

January 22, 2009

The Chairman/ Managing Director/  
Chief Executive Officer  
All Scheduled Commercial Banks  
(Including RRBs)

Dear Sir/ Madam,

100 per cent Financial Inclusion - Evaluation by external agencies- Broad findings

In the Reserve Bank's Annual Policy Statement for the year 2007-08 it was announced that an evaluation of the progress made in the districts that have reported 100% financial inclusion would be taken up by independent external agencies. Accordingly, studies were conducted in 26 districts in the states of Andhra Pradesh, Gujarat, Himachal Pradesh, Karnataka, Orissa, Punjab, Rajasthan and West Bengal. The major study findings are annexed.

2. The findings reveal that although the State Level Bankers Committees (SLBCs) have declared several districts as 100% financially included, actual financial inclusion has not been to that extent in all the districts. Further, most of the accounts that have been opened as a part of the financial inclusion drive have remained inoperative due to various reasons. There is a need for SLBC/DCCs to actively step up the awareness with regard to 'no frills' accounts as this continues to be poor in many districts.

3. In order to sustain the momentum for financial inclusion, banks are advised to :

(i) ensure that steps are taken to provide banking services nearer to the location of the no-frills account holders through a variety of channels including satellite offices, mobile offices, business correspondents, etc.;

(ii) consider providing General Credit Card (GCC)/small overdrafts along with no-frills accounts to encourage the account holders to actively operate the accounts;

(iii) conduct awareness drives so that the no-frills account holders are made aware of the facilities offered;

(iv) review the extent of coverage in districts declared as 100% financially included so as to meet the gaps in banking facilities to those desirous of obtaining such facilities; and

(v) efficiently leverage on the technology enabled financial inclusion initiatives being implemented in various States with Reserve Bank support such as smart cards with bio-metric access involving hand held devices/ mobile phones.

4. Banks are advised to take appropriate action based on the findings of the evaluation study, under advise to our Regional Offices concerned. Copies of the evaluation studies for the respective States are also available for reference, if required, with the Regional Offices concerned.

5. Kindly acknowledge receipt.

Yours faithfully

(B.P.Vijayendra)  
Chief General Manager

Financial Inclusion (FI) evaluation conducted by external agencies in various States: Major findings

The major findings of the study reports are presented below:

Ganjam district, Orissa

In the district, about 65% of population desirous of having banking facilities has been provided with such facilities. However, no bank branch has extended overdraft or GCC to any no-frills account holder. There were hardly any transactions in more than three fourth accounts opened under the no-frills account category. The villagers felt that it was very difficult to complete bank transactions within a reasonable time and branch officials were reluctant to sanction credit facilities for their basic needs. Hence villagers preferred to approach informal sources for quick credit.

Rajsamand district, Rajasthan

In the district, in villages, 92.27% households have a bank account. However, 52.39 % people had no transactions in their bank accounts due to distance of the branch (79.64%), illiteracy (6.60%) and not being interested (10.04%). In towns, 98% households had a bank account and 86.94% carried out transactions in the accounts. In towns, those who did not carry out transactions indicated non-availability of passbook (75.47%) as the major reason. Majority of the people contacted did not know about the process of opening the account and could not get their passbooks.

Hooghly district, West Bengal

FI level in the district stood at 51.23%. Among the no-frill account holders, 24.5% had not visited the bank for over three months. Only 4% account holders had got GCC facility. However, of the households who held these cards, 58% had drawn a loan against the card and the average loan amount was slightly over Rs. 13,000. 34% of account holders had availed bank loan and 56% of these needed to provide collateral security. No frills accounts were found the most in the lowest income categories and declined with the higher income groups. 18.4% surveyed had taken loans from moneylenders at some point of time.

### Srikakulam District, Andhra Pradesh

About 71% of all those people desirous of having banking facilities had been provided with bank accounts. However, no single instance of providing KCC, OD or GCC facilities to the no-frill account holders had been reported. On an average, there were no transactions in 97% of the no-frills accounts opened. 5% of respondents still resorted to availing finance from moneylenders even after having a no-frills account. Some of the rural bankers were not motivated to open no-frills accounts because they felt that operationally the scheme was not viable.

### Seven districts of Karnataka

(Bagalkot, Chamrajnagar, Davangere, Gulbaraga, Haveri, Kodagu and Koppal)

Banks availed the services of NGOs, SHGs, teachers, postmen, farmers' clubs for the household survey and opening of no-frills accounts (NFAs). Broadly, every household that desired to open the NFAs had been covered under the FIP. However, there were several pockets in the villages that were still excluded because of the unwillingness/ migratory nature of the families. Most of the NFAs remained inoperative. Accounts were opened for more than one member per household by banks, deviating from the main objective of the programme of linking all excluded families. Many households received passbooks after a lapse of six months.

### Gandhinagar district, Gujarat

While 69.9% respondents had bank accounts, only 33.3% were actually utilizing the same. Banks had been providing guidance (43%), informing about benefits of savings (13%), helping in opening bank accounts (20%) and filling up various forms (12%). Among the 17% people who got loan facilities, 89.1% got loans upto Rs. 50,000. For loans up to Rs. 25000, 44% loanees provided collateral in terms of land (58%), third party guarantee (76%) or houses (19%). Bank branches issued 3100 GCCs to eligible applicants. However, none of the card holders used GCC even once. Recourse to moneylenders was low (7%) for the financially included.

### Twelve districts of Himachal Pradesh

(Chamba, Bilaspur, Hamirpur, Kangra, Kinnaur, Kullu, Lahaul & Spiti, Mandi, Shimla, Sirmaur, Solan and Una)

Overall, 97.83 % of the sample respondents have been financially included with average financial inclusion in the rural areas at 97.58%. Out of 72 blocks, 38 blocks have achieved 99% inclusion. Majority of the respondents are satisfied with different aspects of quality of services in the State in terms of opening and closing timings (62.59%), ease in use of banking services (53.94%) and convenient location of bank branches (56.50%). There are certain pockets where there is scope for improving the quality of delivering banking services. More than three fourth of

the respondents in the State agree that their income, savings, opportunities for livelihood and financial prudence have increased due to awareness and availability of banking services.

#### Gurdaspur and Mansa districts of Punjab

In Gurdaspur district, 95.44% of the respondents have been financially included. In Mansa district, the extent of FI is 98.48%. In the two districts put together, 96.88% of the respondents have been financially included. The inclusion rates are 96.39% for rural blocks and 97.82% for towns. Bank employees (50.67%), Sarpanches (22.09%) and friends (12.46%) of the respondents have played a dominant role in motivating respondents in opening of bank accounts. A majority of the respondents are satisfied with different aspects of quality of services in terms of opening and closing timings of bank branches, ease in use of banking services and convenient location of bank branches.

#### **Main conclusions**

The following main conclusions have emerged from the studies.

- Although the SLBCs have declared several districts as 100% financially included, the actual financial inclusion has not been to that extent.
- Most of the accounts that have been opened as a part of the financial inclusion drive have remained inoperative due to various reasons such as distance from the branch, illiteracy, lack of interest, non-availability of passbooks, etc.

# **EVALUATION OF 100 PER CENT FINANCIAL INCLUSION IN GANDHINAGAR DISTRICT OF GUJARAT**

**REPORT SUBMITTED BY:  
MAHATMA GANDHI LABOUR INSTITUTE,  
AHMEDABAD**

## **Executive Summary and Findings at a Glance**

The spread of banking facilities has been uneven in the country, throwing up challenges for achieving financial inclusion. Despite widespread expansion of the banking sector, particularly after nationalization of major commercial banks, a substantial proportion of the households, especially in rural areas, viz. marginal farmers, landless labourers, oral lessees, self employed and unorganized sector enterprises, and in the urban areas - slum dwellers, migrants, ethnic minorities and socially excluded groups, senior citizens and women are still outside the coverage of the formal banking system.

One common measure of FI is the percentage of adult population having bank accounts. Going by the available data on the number of savings accounts and even assuming that one person has only one account, on an all India basis only 59 per cent of adult population in the country has bank accounts. In other words 41 percent of the population is un-banked.

In the context of Gujarat, RBI advised Convenors' of SLBCs to select one district for 100% financial inclusion and accordingly, Gujarat SLBC selected Gandhinagar district. However, as per the progress report included in the SLBC agenda, it was observed that banks have opened more than 34,300 no-frill accounts and have issued 3,100 general purpose credit cards" till 31<sup>st</sup> July 2007. The SLBC thus suggested that RBI could engage an independent external agency to undertake an evaluation of the progress made. Accordingly, Mahatma Gandhi Labour Institute was selected as an external agency and entrusted with the assignment of conducting an evaluation study (under a letter RPCD (Ah.) No. 3428/02.16.00/2007-08, dated 31<sup>st</sup> December 2007) of the progress that was made towards 100% financial inclusion in Gandhinagar district.

The guidelines regarding the methodology, sampling method and scope of the study were provided by the Reserve Bank of India. Thus, as per the guidelines, MGLI proposed to take a sample of 30% of the total households from 100 selected villages from all the four blocks, viz. Gandhinagar, Dehgam, Mansa, and Kalol. The study also covered the 30% households from eight semi-urban centres.

These households were selected through the purposive random sampling method considering the indicators such as vocation of the households (i.e., farmers and others), their economic status (i.e., households below poverty line to be covered 100% and other households) and their financial inclusion status (financially excluded or not) to obtain a more representative sample of household as per the objectives of the survey. While deciding about the villages, a sample of the 25 villages was selected from each Block on the basis of the medium ranging households in order to avoid the extremes and also to get a representative frame for the sampling.

A total of 16989, of which 14817 households were from the rural areas from four blocks and 2172 households from the semi-urban centres (as against proposed around 4000 households), were covered under the study. The present Report is submitted on the basis of the findings from the field and discussions with the officials and villagers on the subject.

The scope of the study was to understand:

- i. Whether all those desirous of having banking facilities have been provided with such facilities?
- ii. Whether those who did not want the facility have been provided with the facility?
- iii. Having opened the accounts, whether those who did not want are using it?
- iv. Whether any other facilities are offered such as limited overdrafts, GCC, Insurance, etc.?
- v. The number of new accounts that have been opened after RBI has advised banks to open "no frills" accounts.
- vi. The amount and the number of transactions carried out in the "no frills" accounts so far.
- vii. Among the accounts opened, are they only deposit accounts or both deposit and credit accounts?
- viii. The purpose (consumption or production) the loans were extended and whether they were with or without collateral?
- ix. Among the new accounts opened the percentage of small and marginal farmers, landless labourers.
- x. The percentage of accounts where one time settlement has been offered particularly in the case of NPAs of up to Rs. 25,000 as advised by the Reserve Bank of India?
- xi. Procedural Problems / suggestions from both customers and banks.

Accordingly, the data has been collated to come out with the following findings:

1. Only 69.9% or 70% had any kind of bank account. 12.7% respondents had no experience of any financial dealings with any of the banks. A good percentage of respondents were approached by the Bank under the FI drive for opening the account; however, they were not willing to have one due to several reasons. Hence, as high as 87.3% respondents were covered under FI drive, albeit only 70% could open an account and hence the coverage remains only 70%.
2. People from the BPL families and small land holders have not been covered under the FI.
3. 50.2% stated that they did not have any information from the banks or any local authority about such drive; there are others reasons also forwarded by the remaining respondents (22.3%) such as lack of savings, their perception of non-availability of any benefits from the banks, high deposit rates, so on and so forth.
4. Of the respondents who opened the account, 99.6% stated that they were interested in opening the account.
5. 84.1% respondents were acquainted with the facilities they should be receiving from the Bank. However, their knowledge was limited to the three major facilities namely, loan facility (63.7%), money transaction (40.6%), and any kind of savings scheme (25.3%).
6. The facilities such as pass book, overdraft, GCC, etc. were known to less than 10% respondents.
7. While 84.1% were acquainted with the facilities provided by the bank, only 33.3% could actually utilize it.
8. 47% respondents had no information about obtaining the facilities and 40% did not think it was required to go to banks to obtain information. Some of the (6%) found the entire process tedious.

9. The assistance that was received from the Bank Officials in various dealings with the banks has been providing guidance (43%), informing about the benefits of the savings (13%), helping in opening a bank account (20%), and filling up the various forms (12%).
10. Majority of respondents, who opened the account, did with an amount ranging between Rs. 101–500 (58%) followed by those who opened the new account with Rs. 50 (28%). 11% respondents opened their account with Rs. 51–100.
11. Almost 33% of the respondents have stated that the amount in their account is between Rs. 101–500 followed by 20% with whom the minimum balance ranges between Rs. 501–1000. Almost 26% respondents have reported that the minimum balance in their account is between Rs. 1001–5000.
12. Almost 88% persons transacted with the banks. The remaining 12% could not owing to multifarious reasons such as the procedures were found cumbersome by them (73.4%), it required several visits to the bank and hence hesitant (6.5%), 12.5% had no information about the account they had, etc.
13. 82% respondents have visited banks almost at least once a month (83%). For rest, the frequency of visit has been twice or thrice in a months or more. The purpose of their visit has been to deposit money in the banks (90%), withdraw money (69%) or making entries in the pass books (49%), followed by other reasons such as obtaining loans or depositing cheque; however the percentage of such respondents is limited to less than 10%.
14. As regards respondents utilizing the banking facilities for depositing the money, 56% answered in affirmative. Rest (44%) did not deposit their money with the banks.
15. Almost about 68.6% of those who got loan facilities, they were extended of the loans ranging from Rs. 10000 to Rs. 50000. However, about 20% of the beneficiaries got small loans up to Rs. 20000. The percentage of the respondents who could get loans more than Rs. 50000 were still less in number (4% to 6%).
16. Almost 40% took loans for agricultural purpose and 25% for purchase of milch animals or other activities related to animal husbandry. About 12% wanted to start their own business. A miniscule percentage of people took loan, probably the smaller loans, for personal reasons such as marriage or health reasons.
17. Regarding collateral for seeking loans up to Rs. 25000, 44% of the respondents have provided collaterals in terms of either land (58%) or security of other person (76%) or both. In some cases (19%) houses were also put as collaterals.
18. The percentage of respondents who have sought loan from the money lenders is as low as 7% only. However, 7% itself is a big figure. The amount sought ranges between Rs. 5000 (38%) to Rs. 25000 (22.5%) with interest rates varying between 2 % (50%) to 4-6% (12%).

The Report provides some recommendations and ends with a Conclusion.

There are appendices with the Report providing details of the Research Team, The villages selected and the questionnaire used for collection of the data.



# EVALUATION OF 100 PER CENT FINANCIAL INCLUSION IN SEVEN DISTRICTS OF KARNATAKA

REPORT SUBMITTED BY:  
NABARD CONSULTANCY SERVICES (NABCONS)  
BANGALORE

## Executive Summary

### Background

Despite large scale deepening and widening of formal as also informal credit delivery systems, it is estimated 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. Further, despite the vast network of bank branches, only 27% of total farm households are indebted to formal sources (of which one-third also borrow from informal sources). One of the benchmarks employed to assess the degree of reach of financial services to the population of the country, is the quantum of deposit accounts (current and savings) held as a ratio to the adult population. In the Indian context, taking into account the Census of 2001 (ignoring the incremental growth of population thereafter), the ratio of deposit accounts (data available as on March 31, 2004) to the total adult population was only 59%. Though this ratio in case of Karnataka (65%) is above the national average, the fact remains that 35% of adult population in the state are still not covered by the formal financial institutions.

### Financial Inclusion in Karnataka

In terms of RBI Guidelines, the first phase of financial inclusion programme is being implemented in all the districts in the State. It is reported by Lead Banks that they have completed the process of first phase of 100% financial inclusion in all the 27 (now 29) districts except Bangalore (Urban), by opening “no-frills” accounts. As per the 104th SLBC held on 25 March 2008, the banks have reported having opened 2,703,082 “no-frills accounts” and extended General Credit Card facility to 47,654 persons.

### The study

To ascertain the ground level status of the first phase of financial inclusion, RBI desired to evaluate 100% financial inclusion in 07 districts in Karnataka viz Bagalkot, Chamrajnagar, Davanagere, Gulbarga, Haveri, Kodagu & Koppal by awarding an assignment to NABCONS for conduct of a survey of sample households and bank branches. The study commenced on 16.01.2008.

### Objective of the Study

- To study the main features of the Scheme and examine its performance at the district level.
- To study the nature of implementation of the Scheme by bank branches.
- To identify procedural problems from both customers and banks point of view.
- Assess the socio-economic impact of the financial inclusion on BPL families.

- Based on the field study, identify constraints on policy, planning and operational level in the implementation.
- Suggest appropriate modifications and improvements that can be brought about concurrently in the implementation of the scheme.

### **Scope of the Study**

The scope of the study is to cover seven districts in the State viz., Bagalkot, Chamarajanagar, Davanagere, Gulbarga, Haveri Kodagu and Koppal to find answers to the following questions pertaining to the initiatives taken by banks under 100% financial inclusion:

- Whether all those desirous of having banking facilities have been provided with such facilities?
- Whether those who did not want the facility have been provided with the facility?
- Having opened the accounts, whether those who did not want are using it?
- Whether any other facilities are offered like limited overdrafts, GCC, Insurance, etc.
- How many new accounts banks have opened after RBI has advised banks to open “no frills” account?
- What is the amount and the number of transactions carried out in the “no frills” accounts opened so far?
- Are the accounts opened only deposit accounts or both deposit and credit accounts?
- For what purpose (consumption or production) the loans were extended and whether they were with or without collateral?
- Among the new accounts opened, what is the percentage of accounts belonging to small and marginal farmers, landless labourers, etc ?
- What is the percentage of accounts where one time settlement has been offered particularly in the case of NPAs upto Rs.25,000 as advised by the Reserve Bank ?
- Procedural problems / suggestions from both customers and banks.

### **Methodology of the Study**

- The sample for the study has been drawn from the list of households that have opened ‘no frills account’ after the commencement of the financial inclusion programme.
- Sample size prescribed for the study is to cover 10% of the villages in the district and 30% of the households in these villages for whom NFAs had been opened. To assess whether those desirous of having banking facilities have been provided with such facilities, sample households, which were not covered under No Frill accounts were also surveyed.
- The sample villages and households for the study have been selected by a two stage random sampling technique.
- As a first step, the sample villages in the district have been distributed among all the blocks in the district according to the proportion of villages in the respective block. Similarly, the number of sample households with “no frills account” has been distributed among the blocks in proportion to the number of ‘No frills’ account households.

For the purpose of offering 'No Frills Accounts' to households, the banks relied on the households appearing in the Sarva Kutumba Sameekshe (All family survey) held by the district administration and the same was also used for the purpose of sample survey.

### Evaluation of 100% Financial Inclusion

Based on the above methodology, the sample size covering all the seven districts under study consisted of households as indicated in the table below -

District	No. of service area villages	No. of sample villages	No. of HHs	No. of No-Frills Accounts	No. of HHs not covered by NFAs	Sample No. of No-Frills Accounts	Sample HHs not covered under NFA	Total Sample
<b>Bagalkot</b>	976	58	329086	112186	15566	4073	1636	5709
<b>Chamrajanagar</b>	790	60	176190	60282	8145	3531	2086	5617
<b>Davangere</b>	904	71	246723	66476	7535	6432	911	7343
<b>Gulbarga</b>	1602	160	398538	225486	0	12268	0	12268
<b>Haveri</b>	850	86	244463	98231	962	6527	112	6639
<b>Kodagu</b>	295	46	95822	23407	0	2973	0	2973
<b>Koppal</b>	633	59	198334	60684	6843	4732	960	5692
<b>Total</b>	<b>6050</b>	<b>540</b>	<b>1689156</b>	<b>646752</b>	<b>39051</b>	<b>40536</b>	<b>5705</b>	<b>46241</b>

Out of the list made available to NABCONS, a sample of 46,241 HHs have been covered under the study. Services of NGOs who were not earlier involved in opening of 'no-frills' accounts were available by NABCONS for carrying out the sample survey.

### Major Findings of the Study

Based on the questionnaires as also the interaction the NABCONS Officials had with various beneficiaries in the field, various positive as well as negative features have been observed. Almost all the banks have participated in the Financial Inclusion programme actively, despite staff constraints in some cases. Innovative methods were adopted by some banks to reach to people, in opening of accounts, maintenance of data, etc. The performance of RRBs has been significant as compared to the Commercial Banks including private banks. Participation of Cooperatives was limited to a few districts. Some of the positives, which have been observed during the study, are as follows –

- i. Success of the Financial Inclusion Scheme - All stakeholders in the districts felt that the phase I of the 100% financial inclusion programme in the district was a success. Broadly, every household that desired to open the "No-Frills" Account has been covered under the FIP. Majority of the NFAs surveyed were opened after the RBI directive to the banks. Keeping in view the objective of the programme, a distinct bias could be observed towards rural area in general and the underprivileged population - agri labourers, MF/SF in the implementation of the programme, in particular.

- ii. Initiatives taken to achieve the success of the scheme - Banks have taken extra efforts to increase the coverage under the scheme. In the districts where there were no NGOs, most of the banks involved SHG members, teachers/postmen(both retired and in-service) and a few members of Farmers' Clubs for the household survey and opening of No-Frills Accounts. The SHG's involvement with their wide network helped to a great extent the smooth implementation of the programme.
- iii. Coverage of the households - Of all the accounts opened among the surveyed households, almost all were opened only because the NGO/Bank's agent approached them. Only in a few instances had people voluntarily approached the bank for opening the account.
- iv. Overcoming the impediments - The banks have been able to achieve the targets set under the programme inspite of several operational problems in implementing the FIP, foremost among them being inadequate staff and consequent work pressure. Some of the branch managers interviewed reported that they utilized Non-Banking working hours for reaching out to the people.
- v. Effective Usage of Local Language - The RRBs/ Cooperatives have made extensive use of pamphlets / leaflets in local language for effective communication. Though, language is not a major issue, it still is a barrier between banks and the BPL households.

In addition to the above, the negatives aspects, which have been observed during the study, are as follows -

- i. Use of No-Frill Accounts - Most of the NFAs opened have remained inoperative except for the initial deposit as the target population did not have enough surplus to save. Only an insignificant number of households surveyed were provided with GCCs.
- ii. Still a long way to go - While the performance of the Phase I of the Scheme can be considered as success, there have been several pockets in the villages that have remained excluded under FIP, purportedly because of the unwillingness/ migratory nature of the families. However, interviews with some members of the uncovered families revealed that they were not approached either by banks or the agencies/persons, to whom the banks had outsourced the task of opening "No Frills" Accounts. Some families not figuring in Sarva Kutumba Sameeksha have also been found to be left out.
- iii. Target Oriented Approach - The target oriented approach for the implementation of the financial inclusion programme has prompted the participating banks to open a/cs of more than one member in a household deviating from the main objective of the programme of linking all the excluded families by opening bank accounts so as to begin the link with the bank and avail banking plus facilities like GCCs, insurance etc.
- iv. Delay in issue of passbooks - Though most of the accounts were opened in January/February 2007, many households received the passbooks after a lapse of about six months. Some have still not received their passbooks and hence have not been able to operate their accounts.

- v. **Lack of Role Clarity** - The whole process of the FI has not been clearly understood by the stakeholders of the programme viz., bankers, NGOs and customers. Some of the households surveyed were not aware of having bank accounts even though they are having accounts with bank. The roles and responsibility of both the bankers as well as the NGOs were not clear as it was observed that bankers were not sure regarding their responsibility in this programme and also they were not in a position to provide proper guidance and knowledge about programme to the NGOs. Hence, NGOs have also not passed on the required information to the beneficiaries about programme. In many cases it has been observed that the Bank Managers have not taken programme as their responsibility nor have they owned it up.
- vi. **Moneylenders still inevitable** - The poor still find it easier to avail loan from the moneylender, albeit at a higher interest rate, because of procedural hassles, delayed credit (and the consequent costs) and insistence of collaterals, etc. faced while availing credit from institutional providers, although the rate of interest charged by the moneylenders was in the range of 30-33% p.a.
- vii. **Lack of attachment towards programme** - Because of the lack of understanding of the utility and business opportunity, the aversion towards the programme is so strong in some banks (specially commercial banks) that even during this evaluation study the personnel of the agencies, who were contracted to undertake the survey were not entertained by the bankers.

### **Summary & Recommendations of the Study**

Financial Inclusion Plan is the single largest programme in the history of banking, for directly covering the households below the poverty line with at least the minimum banking services. Many households are happy about the banks approaching them at their doorstep for offering the savings services. The community participation in the FIP was unprecedented. The Banks felt that the branches can easily cover the assessed gap of coverage of households at 30% in a span of one year and went ahead to cover all the households requiring “No-Frills” Accounts, rather than covering in phases. However, when it came to servicing the accounts, they started experiencing staff constraints. They now feel that they should have gone ahead opening the accounts in a phased manner. The existing strength of the branches has remained constant with no immediate plans for strengthening the branches.

In view of the above background, the following recommendations are suggested for more effective implementation of the programme –

- **Internalization of the programme by banks / stakeholders** - The detailed internalization of the programme by various stakeholders was lacking which has resulted in ambiguity in not only undertaking the process of opening of accounts but also successful implementation of the programme. This has also resulted in lack of proper implementation of the programme. Though banks took the initiative to open “No Frills” Accounts at the doorstep of the households, thereafter there has been no further contact even for distribution of passbooks. While the banks expected the account holders to visit branches to collect the passbooks, the households expected the banks to supply the passbooks at their doorstep just as other formalities were attended to. Further, to remove any kind of ambiguity, the policy instructions from RBI to banks and banks to branches can be more explicit rather than suggestive,

keeping in view the details of various phases of Financial Inclusion Plan.

- **Involvement of the State Govt.** - Under FIP Phase I, State Government does not have any direct role. Since rural development is a state subject, a detailed job role including its responsibilities with other stakeholders can be considered. The extension services of the ZP should take care of Financial Education and support and encourage BPL households to participate in the FIP.
- **Emphasis on Financial Education** - Financial education should be an integral part of FIP. Various media should be utilized for wide publicity of FIP. The branches should display posters giving the salient features of the product and the clientele it is meant for Zilla Panchayat, Taluk Panchayat and Village Panchayat should extensively participate in giving publicity to the FIP. Publicity on television and newspapers should form part of financial education. Extension services of the Zilla Parishad should include propagation of FIP among the unreached BPL households. Interest should be generated among the unreached BPL households about the "No Frills" Accounts in such a way that they should voluntarily approach banks for the product. Further, as capacity building is a crucial missing link, even on a limited scale, the capacity building needs should be taken care of by sensitizing bankers in the DLRC/BLBCs. Similarly, Taluk Panchayats and Village Panchayats should be sensitised to FIP. Identification of intermediaries and their sensitization should form part of capacity building under FIP. Capacity building programmes should be formulated to create awareness among all the stakeholders. The nodal agency of FIP should develop contents of various training programmes at different levels.
- **Supervision at various levels** - It was observed that due to lack of proper supervision and follow-up at various levels the effectiveness and success of the programme has been directly affected. The instructions from the controlling offices to the branches were given without a proper follow-up to assess the progress and performance of the branches. Further, the branches in turn after assigning the responsibility of the opening the "No Frills" accounts to the respective NGOs have not followed-up to check their progress and the mode of operation. A proper schedule to assess the progress of the programme at various levels would have not only given the desired results but also reduced any kind of wrong practices being undertaken by the NGOs.
- **Introduction of Various Social Security Services** - The exposure of various social security services like Health insurance viz. Aam Admi Bima Yojana, Yashvini Health Insurance scheme, Suvarana suraksha scheme, etc. requiring the beneficiary to contribute to the premium amount can be considered. If such a premium is collected and routed compulsorily through 'No Frill' Accounts it will enlarge the coverage of disadvantaged sections to banking apart from reducing the cost of collection of premium. This may enable the banks in providing credit facilities to account holders. Availability of such a social security cover for account holder makes the financing of such persons less risky.

# **EVALUATION OF 100 PER CENT FINANCIAL INCLUSION IN GANJAM DISTRICT OF ORISSA**

**REPORT SUBMITTED BY:  
NATIONAL INSTITUTE OF RURAL DEVELOPMENT  
HYDERABAD**

## **Executive Summary**

It has to be understood that problem of financial inclusion are not only matter of obligations. Financial inclusion creates sustainable business opportunities for the financial system. For example, as more and more people join the mainstream and create more economic activity, more savings are generated, more employment is created through more productive investments and markets for goods and services expand, thereby creating virtuous cycle of growth. Thus, financial inclusion should be treated as an opportunity and not a social obligation.

In a broader view, by increasing the economic opportunities of the poor and low income people, the economic development and growth expand, become deeper and more inclusive. Policy of shared and sustained economic growth helps support political stability and social progress. In the other side, most of all-inclusive development of financial sector will increase incomes, build financial assets and empower and enrich the lives of millions of household currently excluded from economic activities.

Financial literacy, creation of awareness, building of trust and understanding, removal of barriers and socio-economic distances are important components towards successful financial inclusive strategies. Without creation of an inclusive society, financial inclusion on its own cannot sustain its existence. It is essential, therefore, that policy makers instead of taking a partisan view, take a systemic view and treat 'financial inclusion' as an integral part towards achievement of total inclusive social and economic development.

In this perspective, an evaluation study has been carried out in 300 sample villages and 10 Notified Area Councils (NACs) in the District of Ganjam in Orissa to ascertain the percentage of BPL population covered under financial inclusion. About one-third of the bank branches, mostly operating in the rural areas were covered under the study in measuring their performance in opening 'no-frills' accounts of this unprivileged group of people. The important finding are briefly cited in this executive summary to quickly form an opinion of the extent of financial inclusion observed in the district of Ganjam, located in the southern part of Orissa.

A brief summary of the collated items is given below which reflects the present scenario of the progress made towards financial inclusion in the district of Ganjam.

- **The percentage of BPL population covered by bank accounts:**

The sample data reveals that 23.01% of BPL population is covered by bank accounts in the district. In simple terms, one-fourths of BPL population is covered by bank services and more than three-fourth of BPL population is yet to avail services or out of the purview of banking facilities.

- **The average number of transactions of BPL population per account:**

If we observe the average number of transactions, it is around five per each no-frill account. Because, most accounts are still dormant as regular payments to the workers are not routed through these accounts. Instances where payments are released through these accounts, these category of customers often draw their credit balance in full without maintaining any balance for subsequent withdrawals.

- **The percentage of accounts with no transactions:**

There are no transactions in 86% of the 'no-frills' accounts opened since the facility of financial inclusion initiated. Due to perpetual poverty of this BPL category of people as well as the tendency to spend whatever earned for daily requirement, hardly any surplus left for carrying out future transactions. Hence, accounts having transactions constitute only 14% of the total no-frills accounts.

- **Percentage of BPL population that has availed both loan & deposit facility:**

The collated data table reflects that only 0.5% of the account holders enjoy both the facility, because all the depositors are not necessarily borrowers of the banks. Further, these loans facilities were extended given under different schemes / general crop loans and not as a corresponding benefit / facility linked only to the no-frills account holders. The no-frills account holders mostly enjoy only deposit facility.

- **The percentage of BPL population that has availed only deposit facility:**

The survey reveals that only 23.01% of the sample BPL population has been financially included. Though this sample constitutes the miniscule of the universal figures, 100% of them have availed only the deposit facility as loans under no-frills account are yet to be extended by the banks in this district. Some of these BPL people are benefited under self-help groups but as no-frills account holders, they are yet to receive credit facilities.

- **The average amount of loan availed by BPL population for each account:**

None of the 66 sample branches has extended any credit facility to a BPL cardholder as because he is also operating a no-frill account. Thus, no Overdraft, Kisan Credit Card (KCC), or General Credit Card (GCC) facilities are extended to the no-frills account holders. However, the data reveals that 20% of BPL people have availed credit facilities as SHG member or availed general crop loans from the banks.



- **The average amount of loan availed for each account without collateral:**

The data reveals that around 0.1% of these no-frills account holders have availed loans without collateral. Closer scrutiny reveals that the loans were sanctioned not because the borrower is a no-frill account holder but in their personal capacity. Moreover, this 0.1% of sample respondents availing loan without collateral is not considered significant; and it may be concluded that loans were extended on deposit of land records as collateral.

During the survey, most branch managers conveyed that shortly their controlling offices are finalizing the guidelines to issue General purpose Credit Cards to no-frills account holders. However, widespread distribution of General Purpose Credit cards would be possible only on adherence of some basic-terms and conditions by the no-frills account holders. Moreover, the banks have to initiate some mechanisms by which NPAs under this segment remain under control before releasing this facility to a wider segment of underprivileged people.

## **EVALUATION OF 100 PER CENT FINANCIAL INCLUSION IN HIMACHAL PRADESH AND TWO DISTRICTS OF PUNJAB**

**REPORT SUBMITTED BY:  
UNIVERSITY BUSINESS SCHOOL  
PANJAB UNIVERSITY, CHANDIGARH**

### **Executive Summary**

- There has been a lot of emphasis during recent past to expand financial services to all sections of the society in India. Reserve Bank has taken numerous steps to attract the financially excluded population into the structured financial system.
- University Business School, Panjab University, Chandigarh was entrusted with the assignment of carrying out a survey so as to verify whether full Financial Inclusion has been achieved in the state of Himachal Pradesh and also in two districts (Gurdaspur and Mansa) of Punjab. Information for the same was collected from the respondents spread over 72 rural blocks and 10 towns in the state of Himachal Pradesh, and 21 blocks and three towns in two districts of Punjab, i.e., Gurdaspur and Mansa.

### **FINANCIAL INCLUSION IN HIMACHAL PRADESH**

- Progress in financial inclusion in the State of Himachal Pradesh has been incredible. 97.83% of the sample respondents have been financially included.
- In rural areas the average financial inclusion rate is 97.58%.
- In 38 out of 72 blocks, financial inclusion rate is 99% and in few cases even 100%.
- All the four social categories of households - general, SC, ST and OBC have an inclusion rate of more than 97%.
- People below poverty line, though form a very small proportion (9.45%) of the total number of respondents, have a low level (95.4%) of inclusion as against over all rate of 97.83 for the state
- Almost 2/3 of the total number of households have agriculture or service as main occupation. The highest inclusion rate (98.9) has been shown by the service category followed by agriculture category (97.7)

- Friends of the respondents, bank employees, and Sarpanches have played a major role in motivating respondents in opening of bank accounts in the State.
- The extent of awareness of the respondents about the banking services is an area where scope for improvement is quite high. Also, the extent of awareness about banking services in the state differs in a significant manner amongst the respondents of different districts / cities.
- Similar observations can be made about the extent of use of banking services as was the case with awareness. Scope for improvement in this regard is also quite high.
- Majority of the respondents are satisfied with different aspects of quality of services in the state in terms of opening and closing timings, ease in use of banking services and convenient location of bank branches. However, the study has identified certain pockets where there is scope for improving the quality of delivery of banking services.
- More than three fourth of the respondents in the State agree that their income, savings, opportunities for livelihood and financial prudence have increased due to awareness and availability of banking services. Only one fourth of the total respondents have reported increase in their consumption, which implies that major chunk of additional income goes to other avenues like savings and investment than consumption.

### **FINANCIAL INCLUSION IN PUNJAB**

- Progress in financial inclusion in the two districts of Punjab under study has been encouraging. 96.88% of the sample respondents have been financially included in two districts of Punjab. In these districts, inclusion rates are 96.39 for rural blocks and 97.82 for towns. In fact, 98% financial inclusion has been recorded in 10 blocks out of 21. The study has found that 95.44% and 98.48 % of the blocks of Gurdaspur and Mansa districts respectively have been financially included. In the cities under study, the extent of financial inclusion is 96.78% (Gurdaspur), 96.69% (Pathankot) and 99.89% (Mansa). A little more effort can make it 100 percent.
- As in case of Himachal Pradesh, banks, Sarpanches and friends of the respondents have played a dominant role in motivating respondents in opening of bank accounts in the State.
- The extent of awareness of the respondents about the banking services needs to be given more attention to improve financial inclusiveness. The planners should focus on the identified pockets and give special attention to make the people aware about banking services/products so that they are prompted to use these services. Majority of the respondents are satisfied with different aspects of quality of service in terms of opening and closing timings of banks, ease in use of banking services, convenient location of bank branches in two districts and three cities under study.
- More than three fourth of the respondents in two districts and three cities under study agree that their income, savings, opportunities for livelihood and financial prudence have increased due to awareness and use of banking services. Only one fourth of the total respondents have reported increase in their consumption which implies that additional income goes to other avenues like savings and investment than consumption.

### **SUGGESTIONS:**

- A large number of households, particularly in the rural areas have been counted as Financially Included because they have a Deposit account. Real Financial Inclusion need to be measured not just by the number of deposit account holders but also by the extent of awareness about the various banking services/products as well as their effective use by them. Making supply side of Financial Inclusion strong by motivating households to have a saving account is a good move but it

has to be supported by concerted efforts by different agencies to promote the frequent use of banking services. It is heartening to note that RBI and the State Government have made special efforts in the State to facilitate more economic activities so that the households have steady and substantial income so as to afford a frequent use of banking services.

- Customer education, appropriate training and then tailoring financial products keeping in view potential borrowers' capacities will help. Banks can view the possibility of allowing smaller limits of overdrafts facility in no-frills accounts also.

## **EVALUATION OF 100 PER CENT FINANCIAL INCLUSION IN SRIKAKULAM DISTRICT OF ANDHRAPRADESH**

**REPORT SUBMITTED BY:  
NATIONAL INSTITUTE OF RURAL DEVELOPMENT  
HYDERABAD**

### **Executive Summary**

The Annual Policy Statement of the Reserve Bank of India recognizes the concerns with regard to the banking practices that tend to exclude more than attract vast sections of population. It urged banks to review their existing practices to align them with the objectives of financial inclusion. In many banks, the requirement of minimum balance and charges levied, although accompanied by a number of free facilities, deter a sizeable section of population from opening and maintaining bank accounts.

In this connection, with a view to achieve the objective of greater financial inclusion, all banks are advised to make available a basic banking facility called "no-frills' account either with zero balance or very low balance with minimum service charges that would make such accounts accessible to vast sections of population. The nature and number of transactions in such accounts could be restricted, but should be conveyed to the customers well in advance in a transparent manner. The banks are advised to give wide publicity to the facility of such 'no-frills' accounts and advised to use local media for the benefits of the targeted groups.

Banks were also advised to provide a simplified general-purpose credit card facility without insistence on any collateral. The card should provide with a revolving limit up to Rs.25000/- based on cash flow of the household to enable to avail hassle-free access to credit requirements. To hasten the process in a stipulated time frame, banks were also advised to frame state-specific approach under the guidance of State Level Bankers Committee (SLBC).

The district of Srikakulam in Andhra Pradesh has claimed that it has completed 100% financial inclusion in its SLBC meeting. To verify the actual ground situation, the Reserve bank of India felt it necessary to conduct this study for the larger interest of the common people. The study report may help to complete the gigantic task of opening thousands of no-frills accounts and providing micro-credit to the poor, if found incomplete in some parts of the district. The sample constitutes 187 villages along with coverage of 50% commercial bank branches operating in the district.

Based on the following objectives, as stipulated by the Reserve Bank of India, the study has been carried out with an aim to evaluate the present progress made towards financial inclusion of BPL population in the district and to motivate the bankers to complete the unfinished agenda.

The major objectives of the study are to evaluate the progress made in the districts in connection with achievements in financial inclusion as well as to draw lessons for further action in this regard.

The second important objective is to determine whether universal access to financial services in case of the deposits and providing credit facilities has been achieved in the evaluated district.

A brief summary of the collated items is given below which reflects the present scenario of the progress made towards financial inclusion in the district of Srikakulam.

- **The percentage of BPL population covered by bank accounts:**

The study reveals that 24.7% of BPL population is covered by bank accounts in the district. In other words, one-fourths of BPL population is covered by bank accounts and three-fourths of BPL population is still out of the purview of banking facilities.

- **The average number of transactions of BPL population per account:**

The average number of transactions is around three per each no-frill account. Most of the accounts are dormant because most of the payments to the workers are not routed through the accounts and these people draw their credit balance in full without maintaining any balance for subsequent withdrawals.

- **The percentage of accounts with no transactions:**

In an average, there are no transactions in 97% of the 'no-frills' accounts opened since the campaign for financial inclusion started. Though the basic cause is poverty of these people and any money earned is spend for daily requirement. So accounts having transactions constitute only 3% of the total accounts.

- **The percentage of BPL population that has availed both loan and deposit facility:**

Though the data reflects 0.5% of the account holders enjoy both the facility, however, these loans were given under different schemes / general crop loans and not as a corresponding facility linked only to the no-frills account holders.

Hence, all the account holders of no-frills accounts only enjoy deposit facility.

- **The percentage of BPL population that has availed only deposit facility:**

As already stated, only 24.7% of the sample BPL population has no-frills accounts in their name. If we presume this group as the miniscule universal sample, 100% of them avail only the deposit facility as loans under no-frills account are yet to be extended by the banks. Some of these people are benefited under self-help groups but no-frills account holders are still availing the deposit facility only.

- **The average amount of loan availed by BPL population for each account:**

We have not come across any sample branch where loans have been extended to a BPL cardholder as because he is also operating a no-frill account. Thus, no overdraft, Kisan Credit Card (KCC), or General Credit Card (GCC) facilities are extended to the no-frills account holders till now in the district. Some banks authorities have assured that they are planning to issue GCC in the near future.

- **The average amount of loan availed for each account without collateral:**

Around one percent of these no-frills account holders have availed loans without collateral. But the loans were sanctioned not as a no-frill account holder but in their personal capacity. As such this one percent people availing loan without collateral is not considered, hence no loans were extended to these category of people.

Further, most branch managers conveyed that their controlling offices are in the process of finalizing to issue General purpose Credit Cards to these type of customers shortly. However, the bankers conveyed that initially they would observe the customers' adherence of terms and conditions of repayment associated with the cards liberally, which would help in issue of these cards in a big way. Subsequently they will monitor strictly to see that banks' NPAs should not increase because of their involvement in financial inclusion. Till credit facilities are extended to the BPL families, opening of 'no-frills' deposit accounts to achieve 100% financial inclusion will not solve the purpose of making these people self-sustainable.

## **EVALUATION OF 100 PER CENT FINANCIAL INCLUSION IN RAJSAMAND DISTRICT OF RAJASTHAN**

**REPORT SUBMITTED BY:  
INSTITUTE OF DEVELOPMENT STUDIES  
JAIPUR**

### **Conclusions of the study**

The major findings of the study are:

- In rural Rajsamand, 92 per cent of the households have been financially included by opening their bank accounts.
- In towns, 98 per cent households have been financially included by opening bank accounts.
- However, only 46.8 per cent are able to undertake any type of transaction in rural areas compared to 86.9 per cent in towns.
- In rural areas, only 57.8 per cent have no frills accounts while in towns 21.4 per cent have no frills accounts.
- In rural areas, only 9.1 per cent are able to avail both deposit and loan facilities, while 8.8 per cent in towns.

This means that households have been included and not the individuals.

There some observations on the way financial inclusion has been undertaken. The banks have conducted financial inclusion of work of Rajsamand district. Given the time at the disposal of the banks, they used services of outsider like teachers, villagers, and NGOs. Banks relied primarily on voters' lists. After evaluation of household survey, the following facts are revealed :

The survey was conducted in August 2007 on the basis of the 2004 voter list.

The discussion reveals that surveyor was untrained about finer points of banking; he simply completed the forms. The filled up forms were duly signed or with thumb impression of the concerned villagers. If the persons was not present in the village at the time of survey, his form was not filled up. So forms were completed of persons who were present in the village. He collected the ration card and voter identity card from door to door and according to voter list serial opened the accounts. In future, all households should be contacted.

After completing opening of bank account process Account Numbers have been allotted and ID voter cards and ration cards returned to the respective villagers. We came across many duly filled forms without signatures or thumb impression, but had account numbers mentioned. This was verified from Banks. ID cards were returned to the respective villagers later. In some cases ration cards were returned after some delay. In some cases local persons also assisted the bankers in opening the accounts. Banks did use newspaper and journalists in letting people know about the scheme. Still many people did not know whether they have a bank account or not, but yes they have paid Rs.5 as charges for photographs and put their signature/thumb impression on some paper.

Majority of the people contacted did not know about the process of opening the account and could not get the passbook. Summary list of new accounts were prepared by the banks. Those who were sensible and literate ones collected their passbooks with zero balance.

Awareness should be built first and linked to a bank by opening of account. Further, opening an account it was done, does not really mean financial inclusion. The process shows that formality of bank account opening was primarily done.

It has been found that once the loanee has repaid the loan, his contact with the bank ceased. For such persons No Frills Account were not opened. Those who have no contact with the bank for the last 2-3 years, they are not availing the financial inclusion of scheme.

Wherever bank employees were directly involved in opening the accounts, the task was done perfectly. Sub-divided families could open their account individually and some persons also got their passbooks. Those who have understood the scheme, they deposited the money in the bank hence better financial inclusion. Where the bank employees are not involved in financial inclusion process, such villagers are not aware about the scheme.

Banking awareness needs to be created for better financial inclusion.

In rural areas, distance of the bank branches is a major hindrance along with people not having enough money to undertake transactions. In such cases opening of a bank account is meaningless.

Not everyone is in need of a loan; so they feel why open an account and have a link with a bank.

The savings are not enough to operate deposit accounts.

Other modes like SHGs should be used to get people used to banking facilities.

There are other pre-conditions like employments that generates income, human capital, access to natural resources, wage employment, education and so on that help in linking people to financial institutions.

Technology can play a major role in facilitating financial inclusion like in the west where people use cards to have access to banking facilities.

There are demand side causes and solutions to financial inclusion.

In a nutshell,

- The process adopted does not show that all those desirous of having banking facilities have been provided with such facilities. Rather, all those who are not even aware of what is being done to their ration cards and a photograph have a bank account.
- Not all who have a bank account is operating it now.
- No case came up with fresh account holders having offered or availed facilities like overdraft, GCC, insurance etc.
- Very few no frill accounts have been opened.
- Transactions are either only marginal or none.
- Only handful has both deposits and loans.
- Majority are small and marginal farmers. Only 9 percent are landless.
- One time settlement issue did not occur even in one case.

**In the end, we can say that what has been achieved is only household financial inclusion, and not every individual's financial inclusion. We are still far away from linking every individual to a banking facility.**

## **EVALUATION OF 100 PER CENT FINANCIAL INCLUSION IN HOOGHLY DISTRICT OF WEST BENGAL**

**REPORT SUBMITTED BY:  
JADAVPUR UNIVERSITY  
KOLKATA**

### **Executive Summary**

As part of the Government of India's policy to make growth inclusive for all sections of society, Reserve Bank of India's Policy Statement of April 2005 prioritised the target of achieving 100 percent Financial Inclusion (FI) in selected districts of States and UTs.

Efforts in this direction have been made for some time in the entire country. In July 2007, the West Bengal State Level Bankers' Committee declared the District of Hooghly in the state as having achieved 100 percent Financial Inclusion. It was then proposed that this claim be evaluated and verified by an independent agency. This work was entrusted to Jadavpur University with Professor Gautam Gupta as the Principal Investigator.

This Final Report on the study was submitted in compliance to terms set by RBI within three months after the commencement of the project. After some discussions and Comments from RBI the report was revised. This revised report delineates, step by step, the progress of the verification work.

The report concludes that contrary to the claim made, the district of Hooghly has not achieved 100 percent Financial Inclusion. Following the definition of financial inclusion as defined by RBI, the report finds that the level of financial inclusion in the district is about 51.23 percent. While this conclusion may appear disheartening, this study recommends a more positive attitude. The level of financial inclusion in the district (though not 100 percent) should be considered high. This presents an opportunity for the Bank to build on the strength. Another attempt should be made, together with the lead bank and other banks, to bring the rate of financial inclusion up to 100 percent.

To this end the report provides detailed analysis of where this additional effort should be made in terms of block and town, caste, religion, poverty status, literacy and occupation. This taxonomy of the households not financially included should provide a guideline for a new phase of campaign leading to improved inclusion.

The report finds some evidence of households being included but then losing the inclusion through non-use. This needs to be rectified. This report also finds a significant role of the cooperative bank in achieving further inclusion. This role should be further strengthened.