RESERVE BANK OF INDIA

Reserve Bank of India (RBI), India's central bank, was established on April 1, 1935 in accordance with the provisions of the Reserve Bank of India Act, 1934. It has its principal office at Mumbai and 26 offices / sub-offices spread across the country.

As the country's monetary authority, the RBI formulates and implements the monetary policy, with the objective of maintaining price stability and ensuring adequate flow of credit to productive sectors. It is entrusted with the regulation and supervision of banks and financial institutions with a view to enforcing public confidence in the financial system and ensuring financial stability. It also manages the country's foreign exchange reserves and facilitates external trade and payment and promotes the orderly development and maintenance of foreign exchange market in India. The exchange control regime has undergone significant liberalisation and is presently confined largely to capital account transactions. The RBI is the issuer of currency and acts as banker to banks and the Government. Significantly, it performs a wide range of promotional functions to support national objectives. It has played a leading role in institution building and facilitating credit delivery, particularly in rural areas to promote rural and agricultural development and development of the priority sectors, trade and industry.

A. Lead Bank Scheme: A Unique Model for Rural Development

The Lead Bank Scheme that was formulated by the RBI in 1969 stands out as a unique model for uplift of neglected sectors of the country, particularly, the rural areas. The Scheme was conceived to assist in evolving plans and programmes for development of the banking and credit structure on an area basis with the district as the unit. It also sought to provide an appropriate organisational framework for ensuring participation, in a coordinated manner, by the various financial institutions along with the concerned governmental agencies.

India is a vast country with a population of over a billion, majority of which live in villages. Agriculture forms the backbone of the Indian economy and about 70 per cent of the population earn their livelihood from this sector. Institutional finance was, however, not percolating down to rural areas in general and to poor/farmers etc. in particular. Commercial banks had penetrated only to 5,000 villages as of June 1967. Institutional credit to agriculture was at 39 per cent of the total credit, but the share of commercial banks was just 1 per cent and the balance was met by co-operatives. In order to meet the credit requirement of this sector it was therefore, necessary that adequate banking facilities were provided in the rural areas.

With this end in view, social control over banks was introduced in 1967 followed by nationalization of commercial banks in 1969. One of the important changes ushered in immediately after nationalization was the expansion of the branch network in unbanked areas with a view to bridging the spatial gaps.

In 1969, Reserve Bank of India introduced the Lead Bank Scheme concomitant with the nationalization of commercial banks. The Scheme is in operation in almost all the 611 districts in the country.

Operation of the Scheme
The scheme entrusted banks with the responsibility of locating growth centres, identifying credit gaps and evolving a coordinated programme of credit deployment in each district, in consultation with government agencies. In order to enable the banks to assume 'leadership' in an effective and systematic manner, all the districts in the country were allocated among the banks designated as the Lead Bank of the district concerned. A bank having a relatively large network of branches in the rural areas of a given district and

endowed with adequate financial and manpower resources was generally entrusted with the lead responsibility for that district.

In the initial stages, the task before the lead bank was to make impressionistic surveys in the districts, to identify the potential for branch expansion and invoke the co-operation of other banks operating in the district for opening branches and financing the various activities in the rural areas which were unexposed or under exposed to banking facilities.

The Lead Bank Scheme envisages preparation of Annual Credit Plans for the districts for dispensation of bank credit for various activities. The Annual Credit Plans were prepared on the basis of the Potential Linked Plan made by the National Bank for Agriculture and Rural Development, which is the apex bank for agriculture and rural development in the country. The Potential Linked Plan details the sector/activity-wise credit potential and deliberates on major financial and socio-economic developments in the districts in the last one year and priorities to be set out.

The Lead Bank Scheme also facilitates review of implementation of various schemes for poverty alleviation and employment generation, introduced by the Government of India.

Monitoring

To monitor the progress in implementation of the above, various fora have been set up under the scheme viz. State Level Bankers Committee (SLBC) at State Level, District Consultative Committee (DCC) and District Level Review Committee (DLRC), at district level, and Block Level Bankers Committee (BLBC) at Block Level.

The main objective of these fora is to have an interface, at official levels periodically, among banks on the one hand and Government representatives on the other and to identify bottlenecks/hurdles coming in the way of better performance under the Annual Credit Plans. All banks having sizeable share in the Credit Plans are required to participate in the Lead Bank Scheme, attend the meetings and accept the targets under the Annual Credit Plans and various other Schemes. An officer, from Reserve Bank also attends these meetings and is designated as the Lead District Officer. They also undertake special field studies and provide valuable feedback on various developments in the districts.

Impact

The Lead Bank Scheme has been effective in enhancing the penetration of the branch network, particularly in rural areas. Out of 72,117 branches of scheduled commercial banks in the country, 46,919 branches were in the rural and semi-urban areas as of September 2007. Banks are now leveraging technology to reach out to the remotest areas. As a result, the banking needs of the rural areas could be well taken care of by commercial banks and the credit needs of the rural sectors of the economy such as agriculture, small scale industry and allied services would get a fillip. By allocating all districts to the banks, the Scheme enabled focused development of each district in the country. The efforts to increase the flow of credit to agriculture yielded good results. The total agriculture credit by scheduled commercial banks increased to Rs.2546.92 billion as at end March 2007 from Rs.3.78 billion in 1971. Similarly, credit to the small-scale sector increased from Rs.4.93 billion in 1971 to Rs.1273.22 billion in 2007. The total institutional credit to agriculture recorded a growth 61 per cent in 2002 from 7.3 per cent in 1951.

The Lead Bank Scheme also provided an effective forum for various stakeholders to discuss various problems being faced in the development process and work out solutions for the same. It has been actively involved in the efforts for achieving the goal of financial inclusion in the country. Each SLBC has been asked to identify one district for 100 per cent financial inclusion. So far, SLBCs have reported having achieved 100 per cent financial inclusion in 68 out of 611 districts in the country. SLBC convenor banks have also been advised to set up a financial literacy-cum-counselling centre in any one district in their State on a pilot basis and extend it to all other districts in due course, based on the experience gained. Given that the different regions of India present rich socio-economic diversity, the mechanism has been actively involved in undertaking studies to evolve region specific strategies for improving banking facilities in these States.

The poverty alleviation and employment generation schemes of the Government of India are also being effectively implemented and monitored in the rural areas through the mechanism of the Lead Bank Scheme, which has led to the development of entrepreneurship and small-scale industries in the rural areas.

With the coordinated efforts of the Government, RBI and the banks there has, indeed, been a reduction in the number of persons living below the poverty line especially in rural areas. The number of persons living below the poverty line, on an all- India basis, was 21.8 per cent in 2004-05 as against 51.3 per cent in 1977-78. In rural and urban areas, the number of persons living below the poverty line was 53.1 and 45.2 per cent respectively in 1977-78 and 21.8 and 21.7per cent respectively in 2004-05 .

A high level Committee setup by the Reserve Bank is currently reviewing the Lead Bank Scheme to improve its effectiveness with a focus on financial inclusion and recent developments in the banking sector.

B. IT- enabled Financial inclusion

Background

The issue of financial access to the far-flung areas is to a large extent being addressed by creating an institutional mechanism in the rural areas, which rides on the existing infrastructure. In addition to extending traditional mode of banking by targeted branch expansion in identified districts through the lead bank mechanism it was also realized that alternate channels beyond branch network were necessary to extend the outreach of banks on a large scale. In January 2006, RBI permitted banks to use intermediaries such as NGOs, MFIs, etc. in providing banking and financial services through the use of Business Facilitators (BFs) and Business Correspondents (BCs). They are agents of banks who facilitate the setting up of deposit/loan accounts in banks and making collections and disbursements of money on their behalf. This arrangement also provides the banks an opportunity to look at technology-based solutions and low cost delivery mechanisms.

Implementation of a Pilot Project

In April 2007, with the collaborative efforts of RBI, Government of Andhra Pradesh and some banks, a pilot project in some districts of the State of Andhra Pradesh was launched for payment of Social Security Pensions and National Rural Employment Guarantee Scheme benefits to the beneficiaries in the rural areas with the help of smart cards and mobile technology.

The project envisaged payment of benefits to the villagers by the Business Correspondents of banks at the habitation level in the villages. The BC uses a fingerprint scanner cum identifier, a mobile phone and a printer to process the payments. The beneficiaries hold a smart card with their photograph and images of their fingerprints pre-loaded at the time of their enrolment. The photograph and fingerprint are used for identification and authentication of the beneficiary. Once authenticated, the RFID chip embedded in the card gets charged and the BC puts through the transaction and issues a receipt for the same. The BC carries cash physically for making payments to the beneficiary. Thus, in effect each BC carries a pocket ATM to the village in which it operates. The technology holds potential for whole range of activities that banks can conduct through BCs and this includes other products like fixed deposits, various loans, insurance etc., The mobiles connect to a central data base server of the banks, the application has an offline model also which enables its operation in remote areas where there is no connectivity.

Impact

The advantages to the bank are that the cost of transactions is very much reduced. Studies have shown that the all-inclusive cost of delivery of small amounts of loans up to Rs.25, 000 directly by banks comes to above 20 per cent of the loan amount and the cost would be proportionately higher in the case of smaller loan amounts. In one study reported by The Institute for Financial Management and Research, Chennai, it is observed that the intermediary has the cost advantage in delivery of small value loans – while the cost for banks for loans up to Rs.10,000 is reported as 33.1 per cent, that of MFIs (the intermediary) is 22.7 per cent. The State Governments can eventually make all their payments through this mechanism (smart card and mobile technology). Lastly, and most importantly, the villagers, especially the womenfolk, are happy to have the facility of depositing their daily savings in the bank. The villagers are not required to go to far away branches for carrying out banking transactions. In the medium and long term, easy accessibility of financial services at the doorstep of the villagers will help in improving their standard of living and helping them to cross the poverty barrier.

Conclusion

RBI plays the role of a facilitator in such projects and it provides the required assistance in dealing with the banks. With the success of the pilot project in the State of Andhra Pradesh, similar initiatives are being replicated in other parts of the country also.

The feedback of the Andhra Pradesh experience is very encouraging and it has shown that appropriate technology can help banks in extending their outreach to far-flung remote areas where having a branch may not be commercially viable. It has heralded the advent of branchless banking in this vast country, India.