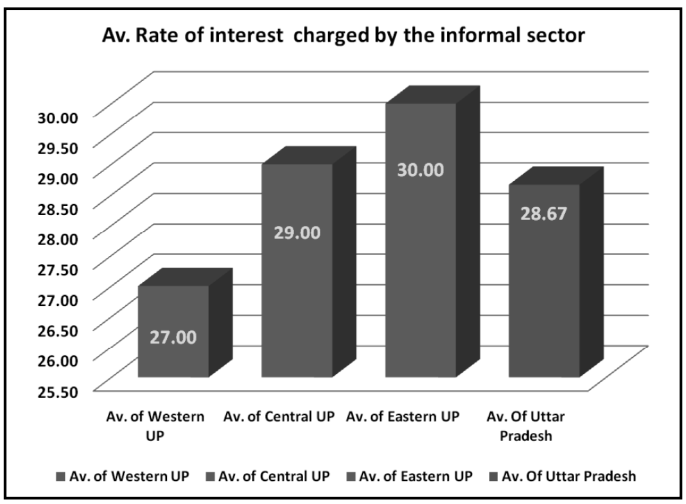


Chart 12. Average rate of interest charged by the informal sector



Source: Primary data, 2009.

Chart 13. Willingness to avail doorstep banking (existing Customers)

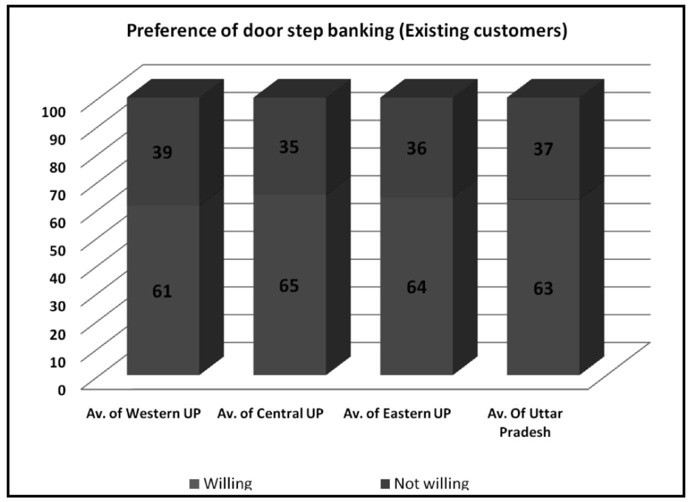
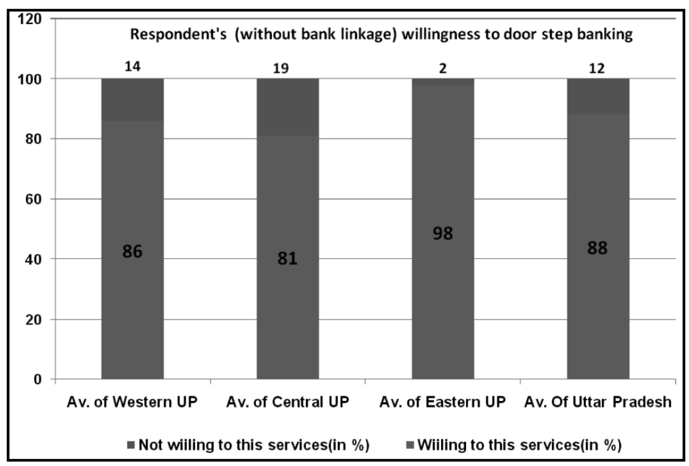


Chart 14. Willingness to avail doorstep banking (non customers)



Source: Primary data, 2009

of interest being paid by the unbanked population of UP to the informal sector was 28.67% **(Table 15& 16, Chart 11 & 12).**

10.4 Door Step Banking for the Rural and Semiurban population in UP

Out of the existing customers, 63% are willing to avail the door step banking in Uttar Pradesh probably due to the fact that the cost of transaction was high and also the bank timings are not suitable to them. Almost all the respondents without bank accounts, are willing to avail the doorstep banking services.

Above 90% of the respondent (both the bank linked and non linked) prefer all types of door step banking service, i.e. savings as well as credit and the other value added services **(Table 17 & 18, Chart 13,14,15 & 16).**

10.5 Customer Satisfaction

On an average 97% of the customers of the banking channels are satisfied with the existing products of the banks, but only 77% of them are satisfied with the services of the banks **(Table 18 & Chart 17).** As discussed earlier in Chapter 9 that each branch is handling huge number of customers and also each employees are handling very high number of customers, the level of services provided by them are not satisfactory.

Chart 15. Preference of the respondents with Bank linkage on types of door step banking services

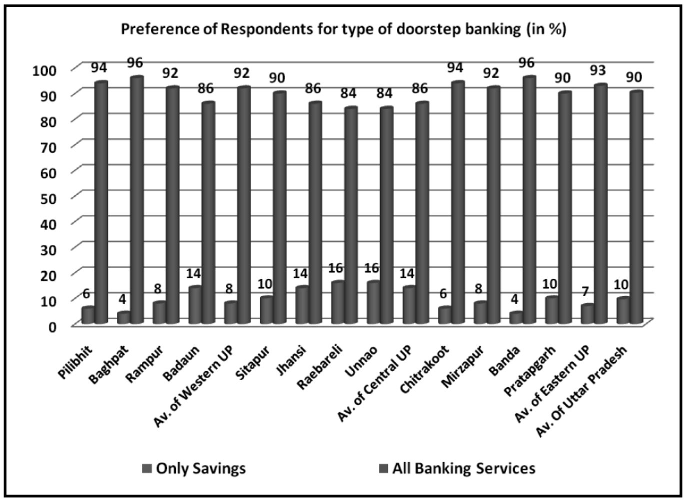
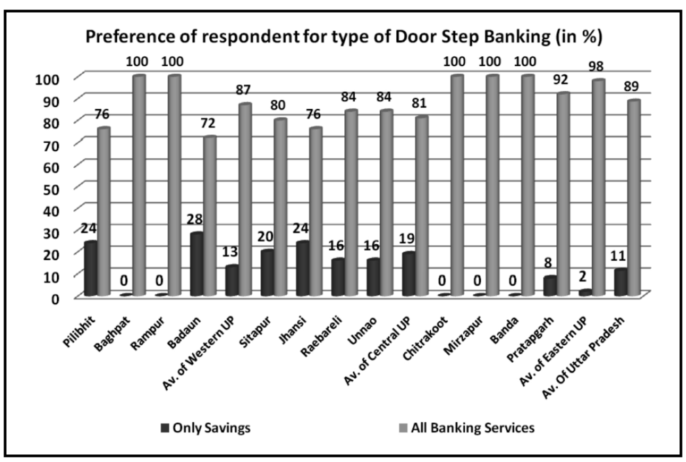
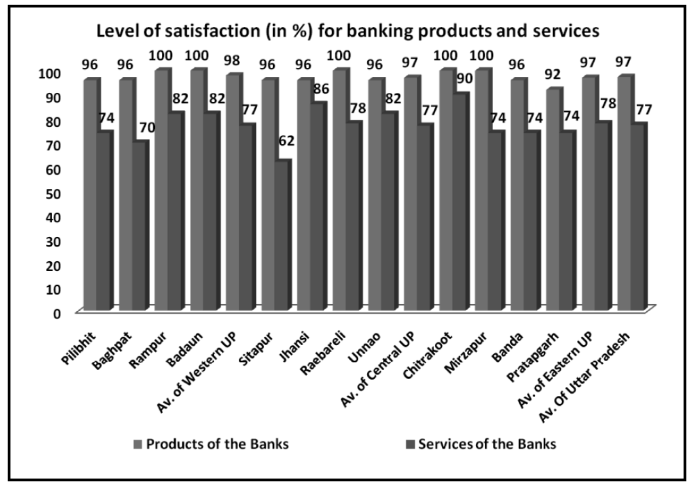


Chart 16. Preference of the respondents without Bank linkage on types of door step banking services



Source: Primary data, 2009

Chart 17. Level of satisfaction of the customers with products & services of banks



Source: Primary data, 2009

11

IMPROVING EFFECTIVENESS OF BF AND BC MODEL IN UTTAR PRADESH – STUDY REPORT

11.1 Business Facilitator (BF) Model

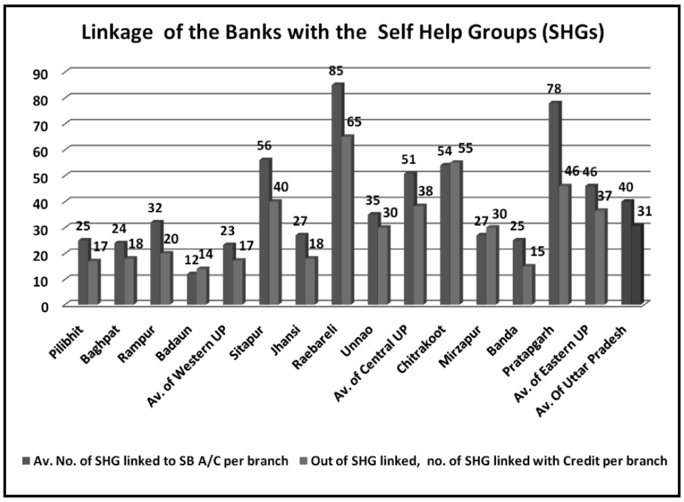
The role of BFs in the extension of banking business is restricted to promotion of awareness of products, processing of loan applications, promotion and nurturing of Self-Help Groups (SHGs) / Joint Liability Groups (JLGs) and follow-up of loans towards ensuring recovery. Some of the areas in which BFs are being engaged by banks in the State of Uttar Pradesh are discussed below.

11.1.1 SHG - Bank linkage Programme (SBLP)

A major area in which banks have come forward to engage the services of NGOs and other agents is in linking them to well-functioning SHGs. Typically, a fee is paid to the NGO/ agent for facilitating the opening of a savings account of an SHG and for credit linkage. This is in addition to grant assistance that NGOs can access for SHG promotion from the Microfinance Development and Equity Fund of NABARD – now Rs. 3,000 per SHG and available for activities over a period of three years.

Study Results: All the 6 major banks we surveyed during the present study, have already realized the need for using BFs in promoting SHGs as clients. Indeed, SHG promotion is a part of the corporate strategy of the public sector banks and carries the mandate of their Board of Directors. However, 65% of the rural banks managers with whom we have interacted do not consider SHGs as a sound business proposition. Nor do they always see the need for this form of social investment directed at developing long-term clients. In fact, they generally feel that the bank's SHG programme is being pursued primarily in order to fulfill corporate social responsibility. Since, in many areas of our study shows that SHGs account for only about 2-5% of the portfolio of a bank branch at present, they are also not perceived as an important and stable client group of the banks. From the present study, it was observed **(Table 6 and Chart-1)** that the number of SHGs linked with the banks is highest (51 per branch) in the districts of central UP and lowest (23 per branch) in the districts of Western UP. The average number of SHGs formed by the Bank branches in Uttar Pradesh is 40. As per the report of the SLBC (Uttar Pradesh) as on 30.09.2008, the average Number of SHG per branch was 26 in case of commercial banks and 36 in case of RRBs and 4 in case of Co-operative Banks and the average of UP State was reported to be 24 (Table-5 of Chapter 7). On the other hand, all the 12 Lead District Managers advocated in favour of formation of more and more SHGs by the branches with the help of the local NGOs.

Chart 1. Linkage of SHG with the Banking System in UP



Source: Primary Data, 2009

11.1.2 Doorstep banking and small deposit schemes

Over the years most public sector banks have implemented various schemes designed to extend financial services to the rural poor. The use of BFs, or agents, by banks for this purpose is not new. As Stated in the Khan report, the pygmy deposit scheme which involved daily/weekly collection of tiny deposits at the depositors' doorstep by engaging local people as agents, was operated in the past by a few banks. This had been banned in 1983 due to various malpractices. While doorstep banking has probably been carried out unofficially (Harper, 2005) over the past several years, it was allowed again by RBI in April 2005. Banks can now offer banking services to government departments and institutions at their premises. For individuals, permission of the bank board and RBI is necessary. Risk management of such schemes remains an issue with the need to institute necessary checks and balances and the use of IT applications to minimize risk.

Study Results: Some public sector banks in Uttar Pradesh are coming forward to revive their old doorstep banking initiatives e.g. Syndicate Bank. All of the 60 bank branches surveyed are not in favour of this idea of revival of the old system, rather they are interested in mobilization of the accounts from the far flung places through arranging account opening camps.

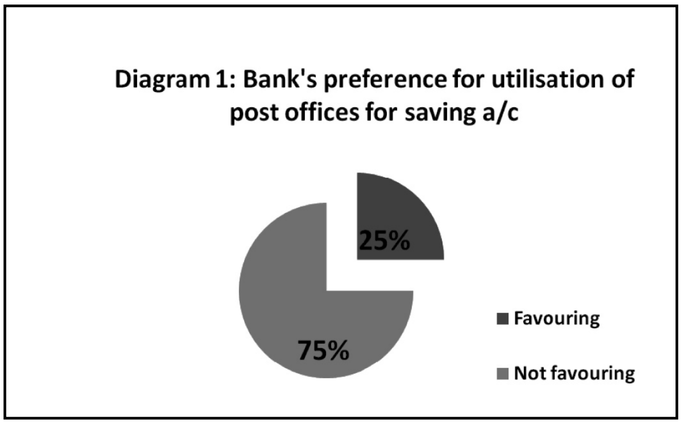
11.1.3 Post offices and postal agents

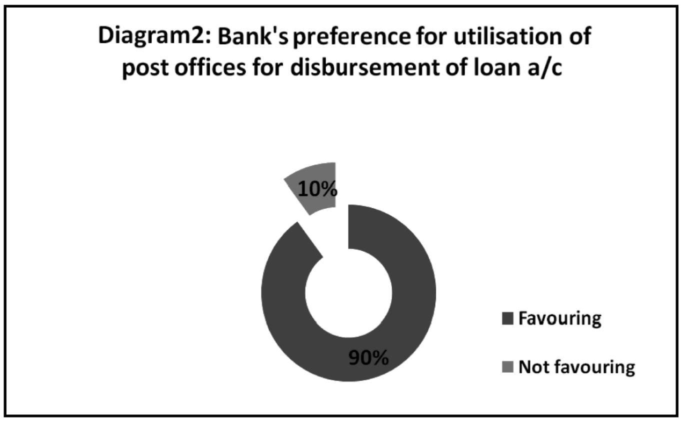
The postal department has a unique position in providing savings facilities and low-priced insurance products. The National Savings Institute (formerly National Savings Organization) operates through 154,000 Post Offices and around 10,000 branches of nationalized banks, spread throughout the country, which act as its distribution channel. It uses 500,000 postal agents, including 150,000 women, who provide doorstep services to the people (CGAP, 2005). The Khan report (2005) mentions the experiment under the aegis of NABARD in a few districts of Tamil Nadu to use the services of post offices for facilitating SHG bank linkages. It suggests that, based on the results, post offices/postal employees may be considered for both BF and BC relationships.

Study Result: Despite the decline in interest rates from 12 % to 8 % per annum during the last few years, there is still an increase in its deposit mobilization. Postal products carry a high level of trust of the public since the Union government acts as a guarantor. Savings mobilization costs are 1% and postal deposits are lent without risk to State governments at 9.5% per annum. There are 15300 post offices operating in rural and semi urban areas of Uttar Pradesh who are also offering the Savings Bank facilities to the customers (Lok Sabha, 2005). 75% of the branch managers surveyed in 60 branches, are not in favour of utilising the post offices **(Diagram 1)** as they feel that the post offices are their competitors in terms of mobilizing the savings bank deposits. Around 80% of the bank branches **(Diagram 3)** are of the opinion that the bank's products are superior to the post offices. Out of the 60 respondents, 90% of them feel that the post offices can be utilised for disbursement of small value loan products **(Diagram 2)** and also they can be used for recording the KYC norms. Almost 55% of the respondents in branches **(Diagram 4)** feel that the postal agents can become an important part of the extension of financial services by banks in future. While conducting the survey it was revealed that the State Bank of India and Union Bank of India have planned to use the postal channel for doorstep banking.

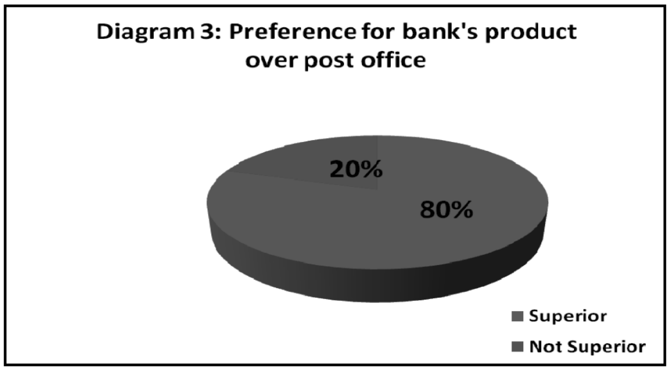
11.1.4. Recovery agents

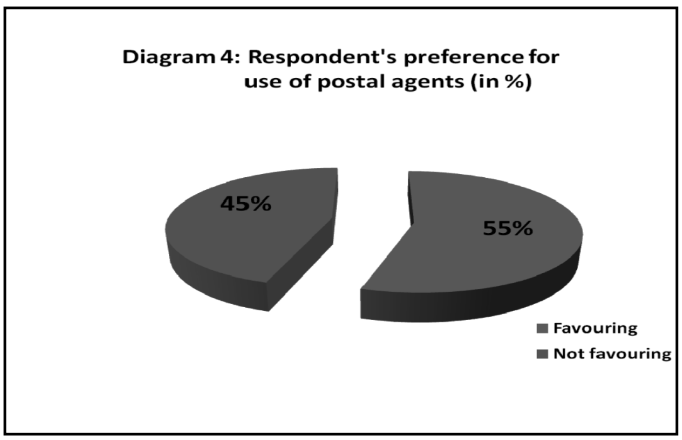
The outsourcing of recovery of overdue loans by banks has become quite common. These recovery agents have been





Source: Primary Data, 2009

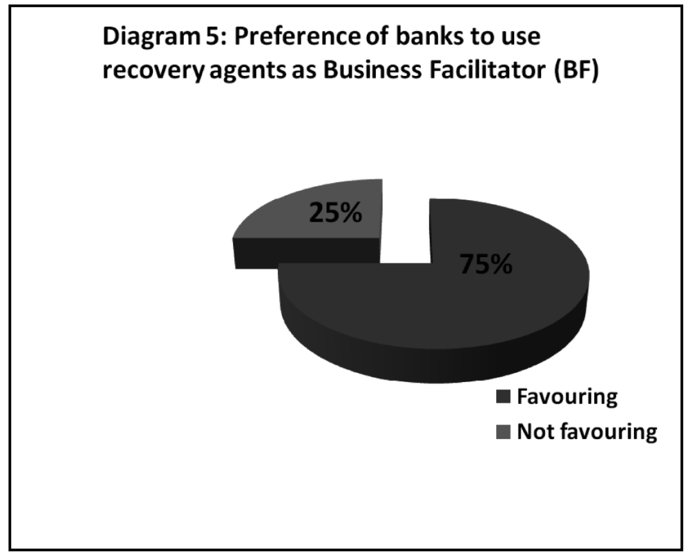




Source: Primary Data, 2009

appointed under the existing Securitization and Reconstruction of Financial Assets and Enforcement of Security Interests (SARFAESI) Act 2002.

Study Result: Many banks in Uttar Pradesh including, Bank of Baroda, Allahabad Bank, Punjab National Bank, SBI and Bank of India, are using security agencies, NGOs and former bank staff as recovery agents to collect bad debts (overdue as well as written-off loans) to bring down the level of their non-performing assets with up to 10% commission on collections for hard-core NPAs over 5 years old. Although the use of Recovery agents in the rural semi-urban branches was less, still 75% of the respondents **(Diagram 5)** are in favour of use of the network of Recovery agents. This scheme is showing results and can be a lucrative business for the agent as well. SHGs too have been similarly given the responsibility by banks of the collection of repayments from delinquent borrowers in their villages. Thus, BFs have already been engaged by banks to assist in recovery of loans even prior to the BF/BC circular.



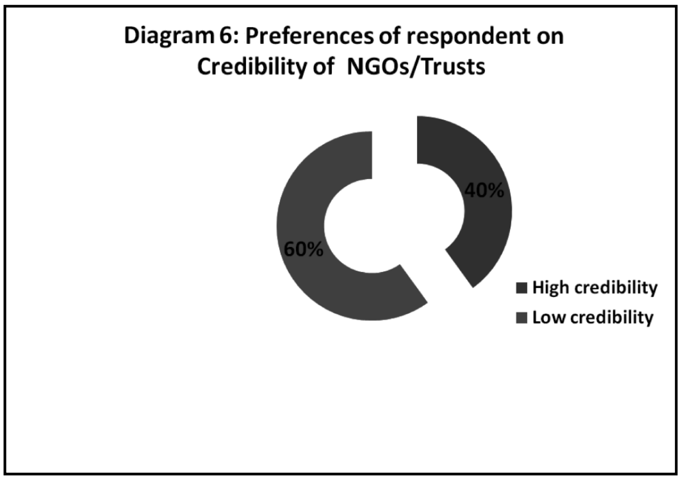
Source: Primary Data, 2009

11.1.5 Engaging NGOs/Trusts/Association as BF

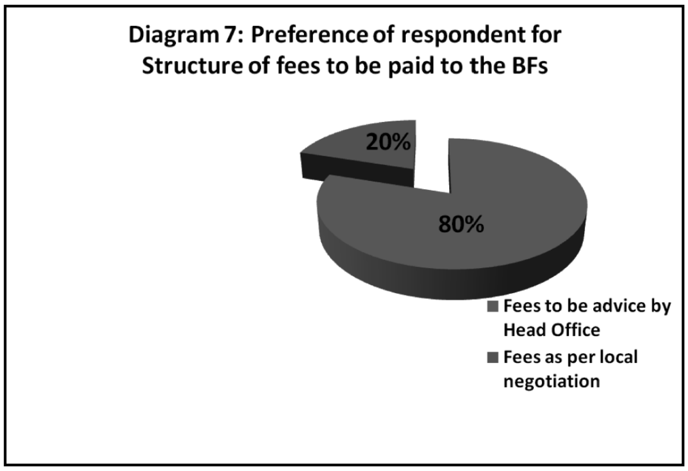
The NGOs/Trusts/Association are a few of the major players in mobilizing the products and services of the banks with their local presence and link with the local people. The RBI as well as the Corporate Offices of the Banks is in favour of engaging the NGOs/Trusts/Association for marketing of their products and services.

Study Result: Almost all the banks operating in Uttar Pradesh are using the services of the NGOs/Trusts/Association for different purposes of the banking business, the most important being formation and nurturing of SHGs and JLGs. The most important issues which have now become very pertinent, are the credibility of these village level agencies. As per this study, it reveals that 40% of the respondent bank branches feel that the credibility of these organization are doubtful **(Diagram 6)** and entrusting any banking activities to them will hamper the bank's credibility in the local areas. The other major concerns of the banks are the fees/commission to be paid to these agencies for mobilizing the savings bank and other small loan accounts. These fees are not being advised by their corporate offices and also there is a substantial difference of interbank payment of fees. When the respondents were asked to give their views, it reveals that 80% of them want that the fee structure should be advised by the Head Office and the rest (20%) of them will prefer to pay the fees based on local negotiation **(Diagram 7).**

Overall, nothing has come out about the role of BFs. These facilitation agents can be appointed without RBI's permission.



Source: Primary Data, 2009



Source: Primary Data, 2009

In fact, some important areas of involvement of BFs, as discussed above, had already been made possible by earlier RBI decisions.

11.1.6 Payment of incentives to the BFs

During the present study, it was found that the Punjab National Bank (PNB) and State Bank of India (SBI) are paying Rs. 1,500 and Rs. 1000 respectively as incentive to NGOs for linking SHGs to the bank. This excludes SGSY groups. Payments are made in installments upon achieving different stages/landmarks. Thus, in the case of SBI Rs. 500 per SHG is paid to the NGO at the time of opening of the savings bank account of the SHG and the balance of Rs. 500 in three months after credit linkage. In the case of PNB, payments of Rs. 500, Rs. 500 and Rs. 500 respectively are made at the time of savings linkage, four months after savings linkage and after credit linkage to the bank. The Punjab National Bank has opened its financial cell inclusion cell at the nodal zonal office at Lucknow for the entire State of Uttar Pradesh and an Officer in the rank of Chief Manager has been posted there to oversee the formation and nurturing of the SHGs by the appointed BFs.

SBI, in particular, is pressing hard for formation of SHGs in the State of Uttar Pradesh and has a special officer earmarked for SHG development at each Zonal/Regional Office under the Local Head Office at Lucknow. In certain districts of UP, a "central processing cell" has been formed to assist bank branches in the screening and processing of loan applications on behalf of SHGs. This can also be seen as a form of "outsourcing" of branch functions, but to an agency (from within the bank) that are functioning as the Business facilitators. The Bank is also giving incentives to the bank branches who are mobilizing the maximum number and amount of savings bank deposit through formation of Self Help Groups. The branches are getting the incentives after the end of each quarter.

The other banks e.g. Bank of Baroda, Allahabad Bank and Syndicate Banks have also announced the incentive to the branches for opening of savings bank accounts and the "No Frills" account opening in Uttar Pradesh has been the highest in the country. The banks are also paying a handsome amount to the Self Help Promoting Institutions (SHPIs) for promoting the SHGs and the amount being paid for each SHGs were not disclosed by the banks. So far, our observation from the present study is concern, it reveals that most of the banks have not yet standardized the system of payment of fees to be made to the Business Facilitators for different types of jobs to be performed by them. This has become a very important stumbling block for the field level branch heads for promotion of BFs to increase the outreach of the banking products and services. In view of the above, we have made an endeavour to standardize the fee structure for the various types of jobs to be performed by the BFs which is given in **Annexure-II.**

11.2 Business Correspondent (BC) Model

11.2.1 While BFs have a comparatively limited facilitation role as agents of banks, the BC can undertake a range of financial functions not permitted for the BF. The BC model essentially applies to the bank-MFI relationship (covering the several legal forms adopted by the latter). Since SHGs are unregistered entities, they cannot act as BCs, though registered federations and associations of SHGs would qualify. SHGs could, however, be clients of banks through the medium of the correspondent MFIs.

11.2.2 NGOs as the Business correspondents (BCs)

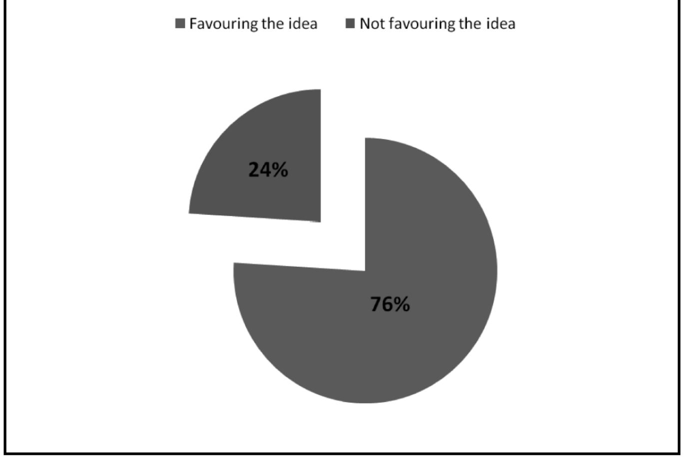
The number of registered Non Government organizations was around 1250 in the State of Uttar Pradesh as per the information received from Govt. of UP. But as of date around 300 organizations are working actively and the rest are dormant. The survey results show that only 45% of the bankers are in favour of engagement/appointment of NGOs as Business correspondents for their banks **(Diagram 8).** This low response was probably due to the low credibility of the NGOs in the State of Uttar Pradesh. It is also accepted by the respondents that there are very good reputed NGOs in their locality but they are not interested in taking up this responsibility of BCs as they have lot of other engagements. It is also revealed from the survey that those respondents who are favouring the NGOs to act as BCs, because they feel that the BCs will take care of the small transaction which are not at all beneficial to the banks in terms of profitability of the branches. They are also of the opinion that the small ticket transactions are eating up on an average 75% of their time.

11.2.3 Engaging section 25 companies as BCs

It was found that 76% of the respondents are in favour of engaging the Section 25 companies as the BCs **(Diagram-9)**

The respondents are favouring the Section 25 companies as their BCs due to the simple fact that these companies have a legal entities and tracking the activities are also very easy and less costly. But one very pertinent question arises about the payment of fees and commissions which they feel to be increased substantially to get a better service from these BCs

Diagram 9: Preference to appoint section 25 companies as BCs

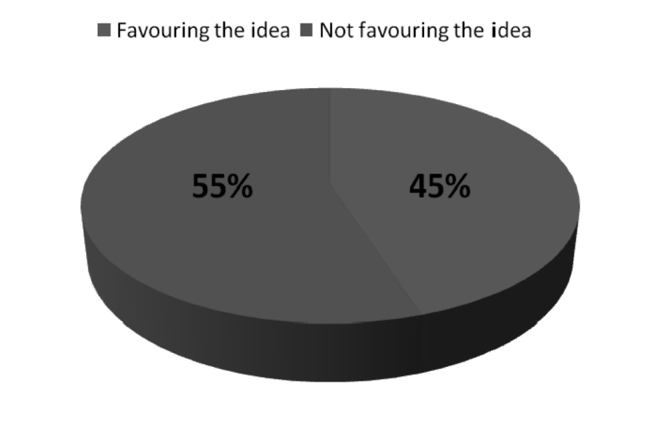


Source: Primary Data, 2009

11.2.4 Engaging existing MFIs as BCs

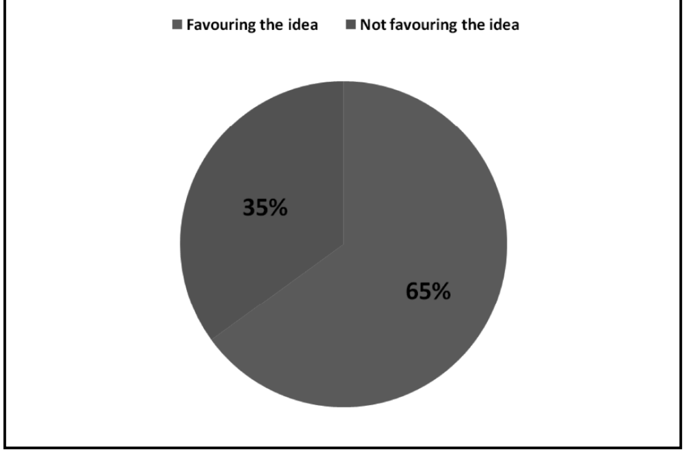
The local existing MFIs are playing a very important role in the financial inclusion of the unbanked people in the rural and semi-urban areas. The idea of engaging the MFIs as the BCs was favoured by 65% of the respondents **(Diagram-10)**. The others were not favouring this idea probably due to the fact that they believe that the MFIs are the biggest competitors of the rural and semi-urban branches for small ticket transactions.

Diagram 8: Preferences of the Respondents to engage the local NGOs as BCs



Source: Primary Data, 2009

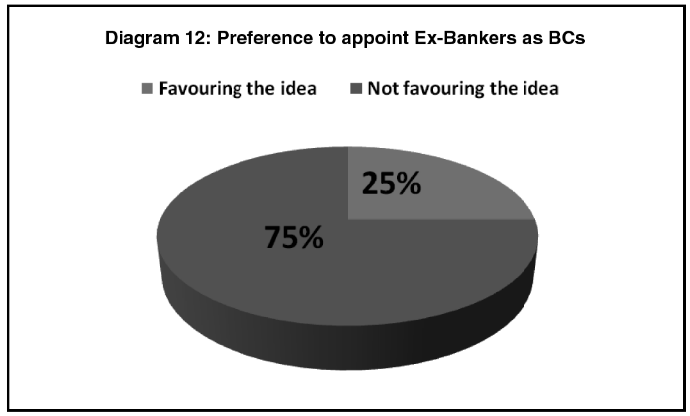
Diagram 10: Preference to appoint existing MFIs as BCs



Source: Primary Data, 2009

11.2.5 Engaging Co-operative societies as BCs

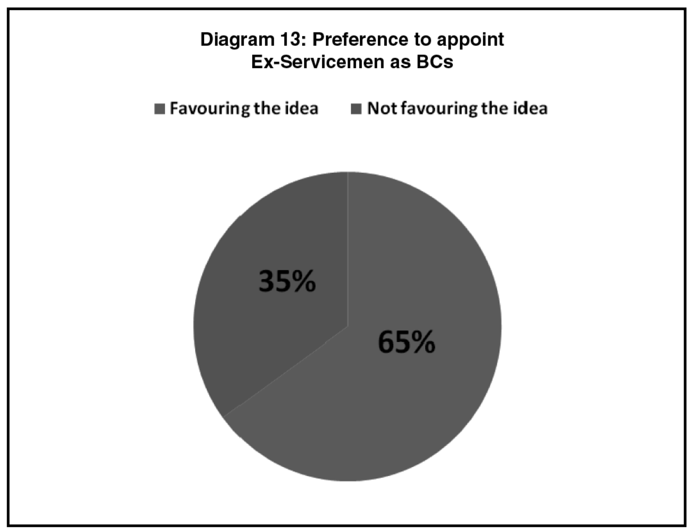
The cooperative societies of Uttar Pradesh are not vibrant at all. The PACS are not functioning at their desired level. Most of the PACS are closed in the district surveyed during the present study. But the cooperative societies for land development and the marketing federations are working very efficiently in the rural and Semi-urban areas of Uttar Pradesh. It was found from our research that 73% of the respondents are in favour of engaging the cooperative societies as Business Correspondents **(Diagram-11).** The respondents felt that the cooperative movement in Uttar Pradesh can be revived by engaging the PACS and MACS as BCs to achieve the overall objective of financial inclusion in the State.



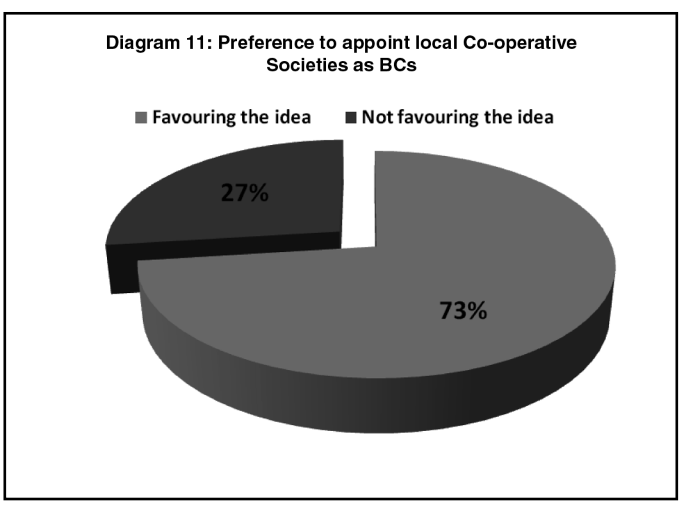
Source: Primary Data, 2009

11.2.6 Engaging individuals as BCs

The Reserve Bank of India during April, 2008 allowed the banks to engage the individuals as BCs . This has brought some enthusiasm in the Banking circle of Uttar Pradesh. As per the new rule that the Ex-Bankers, Ex-Service Men and Retired Govt. employees are eligible to work as BCs of the banks, the survey results show a different story. As per the survey, 75% of the respondents did not preferred ex-bankers **(Diagram-12)** for appointment of BCs as they are not in a habit of moving movement, but the job profile of the BCs require lot of travel from one place to other and also they feel that the bankers are not physically fit to take up this kind of job. On the other hand, about 65% responded **(Diagram -13)** favouring Ex-Servicemen as more efficient BCs because they feel that the ex-servicemen are physically and mentally fit to take up this job which involves lot of travelling in the rural and semi-urban areas.



Source: Primary Data, 2009



Source: Primary Data, 2009

11.2.7 Payment of incentives to the BCs

The payment of remuneration and the fees/commission to the BCs is the bone of contention in the banks for implementation of this model. As the banks in Uttar Pradesh have grown in length and breadth during the last 10 years, there is a general feeling in the banker's circle that the branches are sufficient to cater the needs of the rural and Semi-urban population in the State. The share of the rural and semi-urban branches of the commercial banks (including RRBs) is 73% of the total branches, but on the other hand the share of population in the rural and semi-urban areas of Uttar Pradesh is 82% and as per our survey results shown in chapter-9 , the average population being served by each of the bank branch is less than the all India average. This proves the requirement of engaging the BCs to serve the huge unbanked and left out population in the State.

The payment of fees to the BCs by the banks in the State of Uttar Pradesh is yet to be streamlined. The State Bank of India has made a corporate agreement with the ZERO MASS FOUNDATION; a Mumbai based Section 25 Company and appointed them as the BC for 6 districts of Uttar Pradesh on pilot basis. When contacted the LHO of the SBI, Lucknow, they refused to divulge the payment terms and when contacted Zero Mass at Mumbai they are also not in a position to pass on the information.

In case of Punjab National Bank, they are paying monthly remuneration of Rs.1000 plus Rs.500 for mobile and Rs.500 for conveyance. This remuneration is fixed up to a certain achievement. Apart from this they are also having a system of payment of incentives for opening of Savings account, distribution of small loans and recovery of the loans. The PNB as on 31.01.2009 has appointed 200 BCs in the State of Uttar Pradesh.

BOX NO -1

CASE STUDY- PUNJAB NATIONAL BANK

PNB'S BF MODEL PROJECT FOR RICKSHAW PULLERS

It is estimated that there are 8 million rickshaw pullers in India, 95% of which are victims of high daily rental fees. This makes it impossible for them to earn enough to own the rickshaw in their lifetime. In addition, they have to bear the cost of any accidental damage to the vehicle. Inability to do so, not only leads to harassment, physical, mental and financial, but also compels them to flee from their place of residence.

1. Thus, lack of disposable income makes them unable to access basic utilities or provide adequately to their families.
2. This vulnerability is due to their lack of access to basic formal banking services such as loans, savings, insurance, etc.

In order to address the above, Punjab National bank has drawn up convenient schemes for rickshaw pullers so as to bring a ray of hope for thousands of toiling humans by providing a means of self-employment to the poor and the marginalized rickshaw community.

PNB'S JAN MITRA RICKSHAW PROJECT

Punjab National Bank launched "Jan Mitra Rickshaw Project" on pilot basis in Varanasi, Uttar Pradesh on February 2, 2008 in association with Centre for Rural Development (CRD), a NGO working for the upliftment of the poor people. The scheme will help these rickshaw pullers to access quality rickshaws and become owner of the same after three years (maximum estimated time period). Simultaneously health and medical insurance cover will also be provided. Rickshaw pullers are organized in a group of five and located at a common garage, to manage their savings, repair the rickshaw and update the business records. Rickshaw puller will open a "No Frills" Account with PNB. Subsequently, PNB will continue its links with the Rickshaw puller so as to fulfill his requirements for second product or services, thus becoming "one-stop shop" for the borrower and his family's entire needs like small loans for the household like renovation of house, buying cooking gadgets, etc. and allied activities like education loan, housing loan, personal loan, etc.

In this project, The Centre for Rural Development (CRD) will perform the work of a Business Facilitator in the first phase and they will be finally transformed to Business Correspondent. This project is replicable and has the scalability and other value added services can also be incorporated in this particular model and can be replicated by other Commercial Banks.

12

TECHNOLOGY PLATFORM FOR FINANCIAL INCLUSION

12.1 Banking Technology for the Hinterland

The recent developments in banking technology and expansion of telecommunication network in the hinterlands of the country have provided the perfect launch pad for extending banking outposts to remote locations without having to open bank branches in the area. This could be achieved by leveraging technology to open up channels beyond branch network and create the required banking footprints to reach the unbanked so as to extend banking services similar to those dispensed from branches. In short, technology has to enable the branch to go where the customer is present, instead of the other way around (Das, 2007).

12.2 Technology Dissemination – RBI's Initiatives

In RBI's Annual Policy for 2007-08, it urged the banks to scale up efforts for IT-based financial inclusion and develop technologies that are highly secure, amenable to audit and follow widely accepted open standards to allow inter operability among the different systems adopted by different banks. The enabling provisions and support of RBI has facilitated successful pilot projects in use of IT for extending the banking outreach for the "excluded". These projects are premised on technology which uses hand-held devices and connectivity with host computers through General Packet Radio Service (GPRS) / Global System for Mobile Communications (GSM) / Code Division Multiple Access (CDMA) / landline networks. The devices also come in several forms like Simputers (Simple Inexpensive Multi-lingual Computers) / personal digital assistants, programmed mobiles, etc. There are also rural bio-metric ATMs which have been introduced by banks and found to be very popular among rural masses. Some major banks are introducing low cost rural ATMs for cash dispensing and other services in rural areas.

As we have discussed earlier, the cost of IT set up by the BFs & BCs are very high and is a negative stimuli to the success of the BF/BC model of the RBI. The initiatives taken by the RBI are a welcome step which is expected to bring some new innovation in the use of IT as an enabling factor for success of the present model of greater outreach of the banks.

12.3 Essential Features of IT Enabled Financial Inclusion

The RBI has set up an advisory group for IT-enabled financial inclusion to facilitate development of IT solutions for delivery of banking services. It is understood that the group will advise certain minimum parameters and standards that are essential for setting up robust interoperable systems on open platforms. It is clear from the present study that in all the models of delivery of financial services to the unbanked people, there is a convergence of certain essential components and processes at the time of application of technology. The essence of all the models under consideration, features the issue of a smart card to the rural people on which all his transactions are recorded, a hand-held terminal with the BC at the village level and a Central Processor Unit (CPU) linking the smart cards and BC terminals with the banks. The precautions taken ensure that every transaction made is accompanied by a print-out being provided to the farmer. There are also other models where smart cards are dispensed with and mobile telephones, etc. are used.

12.4 Some Success Stories in Application of IT Based Financial Inclusion

For better clarity, we have also studied the fundamental outlines of some technology-based model which can be considered as a standard for application of IT in financial inclusion. In this endeavour we studied two initiatives – the SBI Tiny Initiative on Banking Facility through the use of smart card facility and Government of Andhra Pradesh (GoAP) Project on Social Security Payments through Smart Cards and these success stories are sufficient to draw conclusions that can be helpful in devising the strategy for achieving 100% financial inclusion in the country.

12.5 Initial Cost and Operating Cost of IT Enabled Systems

It is expected that the operating costs of the various models of financial inclusion what so ever followed by the banks in India to be minimal and can be easily absorbed by banks as the increase in business volumes will justify the absorption of incremental operating costs. Also, the costs of the models are substantially lowered if the infrastructure is shared. Essentially, the start up costs is the initial investment costs comprising: cost of the smart card, terminals to the BCs and the CPU. The banks surveyed in the State of Uttar Pradesh are also of the same opinion and the Punjab National Bank who has provided the technological platform to the BFs and BCs are of the opinion that the existing banking infrastructure and NGOs which have already developed extensive inroads into rural areas, should be made optimal use of for enabling outreach of banking services.

12.6 Electronic Recording of All Transactions

It is agreed upon by all the bank branches and the Zonal/ Regional Heads of the banks surveyed that the most important use of the technology will be the real time recording of all the transactions. All transactions should be done through a Point of Sale (POS) terminal deployed and managed—and hence trusted—by the bank. All transactions must be initiated by the customer and are automatically recorded electronically by the bank through the POS terminal. No transaction should be processed "on behalf of" the client or "over the store counter" without using the POS device. The terminal is typically a dedicated device either carried by the BCs or located at the retail establishment(designated as BC), but could also be based on the store operator's mobile phone in the case of mobile phone enabled transaction platform.

12.7 Financial Inclusion Technology Fund (FITF) of NABARD to Boost Financial Inclusion

The Govt. of India in its budget announcement for 2007-08 created two funds namely Financial Inclusion Fund (FIF) and Financial Inclusion Technology Fund (FITF) and housed with NABARD. FITF is essentially meant to meet the costs of technology innovation and adoption. This fund is having an overall corpus of Rs.500 crore, with the funding to be contributed by the Central Govt., RBI and NABARD. The guiding principles and criteria for selection of eligible institutions for support from FITF have been finalized by the NABARD in the last quarter of the FY'09. The commercial banks were also advised to submit their proposals for getting support of the FITF. Under the FITF, the fund is supposed to be utilised for extending outreach of the financial products and services through the application of low-cost technology solutions. As far as the information gathered during our survey with the NABARD, Lucknow Regional Office, till December, 2008 there were few application pending at the Corporate Office level of NABARD and very negligible number and amount has been sanctioned from these two funds for the State of Uttar Pradesh. The official version is that they are not getting any viable proposal to sanction under these two schemes. This has become another important stumbling block for promoting the technological platform to facilitate the financial inclusion in the far flung areas of our country.

12.8 Building Database of the Rural Customers

After having discussion extensively with the Branch managers and the Controlling offices of the banks and the chairmen of the RRBs on the issue of using technology as a driver, the most of the banks are of the opinion that the requirement of rapid financial inclusion as a national goal can only be achieved by using appropriate IT. The creation of a district-wise and State–wise data base, sectoral, geographic and demographic reports will help the banks to plan and implement the financial inclusion movement in the State of Uttar Pradesh. The streamlining of the payment system among the card holders to benefit the under privileged unbanked population of the State is not possible without extensive use of IT and the data base. The data base will help the bankers to track the history of the proposed borrower (Das, 2007) and also track the record of them at a click of mouse and it will save the time, money and energy of the bankers and this also can bring down the costs of the small ticket transactions of the financially included and make nationwide financial inclusion a reality.

12.9 Use of IT as a Risk Management Tool

Building a network for the BCs is indeed fundamentally a technology play for a bank. It is similar to the millions of existing Visa, MasterCard, and debit card merchants, except that in this case the card payments at retail stores would be not only for sale of goods but also for handing out and taking in cash on behalf of banks. With appropriate technology, the bank (and, by extension, bank supervisors) can afford to be a little bit more relaxed about how customer transactions are captured – as they are with existing payment merchants. The costs of bank service distribution can be reduced, while still effectively controlling banking risks. The use of technology as an important tool of risk mitigation has been accepted by many of the researchers (Das, 2007) and they also developed the model of the risk mitigation through the use of technological platform.

12.10 Challenges of Technological Platform

Developing a channel of Business correspondents (BCs) for a bank presents a range of technological and operational challenges that may be new for the bank. However, the main challenge is strategic: understanding specifically how this new channel fits within its existing customer segmentation, service proposition, and branding objectives of the concerned bank. The challenge is particularly important for banks pursuing BC model as a way to offer banking products and services to those previously with no bank account. After the present survey conducted by us, we are now in a position to list out the work to be done by the banks in Uttar Pradesh to effectively use the technology and to fight the challenges of the financial exclusion which are given below:

- Tackle basic financial education barriers of these potential customers through the use of Financial literacy programme
- Develop appropriate products that target their needs and economic means.
- Find efficient ways to reach them with effective marketing messages.
- Put in place a mechanism for checking customer identities (because many of them may not have any formal form of identification).

The BCs, by itself, cannot do all the things listed above. It needs adequate support from the bank in all of these aspects. Otherwise, the bank may have outposts, but there will be no outreach.

12.11 Case Study

Existing Technology Application Model of Punjab National Bank (PNB) for financial inclusion in the State of Uttar Pradesh.

This is a technology application model which is premised on providing financial services in the rural areas through the BC Model using low cost and simple IT based solutions. The PNB has made two server at their Head Office (New Delhi) one is called Central (Main) server and the other one is the Financial Inclusion (FI) server and this central system which is sharing the infrastructure for economies of scale and consequential cost benefits, and a field system which enables access to the main server through the FI server by the business correspondents. The account holders who were issued the a Multi-application Smart Card that leverages technology and takes mainstream banking and financial services along with other non-financial services having a social impact, to the customer last mile in a cost effective manner. Biometric-enabled smart cards provided to the customers through the BCs (Technology partner being FINO Fintech) were enabled for various financial and non-financial transactions in the field through multiple handheld devices that will be carried by the BCs to the villages on a specified dates and time. The backend transaction processing system will cater to the processing and settlement of the transactions captured on the field. All the transactions through this hand held devices were hitting the FI server and the main server is capturing the data from the FI server. The PNB has implemented this model in the 9 districts of Uttar Pradesh (Up to January) and they are planning to scale up this in all the districts of their presence in Uttar Pradesh.

13

RECOMMENDATION & CONCLUSION

13.1 Role of the Banks in Financial Inclusion

13.1.1 Pro-poor Financial Services

As poverty levels decline and households have greater levels of discretionary incomes, they will be first time financial savers. They will, therefore, need to have easy access to formal financial systems to get into the banking habit. Banks will need to innovate and devise newer methods of including such customers into their fold. The micro-credit and the Self Help Group movements are in their infancy and they still need to gather force. Innovation in the form of business facilitators and correspondents will be needed for banks to increase their outreach for banks to ensure financial inclusion. New entrants to the banking system need households at their doorstep. There has been a burst of entrepreneurship across the country, spanning rural, semi-urban and urban areas. This has to be nurtured and financed. It is only through growth of enterprises across all sizes that competition will be fostered. On the whole, the banks need to develop pro-poor financial services model and deliver the same at their doorstep.

13.1.2 Innovations in door step Banking

Union Bank of India is planning to offer doorstep banking through BFs recruited from among local people or farmers' clubs in rural areas. This is part of a programme by the bank to go into rural business in an aggressive way. Syndicate Bank, which pioneered doorstep banking in 1928, has launched a new small deposit scheme "Pigmy+ 2006" with provisions for doorstep collection. Further, the bank plans to implement the BF model on a pilot basis in regional rural banks sponsored by it in selected regions.

As the RBI has permitted the banks to engage/appoint the retired bankers/Ex-service man and retired Govt. employees as Business correspondents, it appears that the new enthusiasm for doorstep banking stems from the RBI circular of April 2008 and the banks are now in the process of appointing/engaging large number of BCs for fulfilling the dream of financial inclusion in the country. The banks are required to find out the different ways and means to provide the doorstep banking to the unbanked people and also there are ample scope of innovation in different products and services under the present scenario of facilitating role played by the regulatory institutions. The banks are now able to use agents of various kinds as BFs and BCs, rather than their own staff, towards making initiatives such as doorstep banking more cost-effective and with new products and services.

13.1.3 Cost of transaction

This is the most important grey area where we believe that the branchless banking through the BF/BC model can offer basic banking services to customers at a cost of at least 50 percent less than what it would cost to serve them through traditional branch banking channels. Branchless banking helps address the two biggest problems of access to finance: the cost of roll-out (physical presence) and the cost of handling low-value transactions. This is achieved by leveraging networks of existing third-party agents for cash transactions and account opening and by conducting all transactions online. This sharp cost reduction creates the opportunity to significantly increase the share of the population with access to formal finance and, in particular, in rural areas where many poor people live. The next step of biggest cost saving is on transactions that can be done completely electronically, through mobile banking which is now being tried out by some of the banks in India (Asian Banker 2007).

13.1.4 Interest rates and servicing fees of the Business Correspondent

The RBI BC model bears close similarity to the bank-MFI partnership already developed by some public and private sector banks. The stipulation debarring BCs from collecting fees from clients can be considered to be sound in that the MFI/other entity involved as BCs is no more than an agent acting on behalf of the bank and should be remunerated by it and not by the client. Now the question arises that who will pay the fees to the BCs under the present low interest rate regime where PLR became a constraints to the most of the banks and they also do not have the necessary margin to pay to the BCs and the BFs.

The banks clearly have a limitation on the chargeable fees to clients from which it is difficult for them to meet the costs of the BCs/BFs. In case of the Savings Bank account holder with NIL or MINIMUM balance, the banks can not charge any service cost and in case of loan accounts up to Rs.50000, the rate of interest is very low and no other charges are levied as found in our survey. The banks can refer the matter to the RBI for taking a decision in this regard. We recommend that the lifting of the PLR constraint would be one way -which has been suggested by many bankers during our present study or there can be a setting of a limit expressed in the form of a PLR plus rate, e.g. 6-8% above PLR only in case of doorstep banking to the unbanked areas. Alternately, the BCs could be allowed to charge a small fee to the clients. Otherwise, banks may have to impose some form of "service fees" over and above the PLR-based interest rate in order to meet the cost of remuneration of the BCs/BFs. However, we have proposed a model for service charges for the BFs/BCs based on their role to be performed (Annexure-II & III). This model can be pilot tested to implement in the field.

13.2 Appointment/Engagement of the BFs/BCs

The appointment/engagement of the BFs and BCs form a very important part of this financial inclusion model. The RBI since January, 2006 is reviewing this most important aspect of success and failure of this model of financial inclusion and according to the requirement it is coming out with amendments and value addition. The limitation on institutions permitted to be business correspondents and prohibition on business correspondents charging fees has made this model of financial inclusion more challenging task for the banking system to continue with the tempo and enthusiasm. In this connection, we recommend to permit the commercial entities like shopkeepers, PCOs, Fertilizer dealers etc who are having a permanent establishment in the rural and semi-urban areas to act as business correspondents and use their available infrastructure, subject to specific criteria. The other most important players like mobile operators who by this time have already established their deep rooted presence in the rural and semi-urban areas can also be one of the best players for greater financial inclusion. The bankers are of the view that there is no problem of engaging the BCs for financial inclusion as the branch opening in the rural areas are not remunerative to them. In regards to the payment of fees and commissions, either exempt business correspondent model from interest rate limits (in line with the exemption for loans given by banks to microcredit organizations) or lift the ban on charges to the customer, subject to adequate consumer protection measures ensuring transparency and customer understanding.

13.3 Management of risk of Outsourcing

The management of risk emanated from the outsourcing of the banking activities through engaging/appointing the Business Correspondents are the major issues being discussed in the banking circle. As in the banks robust risk management policies have been put in place, similar risk management policy for the outsourcing of delivery of the banking products and services is urgently required to build the level of confidence of the bankers to adopt this model of financial inclusion. In this research study we have identified the risk elements which come into picture during the appointment of business correspondents (BCs) are given as under:

- **Strategic Risk:** Instead of promoting the interest of the bank, the BCs may promote its own business by using the goodwill / brand name of the bank.
- **Reputation Risk:** Poor service, not being consistent with the overall standard of the bank.
- **Compliance Risk:** Privacy, Consumer Law and other legal requirements.
- **Operational Risk:** Due to fraud, error, omission, commission, inadequate financial capacity to fulfill obligation.
- **Counter Party Risk:** Due to wrong credit assessment, under financing or over financing.
- **Contractual Risk:** Whether or not the bank has the ability to enforce the contract.
- **Technology Risk:** The failure of the adoption of technology and improper use of the same is a big risk to the banking system.
- **Systemic Risk:** Lack of control over the BCs.
- **Security Risk:** Loss of cash due to burglary, dacoity, less security consciousness.

The documented and standardized risk management practice in each of the above mentioned area will be very much useful to the bankers to adopt this model of engaging the BCs for greater financial inclusion. We have given one risk rating model for the Commercial Banks for assessment of the BFs & BCs in **Annexure-III**.

13.4 Development of Umbrella IT System for Financial Inclusion

Most banks in India have their own ATM switch. In addition, the Institute for Development & Research in Banking Technology (IDRBT) has set up a National Financial Switch, but uptake so far is only limited. RBI does not require interconnectivity of ATM switches nor does it regulate interconnection charges. (Some banks have bilateral contracts; in all other cases, customers must go through the Visa or MasterCard switch.) The Fair Practices Code issued by RBI requires all banks operating ATMs to display the service charges being levied. Since, 1st April, 2009 the charges of using other Banks ATMs have been withdrawn.

On the same line, the NABARD can be entrusted to develop a common IT system for the financial inclusion in the whole of the country. The Financial Inclusion Technology Fund (FITF) can be utilised for this purpose. Instead of piecemeal development of the technology, the NABARD can create a common umbrella for the banks (both CBs & RRBs). As pilot the RRBs can be considered in any one of the State and after assessing the success of the pilot, this can be replicated in other banks. The Financial Inclusion Server will be shared in nature and this can also be linked with the main servers of the different banks so that the transactions taken place can be captured in the main server on the same day.

This kind of initiatives for technological development will give boost to the banks for greater financial inclusion and also the use of Business correspondent (BC) model where all the transaction will be recorded on real time basis and also the services to the customer will be better at a lesser cost.

It is, therefore, recommended that a shared infrastructure of different banks enabling nationwide financial inclusion for the participant banks would confer large scale benefits and also enable effortless transfer of funds between the card holders of the various banks. Financial Inclusion Technology Fund can provide the necessary support for defraying technology application and hardware costs of technology adoption.

As the technological capability for achieving outreach has been satisfactorily proved in the ongoing projects at Andhra Pradesh, Karnataka, Mizoram, etc., banks could scale up the projects all over the country to achieve financial inclusion. On the other hand, the BF/BC models backed by technology applications would encourage a role for the small players to enter into these initiatives and integrate them into the national system. This will also help the banks to streamline the payments to NREGA and Social Security Payments through such technology-based solutions (**Box -1**).

13.5 Regulation on E-money

The current Government's policy on e-money clearly does not permit issuance of e-money (or other similar stored-value instruments) by nonbanks. As a result, nonbanks that are interested in branchless banking have resorted to operating through banks or are struggling to find a mode of operation that would be in compliance with current regulations. It appears, however, from recent RBI Statements, that there is a willingness to reconsider the absolute prohibition on nonbanks issuing e-money in light of the possibilities of using such a route to expand access to the poor. Specifically, in its October 2007 report "Review of Payment and Settlement Systems in India," RBI took stock of feedback from various stakeholders (banks, trade and industry, consumer associations) and appeared to acknowledge the need, as expressed by such stakeholders, to permit mobile payments and prepaid cards for micropayments. In light of this, RBI acknowledged that permitting customers' accounts to be maintained at mobile phone companies and pooled at banks would require regulatory changes. RBI also reported that the feedback indicated that widespread use of these mechanisms and instruments would require cash-in/cash-out at merchant and mobile phone service locations and specifically referred to this arrangement being permitted in Kenya and the Philippines.

The RBI may permit nonbanks to engage in e-money issuance subject to certain requirements, including minimum capital and liquidity requirements, reporting requirements, AML/CFT compliance, and rules on appropriate investment of funds and security of funds held. This will help the mission of financial inclusion in the far flung areas of the country.

13.6 Role of the State Government

Since the introduction of the policies on inclusive growth and the financial inclusion in the country one most important potential facilitator are being left out. The respective State Government can play a very crucial role to facilitate the financial inclusion. The State Government machinery is robust and present in the fur flung areas of the whole State. The various departments of the State Government are present in a very remote place where even the bank branches are not available. These robust structures of Government can also be utilised for the benefit of the people of the State. In Uttar Pradesh, the agriculture marketing organizations like co-operatives and mandis are very strong with a presence in various places. The services of these organizations can be utilised as an improvised tool of financial inclusion.

13.7 Ensuring Financial Counseling and Literacy

As products and services of the banks are designed to meet the needs of the poor with respect to their livelihoods, income protection and well being, there is a greater need to **increase financial literacy** among the poor. This includes greater awareness of products and services available, their use/relevance in meeting needs and their contribution to risk management strategies. Financial literacy of the poor is also very critical to building a vibrant and competitive low income financial services sector that facilitates affordable and need based access to financial services rather than mere access alone.

13.8 Creation of Financial Inclusion Centre in Most Excluded Districts of Uttar Pradesh

The SLBC, UP may consider the establishment of at least 100 Financial Inclusion Centers in the focus districts with very low financial inclusion, akin to STD booths, which are locally present in a cluster of villages. These will facilitate access by the poor to a range of services. Some examples include advice and counseling on financial service providers and products, application forms, grievance mechanisms etc. as well as assistance in meeting "Know Your Customer" (KYC) norms. These village based centers/depositaries will have a computer and access to the internet – much in the way of e-choupals. **Bringing the financial inclusion centre into operation will be a separate exercise that will focus on:** (1) what services it will have; (2) who will staff it; (3) how it will work; (4) whom it will serve; (5) how much it will cost to set up and run; and (6) several other aspects. All of these aspects need to be operationalized by the SLBC by creation of special cell. All of these *could especially be tried in the 100% financial inclusion districts designated by the RBI in the State of Uttar Pradesh.*

13.9 Other Operational Aspects

The following difficulties were also identified which require more attention by the banking fraternity if they like to implement the model in letter and spirit:

i) There are difficulties related to posting transactions at the bank by the end of the day or within 24 hours as required in terms of the RBI circular. This is not possible without the use of IT devices like Simputers and smart cards and unless large investments are made and business is undertaken on a large scale by the bank. Further, there are limitations in communications, power supply and other infrastructure which do not make it feasible to meet this requirement while working in far-flung rural areas.

ii) There is lack of clarity about aspects of savings collection through BCs such as the meaning of small value deposits referred to in the circular as also whether savings bank accounts can be opened or not, e.g., how large are "small value" deposits? RBI has to respond on some of these questions. Indeed, there are mixed views on the feasibility of using BCs for the delivery of savings and other liability products **(Box-2).**

iii) The role of the regulator in the BC model has to be clarified. For example, RBI approval is necessary for doorstep banking. However, it is not clear if it is necessary for MFIs/agents acting as BCs.

iv) Banks can engage only one BC/BF in a particular geographical area and BCs can operate only on behalf of one bank. Particularly, in view of the lifting of the service area regulations it is not clear how to define "geographical area" for the contractual relationship between the BC/BF and the bank. Although the April, 2008 circular of RBI has made it clear that there will be a specified area of operation of each BCs engaged by the banks (15 KM for Rural & Semi-urban and 5 KM for urban areas), still some more clarification is required by the banks to finalize the modus operandi for the appointed BCs.

Since BCs are acting on behalf of the bank, their long-term sustainability and credibility becomes critical and has to be established through a wide range of enabling measures, checks and controls. Given below is a summary of other issues which has come up in the course of implementing the BC model, particularly in respect of the ability of MFIs and other types of BCs to play the role expected of them in the successful implementation of the model.

- Capability of BCs and long-term sustainability of the model due to low structure of fees/commission and they have to increase the volume to get some relief.
- Sustained capacity-building of BCs required through training and development as well as upgrading the technological infrastructure of the BCs.
- Need for sustained strong field presence of the BCs.
- Checks and balances on the quality of service by BCs which can impact bank's image either way.
- Customer confidentiality and satisfaction.
- Adequacy of internal controls and monitoring.
- Over-aggressive build-up of portfolio by bank
- One BC having relationship with various banks

Finally, if the BC model is to be adopted and expanded, the Management Information System (MIS) requirements will necessarily be effective as banks and MFIs reach across to overlapping geographical areas and clients. Besides, there is the need for a sound MIS to operate smart card technology and related IT applications. Financing agencies may also like to share information on their client base to insulate themselves against predatory competition on the one hand, and stop dissipation of efforts on the other by reaching out to clients already serviced by others. At the same time, MFIs are not comfortable sharing their data with the banks.

In this connection the financial technology solution companies like FINO, ZERO MASS etc. could provide a core banking solutions platform (which can be used by other banks and can be accessed by MFIs) for end-to-end delivery of the entire suite of financial services. However, there are still some questions about the eventual cost of the services to be provided by these companies. While FINO/ZERO MASS could well fill the need for a centralized data base, other banks may still be reluctant to share or utilize it. The idea of a credit bureau for sharing information, while critical and important, has still not been implemented in India, even though the Khan report favoured the setting up of a National Microfinance Information Bureau (NMIB) to be managed by NABARD. This will also need to be pursued in the near future.

13.10 Conclusion

To conclude, we wish to stress that with increasing liberalization and higher economic growth, the role of banking sector is poised to increase in the financing pattern of economic activities within the country. To meet the growing credit demand, the banks need to mobilize resources from a wider deposit base and extend credit to activities hitherto not financed by banks. The trend of increasing commercialization of agriculture and rural activities should generate greener pastures, and banks should examine the benefits of increasing penetration therein. Financial inclusion will strengthen financial deepening and provide resources to the banks to expand credit delivery. Thus, financial inclusion will lead to financial development in our country which will help to accelerate economic growth.

The BF and BC models have not generated the enthusiasm that would have been normally expected. Several applications related to the use of BFs and BCs, particularly in extension of doorstep banking services, loan recovery and promotion of SHGs have already been enabled by other recent measures and the initiatives taken by banks. However, public sector banks are only just beginning to formulate schemes for the utilization of the services of such agents.

The BC model, that involves a financial role for the agents, bears close similarity to the bank-MFI partnership already introduced by some public sector and private banks. However, the provision debarring BCs from collecting fees from clients has created an anomaly in relation to the already existing model and resulted in a “cap” on the interest chargeable by banks from clients. Similarly, a subsequent circular excluding NBFCs, except non-profit companies, from acting as BCs, will deny banks the opportunity to work with leading MFIs adopting this legal form.

The development of technological platform has taken the centre stage in implementation of this BF/BC model and also the appointment/engagement of the right entities as the agents by the banks in India has the major role to play for financial inclusion in the country. The legal status of the BFs/BCs is also not very clear which requires further clarification from the Reserve Bank of India. The most important potential facilitator of the financial inclusion i.e. the State Governments are not at all involved in the planning and implementing process and providing enabling environment to implement the BF/BC model in letter and spirit for fulfilling the dream of financial inclusion and share the benefit of the growth and development of the country.

BOX 1

Some examples of social transfer programmes in India

The following social transfer require the help of the banking system in India which are really unable to extend this services without the help of Business Correspondent/ Facilitators

Social Transfer Programme	*Estimated outlay under 2008-09 Union Budget (crore rupees)*
NREGA	29000*
Indira Awas Yojana	5400
National Old Age Pension Scheme	3772
SGSY	2150
Conditional Cash Transfer to the Girl child	13.5
	40335.5
	(1/3 of all money spent by Central Government on rural development or social services)

*Updated budget estimate as of October, 2008. Original budget estimate was 16000.

BOX 2

Business Correspondents in delivery of liability products

Punjab National Bank has launched pilot project in Uttar Pradesh that have adopted the BC model for delivering liability products – micro-savings, a variety of insurance products and micro-remittances -to poor families in rural areas. BCs are to collect savings deposits and offer insurance products to customers in these under-banked areas. The micro remittance product has become very useful for the people who are migrated for their earning as wage labour and they are sending the small remittances through these BCs and the bank expects to increase the number of BCs significantly by the end of this year.

A less optimistic view regarding the use of BCs in the delivery of liability products, particularly small deposit collection, has been provided by ABN-AMRO Bank (AAB). AAB officials feel that raising small deposits through BCs/MFIs is not financially feasible since cost estimates prepared by SKS (a leading MFI and client of AAB) suggest that it would cost Rs. 2.50 for Rs. 20 of small deposits collected every month from microfinance clients. They claim that, as a result, MFIs are also not keen to participate as BCs in such savings collection on behalf of banks.

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Annexure-I

BRIEF PROFILE OF THE DISTRICTS OF THE PRESENT STUDY

As Stated in the chapter -2, the State of Uttar Pradesh has been divided into three geographical regions – Western, Central and Eastern. Here we produce the brief profile of the Districts covered and the Banking delivery channels in the districts covered under the present study.

The political Map of the State is given in Figure-1

18.1 Western Uttar Pradesh

18.1.1 Geographical Coverage – We covered the following four districts in the western part of Uttar Pradesh:-

a) Badaun
b) Rampur
c) Baghpat
d) Pilibhit

18.1.2 District: Badaun

A. Brief Profile: Badaun is situated in western part of Uttar Pradesh near Bareilly (nearest big town). It is about 250 km from the State capital Lucknow. It is not a very developed district and the district economy depends on the agriculture. 75% of the total population is rural. They are dominated by the small and marginal farmers. The District is recognized as the area with low financial inclusion by the RBI, Lucknow R.O.

B. Lead Bank: Punjab National Bank is the lead Bank of the District. The bank is having total no. of 26 branches in the District. Out of these branches, there are 16 Rural, 6 Semi-Urban and 4 Urban Branches.

C. Other major banks: Apart from Punjab National Bank, most of the other major Banks operating in the district are as under

a) State Bank of India with 43 branches
b) Bank of Baroda with 21 branches
c) Union Bank of India with 11 branches
d) Oriental Bank of Commerce with 10 branches.
e) *Sarva UP Gramin Bank*, the Regional Rural Bank sponsored by Punjab National Bank with 43 branches are also operating in the District.

D. The following five branches of Punjab National Bank were considered in the present study, they are as follows-

- Sheikhupur (Rural Branch)
- Ujhani (Semi-Urban Branch)
- Sakhanu (Rural Branch)
- Myaoon (Rural Branch)
- Usawan (Semi-Urban Branch)

18.1.3 District: Rampur

A. Brief Profile: Rampur is situated in western part of Uttar Pradesh near Bareilly Township. It is about 325 km from State capital Lucknow. It is a well developed District. Total rural population in the District is 1443286 which are 69% of the total population of the District. There are few industries located in the district e.g. Modi Xerox, one alcohol distillery Radico-Khaitan etc. The rural population is dominated by the small and marginal farmers but some big farmers are also present. Main occupation of the area is agriculture. The economy is mainly agro-based. The District is one of the rich Districts of the State and is recognized as district with moderately high financial inclusion by the RBI, Lucknow R.O.

B. Lead Bank: Bank of Baroda is the lead Bank of the District. The bank is having total no. of 19 branches in the District. Out of these branches, there are 14 Rural, 3 Semi-Urban and 2 Urban Branches.

C. Other major Banks: Apart from Bank of Baroda, most of the other major Banks operating in the district are as under

a) State Bank of India with 32 branches
b) Punjab National Bank with 19 branches
c) Syndicate Bank with 11 branches
d) Union Bank of India with 9 branches
e) *Prathma Bank*, the first Regional Rural Bank of the country sponsored by Syndicate Bank with 32 branches are also operating in the District

D. The following five branches of Bank of Baroda were considered in the present study, they are as follows-

- Khod (Rural Branch)
- Milak (Semi-Urban Branch)
- Sigankheda (Rural Branch)
- Shehzadnagar (Rural Branch)
- Sahabad (Rural Branch)

18.1.4 District – Baghpat

A. Brief Profile: Baghpat is situated in western part of Utter Pradesh near Meerut city. It is about 500 km from State capital Lucknow. It is a developing district. Most of the population is rural. The rural people are mostly big farmers. Main occupation of the entire district is agriculture. The economy is mainly dependent on agriculture. Despite of being a under developed district, the banks are performing well on the front of financial inclusion. The District is recognized as relatively high financial inclusion by the RBI Lucknow R.O.

B. Lead Bank: Syndicate Bank is the lead Bank of the District. The bank is having total 27 branches in the district. There is only one semi urban branch and no urban branch in the district. All the other 26 branches are rural branches.

C. Other major Banks: Apart from Syndicate Bank, most of the other major Banks operating in the district are as under

a) Bank of Baroda with 23 branches
b) State Bank of India with 32 branches
c) Punjab National Bank with 17 branches
d) Union Bank of India with 9 branches
e) *Prathma Bank*, the first Regional Rural Bank of the country sponsored by Syndicate Bank with 39 branches are also operating in the District

D. The following five branches of Syndicate Bank were considered in the present study, they are as follows-

- Pilana (Rural Branch)
- Rataul (Rural Branch)
- Baghpat (Semi-Urban Branch)
- Dola (Rural Branch)
- Khwaja Nangla (Rural Branch)

18.1.5 District – Pilibhit

A. Brief Profile: Pilibhit is situated in western part of Utter Pradesh near Bareilly Township. It is about 275 km from the State capital Lucknow. It is a moderately developed district. Most of the population is rural. They are mainly small and marginal farmers. Main occupation of the area is agriculture. The economy is mainly based on agriculture. The district is famous for sugarcane and rice production. There are four sugar mills in the district. The district is recognized as one of the district with relatively low financial inclusion by the RBI, Lucknow R.O.

B. Lead Bank: Bank of Baroda is the lead Bank of the District. The bank is having total 26 branches in the district. Out of this 19 are rural branches and the rest 7 branches are Semi-Urban branches.

C. Other major Banks: Apart from Bank of Baroda, most of the other major Banks operating in the district are as under

a) Syndicate Bank with 22 branches
b) State Bank of India with 37 branches
c) Punjab National Bank with 19 branches
d) Union Bank of India with 8 branches
e) *Baroda UP Gramin Bank*, Regional Rural Bank sponsored by Bank of Baroda with 41 branches are also operating in the District

D. The following five branches of Bank of Baroda were considered in the present study, they are as follows-

- Majhola (Rural Branch)
- Sanda (Rural Branch)
- Nauria (Rural Branch)
- Tajpur (Semi Urban Branch)
- Hoshiarpur (Rural Branch)

18.2 Central Uttar Pradesh

18.2.1 Geographical Coverage – We covered the following four districts in the Central part of Uttar Pradesh:-

a) Sitapur.
b) Unnao.
c) Raebareli.
d) Jhansi.

18.2.2 District: Sitapur

A. Brief Profile: Sitapur is situated in Central part of Uttar Pradesh approximately 80 Km west from the State capital Lucknow. It is a moderately developed district and its economy depends on the agriculture. Sugarcane is the most important cash crop of the district. There are 6 sugar mills in the district. 75% of the total population is rural. They are dominated by the small and marginal farmers. The District is recognized as the area with low financial inclusion by the RBI, Lucknow R.O.

B. Lead Bank: Allahabad Bank is the lead Bank of the District. The bank is having total no. of 40 branches in the District. Out of these branches, there are 29 Rural and 11 Semi-Urban Branches.

C. Other major Banks: Apart from Allahabad Bank, most of the other major Banks operating in the district are as under

a) State Bank of India with 41 branches
b) Bank of Baroda with 10 branches
c) Union Bank of India with 9 branches
d) Bank of India with 8 branches.
e) *Lucknow Khetryia Gramin Bank*, the Regional Rural Bank sponsored by Allahabad Bank with 108 branches is also operating in the District.

D. The following five branches of Allahabad Bank were considered in the present study, they are as follows-

a) Ralamau (Rural Branch)
b) Nemisar (Rural Branch)

c) Ramkot (Rural Branch)
d) Sandhana (Rural Branch)
e) Sidhauli (Semi-Urban Branch)

18.2.3 District: Unnao

A. Brief Profile: Unnao is situated in Central part of Uttar Pradesh approximately 60 Km east from the State capital Lucknow. It is a moderately developed district and its economy depends on both agriculture and industry. There are some leather industry in the district. Around 70% of the total population is rural. They are dominated by the small and marginal farmers. The District is recognized as the area with low financial inclusion by the RBI, Lucknow R.O.

B. Lead Bank: Bank of India is the lead Bank of the District. The bank is having total no. of 17 branches in the District. Out of these branches, there are 13 Rural and 4 Semi-Urban Branches.

C. Other major Banks: Apart from Bank of India, most of the other major Banks operating in the district are as under

a) State Bank of India with 23 branches
b) Allahabad Bank with 7 branches
c) Bank of Baroda with 6 branches
d) Union Bank of India with 4 branches
e) Aryavart Gramin Bank, the Regional Rural Bank sponsored by Bank of India with 54 branches is also operating in the District.

D. The following five branches of Aryavart Gramin Bank were considered in the present study, they are as follows-

a) Thana (Rural Branch)
b) Sikandarpur karan (Rural Branch)
c) Bighapur (Rural Branch)
d) Akuabad (Rural Branch)
e) Bihar (Rural Branch)

18.2.4 District: Raebareli

A. Brief Profile: Raebareli is situated in Central part of Uttar Pradesh approximately 80 Km east from the State capital Lucknow. It is a moderately developed district and its economy depends mainly on agriculture. Recently, some industries have come up in the district. Around 80% of the total population is rural. They are dominated by the small and marginal farmers. The District is recognized as the area with relatively low financial inclusion by the RBI, Lucknow R.O.

B. Lead Bank: Bank of Baroda is the lead Bank of the District. The bank is having total no. of 30 branches in the District. Out of these branches, there are 24 Rural and 6 Semi-Urban Branches.

C. Other major Banks: Apart from Bank of India, most of the other major Banks operating in the district are as under

a) State Bank of India with 33 branches
b) Allahabad Bank with 17 branches
c) Punjab National Bank with 13 branches
c) Bank of India with 6 branches
d) Union Bank of India with 4 branches
e) Baroda UP Gramin Bank, the Regional Rural Bank sponsored by Bank of Baroda with 69 branches is also operating in the District.

D. The following five branches of Bank of Baroda were considered in the present study, they are as follows-

a) Lalganj (Rural Branch)
b) Maharajganj (Semi-Urban Branch)
c) Deeh (Rural Rranch)
d) Prasedapur (Rural Branch)
e) Jalmau (Rural Branch)

18.2.5 District: Jhansi

A. Brief Profile: Jhansi is situated in Central part of Uttar Pradesh approximately 200 Km South from the State capital Lucknow. It is a moderately developed district and its economy depends mainly on agriculture. Recently, some industries have come up in the district. Around 80% of the total population is rural. They are dominated by the small and marginal farmers. The District is recognized as the area with relatively low financial inclusion by the RBI, Lucknow R.O.

B. Lead Bank: Punjab National Bank is the lead Bank of the District. The bank is having total no. of 50 branches in the District. Out of these branches, there are 41 Rural and 9 Semi-Urban Branches.

C. Other major Banks: Apart from Punjab National Bank, most of the other major Banks operating in the district are as under

a) State Bank of India with 57 branches
b) Allahabad Bank with 33 branches
c) Bank of Baroda with 24 branches
c) Bank of India with 9 branches
d) Union Bank of India with 8 branches
e) Sarva UP Gramin Bank, the Regional Rural Bank sponsored by Punjab National Bank with 100 branches is also operating in the District.

D. The following five branches of Punjab National Bank were considered in the present study, they are as follows-

a) Babina (Rural Branch)
b) Bijauli (Rural Branch)
c) Khailar (Rural Branch)

d) Todi fatehpur (Semi-Urban Branch)
e) Sakrar (Rural Branch)

18.3 Eastern Uttar Pradesh

18.3.1 Geographical Coverage- We covered the following four districts in the Eastern part of Uttar Pradesh:-

a) Chitrakoot.
b) Banda.
c) Pratapgarh.
d) Mirzapur.

18.3.2 District: Chitrakoot

A. Brief Profile: Chitrakoot is situated in Eastern part of Uttar Pradesh approximately 170 Km east from the State capital Lucknow. Chitrakoot is a holy place famous both for its natural scenery and its spiritual altitude. A newly district was created on 6th May 1997 in U.P. named Chhatrapati Shahuji Mahraj Nager, which comprises of Karwi & Mau Tehsils and has been carved out from the Banda district. After some time, the district name was converted in Chitrakoot on 4th Sept, 1998. It falls in the northern Vindhya range of mountains spread over the States of Utter Pradesh and Madhya Pradesh. The larger part is included in the District Chitrakoot of U.P. and the District Satna of Madhya Pradesh. The word "Chitrakoot" has been used here to refer to this larger area and symbolizes the rich and varied cultural, religious, historical and archaeological heritage of the various places and sites of this area. It is an underdeveloped district and its economy depends on the agriculture. 80% of the total population is rural. They are dominated by the small and marginal farmers. The District is recognized as the area with relatively low financial inclusion by the RBI, Lucknow R.O.

B. Lead Bank: Allahabad Bank is the lead Bank of the District. The bank is having total no. of 32 branches in the District. Out of these branches, there are 29 Rural and 3 Semi-Urban Branches.

C. Other major Banks: Apart from Allahabad Bank, most of the other major Banks operating in the district are as under

a) State Bank of India with 36 branches
b) Bank of Baroda with 10 branches
c) Union Bank of India with 9 branches
d) Bank of India with 8 branches.
e) Triveni Khetryia Gramin Bank, the Regional Rural Bank sponsored by Allahabad Bank with 42 branches is also operating in the District.

D. The following five branches of Triveni Khetryia Gramin Bank were considered in the present study, they are as follows-

- Chakaut (Rural)
- Bedipulia (Rural)
- Karvy (Semi-Urban)
- Purani bazaar (Semi-Urban)
- Sitapur (SU)

18.3.3 District: Banda

A. Brief Profile: Banda is situated in Central Eastern part of Uttar Pradesh approximately 210 Km South from the State capital Lucknow. This is the easternmost district of Bundelkhand. It is an underdeveloped district and its economy depends mainly on agriculture. Recently, some industries have come up in the district. Around 85% of the total population is rural. They are dominated by the small and marginal farmers. The District is recognized as the area with relatively low financial inclusion by the RBI, Lucknow R.O.

B. Lead Bank: Allahabad Bank is the lead Bank of the District. The bank is having total no. of 34 branches in the District. Out of these branches, there are 29 Rural and 5 Semi-Urban Branches.

C. Other major Banks: Apart from Allahabad Bank, most of the other major Banks operating in the district are as under

a) State Bank of India with 38 branches
b) Punjab National Bank with 21 branches
c) Bank of Baroda with 18 branches
c) Bank of India with 7 branches
d) Union Bank of India with 5 branches
e) Triveni Khetryia Gramin Bank, the Regional Rural Bank sponsored by Allahabad Bank with 45 branches is also operating in the District.

D. The following five branches of *Triveni Khetryia Gramin Bank* were considered in the present study, they are as follows

a) Lama (Rural Branch)
b) Paprinda (Rural Branch)
c) Jhakhora (Semi-Urban Branch)
d) Kanwara (Semi-Urban Branch)
e) Palhari (Rural Branch)

18.3. 4 District: Pratapgarh

A. Brief Profile: Pratapgarh is situated in Eastern part of Uttar Pradesh approximately 105 Km east from the State capital Lucknow. It is an underdeveloped district and its economy depends mainly on agriculture. Recently, some industries have come up in the district. Around 75% of the total population is rural. They are dominated by the small and marginal farmers but the number of big farmers is high in this district in comparison to other districts of eastern UP. The District is recognized as the area with relatively low financial inclusion by the RBI, Lucknow R.O.

B. Lead Bank: Bank of Baroda is the lead Bank of the District. The bank is having total no. of 43 branches in the District. Out of these branches, there are 37 Rural and 6 Semi-Urban Branches.

C. Other major Banks: Apart from Bank of Baroda, most of the other major Banks operating in the district are as under

a) State Bank of India with 46 branches
b) Punjab National Bank with 22 branches
c) Allahabad Bank with 16 branches
c) Bank of India with 5 branches
d) Union Bank of India with 4 branches
e) Baroda UP Gramin Bank, the Regional Rural Bank sponsored by Bank of Baroda with 48 branches is also operating in the District.

D. The following five branches of Bank of Baroda were considered in the present study, they are as follows-

a) Main branch (Semi-Urban Branch)
b) Mahauli (Semi-Urban Branch)
c) Sunderpur (Rural Branch)
d) Kandaur (Rural Branch)
e) Katra (Rural Branch)

18.3.5 District: Mirzapur

A. Brief Profile: Mirzapur is situated in Eastern part of Uttar Pradesh approximately 250 km east from the State capital Lucknow. It is an underdeveloped district and its economy depends mainly on agriculture. Recently, some industries have come up in the district. Around 70% of the total population is rural. They are dominated by the small and marginal farmers. The District is recognized as the area with relatively low financial inclusion by the RBI, Lucknow R.O.

B. Lead Bank: Allahabad Bank is the lead Bank of the District. The bank is having total no. of 58 branches in the District. Out of these branches, there are 41 Rural and 12 Semi-Urban and 5 urban Branches.

C. Other major Banks: Apart from Bank of Baroda, most of the other major Banks operating in the district are as under

a) State Bank of India with 43 branches
b) Punjab National Bank with 20 branches
c) Bank of Baroda with 12 branches
c) Bank of India with 5 branches
d) Union Bank of India with 4 branches
e) Triveni Khetriya Gramin Bank, the Regional Rural Bank sponsored by Allahabad Bank with 43 branches is also operating in the District.

D. The following five branches of Allahabad Bank were considered in the present study, they are as follows-

- Ahiraura (Semi-Urban Branch)
- Pandri (Rural Branch)
- Lahaundi kala (Rural Branch)
- Barkacha (Rural Branch)
- Khaira (Rural Branch)

Annexure-II

PROPOSED OPERATIONAL MODEL

1. Model for engagement of Business Correspondents/ Facilitators (BC/BF) for Extension of Banking Services and Financial Inclusion

While we were conducting our survey in different branches and the controlling offices of the Banks situated in the state of Uttar Pradesh, one important issue has come up with most of the banks those who have not yet implemented the Correspondent/ Facilitator models that they do not have a operational model for engaging/empanelling the BF/BC for extension of the banking services for greater financial inclusion. The second important aspect is the fees structure for both the Facilitators and the Correspondent. Third issue raised was the standardisation of the role and scope of activities of both the BFs and BCs. Fourth important aspect was on the use of technology for immediate recording of the transactions and the cost thereof. Fifth area of concern shown by the bankers was on the synergy on the products and services to match the requirement of the different types of customers and in different location of the state.

In this section we have dealt with both the model of Business Facilitators (BF) and the Business Correspondents (BC) and tried to draw a holistic approach towards the problems that were expressed by the bankers at different level. We know that the real time solution of the problems can only be solved after the implementation of the model. This modest endeavour is from our end to further develop an operational model for the banking community backed by the survey we made throughout the state of Uttar Pradesh.

15.1.1 TARGET GROUP

In line with the recommendation of the Reserve Bank of India, we have also considered the people who remained excluded from the banking fold as the target group of people for both the models. There is only one addition that in this model of engagement of BF/BC, we have considered the rural urban population also.

15.1.2 MODEL A – Business Facilitator Model for Non-Financial Support Services: The Business Facilitators under this model will be involved in

A) Activities to be covered

i. Identification of prospective customers of the Banks with their present activities and the skill.

ii. Collection of applications and verification of primary information / data.

iii. Preliminary appraisal of credit based standard norms set by the banks and using local data / information.

iv. Marketing of the financial products including savings / providing product information.

v. Processing and submission of applications to the banks.

vi. Promotion and nurturing if SHGs / JLGs.

vii. Post sanctions monitoring.

viii. Monitoring of SHG / JLG / Credit groups.

ix. Follow up for recovery.

B) Institutions which may play the role of facilitators

The following institutions may be engaged as Business Facilitator under the well defined terms and conditions on execution of the agreement between a bank and the Institution identified.

a) **Rural & Semi-Urban areas:** NGOs, Farmer Clubs, Functional Co-operatives, IT enabled Rural Outlets of

Corporate Entities, Postal Agents, Insurance Agents, Agri Clinics Agri Business Centers financed by the Banks, Krishi Vigyan Kendras (KVKs) etc.

b) **Urban & Metro Areas:** NGOs, Local reputed Clubs/ Association, Sports Association, Functional Co-operatives, Postal & Insurance Agents, Schools/Colleges under Trusts & Societies etc.

c) Apart from those who have set up farmers / entrepreneurship development Institute under RUDSETI model forming a separate society / Trust, can have an exclusive wing which may initially undertake the function of Business Facilitators with the support of the trainees of the Institute.

C. Selection Criteria

❖ NGOs/Trusts/Societies/Co-operatives

- ➢ Significant presence in the area of operation
- ➢ Should have elected Board with broad based membership.
- ➢ Availability of trained staff with knowledge of the Banking activities with special reference to credit area.
- ➢ Should have a satisfactory track record and wide acceptability in the locality.
- ➢ Should have up to date audited accounts.
- ➢ Absence of any major audit observation and cases of large misappropriation / fraud pending against its office / staff members.
- ➢ Having its own office (owned/rented) for rendering services.
- ➢ Rating of the NGOs/Trusts/Societies/Co-operatives should be good enough to carry out the job. There should be scalability of the rating, and:

1. Past experience of handling of organizing mass campaign.
2. Financial soundness and ability to withstand adversities.
3. Business reputation, culture, compliance of highest standard
4. Security and internal control should be put in place
5. External factors like political and social liaison should not be adverse.

❖ Farmers Club and Agri Clinics/Agri Business/Sports Clubs & Associations

- ➢ Should be having good presence in the contiguous villages/wards of the municipality within a radius of 15 kms from the branch office of the bank.
- ➢ The Chief Volunteer and other members of the club should be well known to the local people and they should enjoy the acceptability of the farmers/local poor people but should be apolitical.
- ➢ The club members should be having a sound knowledge about the village/municipality/farmers/ other clients in their area of operation.
- ➢ The club/association should be having a good experience in mobilization of deposit, loan proposals, collection of preliminary data of the proposals, assisting the branch manager in processing of the proposals, post sanction monitoring/follow up and recovery of loan on behalf of the branch.

D. Risk factors to be considered before selecting Business Facilitator

- ➢ Strategic Risk: Instead of promoting the interest of the Bank, the NGO may promote its own business by using the goodwill/trust/brand name of the bank.
- ➢ Reputation Risk: Poor service, not being consistent with the overall standard of the bank.
- ➢ Compliance Risk: Privacy, Consumer law and other legal requirements.
- ➢ Counter Party Risk: Due to wrong credit assessment, under financing or over financing.
- ➢ Contractual Risk: Whether or not the bank has the ability to enforce the contract.
- ➢ Systemic Risk: Lack of control over the NGO/Trusts/ Clubs on their day to day operation.

E. Rating System/model for Identification of NGOs/ Farmers Club/ssociations/Co-operatives/Agri Clinics-Agri Business centers

As the risk involved in selecting a Facilitator is perceived to be very high by the bankers and the external rating becoming unaffordable by the prospective Facilitators, an internal rating system has been proposed for identification and appraisal of the business facilitators where in parameters for assessing the above risk factors which was further granularised and we have tried to incorporate all the factors of the risk templates and have given the due weightage to each of them to arrive at a qualitative and quantitative conclusion. Now, out of the maximum score of 75, the score obtained by the proposed facilitator has to be transformed to the percentage rating and the acceptability of the facilitator will be the sole discretion of the concerned Bank. The proposed model of rating for engaging the Business Facilitators is given in the **Annexure-I**.

F. Technological Infrastructure

The availability/use of technology by the Business Facilitator will play a vital role in the selection process. In case where the technological facilities are not available at the BFs Office, the banks can provide the same and also the software for running the system as per the requirement of the Banks. This will help them to generate the various reports easily. In the second phase, the Banks may connect the computers at the BFs place with the WAN to get the real time data seamlessly. Up-gradation of the skills in ICT of the BF personnel at regular interval should also be an important agenda.

G. Capacity Building of the Facilitators

As the facilitators engaged by the banks are required to perform certain functions which require a set of skills, the capacity building process has to be synchronized with the specific requirement of the banks and the jobs to be performed by the facilitators. Developing the BFs to perform their duties will be a boon for the bankers and this requires regular updating of the BFs about the development in the banking and also other economic scenario. This investment on the BFs will give high dividend to the bankers in the long run.

H. Payment of Commission/Fees for Engagement of BF

In the master circular of RBI, no specific fee structure has been suggested by RBI. It has been left to the banks to decide. As the fees / commission to be payable to the Business Facilitators is a very important component for successful implementation, sustainability and scalability of the model, while fixing the same the banks should give utmost importance to this area of concern so as to ensure that the burden on the Banks will not be more than the normal cost of transactions and also it is remunerative to the facilitators. The proposed fees/ commission structure for the above mentioned jobs as under:

The jobs proposed to be outsourced from BFs are broadly as under:

1. Mobilization of Savings Bank Accounts, loan proposals, processing and submitting to the branch for opening of accounts/sanction.
2. Verification of the accounts and following KYC Norms.
3. Issuance of Smart Card to individual account holders
4. Follow-up, Monitoring and recovery of loan accounts.
5. Promotion and nurturing of SHGs/JLGs.

Keeping in view of the above mentioned jobs to be performed by the Business facilitators, the proposed fee/commission structure are as under.

1. Savings Bank mobilization and completion of KYC norms @ Rs.5/- per account for minimum mobilization of 100 accounts with a deposit of Rs.10000/-. (Total fees to be paid =Rs.500/-which is 5% of the total deposit). In case of number of accounts is 100 but the deposit target could not be achieved, then fees will be paid @Rs.2/- per account.
2. For mobilization of loan proposals, processing and submitting to the branch, commission @ Rs.50/- per proposal or 0.5% of loan amount whichever is lower, will be paid in cases where processing charge is not levied on the borrower. However, where processing charge is realized; 50% of the same may be parted with the Business Facilitator for performing the job.
3. For follow-up and recovery, commission will be paid @ Rs.100/- per proposal or 0.5% of the amount recovered whichever is lower. The amount will be paid on start to finish basis up to full repayment of the loan from the date of disbursement.
4. For recovery in NPA accounts:
   - Recovery in Substandard accounts: 5% of the amount of recovery and the actual cost incurred in travelling.
   - For doubtful and loss accounts: 15% of the amount of recovery.
5. Promotion & Nurturing of SHGs: Rs.1000/- lump sum per group from formation to linkage. The payment will be made in various stages of formation of SHGs in 2-3 installments. Efforts to be made by the bank branches to get the amount reimbursed from NABARD.

I. Implementation and Monitoring

The Banks may implement the model A in two/three selected branches in each of their Lead District and some potential branches in Non Lead Districts on pilot basis. The selection, rating of the business facilitators (BFs) will be taken up by the Lead District Managers (LDMs) with the help of the concerned Branch Managers and will be verified and finalized by the concerned Authority of the Bank (Zonal Head/Regional Head). Necessary training and orientation of the BFs will be undertaken by the LDMs in consultation with the Zonal/ Regional heads and Head office. The LDMs of the concerned Lead Districts and the Branch Heads will monitor, and co-ordinate the functioning of those Business Facilitators and also appraise them from time to time about the latest development in the Banking.

J. Entering into the Agreement

The Banks can approach their legal Department or the Indian Banks Association, Mumbai can take the responsibilities of drafting a memorandum of agreement which will contain the clauses covering the bank's purpose, the specific jobs of the facilitators, mode of implementation, their duties and responsibilities, the accountability, the payment of commission and other legal matters for enforcement of the contract.

15.1.3 MODEL - B: - Business Correspondents (BCs)

As this model envisages direct financial intermediation and handling of public money, we propose to follow stringent norms and due diligence for the selection of BCs. As per the latest guidelines of the Reserve Bank of India, both the individuals (Ex-Bankers/Ex Servicemen and Govt. employees) and the organizations (NGO-MFI registered under Society/Trust Act./Section-25 Companies/MACS/ NBFCs (those who are not taking public Deposits)can be engaged as BCs. To begin with, and for close supervision, we propose to implement the Model-B on pilot basis in at least one lead district of each of the lead bank and Regional Rural Banks (RRBs) in Uttar Pradesh under the supervision of the LDMs and the concerned branch manager. If it is found to take shape and grounded properly, it may be extended to other Lead Districts based on the experiences of the banks.

A) Activities to be covered under the BC model

a) All the jobs of the business facilitators (BFs)
b) Collection of small value deposit
c) Disbursal of small value credit.
d) Recovery of loan installment and interest.
e) Sale of micro insurance/mutual fund products/ pension products.
f) Receipt and delivery of small value remittances/other payment instruments.

B) Criteria for identification/selection of the BCs

1. For Organizations:

- Significant presence in the area of operation of the bank branch.
- Should have broad based governance.
- Availability of trained and professional staff with knowledge of the local area and financial services.
- Should have a satisfactory track record.
- Should have up to date audited accounts.
- Absence of any major audit observation and cases of large misappropriation/fraud pending against its office/staff.
- Having its own office (ownership/rented) for rendering services to large number of population.
- Rating of the agency as per the proposed rating model should be acceptable to the banks.
- Past experience of handling finance and competence to act as Business Correspondent.
- Adequate knowledge about the use of Computers and ICT.
- Financial soundness and ability to withstand adversities.
- Business reputation, culture and compliance of highest standard.
- Established Security and internal control measures with strong MIS.
- External factors like political and social factors should be in favour of the organizations

2. For Individuals:

- Retired Bank employees
- Ex-Servicemen
- Retired Govt. employees

While appointing/engaging the above individuals, the banks should ensure that the these individuals are permanent residents of the area in which they propose to operate as BCs and also institute additional safeguards as may be applicable for that locality to minimize the agency risk.

C) Risk Factors to be considered before selecting BCs

- Strategic Risk: Instead of promoting the interest of the bank, the BCs may promote its own business by using the goodwill/brand name of the bank.
- Reputation Risk: Poor service, not being consistent with the overall standard of the bank.
- Compliance Risk: Privacy, Consumer Law and other legal requirements.
- Operational Risk: Due to fraud, error, omission, commission, inadequate financial capacity to fulfill obligation.
- Counter Party Risk: Due to wrong credit assessment, under financing or over financing.
- Contractual Risk: Whether or not the bank has the ability to enforce the contract.
- Systemic Risk: Lack of control over the BCs.
- Security Risk: Loss of cash due to burglary, dacoity, less security consciousness.

D) Rating System for Identification of Business Correspondents

A rating system is proposed as under for identification and appraisal of Business Correspondent wherein parameters for assessing the above risk factors have been given weightage.

E) Due Diligence

While assessing the rating and acceptability of the NGO/MFI for engagement as BC, due diligence on the entities on the following lines will be examined.

1. **Character and Registration:** To examine whether the charter and objectives of the MFI/NGO permit it to undertake the kind of activities proposed.
2. **Presence in the Area:** It will be given due weightage whether the NGO/MFI is having a good network of its offices and functioning base in the area where the branch is located and also its adjoining areas for financial inclusion.
3. **Management & Governance Structure:** The composition of the governing body of the entity will be examined to assess if it can function independent of the promoter and if there is a second tier of management.
4. **Manpower Quality and Retention Rate:** The quality of manpower from the perspective of undertaking the new task will be assessed. If not available in sufficient number, plans of the NGO/MFI to strengthen their manpower through recruitment and training will be examined.
5. **Accounting System:** The accounting systems and method will be carefully examined to assess their adherence of norms, disclosure, transparency and accountability to the donors/apex body/clients. The purpose wise receipt and spending of fund by the entity will be examined to assess its track record in dealing with the financial matters.
6. **Secular and Social Orientation:** The NGO/MFI should be non discretionary on caste, gender, political affiliation and religious lines.
7. **Assessment of Donors, Partners and Peers:** Assessment of MFI / NGO by the donors, partners, peers will be taken into account in assessing the capabilities of the entity. This will be obtained from independent discussions with the donors, partners and peers and Govt agencies connected with the entity.

F) Procedures to be followed for selection of BCs

- ➢ The banking correspondents should have their own office either in the area where our branch is located or in a place which is not more than 10-15 Km from the branch and well connected by all weather roads.
- ➢ The target group for lending by the business correspondent will be small and marginal farmers / tenant farmers forming their join liability groups.
- ➢ The farm sector credit requirements will be assessed based on their land holding being cultivated on ownership/tenant basis.
- ➢ The proposals will be mobilized and appraised based on our KCC model and to be placed to the branch manager for sanction.
- ➢ After sanction, the disbursement will be done at the office of the Business Correspondent on one or two pre-fixed dates.
- ➢ The BCs will collect the estimated fund required for disbursement on the disbursement days from the bank branch and after disbursement bring the vouchers to the branch for posting in the ledgers.
- ➢ The BCs will maintain shadow ledger with them for monitoring and follow-up for recovery.
- ➢ Loans will be disbursed to the individual members of the JLGs.
- ➢ The BCs will collect repayments from the doorsteps of the farmers and deposit the same on the same day or at the next day at the branch.
- ➢ For small farmers, specific cases as mobilized by the BCs will be placed before the bank for sanction and disbursement will be made under the supervision of the financing branch.
- ➢ For non-farm sector, maximum ceiling of loan will be Rs.10,000/-
- ➢ Ceiling for collection of deposit will be Rs.5000/- per depositor per voucher. For tendering higher amount, it will be deposited directly in the branch.

G. Monitoring and Supervision

- ➢ Bank will not exceed the exposure limit as suggested above and this will be reviewed periodically on the basis of business developed through BCs collectively as well as individually.
- ➢ The portfolios developed through the BCs will be segregated at the branch level so that it can be easily identified. The portfolio will be closely monitored by way of regular checks by the branch manager, Z.O.s, L.D.M.
- ➢ The Z.O. / branch will ensure that K.Y.C. norms are not diluted.
- ➢ Crash training course for the field personnel of the BCs will be organized at the LDM / ZO level.
- ➢ We may approach the NABARD for a list of well established NGOs operating in our target districts and select two/three of them based on our own scoring.
- ➢ The rating will be reassessed in every year for renewal of the contract or for discontinuance.
- ➢ The bank will have a periodical inspection and audit system of those institutions and inspection/audit reports will be the deciding factors for renewal/ review of the contract.

H. The arrangements and cash holding limits and other covenants with the BCs will be as under

i) The BC will deposit the entire cash balance on the same day received by them up to 4.00 P.M. on all weekdays and up to 1 P.M. on Saturday.

ii) The cash received by them on Sunday and holiday will be deposited by them on the next working day on commencement of business hours.

iii) They will be entitled to hold cash received by them after deposit hours as mentioned above till the commencement of banking business hours on next working day.

iv) Separate pay-in-slip with different colour will be printed for use of the BBC where time of cash receipt would be marked by the authorized representatives in all the cash received cases mentioned in sl. no. (i) to (iii) as above.

v) There will be no cash holding limit favouring BBF & BBC except under circumstances mentioned at s. no.(i) to (iii)

vi) Account payee cheques of all denomination and amount may be accepted by BBF & BBC for depositing in the customer's account on the same day.

vii) All transactions would be accounted for and reflected in the Banks' books by the end of the day or next working day.

viii) All agreements/contracts with the customer shall clearly specify that the bank is responsible to the customer for acts of omission/commission of the BBF & BBC.

I. Insurance

Since BC will collect in course of recovery and collection of deposit, cash holding/in transit insurance of a small amount say Rs. 50000/- has to be done. We may advise our development department to make necessary arrangements for obtaining policy cover for such cash holding/in transit.

J. Redressal of Grievances in regard to services rendered by BCs & BFs – Our proposed action plan

- The Grievance Redressal Machinery cell will be created in Zonal /Regional Offices and at Head Office level and one officer will be designated as Grievance Redressal Officer (GRO) at ZO/RO/H.O.
- Wide publicity about it should be arranged by the respective Publicity Deptt. of H.O. and Z.O. through electronic and print media.
- The name and contract number of designated Grievance Redressal Officer (GRO) at H.O./Z.O./R.O level will be made known and widely publicized.
- The grievance redressal procedure and time frame norms will be placed on Bank's website.
- The GRO would ensure that genuine grievances of customers are redressed promptly.
- The bank will frame GRM guidelines and will revise it from time to time.
- All possible efforts will be made to give satisfactory response too the complainant from the bank within 60 days from the date of his lodging the claim otherwise he/she will have the option to approach the banking ombudsman/any other appropriate authority for redressal of his/her grievance.

K. Compliance with KYC Norms – RBI Guidelines

- Banks may adopt a flexible approach within the parameters of guidelines issued on KYC norms time to time.
- In addition to introduction from any person on whom KYC has been done, banks can also rely on certificates of identifications issued by the intermediary being used as BC, BDO, Head of village panchayat, post master of the P.O. or many other public functionaries school teachers known to the bank.
- Compliance with KYC norms will be the responsibility of officials/staff of the Base branch through which the BC will be operating. However, the objective is to extend savings and loan facilities to the underprivileged an unbanked population, branches may adopt a flexible approach within the parameters of guidelines issued on KYC from time to time.
- In addition to introduction from any person on whom KYC has been done, branches can also rely on certificates of identification issued by the intermediary being used as BC, BDO, Panchayat Pradhan, Post master of local P.O. etc.

L. Payment of Commission/Fees for engagement of BCs

In the master circular of RBI, no specific fee structure has been suggested by RBI. It has been left to the banks to decide. The fees/commission to be payable for outsourcing of the above mentioned jobs may be broadly summarized as under:

In addition to the above jobs of BFs, the BCs will be assigned the following jobs:

1) Disbursal of small value credit.
2) Sale or Micro Insurance products.
3) Collection of small value deposits.
4) Receipt & Delivery of small value remittance / other payment instruments.

We propose the following fee structure for the above jobs.

1) For disbursal of small value credit, commission will be paid @ Rs.25/- per proposal
2) For sale of micro insurance products, commission will be paid @ 0.5% of the amount of premium collected.
3) For collection of small value deposit, commission will be paid @ 0.25% of the amount collected.
4) For receipt and delivery of small value remittance / other payment instruments, commission will be paid @ Rs.5/- per instrument.

A separate head in charges register will be opened named as "Charges a/c Outsourcing". The commission will be paid to the debit of that charges a/c.

M. Cost Benefit Analysis

Normally, where the second officer is posted, the branch manager of a branch may mobilize and disburse 200 proposals per month. Salary and other perks payable to an officer will be approx. Rs.30,000/-, where as the cost for disbursal in case of BCs will be Rs.25/- X 200 = Rs.5000/-Here, as the BC will be local person, both mobilization and repayment part will be ensured in a better way. However, the fee structure as proposed above will be flexible and negotiable. Efforts will be made by the banks to keep the commission rate at the minimum. Highly rated / reputed NGOs / MFIs may be given higher rate depending upon the performance of the institution which will be reviewed on half yearly basis.

N. Authority of negotiation of Fees structure

Normally the Head Office of the Bank may sign an agreement with the BCs at corporate level where the fees and other commission will be decided based on the negotiation. Before signing this agreement, the banks should also check the benefit cost of the transaction. The ZOs/ROs should also have the power to engage the BCs and negotiate with them and finally recommend the fee structure agreed to H.O. for approval. The payment of fee particulars will be specifically mentioned in the agreement.

O. Some important points to ponder

- To begin with, the bank may select good rated NGOs, well functioning Kissan clubs formed by the bank branches and Agri Clinics/Agri Business units financed by our bank as BF and NGO – MFIs as BCs.
- Rating of these intermediates will be done by the LDMs and ZOs with the proposed rating modules. The ratings will be approved by the respective H.O.
- The target group for lending by the BCs will be the small and marginal farmers/tenant farmers forming a joint liability groups and in case of non-farm activities, the SHGs formed by them will be financed.
- The proposals will be mobilized and appraised based on the existing KCC model and to be placed to the branch manager for sanction.
- After sanction, the disbursement will be done at the office of the BCs on one or two pre determined dates.
- The BCs will collect the estimated fund required for disbursement on the disbursement days from the bank branch and all the disbursement will be recorded in the biometric device and the BCs are supposed to report to the base branch with all these documents of disbursement.
- The BCs will maintain shadow ledger with them for monitoring and follow up for recovery.
- Loans will be disbursed to the individual members of the JLGs.
- The BCs will collect repayments from the doorsteps of the farmers and deposit the same on the same day or at the next day at the branch.
- For farm and Non-farm sectors, specific cases as mobilized by the B.Cs will be placed before the bank for sanction and disbursement will be made under the supervision of the financing branch (base branch).
- The Permissible Bank Finance (PBF) for small and marginal farmers will be decided on the basis of the unit cost and land holding of individual farmer.
- Maximum loan amount up to Rs.50000/- will be disbursed through the BCs at the initial stage.
- For Non-farm sector, maximum ceiling of loan will be Rs.40000/-
- Ceiling for collection of deposit will be Rs.5000/- per depositor per transaction.

P. Implementation

The Commercial Banks may implement the Model A & Model B in two/three selected branches in each of their Lead Districts in Uttar Pradesh and some potential branches in Non Lead Districts on pilot basis for at least one year. The experience, flow of benefit and other feedback will be the input for them to renew this arrangement and bring about amendments as required for accepting it for wider implementation throughout the state of Uttar Pradesh.

Annexure-III

PROPOSED RATING MODELS FOR ASSESSING THE BFS AND BCS BY COMMERCIAL BANKS

Proposed Rating model for the NGOs/Trusts/Associations
Name & Address of the Organisation:

Particulars		*Basis of Assessment*	*Value Assigned*
1. Character			
A) Representative Nature – Closeness of the NGOs / Trusts /Association with the local area / community	**a) Area of Origin and Operation**	i) NGOs/Trusts/Association based and functioning in the area of operation of the bank branch	4
		ii) NGOs/Trusts/Association based elsewhere but working in the area of operation of the bank branch	3
		iii) NGOs/Trusts/Association based in the area of operation of the bank branch but new in operation	2
		iv) /Trusts/Association based elsewhere and new to the area of operation of the bank branch	1
	b) No. of villages covered under various programme by the NGO/Trust/Association	i) Above 50	4
		ii) 26 to 50	3
		iii) 11 to 25	2
		iv) 1 to 10	1
	c) No. of SHGs formed and functioning satisfactorily	i) Above 2500	4
		ii) 1000 to 2500	3
		iii) 500 to 1000	2
		iv) Less than 500	1

B) Interest Evinced by the Governing Body Management Committee	**a) No. of Meetings**	i) Meets frequently, 4 times or more in a year	2
		ii) No meetings are held/ irregular meetings	0
	b) Attendance in the meetings	i) Meetings are well attended, average attendance more than 75%	1
		ii) Meetings are not well attended and less than 75%	0
	c) Quality of Board / Managing Committee	i) Expertise/Experience of members of Governing Body/ Managing Committee	1
		ii) and Members are not having any experience	0
	d) Transparency of Operations	i) Publishes annual report with audited accounts	2
		ii) Annual report is not published	0
C) Other important parameters	**a) Reputation**	i) The NGO earns good reputation in the are as non political / non religious entity	4
		ii) The NGO and it's members do not command good reputation	0
	b) Respect	i) The members of Governing Body are known and well respected in the area.	4
		ii) The members of Governing Body are not known and have no respect in the area.	0
	c) Registered & Functioning in the area for a period of	i) More than 5 years	4
		ii) 3 to 5 years	3
		iii) 1 to 3 years	2
		iv) Less than 1 year	1
2. Capacity			
A) Organizational Capacity and Managerial Competence.	**a) Manpower**	i) Availability of experienced and professional staff	4
		ii) Professional manpower not available	0
	b) Infrastructure	i) Adequacy of infrastructure	4
		ii) Adequate infrastructure not available	0
B) Capacity Building	**a) Training in Social Dynamics**	i) Adequacy of manpower trained in mobilisation and social dynamics	2
		ii) Manpower not trained in mobilisation and social dynamics	0
	b) In-house trg. Arrangement	i) In house training arrangements available	2

		ii) No in-house training arrangement	0
	c) Training outsourced	i) Whether NGO is undertaking training of other NGOs/SHGs etc.	2
		ii) Arrangements outsourced for training of staff	0
B) Rapport /Net working with local agencies	**a) Banks & Financial Institutions**	i) Relationship with Banks/ Financial institutions/Local Administration	4
		ii) No relationship with the Banks/ Financial Institutions/Local Administration	0
	b) Representation in the local committees	i) Agency/CEO represented in any committee set up by the Govt. agencies/departments	2
		ii) No representation in different local committees	0
3. Core Competency			
A) Experience / proficiency in group related savings and credit activities	**a) Experience of the Organisation on Thrift & Credit**	i) whether the agency has adequate experience under Thrift and Credit programmes	4
		ii) Agency has no experience	0
	b)Experience of the organisation in promotion of SHGs	i) Experience in promotion and nurturing of SHGs and linking with Banks	4
		ii) No experience of Promotion and nurturing of SHGs and linking with the Banks	0
	c) Experience in Credit Delivery Mechanism	i) Experience in other innovative credit delivery mechanisms	2
		ii) No experience of Innovative Credit delivery mechanism	0
	d) Promotional support	i) Various types of promotional support provided by the agency	2
		ii) No promotional support available	0
4. Others	a) Audit of the organisation	i) Audit up to date with no serious defects	4
		ii) Audit in arrears for more than one year with no serious defects	2
		iii) Audit in arrears for more than one year and/or serious defects in audit reports and not rectified	0
	b) Technology adoption	i) Technical manpower with updated knowledge of computer and extent of computerization	4
		ii) Minimum or no computer background	0

Score:

Parameters		*Maximum Score*
Character		30
Capacity		20
Core Competence		12
Others		8
TOTAL		70

Rating:

Score Obtained		*Rate Awarded*
90% and above		A
80% to 89%		B
70% to 79%		C
60% to 69%		D

In case of pilot implementation, only A and B grade may be considered

Annexure-IV

PROPOSED STANDARD APPLICATION FORM FOR BUSINESS CORRESPONDENTS

APPLICATION FORM FOR ENGAGEMENT AS BUSINESS CORRESPONDENT

1: GENERAL INFORMATION

Name of the MFI/NGO/Entity (e.g. 'S 25 Company)	
Legal Status (Registration No./ type/FCRA Status & Date of Establishment	
Name of Chief functionary and Designation	
Registered address of the MFI/NGO/ Entity	
Address for Correspondence State Pin Code Telephone Number	
Fax	
e-mail ID	
Website Address	

Contact Person's Name	
Phone Number	
e-mail ID	

Mission
Vision
Objectives
Geographical areas of activity *(Villages, district, blocks, taluk/municipalities and states in India where active).*

II: SPECIFIC INFORMATION (Names of members / Designation / Academic Qualification / Experience)

Governing Board:

Name	*Designation*	*Academic qualification*	*Background Details*	*Membership in other Boards, etc.*

Executive Board:

Name	*Designation*	*Academic qualification*	*Background Details*	*Membership in other Boards, etc.*

Advisory Board:

Name	*Designation*	*Academic qualification*	*Background Details*	*Membership in other Boards, etc.*

III: INFORMATION ABOUT MICROFINANCE PORTFOLIO

Microfinance (Qualitative)

Since when are you offering microfinance services?

What is / are the lending type (s) you use		Individual Lending
		Group Lending
		Group Assisted Individual
		lending
		Mutual Credit Guarantee
		Joint Liability Groups
		Self Help Groups
		Others (please specify)
Number of branches delivering microfinance Services		

Number of staff engaged in microfinance Services

No. of Field staff engaged in microfinance

Client Profile (as of end of ------------------)

Number of active clients

Geographical distribution of clients Urban/ Semi Urban/ Rural

Percentage of women clients	
Number of borrowers	
Number of active borrowers	
Average Loan Size	
Please specify the percentages of the main enterprises for which the beneficiaries take loans	

Microfinance Products and Services (as of end of December 2006) Please give details about the various types of financial products and services you provide	
Savings Products (please mention all the products under this category like saving deposits, recurring deposits, fixed deposits, etc.)	
Loan Products (please mention various type of loans that you provide under what category e.g. medical loan under Health)	

Insurance Products (Please give the names of Insurance Companies whose products you offer)	
Any other financial products or services that you presently offer	

Performance Profile (as of end of December 2006)	
Cumulative Amount of Loans Disbursed (in Lakhs INR)	
Cumulative Number of Loans Disbursed	
Amount of Loan Disbursed in last 12 months (in Lakhs INR)	
Amount of Loan Outstanding (in Lakhs INR)	
Number of Loans Outstanding	
Average Interest rate on Loans (Please indicate the flat rate)	
NPA %	

Source of Funds	
Grants (Amount and percentage)	
Debt (Amounts and percentage)	
Internal Funds (Amounts and percentage)	

For each of the above, please give the names of the Agency/Bank/Financial Institutions

Please Note:

This information should be accompanied by Audited Financial Statement.

Please feel free to provide any additional information or document in support of the information given below-

IV: ORGANIZATIONAL PROCESSES

Please tick any one

Process definition is	○ Done Verbally ○ Documented (enclosed copy) Not Defined ○ Not understood
Review of processes is	○ Done Verbally ○ Documented ○ Not Reviewed
Do you have process manuals maintained for critical processes? (those processes essential for achieving the core business/ goals)	○ Yes ○ No ○ Not Applicable ○ Not understood
Are these process manuals understood and implemented by the staff concerned (Tick One)	○ Always ○ Never ○ Not Applicable
How do you educate your concerned staff members about the correct processes to be followed ?	○ Handouts of Training sessions/Presentations ○ They are put/ available at the website ○ They are put /available at the library/files ○ Available at the Center ○ They are not disseminated ○ Others

Do you have a well defined Management Information System (MIS)	○ Yes ○ No ○ Not Sure ○ Not Applicable
If t he answer to the above is 'Yes", is your MIS manual or computerized?	○ Manual ○ Computerized ○ Not Sure
Mention any best practice developed and implemented by you for microfinance practice (Use Additional Sheets if required)	
Do you have the capacity to handle cash management for the day to day Operations ? If so, pl ease give details of how you will do this?	

V: OTHERS

o. Do you work with any other Competitor Bank? If so, nature of work undertaken.
o. Are you partially/fully controlled by any one who is any officer/Director of SBI or related to any officer/Director of SBI.

VI: ORGANISATIONAL STRUCTURE

Please use this space to add your Organizational Structure Chart

VII. If you would like to add any other information about your activities. Please use this space.

VIII. SWORN STATEMENT BY THE NOMINEE

I, the undersigned, being the person responsible in applicant entity for the action, certify that:

(i) The information given in this nomination form is true and correct to the best of my knowledge ; and

(ii) The entity does not fall under anyone of the undernoted categories:

a) Is bankrupt or is being wound up, is having its affairs administered by the courts, has entered into an arrangement with credit ors, has suspended business activities, is the subject of proceedings concerning those matters, or is in any situation arising from a similar procedure provided for in national legislation or regulations;

b) Has been convicted of an offence concerning professional conduct by a judgment (i.e. against which no appeal is possible)

c) Is guilty of grave professional misconduct proven by any means which the Award Partners and Jury can justify;

d) Has not fulfilled obligations relating to the payment of social security contributions or the payment of taxes in accordance with the legal provision of India;

e) has been the subject of a judgment for fraud, corruption, involvement in a criminal organization or any other illegal activity;

I am fully aware that any false declaration will lead to the exclusion of the entity from the selection process.

Name:	
Position:	
Signature:	
Date and Place:	
Seal	

CHECKLIST FOR ENCLOSURES

- Audited Financial Statements for the last two years.
- Annual Report for the last 2 years (if printed).
- One copy of photograph (passport size) of the organization's Chief Executive.
- Copies of the certificate of registration authorized by an independent authority.
- Rating report (if rating has been done).

Annexure-V

TABLES REPRESENTING THE FINDINGS OF THE STUDY

Table 1: Coverage of Area and Population by Bank Branches in Uttar Pradesh

Region	*Area*	*Population (2001)*	*Decadal Growth (19912001)*	*Population (2009 expected)*	*Density (2001) (Pop per sq km)*	*Density (2009) (Pop per sq km)*	*No of branches (2001)*	*No of branches (2009)*	*Area covered by one branch (sq km) (2001)*	*Area covered by one branch (sq km) (2009)*	*No of people served by one branch (2001)*	*No of people served by one branch (2009)*
Baghpat	1321	1163991	13	1315310	881	996	61	67	22	20	19082	19631
Pilibhit	3499	1645183	28	2109125	470	603	93	105	38	33	17690	20087
Budaun	5168	3069426	25	3849060	594	745	137	152	38	34	22405	25323
Rampur	2367	1923739	28	2464310	813	1041	103	125	23	19	18677	19714
Sitapur	5743	3619661	27	4586110	630	799	173	190	33	30	20923	24137
Jhansi	5024	1744931	22	2128816	347	424	76	82	66	61	22960	25961
Rae Bareli	4609	2872335	24	3570312	623	775	140	161	33	29	20517	22176
Unnao	4558	2700324	23	3313298	592	727	125	133	36	34	21603	24912
Banda	4460	1537334	21	1866323	345	418	76	90	59	50	20228	20737
Chitrakoot	3164	766225	29	985365	242	311	26	47	122	67	29470	20965
Pratapgarh	3717	2731174	24	3373000	735	907	148	162	25	23	18454	20821
Mirzapur	4521	2116042	28	2702186	468	598	108	114	42	40	19593	23703
Average of Sample districts	**4013**	**2157530**	**24**	**2688601**	**562**	**695**	**106**	**119**	**45**	**37**	**20967**	**22347**
Total of U.P	**240928**	**166000000**	**26**	**208828000**	689	867	8236	9350	29	26	20155	22335

Note: Average adult population per branch as on 31st January 2009 was 13033 where we have considered 9350 branches serving 121860490 adult population.
Source: Census 2001 and Indiastat.com

Table 2. Profile of Population and Financial Inclusion

Sl.No.	*Districts*	*Av. Population of area of operation in each branch*	*Av. Adult population area of operation in each branch*	*Av. no. of accounts (all types) in each Branch*	*Financial Inclusion (%)*	*Av. No. of loan Account*	*% of adult having loan A/C*	*Credit Gap (%)*
1	Pilibhit	39600	19800	8587	43	1305	7	93
2	Baghpat	27000	13080	7800	60	1050	8	92
3	Rampur	22200	11160	7320	66	1075	10	90
4	Badaun	28800	13920	6960	50	955	7	93
Av. of Western UP		**29400**	**14490**	**7667**	**53**	**1096**	**8**	**92**
5	Sitapur	19200	12600	8640	69	1425	11	89
6	Jhansi	25800	12650	6120	48	725	6	94
7	Raebareli	28800	14400	10320	72	1435	10	90
8	Unnao	28200	13920	7800	56	925	7	93
Av. of Central UP		**25500**	**13393**	**8220**	**61**	**1128**	**8**	**92**
9	Chitrakoot	24000	12000	7800	65	1055	9	91
10	Mirzapur	29400	15000	7320	49	1137	8	92
11	Banda	22200	10680	5520	52	1255	12	88
12	Pratapgarh	27600	14400	8880	62	1397	10	90
Av. of Eastern UP		**25800**	**13020**	**7380**	**57**	**1211**	**9**	**91**
Av. Of Uttar Pradesh		**26900**	**13634**	**7756**	57	1145	8	92
Assumption: Each persons is having one account. But it was revealed during the interaction with the branch managers and the customers that 25% of the customers are having more than one account.								

Table 3. Out Reach of the Bank Branches

Sl.No.	*Districts*	*No. of Rural Branch surveyed*	*No of Semi-Urban Branch surveyed*	*Av. No. of villages served by each branch*	*Av. No. customer visits the branch on daily basis*
1	Pilibhit	4	1	30	250
2	Baghpat	3	2	14	300
3	Rampur	4	1	16	250
4	Badaun	4	1	20	300
Av. of Western UP		**4**	**1**	**20**	**275**
5	Sitapur	3	2	27	200
6	Jhansi	5	0	19	150
7	Raebareli	4	1	17	200
8	Unnao	5	0	23	150
Av. of Central UP		**4**	**1**	**22**	**175**
9	Chitrakoot	2	3	11	150
10	Mirzapur	3	2	13	200
11	Banda	3	2	7	100
12	Pratapgarh	3	2	13	200
Av. of Eastern UP		3	2	11	163
Av. Of Uttar Pradesh		4	1	18	204

Table 4. Average Number of Accounts and Amount of Business per Branch

Sl.No.	*Districts*	*Av. No. of employees in each branch*	*Av. No. of Accounts handled by each employee*	*Av. Business per branch (Rs. In lakhs)*	*Av. Business handled by each employee (Rs. In lakhs)*
1	Pilibhit	6	1431	570.00	95.00
2	Baghpat	5	1560	520.00	104.00
3	Rampur	6	1220	450.00	75.00
4	Badaun	7	994	480.00	68.57
Av. of Western UP		**6**	**1278**	**505.00**	**84.17**
5	Sitapur	5	1728	520.00	104.00
6	Jhansi	8	765	720.00	90.00
7	Raebareli	8	1290	920.00	115.00
8	Unnao	4	1950	330.00	82.50
Av. of Central UP		**6**	**1315**	**622.50**	**99.60**
9	Chitrakoot	6	1300	280.00	46.67
10	Mirzapur	5	1464	320.00	64.00
11	Banda	4	1380	170.00	42.50
12	Pratapgarh	8	1110	460.00	57.50
Av. of Eastern UP		**6**	**1283**	**307.50**	**53.48**
Av. Of Uttar Pradesh		**6**	**1293**	**478.33**	**79.72**

Table 5. Average Daily Transactions per Branch

Sl.No.	*Districts*	*Av. Rate of interest (%) charged up to Rs.50000*	*Av. Other charges levied (%)*	*Av. No of transaction per day per branch (all accounts)*	*Av. No. of insurance products sold by each branches (monthly)*
1	**Pilibhit**	9.00	0.00	500	30
2	**Baghpat**	9.00	0.00	300	35
3	**Rampur**	9.00	0.00	400	40
4	**Badaun**	9.00	0.00	300	50
Av. of Western UP		9.00	0.00	375	39
5	**Sitapur**	9.00	0.00	500	55
6	**Jhansi**	9.00	0.00	300	20
7	**Raebareli**	9.00	0.00	800	50
8	**Unnao**	9.00	0.00	300	30
Av. of Central UP		9.00	0.00	475	39
9	**Chitrakoot**	9.00	0.00	300	35
10	**Mirzapur**	9.00	0.00	350	20
11	**Banda**	9.00	0.00	200	20
12	**Pratapgarh**	9.00	0.00	400	40
Av. of Eastern UP		9.00	0.00	313	29
Av. Of Uttar Pradesh		9.00	0.00	388	36

Table 6. No Frill Accounts and SHG Bank Linkage Programme

Sl.No.	*Districts*	*Av. No. of No Frill Accounts per Branch*	*Av. No. of SHG linked to SB A/C per branch*	*Av no. of SHG linked with Credit per branch*	*Av size of the credit to the SHGs per branch*	*Av. Cost of service to each customer*
1	Pilibhit	950	25	17	100000	150
2	Baghpat	875	24	18	60000	155
3	Rampur	610	32	20	33000	145
4	Badaun	765	12	14	92000	155
Av. of Western UP		**800**	**23**	**17**	**71250**	**151**
5	Sitapur	416	56	40	90000	150
6	Jhansi	1290	27	18	75000	145
7	Raebareli	1302	85	65	85000	155
8	Unnao	1180	35	30	105000	160
Av. of Central UP		**1047**	**51**	**38**	**88750**	**153**
9	Chitrakoot	1365	54	55	62000	155
10	Mirzapur	1545	27	30	43000	165
11	Banda	995	25	15	60000	155
12	Pratapgarh	1235	78	46	65000	150
Av. of Eastern UP		**1285**	**46**	**37**	**57500**	**156**
Av. Of Uttar Pradesh		**1044**	**40**	**31**	**72500**	**153**

Table 7. Age Group-wise Distribution of Respondents *with Bank Accounts*

Age Group	*Western Uttar Pradesh*		*Central Uttar Pradesh*		*Eastern Uttar Pradesh*		*Total Uttar Pradesh*	
	Number	*%*	*Number*	*%*	*Number*	*%*	*Number*	*%*
<25 yrs	9	9	14	14	11	11	34	11
25-35 yrs	22	22	16	16	19	19	57	19
35-45 yrs	27	27	31	31	33	33	91	30
45-55 yrs	23	23	26	26	22	22	71	24
55 yrs >	19	19	13	13	15	15	47	16
Total	**100**	**100**	**100**	**100**	**100**	**100**	**300**	**100**

Table 8. Age Group-wise Distribution of Respondents *without Bank Accounts*

Age Group	*Western Uttar Pradesh*		*Central Uttar Pradesh*		*Eastern Uttar Pradesh*		*Total Uttar Pradesh*	
	Number	*%*	*Number*	*%*	*Number*	*%*	*Number*	*%*
<25 yrs	7	7	11	11	8	8	26	9
25-35 yrs	18	18	21	21	16	16	55	18
35-45 yrs	29	29	27	27	31	31	87	29
45-55 yrs	31	31	28	28	25	25	84	28
55 yrs >	15	15	13	13	20	20	48	16
Total	**100**	**100**	**100**	**100**	**100**	**100**	**300**	**100**

Table 9. Profile of Respondents on Housing Pattern with Bank Accounts

Housing type	*Western UP*		*Central UP*		*Eastern UP*		*Total of UP*	
	Nos	*%*	*Nos*	*%*	*Nos*	*%*	*Nos*	*%*
Kachha & No Electricity	9	9.00	10	10.00	12	12.00	31	10.00
Kachha & Electricity	13	13.00	16	16.00	14	14.00	43	14.00
Pukka & No Electricity	24	24.00	25	25.00	24	24.00	73	24.00
Pukka & Electricity	28	28.00	30	30.00	26	26.00	84	28.00
Kachha-Pukka & No Electricity	11	11.00	12	12.00	13	13.00	36	12.00
Kachha-Pukka & Electricity	15	15.00	7	7.00	11	11.00	33	11.00
Total	100	100.00	100	100.00	100	100.00	300	100.00

Table 10. Profile of Respondents on Housing Pattern without Bank Accounts

Housing type	*Western UP*		*Central UP*		*Eastern UP*		*Total of UP*	
	Nos	*%*	*Nos*	*%*	*Nos*	*%*	*Nos*	*%*
Kachha & No Electricity	13	13.00	15	15.00	19	19.00	47	16.00
Kachha & Electricity	17	17.00	19	19.00	19	19.00	55	18.00
Pukka & No Electricity	19	19.00	21	21.00	21	21.00	61	20.00
Pukka & Electricity	21	21.00	20	20.00	16	16.00	57	19.00
Kachha-Pukka & No Electricity	14	14.00	13	13.00	14	14.00	41	14.00
Kachha-Pukka & Electricity	16	16.00	12	12.00	11	11.00	39	13.00
Total	**100**	**100.00**	**100**	**100.00**	**100**	**100.00**	**300**	**100.00**

Table 11. Family Profile of Respondents Across Family Types with Bank Accounts

Region of UP	*Family Type*	*Total No. of Respondents*	*Total no. of Members*	*Avg. member in the house*	*Adults*	*Children*	*Earning members*	*Total. no of Earning*		*Ratio of earning female to male*	*% of Earning members to total members*	*Ratio of Non-earners to earners*
								Males	*Females*			
Western UP	Nuclear Family	43	253	5.88	186	67	87	35	52	1.49	34.39%	1.91
	Joint Family	67	512	7.64	314	198	143	79	64	0.81	27.93%	2.58
Central UP	Nuclear Family	54	276	5.11	173	103	91	55	36	0.65	32.97%	2.03
	Joint Family	46	318	6.91	198	120	89	46	43	0.93	27.99%	2.57
Eastern UP	Nuclear Family	37	234	6.32	159	75	96	49	47	0.96	41.03%	1.44
	Joint Family	63	419	6.65	292	127	127	56	71	1.27	30.31%	2.3
Uttar Pradesh	Nuclear Family	134	763	5.69	518	245	274	139	135	0.97	35.91%	1.78
	Joint Family	176	1249	7.1	804	445	359	181	178	0.98	28.74%	2.48

Table 12. Family Profile of Respondents Across Family Types without Bank Accounts

Region of UP	*Family Type*	*Total No. of Respondents*	*Total no. of Members*	*Avg. member in the house*	*Adults*	*Children*	*Earning members*	*Total. no of Earning*		*Ratio of earning female to male*	*% of Earning members to total members*	*Ratio of Non-earners to earners*
								Males	*Females*			
Western UP	Nuclear Family	56	324	5.79	236	88	127	56	71	1.27	39.20%	1.55
	Joint Family	44	345	7.84	259	86	143	81	62	0.77	41.45%	1.41
Central UP	Nuclear Family	71	367	5.17	277	90	151	74	77	1.04	41.14%	1.43
	Joint Family	39	276	7.08	201	75	111	61	50	0.82	40.22%	1.49
Eastern UP	Nuclear Family	51	319	6.25	227	92	119	55	64	1.16	37.30%	1.68
	Joint Family	49	328	6.69	255	73	127	63	64	1.02	38.72%	1.58
Uttar Pradesh	Nuclear Family	178	1010	5.67	740	270	397	185	212	1.15	39.31%	1.54
	Joint Family	132	949	7.19	715	234	381	205	176	0.86	40.15%	1.49

Table 13. Livelihood Profile of the Customers of Banks

Sl.No.	*Districts*	*Sample surveyed*		*Level of Literacy*		*Major livelihood activities*	
		Out of which No. BPL	*Out of which No. APL*	*No. Literate Customers*	*No.illiterate Customers*	*No of people in farming activities*	*No of people in Non-Farm activities*
1	Pilibhit	15	10	11	14	23	2
2	Baghpat	8	17	17	8	20	5
3	Rampur	4	21	19	6	20	5
4	Badaun	6	19	17	8	21	4
Av. of Western UP		**8**	**17**	**16**	**9**	**21**	**4**
5	Sitapur	5	20	21	4	21	4
6	Jhansi	3	22	20	5	22	3
7	Raebareli	6	19	21	4	17	8
8	Unnao	9	16	18	7	21	4
Av. of Central UP		**6**	**19**	**20**	**5**	**20**	**5**
9	Chitrakoot	4	21	20	5	15	10
10	Mirzapur	5	20	22	3	16	9
11	Banda	7	18	19	6	19	6
12	Pratapgarh	6	19	20	5	13	12
Av. of Eastern UP		**6**	**20**	**20**	**5**	**16**	**9**
Av. of Uttar Pradesh		**7**	**19**	**19**	**6**	**19**	**6**

Table 14. Livelihood Profile of the Respondents Not Linked with Banking System

Sl.No.	*Districts*	*Sample surveyed*		*Level of Literacy*		*Major livelihood activities*	
		No. BPL	*No. APL*	*No. Literate Customers*	*No.illiterate Customers*	*No of people in farming activities*	*No of people in Non-Farm activities*
1	Pilibhit	16	9	10	15	19	6
2	Baghpat	8	17	21	4	16	9
3	Rampur	11	14	15	10	19	6
4	Badaun	11	14	18	7	18	7
Av. of Western UP		**12**	**14**	**16**	**9**	**18**	**7**
5	Sitapur	9	16	19	6	19	6
6	Jhansi	7	18	20	5	18	7
7	Raebareli	10	15	18	7	17	8
8	Unnao	8	17	14	11	14	11
Av. of Central UP		**9**	**17**	**18**	**7**	**17**	**8**
9	Chitrakoot	8	17	18	7	17	8
10	Mirzapur	10	15	13	12	21	4
11	Banda	12	13	16	9	18	7
12	Pratapgarh	8	17	19	6	18	7
Av. of Eastern UP		**10**	**16**	**17**	**9**	**19**	**7**
Av. of Uttar Pradesh		**10**	**15**	**17**	**8**	**18**	**7**

Table 15. Average Cost of Transactions of the Customers of Banks

Sl.No.	*Districts*	*Type of Accounts*		*Loan A/C*				*Av. Distance of the Bank Branch from the residence*	*Av. cost incurred annually (Rs.)*	*Cost incurred as a percentage of principle amount*	*Actual rate of interest(rate of interest+cost incurred)*
		Savings A/C	*Loan A/C*	*Av. Size of loan*	*Purpose of the loan taken Farm*	*Purpose of the loan taken Non-Farm*	*Av. Interest rate on the loan amount (%)*				
1	Pilibhit	6200	3800	46400	23	2	8.44	8.00	480	1.03	9.47
2	Baghpat	6000	3000	37600	20	5	8.60	7.00	360	0.96	9.56
3	Rampur	5000	3000	38400	20	5	8.52	9.00	360	0.94	9.46
4	Badaun	4500	3500	40800	21	4	7.88	9.00	360	0.88	8.76
Av. of Western UP		**5425**	**3325**	**40800**	**21**	**4**	**8.36**	**8.25**	**390**	**0.96**	**9.32**
5	Sitapur	6300	3700	36800	21	4	9.84	8.00	360	0.98	10.82
6	Jhansi	5000	2500	38600	22	3	7.08	10.00	240	0.62	7.70
7	Raebareli	7500	4500	43280	17	8	8.00	7.00	288	0.67	8.67
8	Unnao	5200	2800	34280	21	4	10.00	8.00	216	0.63	10.63
Av. of Central UP		**6000**	**3375**	**38240**	**20**	**5**	**8.73**	**8.25**	**276**	**0.72**	**9.45**
9	Chitrakoot	4800	2200	46200	15	10	12.00	14.00	480	1.04	13.04
10	Mirzapur	4300	2700	34200	16	9	10.00	15.00	480	1.40	11.40
11	Banda	4200	1800	36400	19	6	9.00	11.00	324	0.89	9.89
12	Pratapgarh	6200	3800	26000	13	12	10.00	12.00	360	1.38	11.38
Av. of Eastern UP		**4875**	**2625**	**35700**	**16**	**9**	**10.25**	**13.00**	**411**	**1.15**	**11.40**
Av. of Uttar Pradesh		**5433**	**3108**	**38247**	**19**	**6**	**9.11**	**10**	**359**	**0.94**	**10.05**

Table 16. Cost of Transactions in the Informal Financial Sector

			Source of Finance		*Preference of the people for availing Banking Services*		
Sl.No.	*Districts*	*Av. Distance from Bank Branches*	*Own source*	*Loan from Informal sources*	*No. of people willing to go to Bank*	*No. of people not willing to go to Bank*	*Av. Rate of interest from informal Sector*
1	Pilibhit	9.00	10	15	6	19	24.00
2	Baghpat	10.00	9	16	13	12	26.00
3	Rampur	11.00	12	13	16	9	28.00
4	Badaun	12.00	14	11	15	10	30.00
Av. of Western UP		**10.50**	**11**	**14**	**13**	**13**	**27.00**
5	Sitapur	15.00	16	9	5	20	26.00
6	Jhansi	14.00	18	7	8	17	32.00
7	Raebareli	14.00	14	11	10	15	28.00
8	Unnao	13.00	17	8	14	11	30.00
Av. of Central UP		**14.00**	**16**	**9**	**9**	**16**	**29.00**
9	Chitrakoot	10.00	17	8	12	13	30.00
10	Mirzapur	12.00	15	10	11	14	36.00
11	Banda	12.00	12	13	14	11	24.00
12	Pratapgarh	11.00	18	7	12	13	30.00
Av. of Eastern UP		**11.25**	**16**	**10**	**12**	**13**	**30.00**
Av. of Uttar Pradesh		**11.92**	**14**	**11**	**11**	**14**	**28.67**

Table 17. Customer's Level of Satisfaction

		Customers with Savings A/C		*Customers with Loan A/C*		*Level of satisfaction (%)*		*Preference of door step banking*	
Sl.No.	*Districts*	*Av. no. of monthly visit*	*Av. cost incurred per visit (Rs.)*	*Av. no. of monthly visit*	*Av. cost incurred per month (Rs.)*	*Products of the Banks*	*Services of the Banks*	*Willing*	*Not willing*
1	Pilibhit	1	20.00	2	40.00	96	74	16	9
2	Baghpat	1	10.00	3	30.00	96	70	14	11
3	Rampur	1	10.00	3	30.00	100	82	18	7
4	Badaun	1	10.00	3	30.00	100	82	13	12
Av. of Western UP		**1**	**12.50**	**3**	**32.50**	**98**	**77**	**15**	**10**
5	Sitapur	1	10.00	3	30.00	96	62	17	8
6	Jhansi	1	10.00	2	20.00	96	86	19	6
7	Raebareli	1	8.00	3	24.00	100	78	15	10
8	Unnao	1	9.00	2	18.00	96	82	14	11
Av. of Central UP		**1**	**9.25**	**3**	**23.00**	**97**	**77**	**16**	**9**
9	Chitrakoot	1	20.00	2	40.00	100	90	18	7
10	Mirzapur	1	20.00	2	40.00	100	74	14	11
11	Banda	1	9.00	3	27.00	96	74	13	12
12	Pratapgarh	1	10.00	3	30.00	92	74	19	6
Av. of Eastern UP		**1**	**14.75**	**3**	**34.25**	**97**	**78**	**16**	**9**
Av. of Uttar Pradesh		**1**	**12.17**	**3**	**29.92**	**97**	**77**	**16**	**9**

Table 18. Preference of Door Step Banking by the Unbanked Customers of the Banking System

Sl.No.	*Districts*	*Door Step Banking*		*Av cost of one visit to the bank Branch*	*Expected no of visit to bank branch*	*Type of Door Step Banking services*		
		Willing				*Not Willing*	*Only Savings*	*All Banking Services*
1	Pilibhit	19	6	43.00	4	6		19
2	Baghpat	24	1	45.00	3	0		25
3	Rampur	25	0	50.00	4	0		25
4	Badaun	18	7	40.00	5	7		18
Av. of Western UP		**22**	**4**	**44.50**	**4**	**3**		**22**
5	Sitapur	20	5	45.00	3	5		20
6	Jhansi	19	6	20.00	3	6		19
7	Raebareli	21	4	35.00	2	4		21
8	Unnao	21	4	45.00	3	4		21
Av. of Central UP		**20**	**5**	**36.25**	**3**	**5**		**20**
9	Chitrakoot	25	0	50.00	4	0		25
10	Mirzapur	25	0	55.00	3	0		25
11	Banda	25	0	42.00	3	0		25
12	Pratapgarh	23	2	38.00	4	2		23
Av. of Eastern UP		**25**	**1**	**46.25**	**4**	**1**		**25**
Av. of Uttar Pradesh		**22**	**3**	**42.33**	**3**	**3**		**22**