



राष्ट्रीय कृषि और ग्रामीण विकास बैंक

National Bank for Agriculture and Rural Development

नाबाई www.nabard.org

सूक्ष्म ऋण नवप्रवर्तन विभाग

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Budget 2007- 08 - Financial Inclusion - Guidelines for Financial Inclusion Promotion Fund and Financial Inclusion Technology Fund

As you are aware, the GoI had decided to create two funds, based on the recommendations of interim report of The Committee on Financial Inclusion to constitute Financial Inclusion Fund with a view to ensuring access to timely and adequate credit and financial services by vulnerable groups at an affordable cost. Accordingly, in the Union Budget for 2007-08, two Funds, viz., Financial Inclusion Fund (**FIF**) and Financial Inclusion Technology Fund (**FITF**) were proposed to be established with NABARD. The FIF is meant for meeting the cost of developmental and promotional interventions whereas FITF is meant to meet the costs of technology adoption. Each fund will have an overall corpus of Rs.500 crore, with initial funding to be contributed by the Central Government, RBI and NABARD.

2. The Government of India approved guidelines for administering both the funds are set out at Annexure - I. In this connection, we draw your kind attention to the Hon'ble Union Finance Minister's Budget speech for 2008-09 wherein it was indicated that Commercial Banks and RRBs would add atleast 250 rural household accounts every year at each of their rural and semi urban branches in order to operationalise the recommendations of the Committee on Financial Inclusion headed by Dr. C. Rangarajan. We, therefore, request you to issue necessary instructions to all your branches to ensure atleast 250 new rural household accounts are added every year to the existing number. *This will be one of the guiding principles in finalising the criteria for selection of eligible institutions for support from FIF and FITF.* The Commercial Banks may send their proposals to NABARD Head Office directly.

3. Some strategies for achieving Financial Inclusion utilising Technology Interventions are detailed in Annexure - II. It is clarified that these strategies are illustrative and not exhaustive. Banks are expected to work within the broad parameters of the FIF and FITF guidelines.

(...contd/-)

4. The complete report of the Committee on Financial Inclusion, 2008 (Rangarajan Committee Report) is available on our website www.nabard.org, which could be downloaded for information and use .

5. Please acknowledge receipt.

Yours sincerely

(Umesh Chandra Sarangi)

**Encl. : Annexure - I
Annexure - II**

To

(CMD, PSU Banks)

GUIDELINES FOR FINANCIAL INCLUSION FUND

1. Introduction

1.1 Financial Inclusion may be defined as the process of ensuring access to timely and adequate credit and financial services by vulnerable groups such as weaker sections and low income groups at an affordable cost.

1.2. A sizeable majority of the population, particularly the low income groups, continue to remain excluded from the opportunities and services provided by the financial sector. Accordingly, the “Committee on Financial Inclusion” set up by the Government of India (GoI) under Dr. C. Rangarajan, had, in its Interim Report, recommended the establishment of two Funds, namely the “Financial Inclusion Fund (FIF)” for meeting the cost of developmental and promotional interventions for ensuring financial inclusion, and the “Financial Inclusion Technology Fund (FITF)”, to meet the cost of technology adoption.

1.3. The Hon’ble Union Minister of Finance, in the Union Budget Speech for 2007-08, announced the constitution of the Financial Inclusion Fund (FIF) and the Financial Inclusion Technology Fund (FITF), with an overall corpus of Rs. 500 crore each.

2. Constitution of Fund

2.1. The Fund shall be known as the “**Financial Inclusion Fund**”(hereinafter referred to as “FIF”).

3. Objectives of FIF

3.1. The objectives of the FIF shall be to support “developmental and promotional activities” with a view to securing greater financial inclusion, particularly among weaker sections, low income groups and in backward regions/ hitherto unbanked areas.

4. Corpus and Sources of Funds

The FIF shall consist of an overall corpus of Rs. 500 crore, with initial funding to be contributed by the GoI, Reserve Bank of India (RBI) and National Bank for Agriculture and Rural Development (NABARD) in a ratio of 40:40:20. The funding would be contributed in a phased manner over a maximum period of five years, depending upon utilisation of funds. Depending

on the outflow from the Fund, annual replenishments may be made by GoI, RBI and NABARD and from other stakeholders/institutions as may be decided by the Government.

5. Phasing

The FIF shall be in operation until financial inclusion to the extent of 100% of rural families in all districts is achieved, over a period of five years from the date of commencement of the Fund or for such enhanced period as may be decided by the Government.

6. Eligible Activities/ Purposes

The FIF shall be used for the following activities /purposes:

6.1 Funding support for capacity building inputs to Business Facilitators and Business Correspondents;

6.2 Providing promotional support to institutions, such as, Resource Centres, Farmers' Service Centres and Rural Development and Self Employment Training Institutes to enable them to provide improved technical and financial services (including counseling) aimed at increasing technology adoption, effective management of assets, nurturing entrepreneurial capacity and increasing financial education and literacy;

6.3 Providing funding support for promotion, nurturing and credit linking of Self Help Groups (SHGs);

6.4 Capacity building of personnel of NABARD, banks, Post Offices, State Government Departments, MFIs, NGOs, Local Level Associations, members of SHGs/ Joint Liability Groups, etc.;

6.5 Defraying expenses of approved institutions for undertaking interventions for financial inclusion in Central, Eastern and NER Regions; J&K, Himachal Pradesh and Uttarakhand;

6.6 Funding support for setting up of Rural Credit Bureaus and credit rating of rural customers;

6.7 Supporting initiatives of local level associations/federations;

6.8 Supporting pilot projects for development of innovative products, processes and prototypes for financial inclusion;

6.9 Any other developmental and promotional interventions recommended by the Advisory Body for the FIF.

7. Eligible Institutions

7.1 Financial Institutions, viz., NABARD, Commercial Banks, Regional Rural Banks and Cooperative Banks

7.2 NGOs, MFIs, SHGs, Farmers' Clubs, local level associations, etc.;

7.3 Training and research organisations, academic institutions, universities;

7.4 Service providers like Insurance Companies (providing micro insurance services), Post Offices, Railways, etc.;

7.5 Any other organisation whose objectives are in conformity with the overall objectives of the FIF and are approved by the Advisory Board from time to time.

8. Nature, Quantum and Terms of assistance

The nature, quantum and terms of assistance to eligible institutions/ organisations for various promotional and developmental interventions for promoting financial inclusion shall be decided by the Advisory Board for the FIF.

9. Monitoring System

9.1 The institutions/ organisations shall undertake to monitor the programmes/ projects closely with a view to achieving and realising the objectives and purposes of FIF and keep NABARD informed of the same.

9.2 The institutions/ organisations seeking assistance under the FIF may also submit periodic Progress Reports to NABARD, in the format prescribed for the purpose.

10. Management of the FIF

The programme sanction, implementation, monitoring and administration of the FIF shall vest with NABARD. The interest accrued/ income earned from the FIF shall be ploughed back into the FIF as per the investment policy approved by the Advisory Board. The administering charges incurred in conduct of meetings of the Advisory Board and other expenses (except

salaries/allowances of personnel involved in the sanction, implementation and monitoring of FIF) of NABARD in connection with discharge of its functions related to FIF shall be met out of the FIF on such basis as may be decided by the Advisory Board from time to time.

11. Constitution of Advisory Board

11.1. An Advisory Board to be constituted by the Government of India shall guide and render policy advice on various aspects relating to the FIF. The Advisory Board may determine its own procedures for day to day functioning in respect of FIF, including constitution of committees, sub-committees, task forces, etc., for examination, implementation and monitoring of various issues. The Advisory Board shall meet at such intervals as deemed necessary, but in any case at least once in six months to review the status and progress of outflow from the FIF and to render policy advice.

11.2. The composition of the Advisory Board shall be as follows:

- i. Chairman, NABARD – Chairman;
- ii. Executive Director, Reserve Bank of India – Member;
- iii. Joint Secretary, Ministry of Finance, GoI – Member;
- iv. Joint Secretary, Ministry of Agriculture, GoI – Member;
- v. Joint Secretary, Ministry of Rural Development, GoI – Member;
- vi. Joint Secretary, Ministry of Communications, GoI - Member;
- vii. Representative from NASSCOM – Member;
- viii. Member, IRDA - Member;
- ix. Managing Director, NABARD, Member;
- x. Chief, IDBRT
- xi. Executive Director, NABARD, Member Secretary.

11.3. The non-official members will be eligible for travel, sitting fee and halting allowance, as admissible to the non-official Directors of NABARD on various committees of NABARD.

12. Audit

The annual audit of the FIF shall be done by Government appointed auditors as a part of the overall statutory audit of NABARD's financial operations.

13. **Grievance Redressal Mechanism**

All matters pertaining to grievances relating to the FIF shall be forwarded to NABARD, Head Office, Mumbai for necessary action.

GUIDELINES FOR FINANCIAL INCLUSION TECHNOLOGY FUND

1. Introduction

1.1 Financial Inclusion may be defined as the process of ensuring access to timely and adequate credit and financial services by vulnerable groups such as weaker sections and low income groups at an affordable cost.

1.2. A sizeable majority of the population, particularly the low income groups, continue to remain excluded from the opportunities and services provided by the financial sector. Accordingly, the “Committee on Financial Inclusion” set up by the Government of India (GoI) under Dr. C. Rangarajan, had, in its Interim Report, recommended the establishment of two Funds, namely the “Financial Inclusion Fund (FIF)” for meeting the cost of developmental and promotional interventions for ensuring financial inclusion, and the “Financial Inclusion Technology Fund (FITF)”, to meet the cost of technology adoption.

1.3. The Hon’ble Union Minister of Finance, in the Union Budget Speech for 2007-08, announced the constitution of the Financial Inclusion Fund (FIF) and the Financial Inclusion Technology Fund (FITF), with an overall corpus of Rs. 500 crore each.

2. Constitution of Fund

2.1. The Fund shall be known as the “**Financial Inclusion Technology Fund**”(hereinafter referred to as “FITF”).

3. Objectives of FITF

3.1. The objectives of the FITF shall be to enhance investment in Information Communication Technology (ICT) aimed at promoting financial inclusion, stimulate the transfer of research and technology in financial inclusion, increase the technological absorption capacity of financial service providers/users and encourage an environment of innovation and cooperation among stakeholders.

4. Corpus and Sources of Funds

The FITF shall consist of an overall corpus of Rs. 500 crore, with initial funding to be contributed by the GoI, Reserve Bank of India (RBI) and National Bank for Agriculture and Rural Development (NABARD) in a ratio of 40:40:20. The funding would be contributed in a phased manner over a maximum period of five years, depending upon utilisation of funds. Depending on the outflow from the Fund, annual replenishments may be made by GoI, RBI and NABARD and from other stakeholders/institutions as may be decided by the Government.

5. Phasing

The FITF shall be in operation until financial inclusion to the extent of 100% of rural families in all districts is achieved, over a period of five years from the date of commencement of the Fund or for such enhanced period as may be decided by the Government.

6. Eligible Activities/ Purposes

The FITF shall be used for the following activities /purposes:

- 6.1 Encouraging user friendly technology solutions;
- 6.2 Providing financial support to technological solutions aimed at providing affordable financial services to the disadvantaged sections of the society;
- 6.3 Creating a common technology infrastructure with comprehensive credit information.
- 6.4 Funding support to technologies facilitating the documentation for processing of loans;
- 6.5 Providing viability gap / pilot project funding for unproven but potential technological interventions;
- 6.6 Conduct of studies, consultancies, research, evaluation studies relating to technological interventions for financial inclusion;
- 6.7 Promoting seminars, conferences and other mechanisms for discussions, dissemination relating to financial inclusion technological interventions.
- 6.8 Publication of financial inclusion technology literature, publicity material, etc.;

- 6.9 Capacity building of personnel of banks, Post Offices, State Government Departments, MFIs, NGOs, VAs and other stakeholders; and
- 6.10 Any other activity as may be approved by the Advisory Board.

7. Eligible Institutions

- 7.1 Financial Institutions, viz., NABARD, Commercial Banks, Regional Rural Banks and Cooperative Banks
- 7.2 NGOs, MFIs, SHGs, Farmers' Clubs, local level associations, etc.;
- 7.3 Technology Service providers and other service providers like Insurance Companies (providing micro insurance services), Post Offices, Railways, etc.;
- 7.4 Any other institution/organisation whose objectives are in conformity with the overall objectives of the FITF and are approved by the Advisory Board.

8. Nature, Quantum and Terms of assistance

The nature, quantum and terms of assistance to eligible institutions/ organisations for various promotional and developmental interventions for promoting technological solutions for financial inclusion shall be decided by the Advisory Board for the FITF.

9. Monitoring System

9.1 The institutions/ organisations shall undertake to monitor the programmes/ projects closely with a view to achieving and realising the objectives and purposes of FITF and keep NABARD informed of the same.

9.2 The institutions/ organisations seeking assistance under the FITF may also submit periodic Progress Reports to NABARD, in the format prescribed for the purpose.

10. Management of FITF

The programme sanction, implementation, monitoring and administration of the FITF shall vest with NABARD. The interest accrued/ income earned from the FITF shall be ploughed back into the FITF as per the investment policy approved by the Advisory Board. The administering

charges incurred in conduct of meetings of the Advisory Board and other expenses (except salaries/allowances of personnel involved in the sanction, implementation and monitoring of FITF) of NABARD in connection with discharge of its functions related to FITF shall be met out of the FITF on such basis as may be decided by the Advisory Board from time to time.

11. Constitution of Advisory Board

11.1. An Advisory Board to be constituted by the Government of India shall guide and render policy advice on various aspects relating to the FITF. The Advisory Board may determine its own procedures for day to day functioning in respect of FITF, including constitution of committees, sub-committees, task forces, etc., for examination, implementation and monitoring of various issues. The Advisory Board shall meet at such intervals as deemed necessary, but in any case at least once in six months to review the status and progress of outflow from the FITF and to render policy advice.

11.2. The composition of the Advisory Board shall be as follows:

- i. Chairman, NABARD – Chairman;
- ii. Executive Director, Reserve Bank of India – Member;
- iii. Joint Secretary, Ministry of Finance, GoI – Member;
- iv. Joint Secretary, Ministry of Agriculture, GoI – Member;
- v. Joint Secretary, Ministry of Rural Development, GoI – Member;
- vi. Joint Secretary, Ministry of Communications, GoI - Member;
- vii. Representative from NASSCOM – Member;
- viii. Member, IRDA - Member;
- ix. Managing Director, NABARD, Member;
- x. Chief, IDBRT
- xi. Executive Director, NABARD, Member Secretary.

11.3. The non-official members will be eligible for travel, sitting fee and halting allowance, as admissible to the non-official Directors of NABARD on various committees of NABARD.

12. Audit

The annual audit of the FITF shall be done by Government appointed auditors as a part of the overall statutory audit of NABARD's financial operations.

13. Grievance Redressal Mechanism

All matters pertaining to grievances relating to the FITF shall be forwarded to NABARD, Head Office, Mumbai for necessary action.

Strategy To Extend Financial Service To Vulnerable Groups under FIF

Strategies to be adopted for financial inclusion would cover:

I. Policy measures / prescriptions

II. Making Financial Services simple, hassle-free and affordable

- a) Using group mode for financing - Substitution of collateral requirements by social security and reduction of transaction cost
- b) Simplification of lending procedure-making lending hassle-free
- c) Lending at reasonable rates of interest
- d) Increasing physical outreach

III. Creating conducive climate for lending by

- a) Establishment of Rural Credit Information Bureau for dissemination / sharing of credit information
- b) Ensuring better recovery
- c) Introduction of risk mitigation measures as incentives for lending institutions to lend
- d) Strengthening cooperative institutions
- e) Improving credit absorption capacity of rural population through creation of rural infrastructure
- f) Increasing awareness / financial literacy level

IV. Use of Innovative products

- a) Products to suit the requirements of rural clientele
- b) No frills deposits Accounts
- c) Introduction of micro-insurance products

V. Widening of Rural Non-Farm Sector

VI. Use of Technology for Financial Inclusion

Using technological platform for financial inclusion

VII. Making Financial Services Simple, Hassle-Free And Affordable

- (i) Using Group mode for financing

- (ii) Simplification of lending procedure
- (iii) Lending at a reasonable rate of interest
- (iv) Increasing physical outreach

VIII. Creating Conducive Climate For Lending

- (i) Rural Credit Information Bureau (CIB)
- (ii) Improving credit absorption capacity
- (iii) Increasing awareness / financial literacy level

IX. Use of Innovative Products

- (i) Use of innovative products to suit the needs of rural clientele
- (ii) 'No Frills' deposits account

Technology Intervention for Financial Inclusion (FITF)

1.1 One of the fundamental aims of Financial Inclusion is to increase the outreach of the formal banking system so as to reach the unreached and bank on the unbanked. The objectives of financial inclusion are as follows :

- i. to mop up micro deposits
- ii. to provide affordable credit
- iii. to provide micro insurance covering not only life and death but also crops, assets and accidents.
- iv. to provide safe money transfers
- v. to provide financial advise and counseling
- vi. to provide add-on services like agriculture-portal, etc.

1.2 Though Commercial Banks, RRBs and Cooperatives have made inroads into the rural sector of our country on account of their expansion in over the years, there is still a vast segment of the rural population, which are yet to have access to banking facilities. There may be many reasons as to why there is still a large portion of our part of population without access to formal banking services. These may be on account of geographical constraints, individual needs, issues relating to the banks, etc. With the advancements in technology especially in data processing and communication, we have reached a level where some of these issues could be economically addressed. Accordingly, a goal for providing access to financial services to **50 per cent (56 million)** of the excluded rural cultivator and non-cultivator households across different States by the **year 2012** and **cent per cent coverage (111.55 million)** by the year **2017**, has been stipulated.

1.3 The interface between banking and Information Communication Technology (ICT) has resulted in the following :

- i. Financial service providers have access to technologies which help them to reach new customers, track their operations to increase transparency, thereby improving the efficiency of financial services for the new customers.
- ii. It has ensured the need for a paradigm shift in banking business fundamentals so as to enable them to implement new delivery channels of financial services.
- iii. Due to availability of a variety of technologies, it is essential to select the right technology so as to get the most out of the investments made in such technologies.

1.4 Till the recent past, the conventional brick and mortar banking systems adopted information technology to enable providing better services and products to their existing clientele. But with the symbiotic amalgamation of Information Technology and Communication Technology, the conventional banking system is now equipped with a wide range of force multipliers. These force multipliers are in the form of **mobile banking, conventional cards, smart cards, common service centres, low cost ATMs, hand held devices**, etc. Even in this explosion of technology, many a times, there still exists the problem of the '**Last Mile**'. Fortunately, there are alternatives which help to overcome the Last Mile problem.
