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Inclusive Finance
India Report 2014

Tara Nair
Ajay Tankha

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Nair | Tankha

Inclusive Finance India Report 2014

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Inclusive Finance India Report 2014 presents in-depth research and analysis on financial inclusion with evidence on the decisive shift in the positioning of microfinance within the financial system of India. Following up on *Microfinance State of the Sector Report 2013* by the authors, this year's report focuses on recent developments in inclusive financing and efforts by governments and banks in extending financial services to the unbanked and underbanked regions and populations. The report tracks the progress of financial inclusion initiatives across institutional structures and delivery models, including the main microfinance channels. It contributes to an understanding of the complexities of the financial inclusion process, reviews policy development on inclusive finance, and highlights key challenges and opportunities for diverse stakeholders.

A comprehensive reference on annual trends and progress of financial inclusion and the microfinance sector, the report synthesizes data and inputs from the Reserve Bank of India, NABARD, Ministry of Finance, banks, apex financial institutions, technology services providers, sector experts, and resource agencies. It serves to provide a perspective on the practice of financial inclusion in India as well as informing the policy formulation process.

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ABBREVIATIONS

AEPS	Aadhar Enabled Payment System
APBS	Aadhar Payment Bridge System
ATM	Automated Teller Machine
B & DC	Business and Development Correspondent
BBA	Basic Banking Account
BC	Business Correspondent
BCA	Business Correspondent Agent
BCNM	Business Correspondent Network Managers
BIMARU	Bihar, Madhya Pradesh, Rajasthan and Uttar Pradesh
BP	Branch Penetration
BPL	Below Poverty Line
BSBD	Basic Savings Bank Deposit
BSBDA	Basic Savings Bank Deposit Accounts
CAS	Central Authentication Server
CBA	Commercial Bank of Africa
CBO	Community Based Organisation
CBS	Core Banking System
CCB	Central Cooperative Bank
CEO	Chief Executive Officer
CFI	Committee on Financial Inclusion
CFIA	Centre for Financial Inclusion at Accion
CIBIL	Credit Information Bureau of India Limited
CMD	Chief Managing Director
CMRC	Community Managed Resource Centre
CP	Credit Penetration
CRISIL	Credit Rating Information Services Limited
CSC	Customer Service Centre
CSP	Customer Service Point/Common Service Provider
DBT	Direct Benefit Transfer
DCCBs	District Central Cooperative Banks
DeitY	Department of Electronics and Information Technology

DoT	Department of Telecom
DP	Deposit Penetration
DP & RD	Development of Panchayat and Rural Development
EBT	Electronic Benefit Transfer
EMI	Equal Monthly Instalment
EPFO	Employee Provident Fund Office
EU	European Union
FAS	Financial Access Survey
FI	Financial Inclusion
FIF	Financial Inclusion Fund
FIP	Financial Inclusion Plan
FITF	Financial Inclusion Technology Fund
FLCC	Financial Literacy and Credit Counselling Country
FLCs	Financial Literacy Centres
FMS	Fund Management System
FY	Financial Year
G2C	Government to Customer
GCC	General Credit Card
GDP	Gross Domestic Product
GFDR	Global Financial Development Report
GPRS	General Pocket Radio Service
GSM	Global System of Mobile Communications
GVT	Gramin Vikas Trust
HFC	Housing Finance Corporation
IBA	Indian Banks' Association
ICT	Information Communication and Technology
IFI	Index of Financial Inclusion
IMF	International Monetory Fund
IMPS	Immediate Payments Service
IRDP	Integrated Rural Development Programme
ISB	Inclusive and Social Banking
IT	Information Technology
IVRS	Interactive Voice Response System
JLG	Joint Liability Group
KCC	Kisan Credit Card
KYC	Know Your Customer
LWE	Left Wing Extremism
MACS	Mutually Aided Cooperative Society
MEDEF	Microfinance Development and Equity Fund
MFI	Microfinance Institution
MFIDR	Micro-Finance Institution Development and Regulation
MFIN	Microfinance Institutions Network
MGNREGA	Mahatma Gandhi National Rural Empolyment Guarantee Act
MIS	Management Information System
MIX	Microfinance Information Exchange
MoHUPA	Ministry of Housing and Urban Poverty Alleviation

MPFD	Madhya Pradesh Forest Department
MPFI	Madhya Pradesh Financial Inclusion model
MPI	Microfinance Penetration Index
MPPI	Microfinance Poverty Penetration Index
MS	Mandal Samakhya
MYRADA	Mysore Resettlement and Development Agency
NABARD	National Bank for Agriculture and Rural Development
NABFINS	NABARD Financial Services Limited
NACH	National Automated Clearing House
NAFSCOB	National Federation of State Cooperative Banks
NBFC	Non-banking Financial Company
NCFE	National Centre for Financial Education
NCGC	National Credit Guarantee Corporation
NEFT	National Electronic Fund Transfer
NeGP	National e-Governance Plan
NFA	No-Frills Account
NGO	Non-Governmental Organization
NIC	National Information Centre
NMMU	National Mission Management Unit
NPCI	National Payments Commission of India
NREGS	National Rural Employment Guarantee Scheme
NRLM	National Rural Livelihood Mission
NSFDC	National Scheduled Castes Finance Development Corporation
NULM	National Urban Livelihood Mission
NUUP	Naional Unified USSD Platform
OD	Overdraft
P2P	Person to Person
PACS	Primary Agricultural Credit Society
PAN	Permanent Account Number
PMJDY	Pradhan Mantri Jan-Dhan Yojana
PoS	Point of Sale
PPP	Public Private Partnership
PSB	Public Sector Banks
PwD	People with Disabilities
RBI	Reserve Bank of India
RD	Recurring Deposit
RFP	Request for Proposals
RRB	Regional Rural Bank
RTI	Right to Information
SBI	State Bank of India
SCA	Service Centre Agencies
SBLP	SHG Bank Linkage Program
SDA	State Designated Agencies
SERP	Society for Elimination of Rural Poverty
SFAC	Small Farmers Agri-business Consortium
SHG	Self Help Group

SLBC	State level Bankers' Committee
SLF	Secondary Level Federations
SLI	Second Level Institution
SPU	Special Projects Unit
SPV	Special Purpose Vehicle
SRLM	State Rural Livelihood Mission
SSA	Sub Service Area
SSSM	Integrated social security mission
STDR	Special Term Deposit
TLF	Tertiary Level Federation
TSP	Technical Service Provider
UBGB	Uttar Bihar Gramin Bank
UID	Unique Identification
UIDAI	Unique Identification Authority of India
USB	Ultra Small Branch
USSD	Unstructured Supplementary Service Data
VLE	Village Level Entrepreneur
VPN	Virtual Private Network
WASME	World Association for Small and Medium Enterprises
XLRI	Xavier Labour Research Institute

Foreword

It did look very serious and ambitious when, in 2011, the UPA government launched the 'Swabhimaan' campaign to bring millions of unbanked people within the fold of formal banking. The entire financial institutional architecture was leveraged, banks were asked to open new ultra small branches in every village with more than 2,000 population, appoint banking correspondents, and open no-frills savings bank accounts. Once this was done, several entitlements through direct benefit transfers were expected to flow into these accounts, and it was expected that a large population of unbanked people would come into the mainstream financial system. Given the size, scale, and scope of the programme, it did become important for ACCESS to expand the ambit of its attention to the larger financial inclusion ecosystem than just look at the two tracks of SHG and MFI lending that were delivering results, albeit slow in outreach. Appropriately, from 2013, both *Microfinance India State of the Sector Report* and the Microfinance India Summit did begin to track the progress of financial inclusion in India. However, from 2014, while the Microfinance India Summit has been restyled as 'Inclusive Finance India Summit', *State of the Sector Report* too is now positioned as *Inclusive Finance India Report*. The next five-year efforts will be to assess and analyse the gains of financial inclusion in India and track true and tangible outcomes.

Given that 2.5 billion people globally are outside the fold of formal banking, in October 2013, the World Bank Group put forward a vision for achieving universal financial access by 2020. More than 50 countries have now made commitments to financial inclusion targets. The Global Financial Inclusion Index (Global Findex) tracks financial inclusion in 148 countries. According to Findex, in India, only 35 per cent adults have bank accounts, and only about 8 per cent get a loan from FFIs. This presents a huge challenge if we were to pursue true financial inclusion. While the UPA government's 'Swabhimaan' campaign at the policy level did reflect resolve and seriousness, with all banks preparing financial inclusion plans and the Reserve Bank periodically reviewing it, the outcome was largely millions of no-frills accounts being opened, but most lying dormant. With change in government, initially it was not sure whether financial inclusion would continue to be a priority. However, fortunately, among the first key policy announcements by the NDA government was to announce its commitment to financial inclusion, of course with a new label—Pradhan Mantri Jan-Dhan Yojana (PMJDY). Under the new scheme, at least two bank accounts will be opened for every household, out of which one should be in the name of a female member. So, over 150 million new accounts will be opened under the campaign by 26 January 2015. As per a recent newspaper report, within the two months since

the scheme was launched, nearly 70 million accounts were opened; however, as in the past, 50 million of these had no transactions. The campaign is ambitious where an overdraft facility of Rs 5,000 will be provided to every account, besides an accident insurance cover of Rs 1,00,000.

While it is too early to write off the new campaign as another good intent gone awry, the government will need to substantially strengthen and integrate the institutional architecture, announce breakthrough policies, learn from efficient private sector experiences, and fully leverage technology solutions. Leaving it to the banking infrastructure alone may not yield results. Digitizing the financial inclusion space and bringing in more players to facilitate ease of transactions should be encouraged. Expanding PMJDY to cooperative banks, which have connected the Core Banking System, is a positive step. The RBI's release of Draft Guidelines for small finance banks and payments banks as a part of introducing differentiated banking in the country is a welcome step. While small finance banks will help in credit outreach, payments banks will help fill gaps in access to formal payments and remittances system. Besides, the experiences and the outreach of SHGs and MFIs also needs to be integrated into the scheme of things. Business Correspondents will need to be made more viable and strong emphasis on financial literacy is required before the new clients recognize the need and significance of banking. Much to be fixed, before we start to see real outcomes.

On the two channels, viz. SBLP and MFIs, without being considered formally as a part of the government's financial inclusion scheme, the landscape seems to be changing. On the MFIs front, perhaps the biggest news is that Bandhan was awarded a commercial bank license; perhaps even bigger than SKS going in for an IPO. The regulator preferred Bandhan to several corporate houses that had applied for a bank license, clearly recognizing their professional prowess in financial management and providing the channel greater legitimacy as a relevant actor in the financial value chain. This also provides a road map for the next level evolution of MFIs. Towards their possible future role in financial inclusion, NBFC-MFIs were also allowed by the regulator to act as bank BCs, a long-standing demand of the MFIs. How the NBFC-MFIs will use this new opportunity is yet to be fully revealed. The announcement by the Reserve Bank on differentiated banking licenses and issuing draft guidelines for small finance banks and payments banks is likely to have far-reaching influence on the future growth of the industry. The Raghuram Rajan Committee of 2009 had first hinted at the idea of creating small finance banks towards advancing financial inclusion, later reiterated by the Nachiket Mor Committee. Recently, the Governor informed that MFIs were most suited to apply for the small finance bank and that the final guidelines would take care of aberrations that might deter them from applying for the small bank licenses. Although this provides a huge opportunity particularly for the large MFIs, several are in a quandary of transforming into banks given the profitable, well-oiled MFI lending methodology. In the meanwhile, the sector has fully recovered with funding to the sector grew by almost 50 per cent, the glp grew by almost 35 per cent and the client base increased by over 20 per cent compared to the previous FY. The scenario is only expected to improve.

On the other hand, the SHG lending has witnessed new challenges. In recent years the 'movement' has witnessed some kind of stagnation and slump. Besides mounting delinquencies, most banks are focusing on meeting their stringent targets under the new government's overwhelming Jan-Dhan Yojana targets. On a CAGR basis, the growth rate has been slowing down over the last four years. With increasing defaults, given the high transaction costs, with shift of focus on PMJDY targets and to meet priority sector lending, there is a seemingly evident greater interest in MFI lending and, as a consequence, the pace of SBLP may further flounder unless quick creative solutions are designed.

With 4.2 million SHGs linked to banks to the extent of Rs 430 billion, it is indeed critical to set it back on track. NABARD has to recoup its leadership role in steering the programme's future growth. At the outset, it needs to strongly lobby for an appropriate important role for SHGs in the financial inclusion scheme of things. NABARD needs to better coordinate with NRLM for better convergence. If bulk of the current NPAs are generated from loans to SGSY groups, matters need to be taken up with the policymakers as wells as with the regulator. I'm aware of many banks lending to SHGs, but make sure that they are not SGSY groups! NABARD has been very conservative in giving a serious look at SHG promotion costs, the implication of which is that SHG promotion is done by small low-capacity NGOs, which typically results in poor quality SHGs, which are highly prone to defaulting. NABARD needs to look at a long-term SHG promotion and nurturing plan and make adequate investments in SHPIs, beyond just the first

linkage. A serious need is to develop a well-respected, well-recognized MIS, which supports in SHG management, providing adequate information and analysis to banks, since unless banks are not assured on quality of SHGs, future lending will be in jeopardy.

Overall, the last one year saw significant action in the financial inclusion space: a tumultuous regime change at the federal level; its new resolve to pursue the financial inclusion agenda under the new PMJDY; bold, ambitious recommendations from the Nachiket Mor Committee, some doable, perhaps some not; a new leadership at the Central Bank and a new frenzied pace at the RBI on introduction of differentiated banking; leadership change at the apex institution NABARD, the impact of which is yet to be seen; a specialized new bank for women; several technology innovations; new pathways for MFIs to evolve into the next stage; introduction of a SRO; significant momentum in flow of liquidity to MFIs, and their coming back on track; the dwindling pace in the SHG lending programme….

Indeed it became difficult for the two authors Tara S. Nair and Ajay Tankha to keep pace with these developments. After bringing together successfully *State of the Sector Report* last year, with some persuasion, I could get the two to author this year's report as well. For several reasons, and given the new context, the report format had to be redesigned, and although it has strands on continuity and change, I do know that it was far more difficult to work around a redesigned format. For bringing it all together, in all its complexity, was indeed an incredible effort, and I thank both Ajay and Tara for the painstaking effort. I also need to thank a whole lot of other stakeholders who significantly helped with the report. NABARD was most gracious in supporting the effort in a variety of ways—providing critical data, facilitating banker consultations; and it couldn't have happened without the support from Harsh, the new Chairman and Satish, heading the Microcredit Innovations Department. Solutions Exchange, as always, was hugely supportive of the effort, posting appropriate queries in the Solutions Exchange, organizing consultations and giving pertinent suggestions. Microsave, MCRIL, GIZ, MFIN, among others, as always, provided high-quality inputs. I would also like to thank Rajiv Lall, Chairman IDFC, Y.C. Nanda, Brij Mohan, Vijay Mahajan, Ramesh Ramanathan for their valuable time and inputs. To bring together the report, it is critical to leverage full sector knowledge and insights.

I also would like to thank my own small team for the excellent support they provided to the process. While the old war horse Radhika Mathur, Executive Director-ACCESS ASSIST, took on the anchor responsibility, we were lucky to get two new champions on board this year—Sarthak and Anshu, who brought in sharp, crisp alacrity in their coordination and support to the authors requirements, quick turnaround time, and demonstrated indefatigable energies. Lalitha, as always, provided efficient logistics support to the authors. This small team takes on big tasks and does them so well; it makes me proud!

This is the eighth edition of the report, released annually at the Summit. With a barrage of activities and initiatives, and a changed format, it was indeed not easy to bring it out. The fact that the report now has a new title will require more thought into the next year's effort for greater alignment. I do wish this report to be positioned as an important reference book on India's tryst with financial inclusion. I do hope this effort brings value to the reader.

Vipin Sharma
CEO
ACCESS Development Services

Preface

Inclusive Finance India Report 2014 has attempted to survey the financial services sector in India through the lens of inclusion. This marks a shift in focus as compared to its eight predecessors—titled as *Microfinance State of the Sector Reports* or SOS Reports—that strictly limited their scope to analysing the growth trends and policy changes in the microfinance sector. The context and the terms of discourse of pro-poor financial services in India has been decisively altered in the past few years consequent upon the accelerated policy attention on financial liberalization and financial inclusion since the mid-2000s, the Andhra Pradesh microfinance crisis in the late 2000s and the subsequent regulatory initiatives by the central bank. The last two editions of the SOS Report did take note of these shifts and discussed their plausible implications for the structure and conduct of the microfinance sector.

The current edition of the report has chosen 'inclusive finance' as its theme in recognition of the fact that the core of India's financial sector policy has come to be constituted by restructuring and reforms that promote financial inclusion. The report seeks to bring together the varying perspectives, policy prescriptions and practices around financial inclusion as they have evolved through recent years. While these are still in a stage of evolution and experimentation, there has not been much sharing and cross-learning among the stakeholders. Sieving through the vastly different experiments and initiatives has not been easy for us and several individuals and institutions extended their unconditional support to help us make sense of them.

We have provided the list at the end of the report of all those who have graciously and generously spared their time to discuss ideas and respond to our queries. However, we would like to specially mention the following individuals and institutions and place on record our deep appreciation:

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- Finally, the representatives of SHPIs and banks for candid exchange of views and experiences on the progress and challenges of financial inclusion as it has been unfolding in the country.

1

Inclusive Finance
Definitions, Perspectives, and Extent

THE CONTEXT

The present report represents both continuity and change. It is a successor to the annual reports of the state of the sector in microfinance spanning the period 2006 to 2013. As the financial inclusion discourse has developed, the *Microfinance India State of the Sector Reports* 2011, 2012, and 2013 have examined and incorporated the global and national trends in financial inclusion as also its emerging architecture in India in terms of products and services and methodology and infrastructure of delivery.[1] This report makes an attempt at tracking and analysing the larger project of financial inclusion in India being designed and implemented by the banking system as also the other diverse stakeholders including technology service providers, field support customer service agencies, self-help groups (SHGs)/community organizations, microfinance institutions (MFIs) and other government programmes.

Financial inclusion appears to have become the principal development concern of our times. This has been particularly evident during the past decade or so, even as the world has stumbled through a financial meltdown, more serious than any since the Great Depression, that has exposed the frailties and inequities of the global financial system. Nevertheless, global attempts to bring about 'an increase in the proportion of individuals and firms that use financial services'[2] continue apace. The term 'financial inclusion' has acquired universal acceptance as both a mere access to financial services as well as deeper processes. Much of the literature and discussion is limited to increasing the extent of availability of banking and financial services to the unbanked rather than its quality or sustainability. While there is a general consensus about the many benefits of expanding the financial markets to facilitate greater reach of credit, savings and payments services to newer and under-banked segments and to widen access to insurance and pensions, there are also concerns about the plausible ill-effects like over-indebtedness of customers and the stability of financial markets. The appropriateness of financial services, especially for poorer segments of the population, has become a critical concern too.

A host of measures aimed at enabling access to financial services of the poor have been undertaken during the past several decades in India. These have largely formed part of the efforts to achieve the planned goals of balanced development and poverty alleviation mainly through

making cheap credit available to poor households for asset creation. The formal banking system was a close partner in these initiatives as channels of distribution of such subsidized credit. The focus got decisively shifted around the early 1990s in favour of delinking the banking system from fiscally mandated 'behest' lending. Introduction of the concept of 'financial inclusion' has given a new meaning and intent to the role of financial institutions in the larger project of development as opposed to the focused agenda of poverty alleviation. It indeed has ushered a phase of greater financialization of economic life through a more generic expansion of financial markets. The microcredit revolution of the 1990s was a worthy precursor to this phase in that it helped deepen the credit market even in remote regions, having largely non-monetized local economies. More importantly, MFIs demonstrated that serving the poor can be a profit-making enterprise. Meanwhile, the microfinance experiment itself has undergone scrutiny for its contribution to the goals of development and empowerment, giving rise to the demand for expanding its scope to include additional services or 'microfinance plus' services.

Making financial services available to the poor is no longer considered an altruistic proposition as financial inclusion, or inclusive financing, is propped up on strong commercial principles. Engagement with the poor is now posed as a 'win-win' game, a 'profitable' opportunity to make 'fortune at the bottom of the pyramid', notions that have been strongly founded in theoretical frameworks of neo-classical and institutional economics. Freeing the markets, including financial markets, of all constraints to the participation of different sections of economic actors is the crux of this philosophy of development. As the financial inclusion process unfolds in the coming years, these notions must also get tested for their various meanings and dimensions as also suitability, affordability and sustainability of the services sought to be provided to the excluded clientele.

This chapter seeks to review the perspectives on financial inclusion, its location within the poverty and development discourse, and the various measures that have emerged to quantify exclusion. The subsequent chapters present a more detailed exposition of the progress of financial inclusion plans of banks, look closer into the innovations and critically examine the relevant policies. Continuing with the tradition of the previous State of the Sector (SOS) reports to focus on microfinance, Chapter 4 presents a comprehensive analysis of the microfinance sector with a view to assert its special relevance to addressing problems of financial exclusion.

1.1 FINANCIAL INCLUSION: DEFINITIONS AND DOMAIN

Financial inclusion as a term has acquired universal acceptance in every discussion, both on the mere access to financial services as well as deeper examination of processes. Thus, much of the literature and discussion is limited to the increasing extent of *availability* of banking and financial services to the hitherto unbanked sections of society.

The term 'financial exclusion' is said to have been first coined in 1993 by geographers in Britain who were concerned about bank branch closures and resulting limited physical access to banking services.[3] Aynsley (2010) identifies three key aspects of definitions of financial inclusion: (i) access to financial services and products; (ii) financial capability (managing money effectively, etc.); and (iii) financial literacy. However, most definitions emphasize *access* rather than the other elements. Nevertheless, poverty is an unacceptable human condition which must lie at the center of the financial inclusion discourse; financial inclusion itself does not carry with it the intent to address the poverty problem. Accordingly if it is to be employed as a tool for development it must be accompanied by a clear intent and strategy to address poverty and vulnerability and support economic security and viable livelihoods.

Like financial exclusion, lack of financial capability is seen as being clearly linked to poverty and there is a need for a certain level of financial capability as financial products become more refined and sophisticated. Thus it becomes clear that the process of financial inclusion must necessarily be accompanied by attention being paid to financial capability. Financial literacy is a means to bring about greater financial capability towards financial inclusion. Thus financial inclusion cannot be a limited exercise of making available financial products to the excluded population. Hence this makes the inclusionary process a broad-based one that goes beyond limited service delivery and encompasses improvements in capability to use financial services as well as reducing various

vulnerabilities. The range of views and positions on the question of financial inclusion, however, serve to illustrate both the narrow concerns of certain stakeholders as well as attempts to address the wider correlates of exclusion.

When we look at international definitions and understanding of financial inclusion, the concerns emphasize creating assets and reducing risks for poor microentrepreneurs as also small and medium business. It also focuses on the financial services providers, mainly the MFIs, and their growth and sustainability. The Netherlands Platform for Inclusive Finance[4] thus states that 'through what is called *inclusive finance,* people living in poverty are offered a diverse range of financial instruments to run their businesses, build assets, stabilise consumption and shield themselves against risks…. By responding to the need of the client—offering the right product to the right client—MFIs broaden their market share, reduce their own risk and grow responsibly. *Because the need for access to finance applies not only for micro-entrepreneurs but also for other market segments, we now speak of inclusive finance*' (emphasis added). Similarly, Centre for Financial Inclusion at Accion (CFIA) provides a generic definition of financial inclusion whereby 'everyone who can use them has access to a range of quality financial services at affordable prices with convenience, respect, and dignity, delivered by a range of providers in a stable, competitive market to financially capable clients'. Quality and access are the double heart of CFIA's vision.[5] Further, as noted by an EU publication, financial inclusion can be expressed as something beyond 'financial access' but which is a *win-win deal* for both sides in financial services delivery.[6]

Measures and products designed to reach the unbanked and the poor have been advocated and consciously implemented for decades in India. Here the discussion on financial inclusion has centred on definitions, coverage and implementation strategies for the banking system as set out by government committee reports, government departments and the central bank as part of the programme of poverty alleviation. A range of institutions and interventions have been promoted towards delivery of financial services to the poor ranging from cooperative models and strategies involving asset creation for identified poor families to lending to and through SHGs. Specialized institutions like regional rural banks (RRBs) have been launched but have largely moved away from the narrow focus on poverty. It is only more recently, during the last decade, that both the term financial inclusion and certain strategies and channels have been employed and deployed to revive older ideas of universal coverage of the population with financial services.

A variety of definitions of financial inclusion and inclusive finance can be found in various reports, documents and research publications, each of which appear to emphasize some aspect or the other. According to Raghuram Rajan, Governor of the Reserve Bank of India (RBI), 'Financial inclusion is about (a) the broadening of financial services to those people who do not have access to financial services sector; (b) the deepening of financial services for people who have minimal financial services; and (c) greater financial literacy and consumer protection so that those who are offered the products can make appropriate choices. The imperative for financial inclusion is both a moral one as well as one based on economic efficiency.'[7] This also highlighted the role of competitive financial markets rather than a major poverty focus—not dissimilar to western positions on financial inclusion.[8]

Elsewhere in RBI documents and publications, financial inclusion has generally been defined as 'the process of ensuring *access to appropriate financial products* and services needed by all sections of the society in general and *vulnerable groups* such as weaker sections and low income groups in particular at an *affordable cost* in a *fair and transparent manner* by mainstream institutional players'.[9] The landmark *Rangarajan Committee Report on Financial Inclusion* (2008) stated 'the essence of financial inclusion is in trying to ensure that *a range of appropriate financial services is available to every individual and enabling them to understand and access those services*. Apart from the regular form of financial intermediation, it may include a basic no frills banking account for making and receiving payments, a savings product suited to the pattern of cash flows of a poor household, money transfer facilities, small loans and overdrafts for productive, personal and other purposes, etc.' (emphasis added).

Finally, even earlier, the then RBI Governor, Y.V. Reddy, had in his annual policy statement of 2005–06[10] urged banks to review their existing practices to align them with the objective of financial inclusion, defined as the process of ensuring access to appropriate financial products and services needed by 'all' sections of the society in general and vulnerable groups such as 'weaker sections

and low income groups' in particular at an 'affordable cost' in a 'fair and transparent manner' by mainstream institutional players.

It will be seen that each of these statements emphasizes some different aspect of the financial inclusion discourse and process. While one directly addresses weaker sections, another emphasizes values like affordability, transparency and appropriateness. Yet another emphasizes access to all individuals as also the need to enable them to understand these financial services. It also emphasizes the need for a suite of products to cover various needs of the poor households. As the different nuances of the international and Indian understanding suggest, financial inclusion as a project can be viewed from many perspectives by many stakeholders with different expectations regarding its scope and outcomes.

1.2 REAL FINANCIAL INCLUSION

Ranged across the mainstream players and agenda are a set of stakeholders that emphasize the needs of the working poor and the scope of 'real' financial inclusion. An exhaustive list of such needs is provided by Samit Ghosh who states that real financial inclusion is about providing a comprehensive set of services which meet the total needs of the working poor. Their financial needs are basic—'a safe place to save, credit for business, farming, animal husbandry, emergencies, education, family needs and housing, remit funds to support families and business, life & medical insurance for protection against frequent exigencies they face and pension to support them at old age'.[11]

Given the many differing perspectives, the question arises as to what is *real* financial inclusion whether financial access is a sufficient condition for financial inclusion. There is general agreement that financial inclusion should also pertain to the *use* of financial services, not merely the *access* to financial services.[12] In this context, it becomes necessary to distinguish between the *supply side* represented by institutional initiatives and the *demand side* as projected by people's needs and capacities.

At another level, it is also important to appreciate that *financial inclusion is not a binary condition* with people either included or excluded from the financial sector but is a continuum represented by the extent to which needs are covered by mainstream service providers with the financially excluded having limited or no access to or ability to use financial services. Both supply and demand determine financial exclusion, with low financial literacy and distrust of the formal banking system constituting barriers on the demand side. Financial education thus is seen as critical to advancing financial inclusion and consumer protection.[13] Indeed, banks in India have taken up the establishment of financial literacy and counselling centres in a big way.

Some observers state that real financial inclusion should involve viable business models for reaching low-income households in a sustainable way. Real financial inclusion thus pertains also to the capabilities of clients to make informed financial choices towards their development and should be seen as a long-term process, not a short-term objective. Financial behaviour is not only defined by access to finance but is significantly shaped by an individual's environment and personal attributes. Human capital, including knowledge, skills and attitudes as well as physical, cultural and economic properties such as health, social status and assets, define whether a person is willing and able to take financial decisions that are beneficial to him/her. In reality people do not always choose the financial services which might have been the best for them. The Financial Capability approach provided by Bickel and Mehwald (2014) integrates these aspects and works as an add-on to existing financial inclusion concepts.[14] In order to apply this thinking, stakeholders (government, financial service providers, and development agencies) need to start focussing on the quality and impact of financial services along with the quantity and number of accounts, clients, etc.

In this context it is also pertinent to note that although financial inclusion initiatives are targeted towards the general population (including women), most initiatives are introduced without comprehensive understanding about women's socio-economic conditions, intra-household bargaining position, and restrictions on mobility. Highlighting the above, Deepti and Tiwari (2014) argue that providers must also acknowledge the legal, social and cultural contexts that limit women's access to financial services. For financial inclusion to have the desired impact, policymakers must consider the social, cultural and economic constraints women face when accessing financial products and services. They must identify strategies such as division of money for personal

and business use, reinvestment of money in business and keeping track of business income and expenditures as being critical for strengthening financial capabilities of entrepreneurial women.

Finally, apart from banks, financial inclusion can be brought about by alternative agencies such as financial co-operatives of the poor, based upon informal agencies and channels such as SHGs, primarily of women, wherein the decision-making power and profits are retained in the hands of the members themselves. Indeed a strong lobby for financial intermediation by federations of the poor continues to challenge the orthodox view of banks that is generally shy of lending to such community organizations or even to involve them in a significant way as agents in their banking operations.

1.3 AN ALTERNATIVE PARADIGM

Before discussing the extent of financial inclusion and aspects of the financial inclusion discourse in India it may be instructive to look more closely at the link between financial inclusion and poverty. Once the link between the larger poverty phenomenon and financial exclusion is recognized there is a case for a more substantive and broad-based agenda of development of which financial inclusion can only be a part. Arunachalam (2008) poses the question *whether financial inclusion can help reverse the current paradigm of inequitable development, and if so, how is to be operationalized?* He asserts that to truly financially include the poor requires consistent and simultaneous mechanisms for the management of a variety of risks and vulnerabilities, otherwise, people who have been temporarily included would be excluded again, and be forced into a *cycle of inclusion and exclusion* as shown in Figure 1.1.[15] Financial inclusion without addressing structural causes that result in the failure of livelihoods is bound to fail, and can thus not be restricted merely to opening savings accounts and providing consumption credit.

Arunachalam argues that a new paradigm of financial inclusion is required, which reduces risk and vulnerability in the livelihoods of the poor, (i) resulting from imperfect markets (ii) helps to create strong safety nets for the poor (iii) enables the poor to pursue diversified and migratory livelihoods and create risk-management mechanisms and products, such as post-harvest loans and

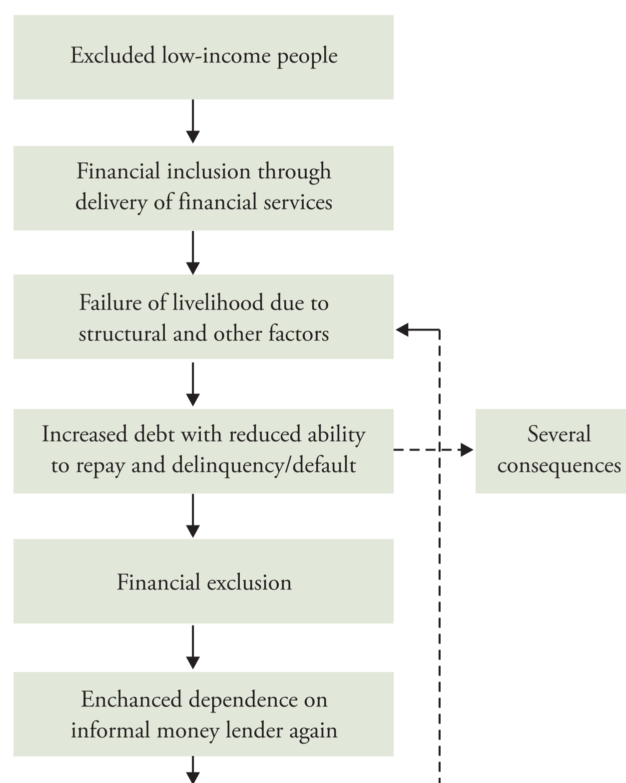

FIGURE 1.1 Cycle of Inclusion and Exclusion

Source: Arunachalam (2008).

warehouse receipts for small holders, to ensure that they stay financially included. This necessitates that the financial inclusion paradigm becomes the integral part of an overall livelihoods framework protecting and promoting livelihoods. Similar to the financial capability approach, this too involves a larger and longer vision rooted in the economic security of the poor rather than the current concerns of financial inclusion.

1.4 EXTENT OF FINANCIAL EXCLUSION IN INDIA: AVAILABLE ESTIMATES

Several estimates have been made in recent years of the extent of financial access and inclusion. The major ones are presented in this section.

(i) The All India Debt and Investment Survey 2002 (as quoted in Christabell and Vimal Raj, 2012) estimated that 111.5 million households had no access to formal credit. It also showed that the lower

the asset class or income, the higher the degree of exclusion.

(ii) The World Bank estimated that 59.5 per cent of rural households did not have a savings bank account; the figure was 70 per cent in the case of the landless/marginal farmers' category (Basu, 2006).

(iii) Data from the 2011 Census of India indicates that 58.7 per cent of the households in India avail of banking services (144.8 million out of 246.7 million)—54.5 per cent in rural areas and 67.7 per cent in urban areas. The comparable figure for Census 2001 was 35 per cent (Government of India, 2013).

(iv) Chattopadhyay (2011) classified Indian states into three categories, i.e., states having high, low and medium extent of financial exclusion using the Index of Financial Inclusion[16] (Table 1.1) which is based on three basic dimensions—(i) banking *penetration*, referring to the size of the banking population having a bank account as a percentage of the overall population in a geographical area; (ii) *availability* of the banking services, measured by the number of bank outlets per thousand population; and (iii) *usage* of the banking system with the volume of outstanding deposit and credit as a proportion of net domestic district product as the criteria.

(v) The Global Financial Inclusion Index (Global Findex)[17] measures how people in 148 countries—including the poor, women, and rural residents—save, borrow, make payments and manage risk (Table 1.1). As per the Global Findex, in India only 35 per cent of adults over the age of 15 had an account with a formal institution (44 per cent of males and 26 per cent of females) and 8 per cent took a formal loan. More detailed findings were reported in the *Microfinance State of the Sector Report 2012*.

TABLE 1.1 Index of Financial Inclusion

Degree of financial exclusion	States
High (0.5 < IFI ≤1)	Kerala, Maharashtra, Karnataka
Medium (0.3 ≤ IFI <0.5)	Tamil Nadu, Punjab, Andhra Pradesh, Sikkim, Himachal Pradesh, Haryana
Low (0 ≤ IFI <0.3)	West Bengal, Uttar Pradesh, Gujarat, Tripura, Bihar, Assam, Nagaland, Manipur, Mizoram, Madhya Pradesh, Arunachal Pradesh, Orissa Rajasthan

Source: Chattopadhyay (2011).

(vi) The Financial Access Survey (FAS) database of the International Monetary Fund (IMF) currently contains annual data for 189 jurisdictions covering a nine-year period (2004–12). The latest data for India (2012) (Table 1.2) suggests that there were on an average 892 deposit accounts with commercial banks for every adult and 23 household loan accounts for every 1000 adults (Table 1.2). The extent of financial exclusion in India is found to be higher than many developed and some of the major emerging economies (see Appendix 1.1).

(vii) Most recently, the Mor Committee (2013) estimated using certain assumptions, that the overall India number for financial inclusion was 36 per cent [i.e., proportion of eligible population having at least one bank account, eligible population being individuals aged 18 years and above based on Census 2011 (as against 35 per cent by the Global Findex above)].

TABLE 1.2 Access To and Use of Financial Services in India (2012)

Commercial bank branches per 1,000 km^2	33.17	Commercial bank branches per 100,000 adults	11.38
ATMs per 1,000 km^2	32.67	ATMs per 100,000 adults	11.21
Outstanding deposits with commercial banks (% of GDP)	68.64	Outstanding loans from commercial banks (% of GDP)	54.24
Deposit accounts with commercial banks per 1,000 adults	1,042.48	Loan accounts with commercial banks per 1,000 adults	151.06
Household deposit accounts with commercial banks per 1,000 adults	892.49	Household loan accounts with commercial banks per 1,000 adults	23.54

Source: International Monetary Fund (2013).

Overall 45 per cent of the urban residents and 32 per cent of the rural residents were estimated to be having bank accounts. There is also significant variation from district to district.[18]

(viii) A more widely followed analysis of the extent of financial inclusion is available from the CRISIL Inclusix which was first released in 2013 and in 2014 has released the second round of findings pertaining to 2012. Besides there was a new study by Financial Inclusion Insights, which undertook the most comprehensive survey of financial behaviour in India during 2013–14. The results and findings of these studies are reported and discussed in greater detail as follows.

1.4.1 CRISIL Inclusix

CRISIL launched the Inclusix tool, developed with support from Ministry of Finance, Government of India and Reserve Bank of India in the year 2013. In January 2014, CRISIL brought out the latest computation of Inclusix based on the data made available by Reserve Bank of India till March 2012 and covered all the 638[19] districts of the country.

CRISIL uses a statistically robust and transparent methodology. It is a relative index on a scale of 0 to 100, and combines three critical parameters of basic banking services—branch penetration, deposit penetration, and credit penetration—into one metric. Besides measuring inclusion at the district, state and national levels, the index can be used to compute progress on financial inclusion by each bank. CRISIL Inclusix also enables inter-temporal comparison for financial inclusion. The latest Inclusix assesses trends in financial inclusion in India in fiscal 2012 compared with 2011, 2010 and 2009. Based on CRISIL Inclusix scores, CRISIL has come up with four categories—low (<25), below average (25.0 to 40.1), above average (40.1 to 55) and high (>55) levels of financial inclusion.

As evident from Figure 1.2 whilst calculating financial inclusion CRISIL Inclusix uses non-monetary aggregates like 'number of people' whose lives have been touched by various financial services, rather than the 'amounts' deposited or loaned—which negates the disproportionate impact of a few high-value figures on the overall picture.

Currently the index has been calculated based on the data related to the banking system (scheduled commercial banks and RRBs) provided by the RBI (Figure 1.3). Data from a large network of cooperative banks and

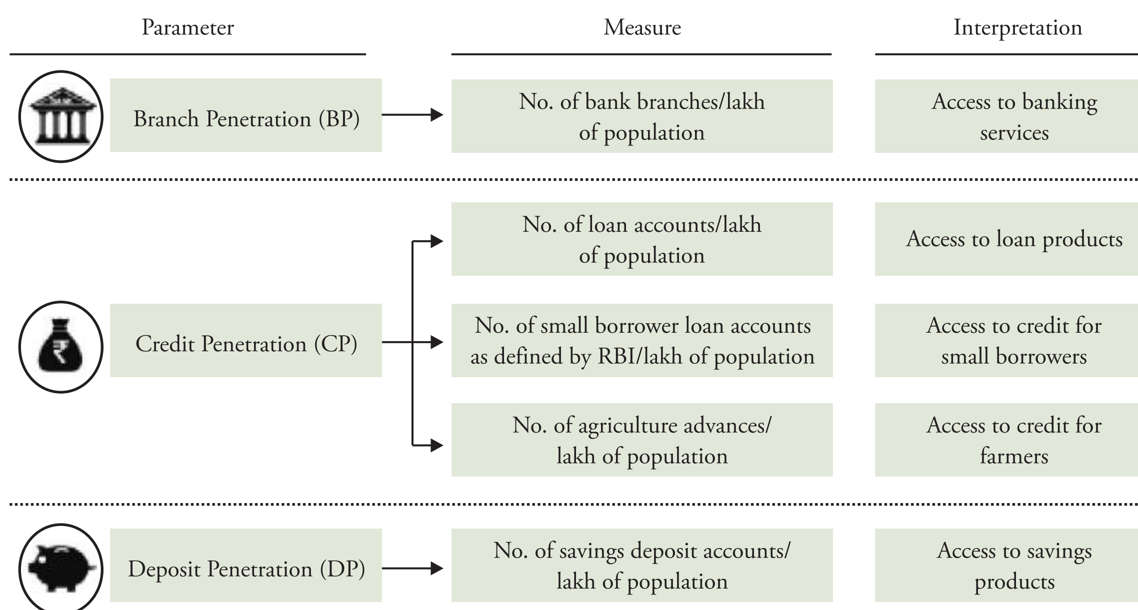

FIGURE 1.2 CRISIL Inclusix

FIGURE 1.3 Financial Inclusion Score of India: CRISIL Inclusix

Source: CRISIL (2013).

non-banking financial companies (NBFCs) and MFIs, with over 10,000 branches largely in the rural areas, is not included. However, they cannot be ignored as their client base almost entirely comprises people unserved or under-served by the formal banking network. (See Box 1.1 for key findings of the survey.)

The top and bottom states in financial inclusion for 2012 as per CRISIL Inclusix are given in Table 1.3. The Inclusix usefully captures elements of the fast-changing financial inclusion landscape, though it excludes cooperatives and other important financial service providers operating outside the banking system. Observers also feel that it would be more useful if frequency of transactions in savings bank accounts—and thereby the extent of inoperative, defunct and inoperative accounts—could also

BOX 1.1 Inclusix Survey: Key Findings

- The Inclusix experienced steady growth rate from 35.4 in 2009, 37.6 in 2010, and 40.1 in 2011 and reached 42.8 in the year 2012.
- The current Inclusix score of 42.8 out of 100 indicates under penetration of formal banking in the country.
- At the regional level, all the regions experienced growth in Inclusix score with western region scoring 40.9, northern 39.5, north-eastern 30.9 and eastern 30.8 during the year 2012.
- Southern region with a financial Inclusix of 66.1 has experienced the maximum growth rate and remained the leader in all the three dimensions of credit, branch and deposit penetration.
- 58% of the incremental credit accounts were opened in the south.
- 587 out of 638 districts reported an improvement in terms of financial inclusion in year 2012 against 618 out of 632 districts in the year 2011.
- The average improvement in the Inclusix score of the bottom 50 districts was 1.6 compared with 4.3 for the top 50 districts and an all-India average of 2.7.
- One out of every two Indians has a savings account and only one in seven has access to bank loan—showing low credit penetration.
- Similar to 2011, the number of saving accounts (703 million) remains nearly four times the number of loan accounts (183 million) in the year 2012 as well.
- The number of savings bank accounts rose by 12.6% in the year 2012 indicating that more numbers of people are being touched by formal financial system.
- India experienced 11.1% growth in agriculture credit accounts in 2012 over 2011.
- The top five states in terms of financial Inclusix are Puducherry, Chandigarh, Kerala, Delhi and Goa.
- The number of bank branches in the bottom 100 districts has increased by 6% which is higher than the national growth rate of 5.6%.
- There are 7.5 bank branches per lakh of population on an average. However, the bottom 50 districts have only 3.5 bank branches per lakh of population.
- Year on increase in credit penetration is 8.3%.
- Wide disparities exist across India and within states in terms of access to financial services.
- India's six largest cities have 10% of the country's bank branches while eight districts in the North East have just 2 or less than 2 bank branches each.
- Similar to 2011, bottom 50 districts continue to have just 2% of the country's bank branches.

Source: CRISIL (2014).

be tracked to understand the continued state of exclusion as also the credit-GDP ratio at the district or state level, as a measure of financial deepening.

TABLE 1.3 Crisil Inclusix: Top States/Union Territories and Districts

	States/Union territories	Districts
Top 5	Puducherry	Pathanamthitta
	Chandigarh	Karaikal
	Kerala	Thrissur
	Delhi	Ernakulam
	Goa	Thiruvananthapuram
Bottom 5	Manipur	Kurung Kumey
	Bihar	Mon
	Nagaland	South Garo Hills
	Arunachal Pradesh	Imphal East
	Chattisgarh	Ukhrul

Source: CRISIL (2013).

1.4.2 Financial Inclusion Insights Tracker Survey and Digitized Government Payments Study[20]

Financial Inclusion Insights, an international research program on digitized financial services supported by the Bill and Melinda Gates Foundation, conducted the Tracker Survey and the Digitized Government Payments Qualitative Study in India from October 2013–January 2014 which studied the financial behavior of Indian adults. In particular, the focus of the study was on the access and use of banking services and mobile money services as well as triggers and barriers for potential uptake. The Tracker Survey covered a nationally representative sample of 45,024 Indian adults, ages 15 and older on access and use of financial services[21] as well as barriers and potential for future use and was conducted from October 2013 to January 2014.

The Digitized Government Payments Study across four districts in the state of Maharashtra was conducted during December 2013, and focussed on the potential for digital government payments to expand financial inclusion. The study covered beneficiaries of social security pensions, post-matric scholarships and National Rural Employment Guarantee Scheme (NREGS) as those who receive payments through Direct Benefit Transfer (DBT) and those who receive payments in non-DBT form (e.g., cash, cheques, etc.)

The key findings of the survey and study were:

General Financial Behaviour

- *70 per cent of those who saved money did so in a bank* and 35 per cent saved at home. Nationally, 3 per cent saved through village-level savings groups. Village-level savings groups were relatively more popular in states such as Andhra Pradesh (23 per cent), Chhattisgarh (18 per cent) and Maharashtra (14 per cent).
- For loans, most borrowers relied on those within their personal networks, including relatives, neighbours and friends (67 per cent). *Eleven per cent of borrowers borrowed from a bank*, 12 per cent borrowed from a private money lender and 4 per cent borrowed within their savings group. Based on the state-wise analysis, Tamil Nadu topped the chart with 52 per cent of the respondents depending on money lenders for a loan and Bihar occupying the second place with 46 per cent of the borrowers opting for loans from money lenders. Madhya Pradesh (39 per cent), Assam (37 per cent) and Jharkhand (30 per cent) were the other states that also had a high number of borrowers dependent on money lenders.
- As far as *digital financial services*[22] were concerned, according to the Tracker survey, *48 per cent of respondents had accessed a bank account,*[23] *47 per cent of the respondents held a bank account, and 25 per cent of respondents actively used*[24] *a bank account*. Only 0.3 per cent of respondents, however, had accessed Mobile Money, 0.2 per cent of respondents were Mobile Money account holders and only 0.1 per cent had actively used their Mobile Money accounts. 0.07 per cent of the respondents held both active bank accounts and an active mobile money account, whereas rest of the respondents (nearly 75 per cent) neither held active bank nor mobile money accounts.
- Although 47 per cent have their own bank account, only 54 per cent of these bank account holders have used their bank accounts actively (in the past 90 days).
- 77 per cent of active bank account holders (base = 10,570) said that their bank branch was within 5 km (base = 10,570) and 84 per cent of active bank account holders said that their ATM was within 5 km (base = 3,323).

- Majority of the respondents (71 per cent) accessed the bank at the bank branch followed by 28 per cent who use the ATM. The remaining either opted for a bank website or BC agent or over the counter at a retail store to access banking services.
- Most states had about equal proportions of active and inactive bank account users though there were disparities in access and especially active use of bank accounts across gender and location within states.

Digitized Government Payments

- Digitized government payments have the potential to help drive greater use of digital financial services but challenges remain.
- 12 per cent of survey respondents said that they received payments from the government
- 13 per cent of government payment recipients reported having to pay bribes to receive their payments.
- Benefit payments were small, sometimes infrequent, and did not help to expand digital transactions.
- Beneficiaries have to be incentivized to reduce payment cash-outs and to use linked digital products.

Table 1.4 presents the digital financial inclusion indicators.

As can be seen from Table 1.4, 25 per cent of adults surveyed had active digital accounts while only 20 per cent of the adults below poverty line and 18 per cent of females had active digital accounts. However, with respect to usage of digital services, only 5 per cent of adults used at least one digital financial service beyond basic wallet, person-to-person (P2P) and bill pay payments.

State-wise findings data on digital financial inclusion are given in Table 1.5.

Goa tops the list of states in digital financial inclusion with 45 per cent of adults with active digital accounts and 44 per cent of adults below the poverty line with active digital accounts. Delhi reports the highest percentage of males with active digital accounts—46 per cent.

TABLE 1.4 Indicators of Digital Financial Inclusion

Indicators	%	Number of Households
% of adults (15+) who have ever accessed a bank account	48	45,024
% of adults (15+) who have ever accessed a mobile money account	0.30	45,024
% of adults (15+) with active digital accounts[25]	25	45,024
% of adults (15+) below the poverty line[26] with active digital accounts	20	35,478
% of males (15+) with active digital accounts	32	18,510
% of females (15+) with active digital accounts	18	26,514
% of rural males (15+) with active digital accounts	26	12,923
% of rural females (15+) with active digital accounts	15	18,348
% of adults (15+) who use at least one digital financial service beyond basic wallet, person-to-person (P2P) and bill pay payments	5	45,024
% of adults (15+) below the poverty line who use at least one digital financial service beyond basic wallet, P2P and bill pay payments	4	35,478
% of males (15+) who use at least one digital financial service beyond basic wallet, P2P and bill pay payments	7	18,510
% of females (15+) who use at least one digital financial service beyond basic wallet, P2P and bill pay payments	3	26,514
% of rural males (15+) who use at least one digital financial service beyond basic wallet, P2P and bill pay payments	5	12,923
% of rural females (15+) who use at least one digital financial service beyond basic wallet, P2P and bill pay payments	2	18,348

TABLE 1.5 Digital Financial Inclusion by State

State	% of adults who have ever accessed a bank account	% of adults with active digital accounts	% of adults below poverty line with active digital accounts	% of males with active digital accounts
Goa	71	45	44	41
Kerala	66	33	27	41
Tamil Nadu	62	34	30	39
Delhi	60	38	32	46
Andhra Pradesh	58	29	23	37
Himachal Pradesh	57	32	32	43
Maharashtra	56	35	28	44
Punjab	54	25	15	36
Uttarakhand	53	28	25	33
Uttar Pradesh	51	22	19	28
Karnataka	49	31	24	41
Haryana	48	26	20	33
Gujarat	45	26	13	33
West Bengal	41	25	20	32
Jharkhand	41	20	17	29
Madhya Pradesh	40	22	19	29
Rajasthan	40	20	17	28
Chhattisgarh	39	21	17	29
Bihar	34	16	14	20
Assam	33	21	16	27
Orissa	33	19	15	26
North East Cluster*	30	18	17	23
ALL INDIA	48	25	20	32

Source: *Inter Media India FII Tracker Survey,* October 2013–January 2014.
Note: All percentages reflect individuals aged 15+; *Includes the states of Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Sikkim and Tripura.

In respect of mobile phone access and emergence of mobile money services the following are the main findings:

- Mobile phone access[27] is high overall, but women are less than half as likely as men to own their phones.
- Mobile phone access is above 75 per cent across all states of India, with the exception of Assam, Orissa and Madhya Pradesh, where access was between 60 and 70 per cent.
- 85 per cent of respondents had access to a phone and 50 per cent of them owned a phone.
- Mobile money access across all demographic groups is low (0.3 per cent).
- Mobile money users tend to use the service infrequently, mostly for sending money.

According to the Tracker survey, nationally 35 per cent of all beneficiaries received direct deposits. Maharashtra had the highest proportion of beneficiaries receiving government payments through direct deposits through banks. These payments were still predominantly collected personally nationally and in rural areas. However, while direct deposits to bank accounts had become prevalent in certain under-banked states like UP, they continued to be extremely low in Bihar.

Most of the survey respondents in the group of rural, active bank-account holders said their preferred method of accessing account is at a bank branch (82 per cent) and 18 per cent chose ATMs because they were 'safe'. Safety was preferred over ease or speed of access.

1.5 SOURCES OF AND ACCESS TO FINANCIAL SERVICES IN INDIA

Table 1.6 shows the number of accounts held with the formal financial system and other transaction entities such as the post office, SHGs, MFIs and primary coop-

eratives. It will be seen that the number of accounts far exceeds the adult population of the country. This is on account of the fact that the banking system has multiple accounts for the same customer within the same bank as also across banks.

TABLE 1.6 Deposits and Loan Accounts with Banks and Other Agencies

	In million
No. of adults (in million)	840
No. of deposit accounts with banks (March 2012)	903
No. of BSBDA accounts with banks (March 2014)	243
No. of deposit accounts with post office (March 2012)	115.8
No. of accounts with primary cooperatives (March 2013)	139.4
No. of borrowers with primary cooperatives (March 2013)	43.08
No. of loan accounts with Banks (March 2012)	130.88
No. of loan accounts with MFIs (March 2014)	27.53
No. of saving SHG members (March 2014)	96.6
No. of borrowing SHG members (March 2014)	54.6

Source: Government of India, Census 2011 for population; RBI (2013), *Basic Statistical Returns 2012* for banking data; *India Post Annual Report 2013* for post office data; National Federation of State Cooperative Banks (NAFSCOB) for data on cooperatives; MIX Market for MFI data; and NABARD (2014) for SHG data.

If we consider only the basic savings bank deposits accounts (BSBDAs) as contributing to financial inclusion, we still have a total of 594.8 million savings accounts and 256.09 million loan accounts. Set against an adult population of 840 million according to the 2011 Census, this would appear to be a reasonable coverage. It may be noted that BSBD accounts under the financial inclusion plans have gone up more than three-fold in three years from 74.4 million as of March 2011 to 243 million as of March 2014. Other types of deposit accounts have registered a more nominal increase in the range of 10–20 per cent during a similar period. On the other hand, there has been a decline in the number of loan accounts during this period—through a decline in the borrowing members of primary cooperatives, MFIs and SHGs.

The Mor Committee had estimated that the average urban account holder held four bank accounts, and the rural account holder 1.5 bank accounts.

1.5.1 Microfinance Penetration Index (MPI)

The Crisil Inclusix index provided estimates of state-wise degree of inclusion in respect of data related to scheduled commercial banks and RRBs. The microfinance penetration index (MPI) provides estimates of the relative share of the states in microfinance clients[28] as compared to their share in the population. Similarly, the value of the Microfinance Poverty Penetration Index (MPPI) is derived by dividing the share of the state in microfinance clients by the share of the state in the population of the poor. Hence, a value more than 1 indicates that the state's share in microfinance clients was more than proportional to its population, indicating better than par performance. A score of less than 1, which is the par value, indicates a comparatively poor performance by the state. Similar estimates have been conducted in earlier *Microfinance State of the Sector Reports*, with the last exercise being carried out in 2012. State-level poverty data for the present exercise has been taken from the *Report of Rangarajan Committee on Poverty* (Government of India, 2014) and population data from the Census 2011. The ranking of the best and worst performing states is given in Table 1.7. The state-level scores and details for all the states are given in Appendix 1.2.

TABLE 1.7 Ranking of Select States based on MPI and MPPI (31 March 2014)

Top 6 states

	MPI		MPPI
Andhra Pradesh	3.38	Puducherry	10.75
Puducherry	2.87	Andhra Pradesh	7.32
Karnataka	2.27	Andaman and Nicobar Islands	3.23
Tamil Nadu	1.91	Karnataka	3.07
West Bengal	1.54	Kerala	2.68
Odisha	1.54	Tamil Nadu	2.52

Bottom six states

	MPI		MPPI
Jammu and Kashmir	0.01	Jammu and Kashmir	0.02
Mizoram	0.02	Mizoram	0.02
Lakshadweep	0.04	Lakshadweep	0.05
Arunachal Pradesh	0.06	Arunachal Pradesh	0.05
Chandigarh	0.09	Chandigarh	0.12
Nagaland	0.16	Manipur	0.19

Andhra Pradesh, Puducherry, Tamil Nadu and West Bengal continue to be states with high levels of MPI, with Karnataka displaying substantial gains over previous years. As far as MPPI is concerned among major states, Andhra Pradesh and Tamil Nadu continue to be at the forefront, with Kerala having registered substantial increases in coverage. MPI continues to be low in the Northern region and in the BIMARU states (Bihar, Madhya Pradesh, Rajasthan, and Uttar Pradesh) at a value of less than 0.5. The situation is not much better in respect of the MPPI in these states. It is only the southern states that consistently show an MPI and MPPI considerably in excess of par values over the years. Among the major states the position of Uttar Pradesh, Madhya Pradesh and Gujarat has been consistently poor. West Bengal, Odisha, Uttarakhand, Tripura and Himachal Pradesh are the only major states which approach or exceed the par values for MPI and MPPI in respect of microfinance clients for 2014.

1.6 FINANCIAL INCLUSION DISCOURSE IN INDIA

A key element of the current discourse in India is that it is a bank-led government initiative. This contrasts with many other developing countries where—in the absence of a comparatively well-developed banking structure—there are higher expectations from private and social initiatives in providing the relatively limited products of microfinance institutions. As noted by Chakrabarty (2011), 'as banking services are in the nature of a public good, it is essential that the availability of banking services to the entire population without discrimination is the prime objective of public policy'. Financial inclusion discourse and strategy thus involved a rapid increase in the outreach of individual-centered banking services through expansion of the banking infrastructure and innovations in outsourcing of the operations of banks.

The two planks of the commercial banks' involvement in the larger financial inclusion project have been (i) avenues for outsourcing through different types of agent structures; and (ii) the introduction of IT-based devices and innovations for low-cost operations and for accounting and MIS. Financial inclusion initiatives have invariably been devised for servicing individual clients rather than the 'group' methodology of SHGs or even MFIs. (SHGs, however, can be recognized and serviced as 'individual' clients. Consequently the financial inclusion discourse has focused on bank-level products and initiatives and the corresponding targets without any reference to the wide range of other players, mainly PACS, MFIs and SHGs. Interestingly, the Committee on Financial Inclusion had projected the SHG bank linkage programme as a main pillar of financial inclusion and urged for the designing of an organizational mechanism that would combine the widespread opening of the branches in rural areas and the SHG movement (Rangarajan 2010). Nevertheless, neither the SHG data nor the MFI outreach data is being tracked by RBI to determine the extent of inclusion.

The regulator, however, has made it clear that financial inclusion is best served through mainstream banking institutions as only they have the ability to offer the entire suite of products necessary for effective financial inclusion. In other words service providers like telcos (remittance) and MFIs/SHGs (credit) who offer mono products cannot be considered part of the mainstream financial inclusion process as they only cater to a small chunk of the financial needs of the population. In the same vein, the *Annual Report 2013–14* of RBI states that microfinance institutions and small RRBs can certainly help in furthering access to finance. However, they cannot on their own bridge the gaps. Well-capitalized and robust financial institutions are needed to take up the agenda. Banks have the ability to cross-subsidize various product/services in an efficient and cost-effective manner. Entities, such as mobile service providers, MFIs and SHGs/SHG promoting agencies could synergistically collaborate with banks in offering services. Such partnerships with banks could be a game changer for financial inclusion.

The core elements of financial inclusion as being practiced in India have been explained by the Governor of RBI as consisting of five Ps—product, place, price, protection and profit (Box 1.2). Perhaps for the first time, the issue of financial inclusion is interpreted within a political economy framework when he asserts that financial inclusion is a key mechanism of public services, especially those targeted at the poor, that could help avoid oligarchies being created by crony capitalism.

It must be pointed out that the goal of effective financial inclusion continues to be nearly as distant as it was

Box 1.2 Five Ps of Financial Inclusion

Financial inclusion is about getting five things right: Product, Place, Price, Protection, and Profit.

A basic suite of **Products** is required to address financial needs. These include a safe place to save, a reliable way to send and receive money, a quick way to borrow in times of need or to escape the clutches of the moneylender, easy-to-understand accident, life and health insurance, and an avenue to engage in saving for old age. Simplicity, transparency and reliability are necessary.

For ease of access, **Place** of delivery is also important. 'Place' today need not mean physical proximity—it can mean electronic proximity, or proximity via correspondents. Towards this end, regulations have been liberalized on bank business correspondents, banks and mobile companies have been encouraged to form alliances and the process of licensing payment banks started.

The transactions costs of obtaining the product, including the **Price** and the intermediary charges, should be low. Automation of transactions and use of local employees that are commensurately paid can help to reduce costs. Furthermore, any regulatory burden should be minimal. Licensing small local banks and simplifying KYC norms are steps in this direction.

New and inexperienced customers will require **Protection**. The RBI is beefing up the Consumer Protection Code and strengthening the customer grievance redressal mechanism and curtailing the activities of fly-by-night operators. Expansion of financial literacy through camps and schools, and business management education for entrepreneurs through NGOs and NABARD are planned.

Financial inclusion cannot be achieved without it being **Profitable**. There should be profits at the bottom of the pyramid. Government should pay reasonable commissions punctually for benefits transfers, and bankers will need to charge reasonable and transparent interest rates and fees for offering services to the poor.

To avoid oligarchies being created by crony capitalism, public services, especially those targeted at the poor, have to improve for which a key mechanism is through financial inclusion.

Source: Rajan (2014b).

in 2006–07, when it was first envisioned. As pointed out by Nanda (2013), this is because the low value of transactions in the case of low-income clients, whether rural or urban, farm or non-farm, has implications for the profitability of banks. The inability of banks to recover their transaction cost is an issue which the system continues to struggle with. At the same time, the existing rules and regulations and the nature of the market and social environment make it difficult to recover costs through users even though the latter may not be unwilling to pay. Nevertheless, both the use of greater technology to reduce cost of delivery and the establishment of a nation-wide micro payment system accompanied by investment in financial literacy would be needed for effective financial inclusion.

1.6.1 Jan-Dhan Yojana

The recently launched Pradhan Mantri Jan-Dhan Yojana (PMJDY) appears to address most of the concerns related to a more concrete and substantial engagement with the poor as part of a financial inclusion strategy to be undertaken in a mission mode.[29] The laudable objective of opening savings bank accounts for all households by 15 August 2015 (target date since brought forward to 26 January 2015) is supplemented by (i) overdraft facility; (ii) credit card; and (iii) accident and life insurance and other facilities, which hold promise of providing the kind of safety net based upon a diverse set of financial products that has been sought by development practitioners in support of poor households. (See Box 1.3 for the highlights of the programme.)

The objective of PMJDY is to ensure 'access to various financial services like availability of basic savings bank account, access to need based credit, remittances facility, insurance and pension to the excluded sections, i.e., weaker sections and low income groups'. It is indicated that this deep penetration at affordable cost is possible only with effective use of technology. While there is no real change in the overall objectives and strategy several changes in approach are planned in view of the limited success achieved under the financial inclusion plans since 2010. However, achievement of the objectives of the mission will depend on its successful implementation, a factor that has proved to be a hurdle for many well-intentioned programmes. A more detailed and critical examination of the provisions of the mission document is taken up in Chapter 2.

Box 1.3 Highlights of the Pradhan Mantri Jan-Dhan Yojana

The National Mission on Financial Inclusion, named as Pradhan Mantri Jan-Dhan Yojana (PMJDY) was launched on 28 August 2014. The Mission will be implemented in two phases.

(A) Phase 1: Lasting until 14 August 2015
- (i) Provide universal access to banking facilities for all households across the country through a bank branch or a fixed point Business Correspondent (BC) within a reasonable distance
- (ii) Cover all households with at least one Basic Banking Account (BBA) with RuPay debit card having inbuilt accident insurance cover of Rs. 1 lakh. Further, an overdraft facility of Rs. 1000 will also be permitted to Aadhar-enabled accounts after satisfactory operation in the account for six months
- (iii) Financial literacy programme which aims to take financial literacy up to the village level
- (iv) The Mission also envisages expansion of Direct Benefit Transfer (DBT) under various Government Schemes through bank accounts of the beneficiaries
- (v) The issuance of Kisan Credit Card (KCC) as RuPay Kisan Card is also proposed to be covered under the plan

(B) Phase 2: 15 August 2015—14 August 2018
- (i) Providing micro-insurance to the people
- (ii) Unorganized sector pension schemes like Swavalamban through the Business Correspondents

The major shift in this programme is that households are being targeted instead of villages as targeted earlier. Moreover, both rural and urban areas are being covered this time as against only rural areas targeted earlier. The present plan pursues digital financial inclusion with special emphasis on monitoring by a Mission headed by the Finance Minister.

Source: Department of Financial Services, Government of India (2014).

Appendix 1.1

Select Indicators of Financial Inclusion 2011

S. No.	Country	Number of bank branches	Number of ATMs	Number of bank branches	Number of ATMs	Bank deposits	Bank credit
		Per 1000 km		Per 0.1 million		As % of GDP	
1.	India	30.43	25.43	10.64	8.9	68.43	51.75
2.	China	1,428.98	2,975.05	23.81	49.56	433.96	287.89
3.	Brazil	7.93	20.55	46.15	119.63	53.26	40.28
4.	Indonesia	8.23	15.91	8.52	16.47	43.36	34.25
5.	Korea	79.07	…	18.8	…	80.82	90.65
6.	Mauritius	104.93	210.84	21.29	42.78	170.7	77.82
7.	Mexico	6.15	18.94	14.86	45.77	22.65	18.81
8.	Philippines	16.29	35.75	8.07	17.7	41.93	21.39
9.	South Africa	3.08	17.26	10.71	60.01	45.86	74.45
10.	Sri Lanka	41.81	35.72	16.73	14.29	45.72	42.64
11.	Thailand	12.14	83.8	11.29	77.95	78.79	95.37
12.	Malaysia	6.32	33.98	10.49	56.43	130.82	104.23
13.	UK	52.87	260.97	24.87	122.77	406.54	445.86
14.	USA	9.58	…	35.43	…	57.78	46.83
15.	Switzerland	84.53	166.48	50.97	100.39	151.82	173.26
16.	France	40.22	106.22	41.58	109.8	34.77	42.85

Source: Financial Access Survey, IMF.
Note: Figures in respect of UK are as on 2010.

Appendix 1.2
MPI and MPPI 2014

State	No. of SHGs with loan outstanding*	No. of SHG members (million)	No. of MFI clients** (million)	Total Microfinance clients (million)	Population *** (million)	Number of poor **** (million)	Share in Microfinance clients	Share in population	Share in number of poor	MPI	MPPI
A	B	C (B*13)	D	E=C+D	F	G	H	I	J	K =H/F	L=H/J
Northern region											
Chandigarh	138	0.00	0.00	0.01	1.06	0.23	0.01	0.09	0.06	0.09	0.12
Haryana	20,656	0.27	0.20	0.47	25.35	3.24	0.55	2.09	0.89	0.26	0.61
Himachal Pradesh	17,618	0.23	0.00	0.23	6.86	0.75	0.27	0.57	0.21	0.47	1.30
Jammu and Kashmir	587	0.01	0.00	0.01	12.54	1.93	0.01	1.04	0.53	0.01	0.02
New Delhi	893	0.01	0.22	0.23	16.79	2.67	0.26	1.39	0.74	0.19	0.36
Punjab	14,207	0.18	0.18	0.36	27.74	3.16	0.42	2.29	0.87	0.19	0.49
Rajasthan	129,830	1.69	0.65	2.34	68.55	15.15	2.72	5.66	4.17	0.48	0.65
Total Northern region	**183,929**	**2.39**	**1.26**	**3.65**	**158.89**	**27.13**	**4.24**	**13.125**	**7.47**	**0.32**	**0.57**
North Eastern region											
Assam	109,587	1.42	0.88	2.30	31.21	12.95	2.68	2.58	3.57	1.04	0.75
Arunachal Pradesh	456	0.01		0.01	1.38	0.53	0.01	0.11	0.15	0.06	0.05
Manipur	3,934	0.05	0.01	0.06	2.57	1.29	0.07	0.21	0.36	0.31	0.19
Meghalaya	3,075	0.04	0.03	0.07	2.97	0.74	0.08	0.25	0.20	0.31	0.38
Mizoram	112	0.00	0.00	0.00	1.10	0.31	0.00	0.09	0.09	0.02	0.02
Nagaland	1,678	0.02		0.02	1.98	0.28	0.03	0.16	0.08	0.16	0.33
Sikkim	222	0.00	0.01	0.01	0.61	0.11	0.01	0.05	0.03	0.29	0.48
Tripura	5,505	0.07	0.26	0.33	3.67	0.93	0.38	0.30	0.26	1.27	1.50
Total North Eastern region	**124,569**	**1.62**	**1.18**	**2.80**	**45.49**	**17.14**	**3.25**	**3.76**	**4.72**	**0.87**	**0.69**
Eastern region											
Andaman and Nicobar Islands	1,178	0.02		0.02	0.38	0.02	0.02	0.03	0.01	0.57	3.23
Bihar	190,171	2.47	1.95	4.42	104.10	43.81	5.14	8.60	12.07	0.60	0.43
Jharkhand	65,507	0.85	0.43	1.29	32.99	14.25	1.49	2.73	3.93	0.55	0.38
Odisha	249,550	3.24	1.34	4.58	41.97	19.50	5.32	3.47	5.37	1.54	0.99
West Bengal	472,554	6.14	3.87	10.01	91.28	27.54	11.64	7.54	7.59	1.54	1.53
Total Eastern region	**978,960**	**12.73**	**7.59**	**20.32**	**270.72**	**105.12**	**23.61**	**22.36**	**28.96**	**1.06**	**0.82**

Central region											
Chattisgarh	71,665	0.93	0.35	1.28	25.55	12.48	1.49	2.11	3.44	0.71	0.43
Madhya Pradesh	81,030	1.05	1.64	2.69	72.63	32.78	3.13	6.00	9.03	0.52	0.35
Uttar Pradesh	246,973	3.21	2.27	5.48	199.81	80.91	6.37	16.51	22.29	0.39	0.29
Uttarakhand	20,166	0.26	0.24	0.51	10.09	1.84	0.59	0.83	0.51	0.71	1.16
Total central region	**419,834**	**5.46**	**4.51**	**9.96**	**308.07**	**128.01**	**11.58**	**25.45**	**35.27**	**0.46**	**0.33**
Western region											
Goa	2,805	0.04	0.01	0.05	1.46	0.09	0.05	0.12	0.02	0.44	2.15
Gujarat	61,848	0.80	0.72	1.52	60.44	16.88	1.77	4.99	4.65	0.35	0.38
Maharashtra	204,355	2.66	2.40	5.06	112.37	22.83	5.88	9.28	6.29	0.63	0.93
Total western region	**269,008**	**3.50**	**3.13**	**6.63**	**174.27**	**39.80**	**7.70**	**14.40**	**10.96**	**0.53**	**0.70**
Southern region											
Andhra Pradesh	1,306,076	16.98	3.37	20.35	84.58	11.73	23.65	6.99	3.23	3.38	7.32
Karnataka	337,196	4.38	5.48	9.86	61.10	13.57	11.46	5.05	3.74	2.27	3.07
Kerala	117,303	1.52	0.91	2.44	33.41	3.83	2.83	2.76	1.06	1.03	2.68
Lakshadweep	15	0.00	0.00	0.00	0.65	0.17	0.00	0.05	0.05	0.04	0.05
Puducherry	13,777	0.18	0.08	0.25	1.25	0.10	0.30	0.10	0.03	2.87	10.73
Tamil Nadu	446,671	5.81	3.98	9.78	72.15	16.39	11.37	5.96	4.52	1.91	2.52
Total Southern region	**2,221,038**	**28.87**	**13.82**	**42.69**	**253.13**	**45.79**	**49.61**	**20.91**	**12.61**	**2.37**	3.93
Grand Total	**4,197,338**	**54.57**	**31.49**	**86.06**	**1,210.57**	**362.99**	**100.00**	**100.00**	**100.00**	**1.00**	**1.00**

Notes: * NABARD Microfinance data (2014).
** Mix Market data 2014
*** Census of India 2011
**** Rangarajan Committee poverty estimates for 2012

NOTES

1. See Srinivasan (2011), Chapter 9 and Puhazhendhi (2012), Chapter 4 and Nair and Tankha (2013), Chapter 5.
2. Definition of financial inclusion as contained in *The Global Financial Development Report 2014* (GFDR 2014) of the World Bank.
3. Aynsley (2010).
4. http://www.inclusivefinanceplatform.nl/inclusive-finance/from-credit-to-inclusive-finance
5. http://www.centerforfinancialinclusion.org/
6. http://www.acpeumicrofinance.org/images/actualite/e-MFP_Summer_2012_p6p7.pdf
7. Rajan (2014a).
8. For example, the GFDR 2014 asserts that a diverse and competitive financial sector—one that includes different types of financial providers and financial markets—is helpful in supplying the range of products and services necessary for healthy financial inclusion.
9. See, for example, Chakrabarty (2014).
10. Annual Policy Statement for the Year 2005–06 by Y. Venugopal Reddy, Governor, Reserve Bank of India.
11. See *Business Standard* (27 July 2014).
12. Several studies in India have shown that measures such as the opening of no-frills accounts (NFAs) (later designated as basic savings bank deposit accounts (BSBDAs) have been largely ineffective. The vast majority of such accounts have remained inoperative with estimates of dormancy going up to 80 per cent of total. It remains to be seen how effective will be the new thrust on opening of accounts under the Pradhan Mantri Jan-Dhan Yojana even as they are supplemented with important and necessary financial products such as debit cards, overdrafts and life and health insurance that had earlier been envisaged by the Rangarajan Committee.
13. Barcus (2011).
14. The financial capability concept goes beyond that of financial literacy. It asks which knowledge, skills, and attitudes do people have to make informed choices regarding the use and management of money as well as how external factors such as access to financial products and the conditions to use them influence these choices. It also asks how personal attributes and environmental factors can be changed to increase the ability of people to manage money and use financial services for their own benefit. It thus pertains to the *ability to act*—action performed (or not performed but deemed important) by rural households in the context of money management and use (Bickel and Mehwald, 2014).
15. Support for this hypothesis is provided by the case of the Integrated Rural Development Programme (IRDP). About 38 to 40 million families received nearly 60 million IRDP loans between 1980 and 1999—loan amounts that were as high as the level of the annual household poverty line. Nevertheless, due to deficiencies in implementation and a range of factors which denied them the full benefit of the proposed investments, a significant proportion of the borrowers found themselves as defaulters of the banking system.
16. See Sarma (2008) for details of the methodology.
17. The project is funded by Bill and Melinda Gates Foundation. See Demirguc-Kunt and Klapper (2012) for a detailed discussion on the index.
18. The Mor Committee used the assumption that an individual belonging to an urban area holding a bank account would be holding on an average 4 bank accounts, and an individual belonging to a rural area holding a bank account would be holding on an average 1.5 bank accounts.
19. Including six new districts formed during the year. Data on population of districts for 2009, 2010 and 2012 has been estimated using population data as per Census of India 2001 and 2011.
20. Summary of findings of the Financial Inclusion Insights Study, *India: Financial Services Use and Emerging Digital Pathways* (source: http://finclusion.org/wp-content/uploads/2014/05/FII-India-Wave-One-Research-Report.pdf)
21. An adult who owns or has access to a digital account or to digital financial services is considered to be financially included.
22. Pertains to all bank accounts and mobile money accounts.
23. An individual is considered to have access to an account if he/she has used either mobile money or bank services, at least once, either via their own account or via an account of another person.
24. A bank account or a mobile money account used in the last 90 days.
25. As in footnote 24.
26. Refers to adults living on less than $2.50 per day, as classified by the Grameen Progress out of Poverty Index—a poverty measurement tool developed by the Grameen Foundation wherein a set of country-specific questions are used to compute the likelihood that a household is living below the above indicated poverty line.
27. Defined as use of a phone, which is either owned by the respondent personally or borrowed from or paid to someone else for use by the respondent.
28. Estimated total borrowing clients of microfinance institutions and the number of members of SHGs with outstanding bank loans under the SHG-Bank Linkage Programme as on 31 March 2014.
29. See Government of India (2014) for details of the Mission.

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2

Financial Inclusion in India

Plans, Innovations, Challenges

In this chapter progress of various financial inclusion initiatives of banks and government during recent years and the related institutional developments are discussed. Besides, there is a focus on examining some of the evolving social and technological innovations—bank branches, business correspondents, and ATM networks aimed at extending the reach of financial services to the excluded geographies and populations. The discussion thus looks at both the emerging structure of individual-centred banking in its many forms and dimensions and the development of the infrastructural framework that is central to its implementation. Particular attention is given to a critical examination of the shift in strategic focus represented by the newly launched Pradhan Mantri Jan-Dhan Yojana (PMJDY) and the wide-ranging ramifications of what is seen by many as a game changer in the financial inclusion space.

2.1 FINANCIAL INCLUSION PLANS (2010–13): PROGRESS AND PERFORMANCE OF BANKS[1]

The Swabhimaan programme launched by the Ministry of Finance, Government of India and the India Banks' Association (IBA) aimed to bring banking within the reach of the masses through brick and mortar branches or through various forms of ICT-based models including through business correspondents (BCs). All public and private sector banks were advised to draw a three-year financial inclusion plan starting from April 2010, duly approved by their Board and with related business plans.

2.1.1 Evaluation of Financial Inclusion Plans

The RBI created a conducive and enabling environment for access to financial services to extend door step banking facilities in all the unbanked villages in a phased manner. A structured and planned approach to financial inclusion was followed wherein banks prepared Board-approved Financial Inclusion Plans (FIPs) congruent with their business strategies for a three-year period 2010–13 (Figure 2.1).

The penetration of banking services in the rural areas increased to a great extent during the first phase, when 74,414 unbanked villages with population more than 2,000 were identified and allotted to various banks through State Level Bankers' Committees (SLBCs) for coverage through various modes, such as branches,

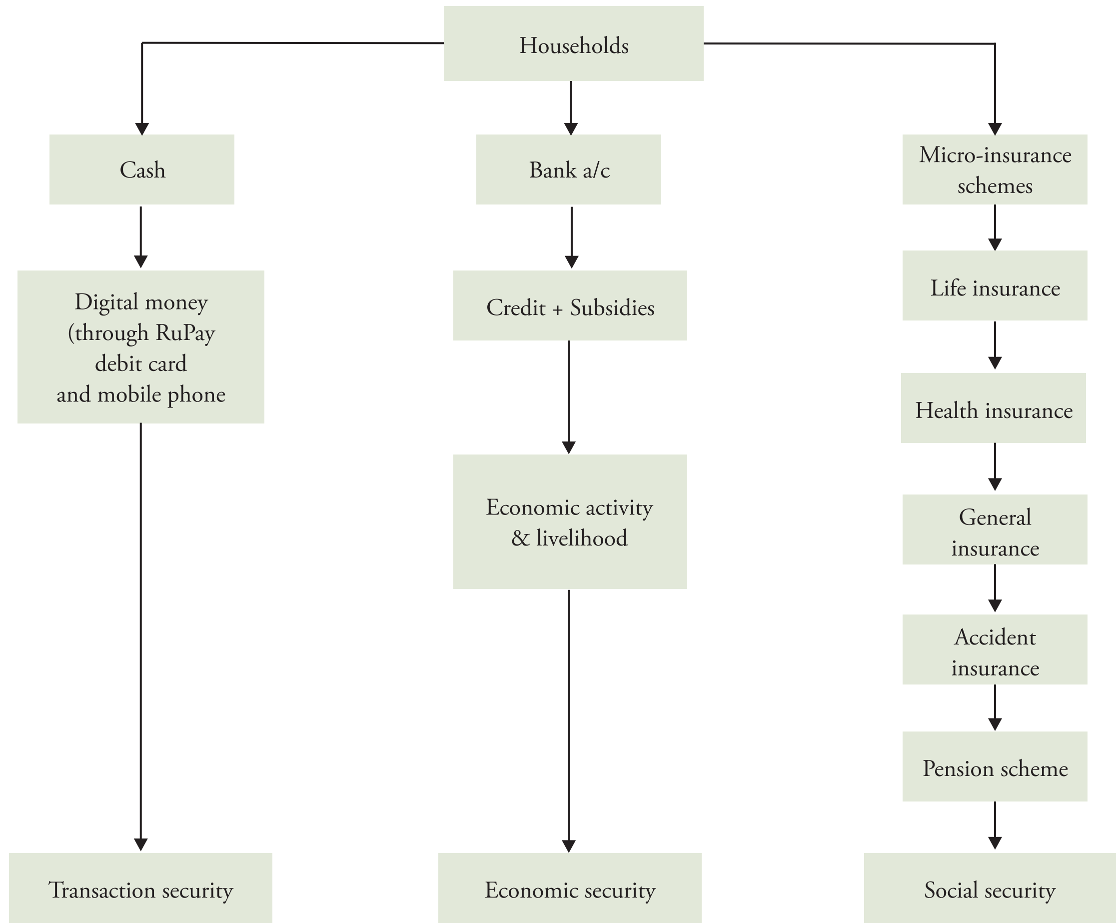

FIGURE 2.1 Impact of Financial Inclusion on Households

Source: GoI (2014) Pradhan Mantri Jan-Dhan Yojana document.

BCs, ATMs, and satellite branches. All these unbanked villages have been covered by opening banking outlets comprising 2,493 branches, 69,589 villages covered by BCs with 2,332 villages covered through other modes. In order to continue with the process of ensuring meaningful access to banking services to the excluded, banks were advised to draw up fresh three-year FIPs for 2013–16. Banks were also advised to ensure that the FIPs prepared by them were disaggregated and percolated down to the branch level so as to ensure the involvement of all the stakeholders in financial inclusion efforts and also to ensure uniformity in the reporting structure under FIPs. The focus under the new plan thus was more on the volume of transactions in the large number of accounts opened.

In Phase II, under the roadmap for provision of banking outlets in unbanked villages with population less than 2,000, about 4,90,000 unbanked villages have been identified and allotted to banks for coverage in a time-bound manner by 31 March 2016. RBI is closely monitoring the progress made by the banks under the roadmap.

By March 2014, according to reports received from State-Level Bankers' Committees (SLBCs), banks had opened banking outlets in 1,83,993 unbanked villages, comprising 7,761 branches, 1,63,187 BCs and 13,045 through other modes. However, villages covered by all modes still only represent less than 38 per cent of total unbanked villages. Undoubtedly the balance of smaller and more scattered and remote villages that remain to

be covered will pose a greater challenge than experienced thus far in order to achieve the ambitious nature of the target of full coverage by March 2016.[2]

However, it has been observed that the accounts opened and the banking infrastructure created has not seen substantial operations in terms of transactions. A brief review of the performance of banks under FIPs up to 31 March 2014 (Table 2.1) reveals the following:

- The number of banking outlets has gone up to nearly 3,84,000. Out of these, 1,15,350 banking outlets were opened during 2013–14.
- Nearly 5,300 rural branches were opened during the last one year. Out of these, nearly 4,600 branches were opened in unbanked rural centres (Tier V and Tier VI centres).
- Numbers of Business Correspondents have increased from 34,532 (end of FY 2010, i.e., 31 March 2010) to 337,678 (end of FY 2014). Despite this spectacular increase several issues related to branchless banking through these agents persist. These are discussed more extensively in subsequent sections and in Chapter 3. Essentially while numbers have increased, attrition rates too continue to be unacceptably high and the number of villages covered is still scarcely more than half the total of nearly 6,00,000. As such this channel has still not stabilized as a viable delivery mechanism for financial services.
- Nearly 33,500 BC outlets were opened in urban locations during the year taking the total number of BC outlets in urban locations to 60,730 as at the end of March 2014. Recognizing the special needs of the excluded urban population, under the PMJDY urban financial exclusion has been given special emphasis.
- More than 60 million basic savings bank deposit accounts (BSBDAs) were added during the 2013–14 taking the total number of BSBDAs to 243 million.

Here too the massive increase in the BSBDAs does not accurately reflect the true picture both regarding the facility available on these accounts or the usage of these accounts. About 70 to 80 per cent of these accounts are estimated to lie unutilized. The renaming of the former no frills accounts (NFAs) as BSBDAs still does not guarantee access to bank, passbook and

TABLE 2.1 Performance Evaluation of Financial Inclusion Plans of Banks

Particulars	31 March 2010	31 March 2013	31 March 2014	Progress—April 2013 to March 2014
Banking Outlets in Villages—Branches	33,378	40,837	46,126	5,289
Banking Outlets in Villages—Branchless Mode	34,316	2,27,617	3,37,678	1,10,061
Banking Outlets in Villages—Total	67,694	2,68,454	3,83,804	1,15,350
Urban Locations covered through BCs	447	27,143	60,730	33,587
Basic Savings Bank Deposit A/c through branches (No. in million)	60.2	100.8	126	25.2
Basic Savings Bank Deposit A/c through branches (Amt. in Rs. billion)	44.3	164.7	273.3	108.6
Basic Savings Bank Deposit A/c through BCs (No. in million)	13.3	81.3	116.9	35.7
Basic Savings Bank Deposit A/c through BCs (Amt. in Rs. billion)	10.7	18.2	39	20.7
BSBDAs Total (No. in million)	73.5	182.1	243	60.9
BSBDAs Total (Amt. in Rs. billion)	55	182.9	312.3	129.3
OD facility availed in BSBDAs (No. in million)	0.2	4	5.9	2
OD facility availed in BSBDAs (Amt. in Rs. billion)	0.1	1.6	16	14.5
KCCs—(No. in million)	24.3	33.8	39.9	6.2
KCCs—(Amt. in Rs. billion)	1,240.1	2,623	3,684.5	1,061.5
GCC—(No. in million)	1.4	3.6	7.4	3.8
GCC—(Amt. in Rs. billion)	35.1	76.3	1,096.9	1,020.6
ICT A/Cs—BC—Transaction (No. in million) (during the year)	26.5	250.5	328.6	328.6
ICT A/Cs—BC—Transactions (Amt. in Rs. billion) (during the year)	6.9	233.9	524.4	524.4

Source: RBI (2014).

Note: Figures in column 5 might not tally due to rounding off of numbers.

ATM card as intended by the account upgradation and the changed nomenclature though it is expected that this too will change quickly in the near future.
- Farm and non-farm sector credit cards continue to expand at a steady pace. With the addition of 6.2 million small farm sector credits during 2013–14, there were 40 million farm accounts [Kisan Credit Cards (KCC)] as on 31 March 2014. Besides, with the addition of 3.8 million small non-farm sector credits during 2013–14, there were 7.4 million non-farm accounts [General Credit Cards (GCC)] as on 31 March 2014.

Nearly 328 million transactions were carried out in BC-ICT accounts during 2013–14 as compared to 250 million transactions during the previous year. While the figure appears to be impressive this represents a small number of transactions per account—*less than 3 transactions per account per year*. The number of ICT-based BC transactions though encouraging is still very low as compared to the increase in the number of banking outlets. Greater emphasis is being placed on volume of transactions carried out through the newly opened bank accounts. The monitoring format for progress in FIP has been modified to include detailed coverage of transactions in savings, credit and [Electronic Benefit Transfer (EBT)] accounts through BCs. The focus of monitoring is now more on usage of these accounts through issue of more credit products through the channel.

Appendices 2.1 and 2.2 give the outreach of leading public sector and private sector banks in their financial inclusion efforts as available from data in respect of the parameters discussed above and others. A broad range of products and initiatives taken by individual banks as part of financial inclusion is also provided therein. Various banks have piloted or implemented innovations such as ultra small branches, kiosk-banking, mobile banking, hub and spoke models and micro-ATMs and biometric devices. A diverse set of products including smart cards and small deposit schemes have been launched and the services of business correspondents engaged. To support the acceptance and spread of banking services, various measures have been taken to improve financial literacy. With the help of a large number of technology service providers banks have introduced technological innovations in their operations at strengthening the last mile in the availability of financial services. However, it has not led to scaling up of services to the unbanked population on a large scale. At the same time due to the scattered initiatives and technology implementation, major issues emerged in the inter-operability of systems towards seamless banking operations. These challenges are now being addressed. Some of the measures that have been taken include: (i) Setting up of Ultra Small Branches (USBs); (ii) Unstructured Supplementary Service Data (USSD) Based Mobile Banking; (iii) Aadhaar Enabled Payment Systems (AEPS); (iv) Expansion of the ATM network; and (v) Implementation of Direct Benefit Transfer (DBT) schemes through banks.[3] A discussion on the use of technology in financial inclusion through the BC model is carried out in Chapter 3.

2.1.2 Guidelines for Strengthening of BC Model

With the objective of ensuring greater financial inclusion and increasing the outreach of the banking sector, the Reserve Bank permitted banks to utilize the services of intermediaries in providing financial and banking services through the use of BCs. As reported by the banks under their financial inclusion plans (FIPs) nearly 2,48,000 BC agents had been deployed by banks as on 31 March 2014 which are providing services through more than 3,33,000 BC outlets. Nearly 117 million BSBDAs opened through BCs remained outstanding as on 31 March 2014. Though the number of BC-ICT transactions increased considerably, it was observed that the increase in the volume of transactions was not commensurate with the increase in the number of BCs engaged and the accounts opened through them. A review of the BC model highlighted that the cash management system followed by the banks for BC operations was one of the major impediments in the scaling up of the BC model.

In order to facilitate the scaling up of the BC model, the RBI recently issued the guidelines asking bank boards to:

- review the operations of BCs at least once every six months with a view to ensuring that the requirement of pre-funding of corporate BCs and BC agents should progressively taper down; and
- review the remunerations of BCs and lay down a system of monitoring by the top management of the bank. It also directed that the cash handled by BCs

be treated as the bank's cash and the responsibility for insuring this cash should rest with the bank.

Clearly, at the heart of the financial inclusion thrust are the activities of the BCs and the quality and content of their relationship with the customers and the banks. In the following sections bankers' perspectives on the BC model and the new arrangement for their functioning under the PMJDY are discussed. A fuller discussion of BC models, the viability of BCs, their relationship with existing institutions and channels of financial services for a similar clientele, viz., Primary Agricultural Credit Society (PACS), Regional Rural Banks (RRBs), microfinance institutions (MFIs) and SHGs and the prospects for the future is carried out in Chapter 3.

2.1.3 Financial Literacy

An integrated approach has been adopted for achieving financial inclusion through financial literacy. As part of RBI's financial literacy strategy the financial literacy centres (FLCs) and rural branches of Scheduled Commercial Banks are advised to undertake financial literacy activities in the form of awareness camps at least once a month. For this, the Reserve Bank has devised model architecture for conducting the financial literacy camps in three stages starting with generating awareness in the first stage, account opening in the second stage and monitoring the usage of accounts in the third stage. In order to ensure consistency in the messages reaching the target audience of financially excluded people by the FLCs, the Reserve Bank has issued comprehensive financial literacy material consisting of a Financial Literacy Guide, a Financial Diary and a set of 16 posters which is now available in 13 languages. The Reserve Bank has advised all banks including RRBs to use the financial literacy material as standard curriculum to impart basic conceptual understanding of financial products and services.

A review of the progress made by FLCs reveals that 514 centres were added during 2012–14 taking their total number from 428 as at end of March 2012 to 942 as at end March 2014. These FLCs are creating awareness about banking products and services through indoor and outdoor activities. During the year 2013–14 over 3.8 million persons participated in these activities. A quick study of FLCs conducted in 46 districts of 23 states in October 2013 covering 730 participants who had attended financial literacy camps during the last year revealed that almost all the participants (99 per cent) had got linked to the formal banking system. Savings account (89 per cent) was the most used banking product and 44 per cent of the participants had availed of credit products.

2.2 BANKERS' ROLE AND PERSPECTIVE ON FINANCIAL INCLUSION

2.2.1 Role of banks

Financial inclusion has been positioned as a *bank-led* model with the Department of Financial Services and the Reserve Bank of India directing the course of the engagement of the banking community, primarily the scheduled commercial banks and regional rural banks (RRBs).

The spectacular growth numbers in the parameters being tracked by FIPs would appear to suggest that the financial inclusion project is on track. Appendices 2.1 and 2.2 give details of bank-wise achievements and initiatives aimed at financial inclusion. Banks have made notable, sporadic, efforts at innovation in support in the introduction of technology, financial literacy and other methods of expanding outreach. An illustration of the range of financial inclusion innovations of selected banks is given in Box 2.1 below.

However, despite the impressive increase in the many parameters of financial inclusion—number of rural bank branches, number of basic bank accounts, number of KCCs and GCCs, number of ultra-small branches and FLCs—there is lack of satisfaction with the progress that has been achieved. As stated by the then RBI Deputy Governor in an address delivered to the 35th SKOCH Summit the central bank is concerned about quality of financial inclusion, since the number of transactions in the accounts opened continues to be miniscule (Chakrabarty 2014). The poor governance of the financial inclusion framework and the lack of accountability at the levels of boards and senior of management of banks were seen to be the reasons for the apparent underperformance of the inclusion project. Banks need to develop appropriate business and delivery models in line with their business

Box 2.1 Select Financial Inclusion Measures of Banks

Axis Bank:
Launched the facility of account opening for the FI customers in a paperless and near instant fashion through the BC channel via the e-KYC route.

Bank of Baroda:
Has set up more than 1,000 urban kiosks at various locations through arrangements with Common Service Centres (CSCs). Banking services are also being provided through mobile vans during fixed days in a week in six states.

Canara Bank:
Provided Micro Insurance and Micro Pension under Canara Nayee Disha Scheme. Deployed Gramin Vikas Vahini for enhancing financial literacy and credit counselling.

Dena Bank:
Launched biometric ATMS that can be operated by thumb impression which is convenient for small customers and semi-literate persons.

HDFC Bank:
Formed a network of rural business hubs which are involved in the Sustainable Livelihood Initiative (SLI) to provide financial inclusion for the unbanked.

ICICI Bank:
Provides remittance facilities to migrant workers in urban areas through tie-ups with BCs and telecom companies.
It launched 'Branch on Wheels' to provide banking services to a cluster of remote unbanked villages in three states.
Conducts village-level financial literacy workshops called 'Gram Samvad' using innovative methods like comic books and audio visual media.

Indian Overseas Bank:
Special Financial Inclusion Branches have been opened in the State of Tamil Nadu. 8 to 10 BCs are clustered and assisted in operations.

State Bank of Bikaner and Jaipur:
Facilitates opening of 'Small Account' by migrant labourers, street hawkers and other poorer sections of the society.

State Bank of India:
Linking of villages to branches through CSPs in a hub- and-spoke model has been launched. A facility of depositing loan repayments at BC outlets has also been enabled.

UCO Bank:
Alternative model to provide secure and hassle-free banking services for the financially excluded Mobile vans with CBS connectivity for online are operating in the unbanked villages.

YES Bank:
Key initiatives undertaken by YES BANK to promote financial inclusion included YES SAHAJ—a Mobile Transaction Kit, YES MONEY–Domestic Remittance service and YES LEAP–product suite for SHGs through partner NGOs acting as BCs. It also launched prepaid cards on a remittance platform which is expected to enhance financial inclusion.
YES Sahaj Micro ATM, an innovative, cost-effective and scalable mobile transaction solution benefited rural families, migrant workers and plays a pivotal role in the operations of YES LEAP and YES Money.

Source: Annual reports 2013–14 of various banks.

strategy and priorities. The resultant competition among banks would benefit the cause of inclusion and improve the banks' bottom lines.

One of the major challenges has been that the banks are yet to develop a BC-ICT model which is scalable and can help to achieve the financial inclusion targets. Similarly, the use of financial infrastructure is inadequate, with the number of transactions and accounts opened by the BCs remaining unimpressive. Other deficiencies in scaling up the BC model include Restrictive Cash

Management Systems followed by banks, wherein BCs are required to fully pre-fund their business operations, in terms of cash limits and security provided; non-insurance of cash held in transit by BCs; low or untimely remuneration paid to BCs; and allowing transaction only in limited products through the BC channel. Commitment on the part of banks and standardization of practices, for instance, of BC operations, are necessary for the success of the multifarious efforts to reach out to the margins of financial markets.

2.2.2 Bankers' Views

Though there is speculation about the enthusiasm of bankers for financial inclusion, little is written about how bankers themselves feel about the initiatives. A Round Table of about 35 bankers from public sector and private banks and RRBs convened by NABARD and ACCESS Development Services in Mumbai in July 2014 provided responses from the banks on a range of issues. The Chair of the Indian Bank Association exhorted banks to relook at their models and have a sense of ownership of the business of the BC agents. He highlighted the opportunity provided by DBT payments being routed through the banking channel and expressed the hope that operating expenses of banks, in the provision of services, will come down substantially, with scaling up. He advocated a mix of stationary and mobile BCs, as the latter had not proved to be very effective in providing doorstep services. The retention of Aadhar was a positive development, which would give a boost to financial inclusion. At the same time, the overdraft of Rs. 5000 on RuPay cards constituted an added challenge that ran the risk of creating over-indebtedness. It is clear that the industry cannot afford to have 70 per cent of accounts opened under financial inclusion to be dormant, leading to non-viability of BC agents.[4] Hence banks have to find the solution in the form of a scalable and replicable business model to stimulate the demand side. It was generally agreed that strengthening of functioning of FLCCs is very important for the progress of financial inclusion. As a result, the FLCs were proposed to be introduced at the block level instead of at the district level.

Bankers' generally expressed the view that there was no reluctance on their part to implement the financial inclusion measures which they considered to be desirable and potentially profitable but needed time for viable operations. As volumes would pick up in the accounts with the provision a greater number of services, operational expenses would come down and this would ensure the profitability for the BC and for the banks. The outsourcing of bank functions was necessary in the interests of servicing the growing market for financial services as bank branches would not be able to take the load of the burgeoning customers. However, it was also felt by some bankers that services to bank clients should be priced such as to cover costs that which the latter were prepared to pay.

It was pointed out that kiosk banking or similar ultra-small branch or common service centres (CSCs) would be more appropriate than merely deploying BC agents. A mix of approaches would be necessary. While BCs were useful for de-cluttering of busy branches, through reduction of footfalls, they also helped to save transaction costs of banks. However, BCs were not available in difficult areas, and they were found to be viable, as also profitable for the BC, in the event of an active operation in remittances. Some of the larger banks had had a mixed experience with various types of BCs, starting with individual BCs linked to bank branches. The negative experience with these agents gave way to relying on corporate BCs, but these in turn had their shortcomings, with their limited field knowledge and poor management of BC agents. Since the bank's name was involved, the process of selection of the local BC interfacing with the clients and the monitoring of the BC's operations was very important.

A wide variation was also observed in the remuneration paid to the BCs. This ranged from a minimum of Rs. 1,500 per month for 25 accounts or 50 transactions, going up to Rs. 5,000 in some cases.[5] At the same time the banks had several grievances with the BC arrangements. As regards the role of corporate BCs, banks as well as NABARD were dissatisfied with the functioning of corporate BCs, as also the fact that in the case of some of them, the technology used was not appropriate. Banks were facing challenges of connectivity, especially in the PoS model. Some banks were working with as many as 31 TSPs as corporate BCs and every TSP had a different technology. In the Request for Proposals (RFP), contracts were awarded to L1 bidders, but their performance was poor. It was felt that it would be better if a technical com-

mittee assessed the technical part of the BC function and fixed a minimum amount for the tender, rather than an open-ended proposal from TSPs. Further, when a vendor left, it took four-five months to appoint a new one and the work would be affected in the interim period. The meagre payment to CSPs by corporate BCs was seen as the reason for attrition of BCs at the last mile. This led to the direct handling of BCs by some banks through the USB model.

Finally, despite many innovations, *technology issues* have continued to persist. Besides the introduction of technology had not resulted in a reduction in the cost of providing financial services[6]. Beneficiaries/ stakeholders, including banks, often complain of constraints in digital/ physical connectivity. This coupled with delays in the issuance of smart cards and reliability issues in hardware infrastructure such as hand held devices, etc., have had an effect on the smooth roll out of financial services.

2.3 INNOVATIONS IN FINANCIAL INNOVATION

2.3.1 NABARD Funding for Financial Inclusion

The apex agencies such have NABARD have supported the integration of regional rural banks and cooperative banks into the core banking system (CBS) and have also supported initiatives to ground BCs in these agencies apart from initiatives focusing on Information and Communication Technology (ICT) and universal financial literacy.

NABARD continued to manage two dedicated funds i.e., (i) Financial Inclusion Fund (FIF) for meeting the cost of developmental and promotional interventions and (ii) Financial Inclusion Technology Fund (FITF) for meeting the cost of technology adoption for financial inclusion. With effect from 01 April 2012, the relative margin (interest differentials) available to NABARD in excess of 0.5 per cent in respect of deposits placed by banks under RIDF and STCRC is being credited to FIF/ FITF. The position of contributions/accruals to the FIF was Rs. 17,618.7 million and FITF was Rs. 2,030.4 million as on 31 March 2014.

As on 31 March 2014, the cumulative sanctions under FIF and FITF were Rs. 5,028 million and Rs. 4,084.5 million, respectively, against which, disbursements were Rs. 1,353.5 million and Rs. 2,215.5 million, respectively. The Micro Finance Development and Equity Fund (MFDEF) was closed on 31 March 2013 and the activities being financed by it are now being covered under FIF. There is a proposal to further merge the FIF and the FITF.

The major initiatives under FIF have been:

(i) support to cooperative banks and RRBs for setting up financial literacy centres
(ii) assistance to RRBs for demonstrating banking technology
(iii) support for migration of data of PACS to CBS of cooperative banks
(iv) financial education and literacy programmes in schools[7] and through common service centres

The major initiatives under FITF have been:

(i) ICT solutions for RRBs adopting BC/ BF model
(ii) Support for CBS of weak RRBs
(iii) Assistance for CCBs and RRBs for RuPay KCC and RuPay Debit Card and for purchase of additional PoS devices (Box 2.2)
(iv) Support to RRBs and cooperative banks for ATM inter-change charges

2.3.2 Government Initiatives

Several government initiatives have been launched in support of financial inclusion that have served to provide effective and cost-efficient means of promoting the access to and use of financial services by poor and unbanked families. In this effort, government departments are involved as enablers in the use of communications and information technology to facilitate direct benefit transfers and a range of financial and non-financial services. Two of the most promising innovations are described below.

(a) Common Service Centres and Financial Inclusion

National e-Governance Plan (NeGP) is being implemented with the objective of creating transparent and accountable governance. To achieve this mission, the Department of Electronics and Information Technology (DeitY), Government of India is rolling out Common

Box 2.2 RuPay Kisan Credit Card

NABARD set up a Special Unit—Kisan Credit Card (SPU-KCC) in January 2013 with a mandate to encourage co-operative banks and RRBs to issue RuPay Kisan Cards for providing eligible KCC customers with the facility of withdrawal/disbursement of loans through ATM/PoS/micro ATMs using these cards.

'RuPay', a new card payment scheme launched by NPCI, is conceived to fulfil RBI's vision to offer a domestic, open-loop, multilateral system which will allow all Indian banks and financial institutions in India to participate in electronic payments. RuPay has come out with its RuPay Kisan Card which leverages the benefits of both KCC and RuPay. RuPay Kisan Cards involves a number of positive features such as:

- It is a smart card which can be used at the nearest ATM/PoS.
- No entry fee and negligible administrative costs as compared to international brand cards.
- Since it is a PIN-based product, it provides highest security.
- It provides advanced features such as processing of adjustment file to enable Tip and Surcharge processing on SMS platform.

43 RRBs have issued 7,11,000 RuPay KCCs Kisan Cards to their customers. NABARD continued to provide financial support for issuance of cards, installation of micro ATMs, integration of PoS and CBS and migration of KCC accounts data from PACS to CBS of CCBs. As at the end of March 2014, a total grant support of Rs. 330 million was sanctioned to 26 RRBs and eight co-operative banks for helping in issuing 5.2 million RuPay Kisan Cards, installation of 10,000 micro ATMs and for demonstrating banking technology through mobile vans (in 10 RRBs and four co-operative banks) at the doorstep of rural population.

Source: NABARD, *Annual Report NABARD, 2013–14*.

Service Centres (CSCs) on a Public- Private-Partnership (PPP) model.

The goal of the CSC Project is to empower rural communities and catalyze social change through application of ICT-based modern technologies. A network of internet-enabled Information and Communication Technology (ICT) access points are termed as Common Service Centres (CSC) at Panchayat level. CSCs are the front-end delivery points for government, private and social sector services to citizens of India. These CSCs are IT kiosks with internet connectivity delivering a holistic suite of services through an alternate channel to the rural market and thereby mainstreaming the citizens and economy of rural India. The CSCs provide high-quality and cost-effective audio, video and data content, in areas of e-Governance, Education, Health, Tele-medicine and Entertainment in addition to the government and private services.

A Special Purpose Vehicle (SPV) named 'CSC e-Governance Services India Ltd' has been incorporated under the Companies Act 1956 to enable services through the CSC network. The CSC eco-system comprises of about 1,40,000 Village Level Entrepreneurs (VLEs) spread across the country, 30 Service Center Agencies (SCAs) and 35 State Designated Agencies (SDAs). As on 31 May 2013, 1,29,266 CSCs were operational in thirty three (33) states/union territories. As per the data available from 64,454 CSCs across 24 states and 25 SCAs, in May 2013, on an average, each VLE has done 195 transactions worth about Rs. 50,000 in the month. The CSC scheme provides a collaborative framework for like-minded public and private enterprises, to integrate their goals of profit as well as social objectives into a sustainable business model. The key driver for the selection of content and services is their end-to-end applicability. It is believed that CSCs will act as a change agent to bring rapid socio-economic change in rural India.

The G2C services offered are: agricultural services, RTI services, NREGA MIS data entry service, postal products, land records, issuance of birth and death certificates, utility services, electoral services, transport services, grievances, e-district services, etc. The CSCs provide the following services for financial inclusion: (i) financial inclusion banking; (ii) insurance; (iii) loans; (iv) pension and others. Financial inclusion has started in the states of Andhra Pradesh, Jammu and Kashmir, Madhya Pradesh, Meghalaya, Maharashtra, Tripura and Uttar Pradesh.

The aforementioned SPV has been retained by several banks to act as BC to fulfil their commitments to financial inclusion. It has in turn appointed several partners to act as managers of the VLEs who are running the CSCs (see Box 2.3).

Box 2.3 What is CSC?

- CSC is the Common Service Center run as a business by a village-level entrepreneur. Government of India under the national e-governance plan has set up 140 thousand outlets. These outlets provide a range of government-to-citizen services, banking-to-citizen services, government services such as Aadhar or PAN card, collecting electricity bills, etc., and business-to-citizen services such as selling seeds or cattle feed. This model works on principal of PPP—Public (government), P (Private) and P (People) partnership. The VLE (who acts as the BC agent for financial services component) constitutes the private partner who also invests in the CSC which is run as an enterprise and acts as a change agent. Through CSCs, government expects to bring a range of urban services to the rural space. Thus rural people need not go to pay electricity bills and need not go to faraway places to open bank accounts.
- BASIX is an agent of the CSC SPV which has become the BC for 19 to 20 banks. They SPV has appointed Basix as the manager of the VLEs. Government has appointed about 25 private partners as managers of the VLEs and Basix is one of them managing the work of more than 5000 VLEs. As the BC agent on behalf of various banks, the VLE facilitates real-time banking transactions similar to kiosk banking. The VLE has to have a fixed address and has to be available at that place. A bank can have a BC network independent of the CSC channel. The CSC can be seen as another competitive channel for BC operations.
- The original plan was that one lakh CSCs will take care of 640,000 villages. So, each CSC would cover six villages. Now another one lakh CSCs are being added with the objective that a CSC would be available at all 250,000 panchayat headquarters.

Sources: 1. Department of Electronics and Information Technology (DeitY), Ministry of Communications and IT, Government of India, *Common Service Centres: Innovative Rural Microenterprises in India*.
2. Anoop Kaul, Basix, New Delhi.

CSCs have come up across the country, under such different labels as Pragya Kendras, Vasudha Kendras, eGram Centres, Kidmat Centres, Akshaya Centres, MeeSeva Kendras, etc. Some CSCs have succeeded in improving and, in some cases, revolutionizing the communities by creating new opportunities for socio-economic development. This means that a specific content/ service will be in a marketable format for its delivery by the network of CSCs. The PMJDY has recognized the IT-enabled CSCs as an important strategic asset in the pursuit of digital financial inclusion.

(b) Samriddhi Pro-poor Model, Madhya Pradesh[8]

Samriddhi[9] is a financial inclusion model of government of Madhya Pradesh through which in addition to routine banking facilities, people are getting benefits from various central government schemes such as pensions for BPL families, senior citizens, destitute, disabled persons and widows and state government's economic assistance and pension benefits directly to their bank accounts.

The model has been rolled out through the platform of State Level Banking Committee (SLBC) and Department of Panchayat & Rural Development (DP&RD). Madhya Pradesh Financial Inclusion model (MPFI) strives to achieve inclusive growth of rural poor with seamless integration of the front and back end. The model follows a three-pronged approach with SAMAGRA (see Box 2.4), Ultra Small Branches and Customer Service Points to provide last mile access and an electronic fund management system for achieving seamless payment transfers.

The electronic fund management system, also known as e-FMS, for ensuring timely and correct payments to the beneficiaries as Government to Person (G2P) has been established. Through active coordination with various government departments, rules and regulations for the implementation of the schemes were simplified. Also, disbursement structures of various schemes implemented by different government departments were streamlined in order to ensure that benefits are transferred to the same bank account. e-FMS has ensured transparency in NREGA payments.

The model has come up with ultra-small bank branches or customer service points as the front end for opening bank accounts, transactions and ensuring last mile connectivity to ensure timely and accurate payments to beneficiaries. The model has also pooled in non-core

Box 2.4 SAMAGRA Database, Madhya Pradesh

The concept of social security integration called SAMAGRA is the front end of the model and carries a multi-utility database that was initiated in the year 2010. An Integrated Social Security Mission (SSSM), SAMAGRA constitutes of creation and integration of a common database for system integration of all benefit schemes of the government. SAMAGRA captures the one word—both of individuals/households and their characteristics along with the available government schemes, eligibility, features and benefits of the schemes in Health, Human Resource Development, Social Security and Education. Each individual and household has been provided with a unique identification number called Samagra number. SSSM nearly covers 25 million beneficiaries. SAMAGRA ensures appropriate match between the beneficiaries and the eligibility quoted in the government schemes and thus supports the government in appropriate utilization of funds. NIC and SSSM have come up with a portal, samagra.gov.in, for the effective implementation of Madhya Pradesh Integrated Social Security Program for ensuring good and transparent governance. At present benefits are being transferred into the bank accounts of the beneficiaries through SSSM in 15 districts of the state.

Source: Bhatnagar and Gupt (2014).

banking financial institutions like the post offices and cooperative banks to transfer the benefits and financial services. MPFI model came up with 'Shadow Area' as an area that does not have any brick and mortar financial institution such as RRBs/commercial banks within a 5 km radius and shifted the criteria of RBI and government from 'population' to 'shadow area'. Government did not want to take up the population approach towards financial inclusion as by doing so banking facilities would be provided in a graded manner and villages would have to wait for longer periods of time to avail the facility.[10] The banks in MP were advised to open their USBs and CSPs in these shadow areas. An annual cash transfer flow of Rs. 4.5 million was however required to ensure viability of these Ultra-Small Branches. Hence government ensured that all disbursements irrespective of schemes and departments went to the same account. Also the account of the Panchayat was also shifted to the USB. BCs have been appointed for running USBs and these banks are being established at a very low cost due to a simple system of information technology and small equipment. By doing so, the average annual cash transfer per USB exceeds Rs. 10 million which makes it viable. Till June 2013, 1,761 such facilities USB (Ultra Small Banks) have been provided.

According to the latest data, the model has resulted in the opening of 76.5 lakh bank accounts in the state. For this, 14,697 unserviced villages were identified where banking services were not available within 20 to 70 km and a drive was launched to open 2,998 USBs. These banks which were opened in 2,400 small villages across the state have transacted business worth Rs. 18 billion.[11]

Samriddhi model has received a lot of attention from other states and the central government has decided to implement the Madhya Pradesh model in the entire country.

2.4 FINANCIAL INCLUSION IN EXCLUDED AND REMOTE AREAS

Practitioners and researchers feel that the specificities of hills, remote areas and disaster-prone areas, particularly the inaccessibility and scattered population on the one hand and the risk to livelihoods on the other, need to be taken into account while formulating financial inclusion policy.

The Rangarajan Committee 2008 had identified the extent of exclusion to be the highest in mountain states and resource-poor states. The reasons for exclusion were diagnosed as: (i) inaccessibility (ii) high transaction cost (iii) documentation barrier (iv) behavioural aspects (v) high risk and (vi) inappropriate products. Financial inclusion measures in the sparsely populated villages of hill areas and in other unfavourable geographies have been relatively few. Though efforts have been made by banks to pilot various financial inclusion schemes in such locations, the impact has been generally mixed. However, a couple of innovative institutional and programme interventions provide a more optimistic picture.

2.4.1 Uttar Bihar Gramin Bank—Towards Viable Development in Financially Excluded Areas[12]

Uttar Bihar Gramin Bank (UBGB) is operational in 18 districts of Bihar. UBGB is headquartered at Muzaffarpur, is an amalgam of eight erstwhile RRBs sponsored by Central Bank of India. All districts of the UBGB command area are classified as financially excluded districts by Dr Rangarajan Committee (2008) and as backward districts by the Planning Commission for Rashtriya Sam Vikas Yojana. With 1,020 branches as on 31 March 2014, the bank represents about 40 per cent of the entire branch network of commercial banks in these districts. It is thus one of the largest RRBs in the country. The bank is charting a course to lead holistic development of villages of North Bihar by being proactive in all development initiatives by involving government, NGOs, private entities and individuals.

Concept of Gram Chetna—Centre of Rural Viability[13]

UBGB has introduced Gram Chetna, a perspective plan for holistic development and wealth creation in villages where each banking outlet of UBGB would act as the focal point of extension, counselling, liaison, providing forward and backward linkages and channelling financial muscle required for rural development, while ensuring profitability of each business unit. 8,019 unbanked villages have been allotted to UBGB for financial inclusion. These include 477 villages with population above 5,000, and 2,140 villages with population ranging from 2,000 to 5,000. Each of these 2,617 centres can sustain a viable USB doing resource mobilization and lending. Under the perspective plan for the next five years, taking into account the above-mentioned contributing factors, total business is projected to grow from Rs. 12,547 crore in 2011–12 to Rs. 44,365 crore in 2017–18.

Technology-enabled, outsourced financial inclusion model is to be leveraged to multiply the points of presence to 3,500 and to garner banking business from the hitherto unbanked population. The BC model would serve to establish 2,500 USBs christened as 'Sunahara Sapna'[14]. A policy would be formulated for engaging business facilitators as marketing agents and catalysts for SHGs and JLGs and BCs for extending banking outreach to new territories in a cost-effective way. A conscious effort would be made to remove cultural blocks towards lending and financial inclusion.

BC Channel and Financial Inclusion

Currently, 2,476 BCAs are working in the village area. UBGB's working area in four districts, i.e., Sheohar, Sitamarhi, East Champaran, West Champaran, is flood-prone and Naxalism-affected. While UBGB does not face problem of Naxalism and the BCAs' operations are not being hampered by their activity, the flood situation has often to be dealt with by them. The commitment of the BCAs is such that they are available in the village even in times of flood by sitting on top of stands of bamboo for uninterrupted provision of services (see Table 2.2).

TABLE 2.2 UBGB-Status of Business Correspondent Operations (as on 12 August 2014)

Particulars	Nos.
No. of BCs engaged	1
No. of BCA agents	2,476
No. of no-frills accounts	9,00,000
Operational	6,75,000
% of account operational	75
Amount in accounts	Rs. 6 crore

Source: Krishna (2014).

The UBGB provides a fixed salary of Rs. 3,500 per month to the BCA and they are able to make more than 500 customers through their operations. With this salary, BCAs are motivated to stay with the family and work in the village. This lowers the attrition rate of the BCAs. The bank plans to involve BCAs as business facilitators on commission of 1 per cent on recoveries for the bank. This will enable them to enable them to earn higher commissions and income.

UBGB has also initiated credit support to share croppers. The bank provides Rs. 25,000 for the first time. The bank has designated it as *Micro KCC*. After the credit is repaid, the bank increases the limit to Rs. 100,000 for the second dose. For artisans too, provision of Rs. 10,000 under the GCC has been initiated.

Financial Literacy Centres

The financial literacy centres (FLCs) constitute one of the major initiatives of UBGB which is impacting the FI initiatives of North Bihar. The FLC plays an important role in providing capacity building and awareness creation of customers in getting the financial services of UBGB.

The FLC is one of the core themes for attaining the objective of Gram Chetna and thus UBGB is playing an important role in making FLC a success. All 18 districts are covered with FLC. Financial literacy initiatives happen through indoor/outdoor medium where the RBI guidelines and materials are being followed. A monthly monitoring system tracks progress made on the various indicators by the FLCs. Till now around 8,000–10,000 camps have been organized and around 5,00,000 villagers have benefited from it.

Given the large number of villages allotted to it UBGB is making slow and steady progress in the field of financial inclusion despite the adverse conditions. UBGB is gearing up to set up the strong systems to more comprehensively bring about FI in rural areas.

2.4.2 SEWA Bharat-SBI Financial Inclusion Model in the Hills of Uttarakhand

Similarly in 2009, SEWA Bharat partnered with State Bank of India to increase the financial inclusion of women in remote areas of Uttarakhand. Under the SEWA-SBI Financial Inclusion model, local cadre of women from the community have been employed as Customer Service Points (CSPs) to provide linkages between banks and the unbanked population. These women gain meaningful employment by delivering doorstep banking services across villages using mobile technology in the form of GPRS enabled-PoS machines. A Little World acts as the technology service provider with SEWA Bharat as the field facilitator. As of October 2013, the SEWA Bharat-SBI BC model is being implemented in the four districts of Almora, Bageshwar, Pithoragarh and Champawat, spanning 23 blocks and over 600 villages[15] With the help of PoS machines, no frills accounts are opened. Deposit accounts (fixed and recurring), remittances, withdrawals and loan applications and pension distribution are made available through this model of financial inclusion. Since the inception of the initiative in 2010 and as of end September 2013, 22,640 PoS accounts had been opened, with total savings of Rs. 9,75,44,314. Of these accounts, 90 per cent of them are active and 80 percent belong to women.[16] 90 percent of the no-frills accounts opened under this programme are active with a CSP on the average linking 750 people with financial services.

Based on a study of the Sewa Bharat-SBI Financial Inclusion model by her in December 2013, Tankha (2014) highlights issues in the implementation of the BC model. SEWA's experience reveals that financial transactions frequently get aborted owing to technical glitches in operation of PoS machines.[17] Further, there is considerable *financial burden* on implementing agencies, especially non-profit organizations such as SEWA, to roll out and sustain this BC model owing to the *range and volume of costs* that need to be incurred.[18]

Though women CSPs have been provided work opportunities with the help of investment from the NGO-BC, issues remain about the small commissions provided and the work conditions (see Box 2.5). It would appear that, as in other reports of the involvement of women as CSPs, their participation inevitably is governed by the fact that *their expected remuneration levels are comparatively low and their motivation may partly be derived from non-monetary factors*.[19]

2.5 ALTERNATE INSTITUTIONAL INNOVATIONS AND CHANNELS OF FINANCIAL INCLUSION

The financial inclusion infrastructure and package has been positioned independently of the pre-existing structure of SHGs and their federations promoted by NGOs and government agencies. However, two agencies are using the BC intermediary relationship to channel funds from the banking system at reasonable rates of interest to the SHGs over and above that available through the direct SHG-bank linkage channel. NABFINS, promoted by NABARD, Government of Karnataka and some commercial banks, is registered as a non-banking finance company (NBFC). In Andhra Pradesh through the initiative of the government-promoted Society for the Elimination of Rural Poverty (SERP), low-cost supplementary credit is provided by a registered financial cooperative, Stree Nidhi.

Box 2.5 Experience of Women Bank Sakhis in Hill Areas

Currently, approximately 150 such women CSPs have been identified and training provided by Sewa Bharat. CSPs from among the community enjoy a good rapport and trust and respect of fellow community members. Women CSPs have benefitted from this work opportunity, learning new skills and earning incomes where previously they were mostly unpaid farm labour on their own land.

Nevertheless, women service providers implementing the SEWA-SBI model revealed that they would want to receive a basic salary rather than be paid on performance-related commissions and incentives. On an average, CSPs open approximately 50 accounts in a month, earning only Rs. 15 as commission for every account opened (i.e. Rs. 750 per month). This was particularly glaring since women CSPs had to travel large distances on foot, up to 15-20km, from door-to-door to enroll members and attend to their calls for deposits/ withdrawals. It was suggested by the Lead District Manager, Lead Bank Office, Almora district, that a woman CSP could be paid Rs. 4,000 a month as fixed salary; over and above this incentives could be given, amounting to Rs. 6,000.

Further, CSPs maintained that they remained scared that they would be are attacked or robbed when travelling on foot and with money on their person, and that therefore some provision for addressing cash handling risks and travel arrangements/ allowance should be provided. On occasion to maintain the 'trust' of community members, when faced with technological hurdles or shortages in cash liquidity related to working capital limit, the CSPs always treated the customer's financial needs on priority, even if this meant advancing the money from their own earnings to community women.

Source: Tankha (2014)

2.5.1 NABFINS

The NABARD subsidiary called NABFINS, has been uniquely positioned in a field dominated by NBFC-MFI models. Basically, NABFINS runs an NBFC-MFI model that customizes loans and repayment schedules to respond to the diversity of livelihood situations, thereby balancing 'business with inclusion in growth', being focused on the poor and marginalized. It seeks to bring about financial inclusion in a sustained way, with support from a variety of institutions in building skills of the poor. It also invests, at the expense of its own profits, in interventions that require investment to develop a network and support system for pro-poor.

Karnataka Agriculture Finance Company Limited (KADFC) was restructured to form an NBFC-MFI called NABARD Financial Services Limited (NABFINS) in 2008. NABARD is the major stakeholder with 68 per cent of shares and Canara Bank, Union Bank, Dhanalakshmi Bank and Federal Bank are the other stakeholders. The main aim of NABFINS is to support sustainable livelihood strategies of the poor and marginalized and to promote peoples' institutions at the primary and secondary levels. NABFINS envisages providing adequate, timely, flexible and hassle-free credit at the door step of households. Predominantly, NABFINS extends loans to SHGs, producer collectives and first generation microenterprises.

NABFINS uses NGOs and people's own institutions [such as the Community Management Resource Centers (CMRCs) of MYRADA] as Business and Development Correspondents (B&DCs) for providing credit services at the door step of the beneficiaries for which they receive 2 per cent commission. As the name suggests, B&DCs also facilitate in improving the capacities of SHGs and also ensure convergence and delivery of various development programs in addition to credit linkage. Staff of NABFINS takes up loan assessment, disbursement and periodic monitoring, while B&DCs take up collection, monthly monitoring and capacity building of SHGs. All the costs such as commission paid to B&Cs, insurance/ risk mitigation and training costs of B&DCs are taken up by NABFINS. The repayment period is flexible and customized repayments aligned to the harvest period are allowed.

NABFINS also extends credit to collectives which are secondary institutions supporting members in value addition, aggregation and marketing of produce. NABFINS has taken the support of Rabobank, HDFC and Small Farmers Agri Business Consortium (SFABC) for providing guarantees to loans taken by producer collectives. As a business model which promotes development finance, it levies interest at reasonable rates and also ensures that overall cost to the client remains low by providing doorstep services and quick turnaround. NABFINS and the SBLP are not in conflict, but offer the client a choice.

NABFINS works on a wafer-thin margin and lends to SHGs at 15 per cent per annum for loan up to Rs. 2 lakh and 16.5 per cent for more than Rs. 5 lakh. NABFINS allocates a part of profits for training SHGs and B&DCs. Loan provided by NABFINS is dependent on the requirement and repayment capacity of the member and not linked to the savings. NABFINS is currently working in Karnataka, Tamil Nadu, Andhra Pradesh and Maharashtra and plans to reach out to Madhya Pradesh during 2014–15.

NABFINS works in two verticals—the first vertical of NABFINS is to lend directly at the doorstep to SHGs/JLGs, through BCs. During the year 2013–2014, NABFINS extended Rs. 6,315 million to 17,027 SHGs with the support of 164 B&DCs[20] who play a critical role not only in credit recovery but also in formation of groups and promotion of livelihoods. The second vertical of NABFINS is to promote Second Level Institutions (SLIs) like federations, producer collectives, etc., which support the aggregation and marketing of agricultural products. During the year 2013–2014, NABFINS lent Rs. 113.7 million to SLIs. NABFINS has operations in 66 districts in four states.[21] In addition to financial support, NABFINS supports the SLIs in aggregation, value addition, storage and marketing of commodities. NABFINS has partnered with Rabo Bank and CARE which cover the risks involved in this process and draws on the support of NCDEX for warehousing and marketing.

The company's portfolio outstanding as on March 2014 was Rs. 6.2 billion (unaudited) thereby registering a growth of 64 per cent as compared to March 2013. NABFINS has registered a net profit of Rs. 180 million (unaudited) during 2013–14.

The repayment rate has been over 99 per cent. During 2013–14, NABFINS witnessed increased competition from financial institutions especially from the private sector banks operating with the same or a similar model. However, it has been able to retain its B&DCs and expand its operations.

2.5.2 Stree Nidhi

Stree Nidhi Credit Co-operative Federation Limited (Stree Nidhi) is an Apex Credit Co-operative Federation registered under the Andhra Pradesh State Co-operatives Societies Act, 1964 and is promoted by the Mandal Samakhyas (MSs) and Town Level Federations (TLFs) of SHGs in association with the Government of Andhra Pradesh, under the aegis of Society for Elimination of Rural Poverty (SERP), Ministry of Rural Development and Mission for Elimination of Poverty in Municipal Areas (MEPMA). The SHGs are formed exclusively by women.[22]

In the undivided state of Andhra Pradesh, as on 31 March 2014, there were 10,65,000 SHGs promoted by Society for the Elimination of Rural Poverty (SERP) in rural areas and 2,98,000 SHGs promoted by Mission for Elimination of Poverty in Municipal Areas (MEPMA). These had been federated as Village Organisations (VOs) and as Slum-Level Federations (SLFs), respectively. These were further federated at mandal level as MSs and TLFs. These federations have been registered under the Mutually Aided Cooperative Society Act 1995. There were 45,169 VOs in 1, 099 MSs and 9,968 SLFs in 234 TLFs.

Stree Nidhi was specifically formed to meet the needs of women for poverty alleviation with the support of SERP and MEPMA. The unique features of Stree Nidhi are:

(i) It is a community-owned financial institution.
(ii) 50 per cent of allocation of credit if for the poorest of the poor.
(iii) It has a low-cost delivery model using the existing ecosystem.
(iv) It ensures credit discipline and does not encourage defaulters.
(v) Credit disbursement is done in 48 hours through electronic payment system.

Interest rates charged by Stree Nidhi are 12 per cent to MSs, 13 per cent to VOs and 14 per cent to SHG/member. Maximum loan amount per SHG is restricted to Rs. 1.5 lakh and 25,000 per member. Stree Nidhi lays much emphasis on efficient functioning and rewards, better performance with higher limits based on the rating of these delivery agencies. Working on a small margin of around 1 per cent, it uses the existing networking and technology platform to minimize the cost of operations. It recovers loans using the large network of VOs/ SLFs and MSs and TLFs. The merits of the Stree Nidhi model is that it takes care of the community's banking needs

without requiring their direct interface with bankers, and they are able to get loans within 48 hours into their accounts. This significantly reduces transaction costs on both sides as well.

The owned funds of Stree Nidhi as on 31 March 2014 were Rs. 2.62 billion, of which the contribution of 1,096 MSs and 88 TLFs to the share capital was Rs. 1.07 billion. Stree Nidhi mobilizes deposits through three schemes, including a compulsory scheme by which SHGs have to contribute Rs. 100 per month for a period of one year when they are converted into a fixed deposit for a period of five years. The amount of deposits mobilized as on 31 March 2014 under all schemes was 778.2 million.

Stree Nidhi's borrowing as cash credit and term loans from commercial banks amounted to Rs. 6.85 billion. Streenidhi has made loan disbursements to SHG members to the extent of Rs. 17.19 billion. The outstanding loan amount as on 31 March 2014 was 1.01 billion. The share of the urban SHGs in total credit flow during 2013–14 was 9.1 per cent. Repayments of loans were 98.6 per cent of demand as on 31 March 2014. Streenidhi earned a net profit of Rs. 178.5 million for the financial year ending March 2013. 6 per cent dividend was paid to all MSs in proportion to their share capital contribution.

Stree Nidhi is working as a BC of banks in promoting a viable model with Village Organisations as Common Service Providers (CSPs) and one of the literate women are identified as the village-level entrepreneur (VLEs) to take up the role of the BC agent. The main area of focus is to provide basic banking services and graduate into a full-fledged 'one-stop services centre' by integrating financial and non-financial services. Stree Nidhi facilitates VOs in identifying and selecting entrepreneurs for running CSPs. A transaction-based commission is paid to the entrepreneur by Stree Nidhi directly. The revenue is shared in the ratio 85:10:5 among the entrepreneur, Stree Nidhi and VOs. Stree Nidhi acts as the corporate BC of Andhra Bank, State Bank of India and State Bank of Hyderabad. VLEs are working in 124 centres.

Technology is the backbone of Stree Nidhi operations. The system used is a combination of mobile technology to capture data and web-based portal for processing and information dissemination. A unique feature in disbursement of loans to SHGs is the use of IVRS and web-based technology to capture and store data on the central server, with the objective of disbursing loans to SHG members in 48 hours. Similarly, with the help of ICT, the MIS is available on real-time basis on Stree Nidhi website and is also made available to the MSs and TLFs on a log-in basis.

2.6 PRADHAN MANTRI JAN-DHAN YOJANA—MISSION OBJECTIVES AND APPROACH TO IMPLEMENTATION[23]

The experience innovations described in previous sections have fed into the newly launched Pradhan Mantri Jan-Dhan Yojana (PMJDY). The PMJDY seeks to ensure access to various financial services like availability of basic savings bank account, access to need-based credit, remittances facility, insurance and pension to the excluded sections, i.e., weaker sections and low-income groups. This deep penetration at affordable cost is possible only with the effective use of technology.

According to the PMJDY Mission document, though the banks achieved their targets under the first phase of the Swabhimaan campaign, it had very limited reach and impact. Public Sector Banks (PSBs) including RRBs estimated that by 31 May 2014, out of the 131.4 million rural households which were allocated to them for coverage, about 59.4 million uncovered remained uncovered. It was estimated that 60 million households in rural and 15 million in urban areas need to be covered—representing a total of 75 million households.

Under the mission, all the 6, 00,000 villages across the entire country are to be mapped according to the service area of each bank to have at least one fixed point banking outlet catering to 1,000 to 1,500 households, called Sub Service Area (SSA).

The banking sector would also be expanding itself to set up an additional 50,000 BCs, more than 7,000 bank branches and more than 20,000 new ATMs in the first phase up to 15 August 2015. The comprehensive plan is necessary considering the learnings from the past where a large number of accounts opened remained dormant, resulting in costs incurred for banks and no benefits to the beneficiaries.

The Mission plan envisages providing a bank account to every household in the country and make available within 5 km distance of each village basic banking services facilities, i.e. (i) opening of bank account with

RuPay debit card and mobile banking facility, (ii) cash withdrawal and deposits, (iii) transfer, (iv) balance enquiry and (v) mini statement. Other services are also to be provided in due course in a time-bound manner apart from financial literacy to make citizens capable of optimum utilization of available financial services.

Comprehensive financial inclusion (FI) under the mission is based on six pillars indicated as follows. These are proposed to be achieved in two phases as under:

(a) Phase I (15 August 2014–14 August 2015)

1. Universal access to banking facilities.
2. Providing basic banking accounts for saving and remittance and RuPay debit card with in-built accident insurance cover of Rs. 1,00,000 and RuPay card.
3. Financial literacy programme.

(b) Phase II (15 August 2015–15 August 2018)

4. Overdraft facility of up to Rs. 5,000 after six months of satisfactory performance of saving/credit history. (A Credit Guarantee Fund would be created for coverage of defaults in overdraft accounts.)
5. Micro-insurance.
6. Unorganized sector pension schemes like Swavalamban.

In addition, in this phase, coverage of households in hilly, tribal and difficult areas would be carried out. Moreover, this phase would focus on coverage of remaining adults in the households and of students.

Under a comprehensive plan the mission proposes to channel all government benefits (from centre/state/local bodies) available to the bank accounts of various beneficiaries and by pushing the Direct Benefits Transfer (DBT) scheme of the Union Government. MGNREGS, sponsored by Ministry of Rural Development (MoRD, GoI), is also to be included. Convergence with the National Rural Livelihood Mission (NRLM) in rural areas and National Urban Livelihood Mission (NULM) in urban areas would be sought for in covering each household with bank accounts. About 50,000 villages (of 593,000 inhabited villages) do not have telecom connectivity. The Department of Telecom has been requested to ensure that problems of connectivity are resolved.

India has several strategic assets providing favourable initial conditions for transformational change towards digital financial inclusion:

- A strong banking network (1,15,000 branches) linked to eKuber [RBI's Core Banking Solution (CBS)], now spreading into unbanked rural areas.
- A significant outreach of India Post (1,55,000 outlets), PoS and ATM terminals which can facilitate a vibrant cash-in/cash-out network across the country.
- A nation-wide telecom network with 886 million mobile connections and 72 per cent mobile penetration.
- Strong network of computer-based service providers in the form of Common Service Centres (CSC) promoted by Department of IT.
- A strong national payments infrastructure that includes an Inter-Mobile Payments Service/Immediate Payment System (IMPS) to transfer funds over mobile phones.
- A world class national ID system covering the largest (650M) headcount and expanding by 30 million citizens per month.

In the recent past there has been substantial improvement on the technological front after adoption of CBS by banks like electronic payment, NEFT, RTGS, mobile banking, internet, IMPS, etc. Aadhaar-enabled products like e-KYC for opening of accounts, Aadhaar Enabled Payment System (AEPS), Micro-ATMs and ABPS for centralised credit based on biometric authentication of customer from UIDAI database have been adopted. Similarly, NPCI has launched new products like USSD-based mobile banking, IMPS, etc., which have the potential to change the entire landscape of financial inclusion. These products would be used in a large way to ensure coverage of hitherto excluded sections in a time-bound manner.

An illustration showing shift in approach under the Mission on Financial Inclusion launched in August 2014 as compared to the earlier approach through the FIPs is given in Table 2.3.

Figure 2.1 gives the projected impact of the various components of the financial inclusion programme on

TABLE 2.3 Learning from the Past Campaigns and Shift in Approach

S. No.	Earlier approach (Swabhimaan)	New approach (PMJDY)
1.	Villages with population greater than 2,000 covered; thus limited geographical coverage	Focus on household; Sub Service Area (SSA) for coverage of the whole country
2.	Only rural	Both rural and urban
3.	Bank Mitr (Business Correspondent) was visiting on fixed days only	Fixed point Bank Mitr (Business Correspondent) in each SA (3 to 4 villages on an average) to visit other villages in the SSA on fixed days SA comprising of 1,000–1,500 households
4.	Offline accounts opening-technology lock-in with the vendor	Only online accounts in CBS of the bank
5.	Focus on account opening and large number of accounts remained dormant	Account opening to be integrated with DBT, credit, insurance and pension
6.	Inter-operability of accounts was not there.	Inter-operability through RuPay Debit Card, AEPS, etc.
7.	No use of mobile banking	Mobile wallet and USSD-based mobile banking to be utilized
8.	Cumbersome KYC formalities	Simplified KYC/e-KYC in place as per RBI guidelines
9.	No guidelines on the remuneration of the Bank Mitr (Business Correspondent). Banks went generally with Corporate BCs who used to be least expensive to them.	Minimum remuneration of the Bank Mitr (Business Correspondent) to be Rs. 5,000 (fixed + variable) with structured monitoring mechanism at centre, state and district levels.
10.	A recent RBI survey finds that 47% of Bank Mitr are untraceable.	Viability and sustainability of Bank Mitr (Business Correspondent) is identified as a critical component.
11.	Monitoring left to banks	Financial Inclusion campaign in Mission Mode
12.	Financial literacy had no focus	The rural branches of banks to have a dedicated Financial Literacy Cell
13.	No active involvement of states/districts.	State-level and district-level monitoring committees to be set up.
14.	No brand visibility of the programme and Bank Mitr (Business Correspondent).	Brand visibility for the programme and Bank Mitr (Business Correspondent) proposed.
15.	Providing credit facilities was not encouraged.	OD limit after satisfactory operations/credit history of 6 months.
16.	No grievance redressal mechanism.	Grievance redressal at SLBC level in respective states.

Source: PMJDY Mission Document, Department of Financial Services, (2014).

various aspects of household security through the range of products and enabling infrastructure to be implemented by the PMJDY. A more detailed implementation plan is given in Appendix 2.3.

2.7 FINANCIAL INCLUSION MISSION: CHALLENGES AND CRITIQUES

The PMJDY campaign has revealed many differences in approach from the earlier financial inclusion schemes apart from setting a definite date for the coverage of all households and the provision of a range of products and services to them. The seriousness of the intent was evidenced by the fact that over 15 million accounts were claimed to have been opened on the day of the launch itself.[24] However, very soon thereafter there was speculation about the number of accounts actually opened, the degree of duplication and coverage of already existing accountholders as indeed the paltry remuneration given to the BC agents involved. In addition to these doubts related to target-chasing reminiscent of the loan melas—only on a much larger scale—various commentators have raised a host of serious questions about the longer-term implementation process and sustainability.

On the eve of the launch of the PMJDY, Shetty and Deokar (2014) had argued that a serious cleavage appears to have resulted between the government machinery adhering to traditional development objectives and the language of the market of the RBI's new leadership. In this connection, they state that the Mor Committee (2014) took a very ideological position that the poor and vulnerable sections had to be pushed to the marketplace

without recognizing that the poor required directed credit arrangements in view of the oppressive nature of markets.[25]

The objective of the PMJDY in providing two bank accounts to each of 75 million poor families with overdraft facility, accident insurance and life cover has come in for criticism by certain columnists who see it as creating operational problems for the banks by having to provide overdraft facilities to the extent of Rs. 750 billion within the next four years or so.[26] For this, banks will have to set up a large number of branches in unbanked areas and recruit large number of rural cadre. Some commentators[27] are skeptical of the overdraft facility and suggest that politicians will advise the poor not to repay, and banks will try to keep the poorest and weakest out of the scheme. A guarantee fund to backstop defaults under the scheme has at present only Rs. 10 billion. Aiyar (2014) asserts that serious financial inclusion requires sustained efforts for several years, with an emphasis on quality rather than speed. By shifting the focus to cash transfers, the massive dormant accounts could also be activated over time. Accordingly, the design of the scheme needs a shift of focus in order to deliver on the objectives.

Singh and Naik (2014) assert that the most important factor for the success of financial inclusion would be changing the mindset of the financial institutions. The challenges identified by them include:

(i) In the absence of coverage by Aadhar, the implementation of some components would have to be phased over a few years and would require sustained monitoring.
(ii) To be successful, the Financial Inclusion Mission would require a bottom-up approach, with the support of panchayati raj institutions and local governments who could help with the stationing of BCs at gram panchayat and integrate them with common service centres and government schemes.
(iii) The need for financial literacy and training not only of unbanked people but also of bank officials.
(iv) Commercially, banks needed to be convinced that financial inclusion is a viable business proposition for which there is scope through providing appropriate instruments to unbanked households especially in rural areas.

Chopra (2014) is of the view that the new financial inclusion programme has the right intentions and addresses several design issues. However, certain gaps need attention. According to studies by Microsave and others, less than 0.5 per cent of the BC agents are in a state of readiness and earn more than Rs. 5,000 a month—the minimum compensation under the programme. How will the Rs. 5,000 overdraft per account be delivered and who will collect the repayments of up to Rs. 1,000 billion of overdrafts from 200 million accounts?

He estimates that for management and disbursal of government payments, banks need to be paid 3.0 per cent, of which at least 1.25 per cent to 1.5 per cent should go directly into the accounts of active BCs, to prevent pilferage by intermediaries, including corporate BCs. Also, consumers will need to be well educated about the power of bank accounts and their rights to overdraft facilities, insurance, etc., otherwise intermediaries will take advantage of the money intended for them. There will also be a need to be wary of consumer fraud that is starting to gain momentum amongst the newly banked illiterate population in India.

In a similar vein, Tewari (2014) points out three basic concerns regarding the Rupay debit cards—a critical component of the scheme. These are characterized by slow rollout, logistical issues and possibility of misuse. According to Finance Ministry sources, a greater dependence on online biometric-based transactions through the BC model would be preferable. Since the logistics of setting up ATM machines across the country would be huge, powerful vested interests in villages could appropriate and misuse debit cards of poor clients. The case for the debit card, however, is defended on the grounds that it is required for the accident insurance cover.

On the plus side, some observers see the chief merit in the Financial Inclusion programme as the one related to an understated goal, which holds real transformational promise viz. the infrastructure to institute a universal basic income transfer for all citizens, and reconfigure the country's dysfunctional welfare system (Livemint 2014). The absence of a bank account has held back a welfare solution in the form of income transfers. By addressing this through mandating universal access to the banking system, the PMJDY can help to replace and reconfigure the country's dysfunctional welfare system.

Finally, the response of RBI Governor Raghuram Rajan on the undue haste in the implementation of account opening under the PMJDY is revealing. Rajan (2014) stated that as far as financial inclusion targets were concerned, universality, not just speed or numbers, was essential. It would be a waste if duplicate accounts were opened, if full coverage was not achieved and if accounts were not used. RBI would work with banks to ensure the effectiveness of the measures taken. This would suggest that there is substance both to charges of differences in the government and RBI perceptions of the pace and content of the financial inclusion drive; as well as the views of skeptics unconvinced about the feasibility and success of the campaign mode adopted.

2.8 CONCLUDING REMARKS

The foregoing analysis and experiences would suggest that the push for financial inclusion has not had a significant impact when we consider the financial system and nation as a whole. Along with the increase in numbers of bank accounts there does not appear to be corresponding increase in bank deposits or revenue generation for the banks and the other intermediaries through an appreciable increase in the volume of transactions. The relationship of the banks with the major corporate BCs has been a mixed one. Several BCs have gone under while the BC agents almost universally receive low and inadequate salaries and commissions resulting in high attrition rates going up to nearly 50 per cent.

Over the past couple of years or so the focus has been on the banks to upgrade or change their technology and delivery systems. As a result some greater innovation in product mix and new channels of delivery opportunities are emerging to drive financial inclusion across India. Further, UIDAI and NPCI brought in solutions that enable standardization and interoperability. The reinstatement of the Aadhar as an instrument in the identification and account opening process holds promise of the smoothening of the process of account opening in future though even a significant proportion of the population is yet to be covered by it.

While some blame is to be placed at the door of the banks at the slow progress and reluctance to bear the costs of the social objective, it is equally apparent that sound and replicable business model has not emerged. As a result great store is now being set on the use of mobile technology and its promise of reducing the cost of financial services delivery on the one hand and the proposal to set up niche banks to cater to the differentiated needs of various sections.

In some respects the story of financial inclusion is also a story of exclusions—or the inability to adequately involve existing structures and financial and quasi-financial agencies in the task of universal financial inclusion. District Central Cooperative Banks (DCCBs) were not initially allowed by RBI in its initial circular to undertake financial inclusion through business correspondent model. This was primarily because these banks had not implemented CBS. NABARD took the lead in having DCCBs upgraded onto CBS. Recently RBI allowed the DCCBs to implement the BC model. The associated PACS present a significant opportunity to drive financial inclusion by leveraging them as BCs.

Leading MFIs have professional management and provide useful financial services to their client. However, it is only recently that NBFC-MFIs have been allowed by RBI to become BCs of banks. Innovative thinking is needed to identify how the MFIs can participate in the process of financial inclusion. Some MFIs had themselves launched not-for-profit affiliates to act as BCs of banks.

Eight million SHGs too have had experience of working as a micro bank. SHG members, to a varying degree, are familiar with banking processes and can perform functions in support of the inclusion process. However, it is only in very few programmes and areas that they are being asked to contribute.

Finally, the post office represents an institution that touches the lives of every individual and has penetrated the entire country with its savings, insurance and remittance products.

The financial inclusion mission only partially takes cognizance of these stakeholders in some limited role such as financial literacy. At the same time it has for the present shown the intent and ability only to push by fiat for the access to financial services rather than a sustained use of a suite of relevant services by a financially capable population. Chapter 5 takes a closer look at the policy options in financial inclusion and how they have been articulated and implemented in the context of the existing challenges.

APPENDIX 2.1

Financial Inclusion Outreach of Banks—as on 31 March 2014

S. No	Bank	No. of villages covered with population (till date)		Total	No. of no-frills accounts opened under FIP (in lakhs)	No. of GCCs (in lakhs)	No. of KCCs issued (in lakhs)	No. of BCs
		above 2000	below 2000					
	Public Sector Banks							
1.	Allahabad Bank			4912	38.69	0.037	10.46	2BCs and 2880CSPs
2.	Bank of Baroda			13,979	74.66	0.04	11.44	
3.	Bank of India	4,404		14,060	107.28	22.10		6072 BCAs
4.	Canara Bank	1,624	3,860	5,484	85.46	3.89	46.24	2402
5.	Central Bank of India	4,330	6,743	11,073	92.27			5588
6.	Corporation Bank	318	1,084	1,402	21.26	0.375		
7.	Dena Bank	1,238	2,190	3,428	24.55	0.22	2.95	1530CSPs
8.	IDBI				8.79			
9.	Indian Overseas Bank	4,445	7,816	12,261	59.21			2456
10.	Punjab and Sind Bank	400	2,316	2,716	1.45		1.545	
11.	State Bank of Bikaner and Jaipur*	1,207	1,359	2,566	18.07	0.008	6.03	1070CSPs
12.	State Bank of India			52,260	353			11423
13.	State Bank of Travancore				25.56			
14.	UCO Bank	1,833	7,802	9,635	40.23			
	Private Banks							
15.	Axis Bank				74			74000BCAs
16.	HDFC				27.5			
17.	ICICI Bank			15,500	178			125BCs and 8200 CSPs
18.	YES Bank							YES MONEY-15400BCAs, 15BCs YES LEAP-35BCs

Source: *Annual reports 2013–14 of various banks.*
Note: *As on May 2014.

APPENDIX 2.2
Products Offered by Banks under Financial Inclusion

S. No.	Bank	Products offered	Infrastructure support	Remarks
Public sector banks				
1.	Allahabad Bank	• Basic Savings Bank Deposit Account • Smart cards • Direct Benefit Transfer, • KCC • RuPay Kisan card	• Brick and mortar branches • Ultra small branches with VPN connectivity • Satellite branches • Mobile branches with mobile vans • ICT-based BCs	• Vision India Software Exports Ltd. and Atyati Technologies provide banking services through ICT-based BC model. • Branches proactive in opening of accounts of migrant labourers, street vendors and hawkers within the 500 metres of the branch initially and thereafter to cover area beyond 500 metres. • Special campaigns being made to bring urban migrant labourers, vendors and rickshaw pullers in to banking fold.
2.	Bank of Baroda	• Basic Savings Bank Deposit Account with in-built OD facility • Moneyback RD account for FI accountholders • Baroda Kisan Credit Card	• ICT (Information & Communication Technology) based • BC model • POS (Point-of-Sale/Service) • Kiosk • Mobile van • Brick and mortar branches	• Kiosk bank model launched in 2013–14 for both rural and urban Financial Inclusion • Adarsh Grameen branches with audio-visual facilities to enable various activities like agri-clinic, vocational education, medical camp, etc., would be launched shortly.
3.	Bank of India	• Basic Savings Bank Deposit Account with in-built OD facilities • Smartcard called star abhilasha card • Mobile-based remittance • Direct Benefit Transfer • KCC • GCC	• Business Correspondents • ICT-based handheld devices (micro ATMs) • Integration with UID project for AEPS And APBS transactions	• Financial Inclusion carved out as a new business unit headed by a general manager • TCS, HCL and Integra for Smartcard-based solution • Integra for mobile-based solution
4.	Canara Bank	• Basic Savings Bank Deposit Account with in-built overdraft facilities • Differential Rate of Interest Scheme • KCC • GCC	• Brick and mortar branches • Ultra small branches • Business Correspondent Agents under Business Correspondents • Business Facilitators	• Separate Financial Inclusion Division under Priority Credit and Financial Inclusion Wing, headed by a General Manager. • Engaged Corporate BCs—Integra Micro Systems (P) Ltd, Fino Paytech and CSC e-Governance Services India Ltd. • 496 FI branches opened between 2011–12 and 2013–14. • Out of 544 USBs opened from 2011–12 to 2013–14, 28 upgraded as branches. • Financial literacy trust established.

S. No.	Bank	Products offered	Infrastructure support	Remarks
5.	Central Bank of India	• Cent Bachat khata • Cent Vikas khata • Cent Smart Kisan Credit Card • Cent Smart General Credit Card • Cent Variable Recurring Deposit Scheme • Direct Benefit Transfer	• Brick and mortar branches • Ultra small branches • Kiosk-based FI introduced • BCs	• Kiosk-based banking facility to provide rural customer services like funds transfer, balance enquiry, mini statement, APBS, AEPS, etc., taking up urban financial inclusion, all the five basic financial products stipulated by RBI for FI customers provided by bank.
6.	Corporation Bank	• Basic Savings Bank Deposit Account • General Credit Cards	• Brick and mortar branches • BCs	• Urban financial inclusion in 114 urban locations spread across 7 states and branded as Corp Shahari Vittiya Samaveshan Kendra.
7.	Dena Bank	• Basic Savings Bank Deposit Account • Direct Benefit Transfer • No-frills accounts Inbuilt OD facility • Remittance facilities • Dena Kisan Credit Cards • Dena General Credit • Cards	• Brick and mortar branches, • Ultra small branches, • BCs (Corporate BCs in urban), • Biometric ATMs for semi-literate persons • Kiosks in urban areas.	• TCS is application service provider for financial inclusion. • M/s Geosansar Advisors Pvt. Ltd. is corporate BC in urban areas
8.	IDBI	• Basic Savings Bank Deposit Account, • Smart cards, • Education loan, • Fixed deposit • Recurring deposit • Micro insurance product—Grameen Suraksha, • ATM-enabled Kisan Credit Card • Direct benefit transfers • Distributes MGNREGA wages	• Brick-and-mortar branches • Kiosk-based banking • ICT-based business correspondent model	• Distributes social pensions through smart cards • Set up of Financial Inclusion Gateway (FIG) and Central • Authentication Server (CAS), which facilitates interoperability within the bank • Integration of Aadhaar Payment Bridge System (APBS) with National Automated Clearing House (NACH)
9.	Indian Overseas Bank	• Savings • Smart cards • Funds transfer • Deposits and remittances	• Brick-and-mortar branch • Special financial inclusion branches • Ultra small branches • BC	
10.	Punjab and Sind Bank	BSBDA GCC KCC	• Brick-and-mortar branch • Ultra small branches • BC • Kiosk banking	
11.	State Bank of India	• Savings bank • RD • STDR, remittances and OD • Direct benefit transfer, KCC	• BC • Kiosk banking, • SBI tiny card • Mobile rural banking, • Cellphone messaging channel	• Linking of villages to branches through CSPs in a hub-and-spoke model has been launched.

S. No.	Bank	Products offered	Infrastructure support	Remarks
12.	Syndicate Bank	• Savings, insurance, KCC, GCC, direct benefit transfer	• Brick-and-mortar branches, satellite branches, ultra small branches, BC agents	• 21 financial inclusion resource centers in 5 states exhibiting facets of baking and allied activities
13.	UCO Bank	• Basic savings account with OD facility • KCC • GCC	• BC model • Mobile vans with CBS connectivity • Brick-and Mortar branches • Kiosks	• Pioneer in mobile van banking • Commissioned FI Gateway and Central Biometric Authentication Server to introduce interoperability of transactions through the BC agents
	Private banks			
14.	Axis Bank		• Branches • Ultra small branches with biometric authentication • BCs	• Paperless FI account opening by BCs through e-KYC route • Number one position in AEPS • FI gateway setup to integrate BC's system to the core banking system and regulatory bodies such as UIDAI, NPCI to facilitate online authentication and transaction processing.
15.	HDFC	• Basic banking saving deposit accounts	• Brick-and-mortar branches • BCs • ATM facility • POS terminals • IT-enabled kiosks	• Supports small and micro enterprises which in turn provide employment opportunities to the financially excluded.
16.	ICICI Bank	• Savings accounts • Remittances • Fixed deposits • Recurring deposits • Credit • KCC	• Grameen branches • BCs • CSCs • Mobile vans	• Branch banking as a key strategy towards Financial Inclusion. • 52% of total bank branches in rural and semi urban areas • 'Branch on wheels', a mobile van-based banking introduced in rural areas during 2013–14 • Highest number of basic savings accounts opened amongst all private banks.
17.	YES Bank	• Savings • Remittance	• YES Sahaj—Micro ATM • BCs • BCorrespondent agents • Prepaid cards for remittances	• FI initiatives—YES SAHAJ—Mobile Transaction Kit, YES MONEY—Domestic Remittance service and YES LEAP—product suite for SHGs. • Inclusive and Social Banking (ISB) division exclusively focused on 'financial inclusion'.

Source: Annual reports 2013–14 of various banks.

APPENDIX 2.3 PRADHAN MANTRI JAN-DHAN YOJANA—IMPLEMENTATION PLAN

1. Network Expansion

Sub-Service Areas

It is proposed to cover rural areas in a cost effective manner, through the sub-service area approach, and deploying fully enabled, online, fixed-point BC outlets. Banks would set up brick-and-mortar branches in 74,351 villages having population of 2,000 and more in a period of three to five years.

All the villages in the country are proposed to be mapped, in order to have at least one fixed-point banking outlet catering to 1,000–1,500 households, called sub-service area (SSA). All the CSCs are proposed to be enabled as BC outlets for banks. It is estimated that there would be about 1,30,000 SSAs in the country, of which 50,000 new SSAs would need to be covered. In addition, about 75,000 replacements of non-functional BCs would be required. The SSAs shall be covered through a combination of branch banking and branchless banking, the latter comprising of fixed-point BCs. Nearly all habitations, with a few exceptions, are expected to have access to banking services within 5 km radius, by 15 August 2015.

Urban Financial Inclusion

The banking network consisted of 71,120 branches and 1,36,721 ATMs in urban, semi-urban and metropolitan areas as on 31 March 2014. As per Census 2011, 53.4 million urban households out of a total of 78.9 million were availing banking services. *The number of uncovered urban households is estimated to be about 15 million*. Urban centre saturation would be achieved by opening at least 150 per cent number of accounts as the number of the urban households as per 2011 Census.

Business Correspondents

BC outlets both in rural and urban areas would be fully equipped with the required infrastructure to carry out online transactions, and each BC would be given proper training about banking, insurance and pension products and also customer handling. Adequate compensation would be ensured with the suggested remuneration being Rs. 5000 per month. Various categories of individuals and agencies would be engaged as BCs. A dress code with the Mission logo would be applied. Banks would finance BCs towards equipment and working capital requirements, and could utilize either individual BCs directly or utilize the network of CSCs. Corporate BC companies could also be engaged but the remuneration structure for the agents deployed with them would have to ensured by the banks.

Mobile Banking

Mobile banking through Mobile Wallet was launched in 2012 by the Reserve Bank of India (RBI) with three telcos. The three main telcos control over 1,58,000 agents, around 60 per cent of which are in rural areas. Mobile telephony and prepaid wallets would also be utilized for coverage of households under the financial inclusion campaign. USSD-based mobile banking services are proposed to be launched on 28 August 2014 through gateway provided through NPCI to banks, by 40 banks initially. Agreements have been made with 11 telecom service providers.

2. Opening of Basic Savings Bank Account of Every Adult Citizen

Public sector banks have estimated that by 31 May 2015, out of 91.7 million rural households allocated to them a balance of 39.4 million rural households will need to be covered. In addition the RRBs need to cover 19.8 million households out of the 39.7 million households to be covered by them, or approximately 60 million households will need to be covered in rural areas.

Each SB account holder would be given an ATM/debit (RuPay card). Every KCC holder will be provided a RuPay credit card and every non-agriculturist a RuPay debit card, which will have an inbuilt accident insurance of Rs. 1,00,000. The network of cooperative and urban cooperative banks, which are on CBS, would also be used for account opening. Inter-operability of payments will be ensured, both through the debit card and Aadhar-enabled payments at the BC outlet.

The account would be linked with the Aadhar number of the account holder and would become the single point of receipt of all Direct Benefit Transfers (DBT) from the central government/state government/local bodies. There would be convergence with the efforts of UIDAI to enroll beneficiaries for Aadhar number during account opening.

Overdraft of upto Rs. 5000 would be provided to the customers after six months of satisfactory performance of savings/credit history. When all households in a district are covered, the District Magistrate will issue a certificate declaring the district 100 per cent covered.

As part of the implementation, dormant accounts would be reactivated and mobile banking encouraged for low-end phones, with the Mobile Wallet being used to deepen financial inclusion.

3. Financial Literacy and Credit Counseling

As per RBI, 718 financial literacy centres (FLCs) have been set up by March 2013. However, most FLCs have not been set up in rural areas. Though India is amongst the world's most efficient financial markets in terms of technology, regulation and systems, financial literacy is most important in view of the low levels of literacy and the large section of the population being out of the formal financial system. Various regulators are expected to support the case of financial literacy and inclusion in collaboration through the National Centre for Financial Education (NCFE). JLGs and SHGs would assist in the financial literacy dissemination and NABARD will be responsible for the monitoring of the financial literacy campaign for these agencies. The plan aims to expand the FLCCs to the block level.

4. Credit Guarantee Fund

The fourth pillar of the PMJDY plan is the creation of a Credit Guarantee Fund, proposed to be housed in the National Credit Guarantee Corporation (NCGC). As per RBI estimates, upto March 2014, only 5.90 million basic banking accounts out of 242 million availed overdraft facility of Rs. 16 billion. With the provision of credit upto Rs. 5,000 as overdraft after six months, the fund aims to provide guarantee against overdrafts. Out of about 250 million households with basic banking accounts after the implementation of the Mission plan, there are expected to be 120 million KCC holders and 130 million other card-holders. Assuming two-thirds of the latter households avail overdraft, the amount will be Rs. 430 billion. To service this, an initial corpus of Rs. 10 billion would be funded by the Financial Inclusion Fund, bring maintained by NABARD.

5. Micro-Insurance

The fifth pillar of this plan is to provide micro-insurance to the people. A micro insurance policy can be a general or life insurance policy with a sum assured of Rs. 50,000 or less. The Bank Mitr (BC mechanism) would be enabled to offer micro-insurance products and full coverage of schemes like Aam Admi Bima Yojana. The estimated target is of 46 million families covered under the Aam Admi Bima Yojana, out of 120 million families.

6. Unorganised Sector Pension Scheme (Swavalamban)

The Swavalamban scheme was launched by Government of India in October 2010 to address the old age income protection need of the hitherto unaddressed organized/informal sector workers, comprising more than 85 per cent of the working population and numbering almost 400 million, including 120 million women. The Government of India contributes Rs. 1,000 per annum for a stipulated period when the subscriber deposits a minimum of Rs. 1,000 to a maximum of Rs. 12,000 per annum. The total number of unique subscribers to the scheme has crossed 2.7 million and 1.6 million subscribers received Swavalamban co-contribution during FY 2013–14. A number of state government entities in several states have adopted the scheme and are making additional co-contributions to the Swavalamban accounts of the beneficiaries. It is intended that the Bank Mitr would be used to expand the coverage of the Swavalamban scheme to reach an estimated 350 million unorganized labour in the country.

7. Role of Technology in Financial Inclusion

According to the Mission document, the main hurdle in financial inclusion so far has been the large numbers to be

covered and the low volumes, which have translated into unaffordable costs. It is imperative to bring down the cost to an affordable level and to improve the reach to the remote corners of the country by effectively leveraging technology. Some of the major technology products proposed to be used under the National Mission on Financial Inclusion are:

(i) Electronically Know Your Customer (e-KYC): This is a paperless procedure to make the account opening of customers having Aadhar numbers much easier and would be used on a large-scale for opening accounts in future.
(ii) Transactions through Mobile Banking: The number of mobiles in India today is estimated to be 886 million. Around one-fourth of the mobile users are residing in villages and small towns. Mobile telephony and pre-paid wallets would also be used for coverage of households under the financial inclusion campaign.
(iii) Immediate Payment Service (IMPS): IMPS was launched by NPCI in November 2010. It offers an instant, 24×7, inter-bank electronic fund transfer service through mobile phones as well as internet banking and ATMs.
(iv) Micro-ATMs: Low-cost micro-ATMs would be deployed at each Bank Mitr location to enable instant deposit and withdrawal of funds. This device will be based on a mobile phone connection and made available to every BC. The facility will be operated from the cash drawer of the BC. Essentially the Bank Mitrs will act as the bank for the customers. The micro-ATM offer an online inter-operable, low-cost payment platform to everyone in the country.
(v) National Unified USSD Platform (NUUP): Though very interactive, mobile banking apps need to be downloaded and installed on the mobile phone. To resolve this issue, an alternative solution is available on the USSD platform. Customers can avail USSD solution through any mobile phone on GSM network, irrespective of the make and model of the phone. Key services that NUUP will offer include: inter-bank account-to-account fund transfer, balance inquiry, mini statement besides a host of other services.
(vi) RuPay Debit Cards: RuPay is a new card payment scheme launched by the NPCI. The benefits of the RuPay debit card are the flexibility of the product platform, the high level of acceptance and the strength of the RuPay brand. Its main features are: (a) lower cost and affordability: (b) customized product offering; (c) protection of information of consumers; (d) provision of electronic product options.
(vii) Aadhar-enabled payment systems (AEPS): AEPS is a banking product which allows online interoperable financial inclusion transactions at the PoS (micro ATM) or kiosk banking through the BCs of any bank using the Aadhar authentication. Four basic types of Aadhar-enabled banking transactions are available: balance enquiry; cash withdrawal; cash deposit and Aadhar to Aadhar funds transfer.
(viii) Aadhar Payments Bridge System (APBS): The Aadhar payment bridge system enables the transfer of payments from government to Aadhar-enabled accounts of beneficiaries at banks and post offices. Every government department or institution that sends EBT and DBT/DBTL payments to individuals needs to prepare a file containing the Aadhar number and amount and submit it to their accredited bank.

8. Monitoring

A web portal shall be created by DFS at 'financialservices.gov.in' for online monitoring of the creation of Bank Mitr (Business Correspondent). In the field, it shall be the tool to ensure proper coverage of villages. Each bank would have a structured system generated MIS system to monitor the function of Bank Mitr in the field. The format would be standardized across the system for ease and uniformity purposes. It was decided to link the lady of the house as head of the household with the other members in the CBS so that the number of the households that are covered during the campaign could be ascertained.

9. Challenges Identified in the Implementation of the Mission

(i) Telecom Connectivity: In the tribal and hilly areas of the country the telecom network is not reliable.

Department of Telecom (DoT) is separately seeking government approval to cover all villages in the North-East and difficult areas with telecom connectivity.

(ii) Keeping the Accounts Live: DBT schemes especially MGNREGA need to be pushed for this purpose.

(iii) Brand Awareness and Sensitization: In order to achieve a demand side pull effect it is essential to that there is branding and awareness of the BC model for providing basic services.

(iv) Commission to Bank on Direct Benefit Transfer (DBT): As recommended by the Task Force on Aadhar-enable unified payment infrastructure, the last mile transaction cost of 3.14 per cent, with a cap of Rs. 20 per transaction, needs to be budgeted for various EBT, DTS and last mile payments through micro-ATMs and ATMs. MGNREGS should also be included in DBT.

(v) Coverage of Difficult Areas: Parts of North-East, Himachal Pradesh, Uttarakhand, Jammu and Kashmir and 82 Left-Wing Extremism (LWE) districts may not be fully covered in the first phase because of challenges of infrastructure and telecom connectivity.

Source: Adapted from Department of Financial Services (2014).

NOTES

1. Data and information drawn from RBI Annual Report 2013–14.
2. As discussed in a following section, under the PMJDY the approach has shifted to one of covering all households instead of the remaining villages. With a campaign mode being adopted, the target for full coverage has since been brought forward to 26 January 2015.
3. A description of these measures is contained in Department of Financial Services (2013).
4. One bank reported that the average balance in BSBD accounts was only Rs. 14.
5. Under the financial inclusion mission through the PMJDY, banks will ensure that individual BCs will get a minimum compensation of Rs. 5000 per month (Kumar, 2014).
6. In fact Sriram (2014) has argued that by allowing Aadhaar to set the discourse of financial inclusion, the state has moved towards a model that facilitates 'payments' and transactional aspects, with significant costs added at the intermediary levels.
7. Under the Interactive Aflatoun School model implemented in three states (Andhra Pradesh, Bihar and Maharashtra), school children take up the role of bank staff, with school teachers acting as business correspondents.
8. Adapted from Bhatnagar and Gupt (2014) and other sources.
9. Meaning 'Prosperity'.
10. Dr. Aruna Sharma, Additional Chief Secretary, Rural Development, Panchayat and Social Justice in an interview to The MP Bulletin, Government of Madhya Pradesh, January 20 (*http://mpinfo.org/MPinfoStatic/Hindi/The_MP_Bulletin/2014/The_MP_Bulletin_Jan_2014.pdf*)
11. MP newsonline, 2014, "Samriddhi being adopted by Central government", 10 August. http://www.mpnewsonline.com/HViewNews.aspx?NewsID=2087%20&Newstag=
12. Based upon Krishna (2014), a note prepared by Tushar Krishna, Access-Assist, Patna for this study with inputs from Mr. Gopal Narayan, Head Financial Inclusion, UBGB, Muzaffarpur.
13. From 'Gram Chetna-Centre of Rural Viability: Five Year Perspective Plan of UBGB 2013–18', UBGB, Muzaffarpur.
14. These USB would provide a basic savings bank account (Bachat Khata) for receiving and making remittances, a Savings bank account with in-built overdraft facility (Vikas Khata), Agriculture credit (Smart Micro KCC), entrepreneurial credit to non-agriculturist (Smart Micro GCC), Smart Variable Recurring Deposit scheme, remittance facility through NEFT, life insurance, health insurance, general insurance, pension schemes and mutual funds. RuPay Debit cards would be popularized and the majority of current client base of branches would be persuaded to transact with the local USB using smart cards at the place and time of their convenience.
15. SBI recently identified SEWA Bharat for rollout of DBT in Uttarakhand. This coverage is inclusive of SEWA Bharat's outreach in forthcoming DBT operations.
16. 'Business Correspondent In The Hills Of Uttarakhand: SEWA Bharat's step towards Financial Inclusion', available at http://mbillionth.in/wp-content/uploads/2013/07/SEWA-SBI-Financial-Inclusion-Programme.pptx
17. Technical glitches in operation of PoS machines include failure to connect to the server in remote villages with poor wireless connectivity; failure of fingerprint verification; data corruption of mobile phone device or memory card; invalid transactions due to lack of timely synchronization in operating mobile phone and finger print device or premature turning off of the mobile phone before transaction data has been uploaded.
18. In the absence of cost sharing among partners, SEWA Bharat has made an investment of almost Rs. 60-70 lakh for this project on *cost of PoS machines*; *CSP working capital* and CSP *commissions* and *incentives*; cost of SEWA Bharat *field staff* engaged in monitoring bank branches and training CSPs; cost

of SIM cards for mobile phones in PoS machines; monthly internet recharge for each PoS machine; cost of paper roll and permanent ink for printing transaction receipts from the PoS machines; repairing cost of PoS machines, among others. There would appear to be a case for greater commitment and financial involvement on the part of banks—especially while working in difficult areas.

19. Thus, women interviewed in the study refer to the *samaj mein izzat* or 'honour in the community' of being a CSP.
20. The term Business and Development Correspondents (B&DCs) is used instead of Business Correspondents to reflect the focus on other necessary and supporting inputs critical for sustainable livelihoods and growth.
21. Karnataka, Tamil Nadu, Andhra Pradesh and Vidarbha region of Maharashtra.
22. Following the bifurcation of the State of Andhra Pradesh, as per the State Reorganisation Act, 2014, the two states of Telegana and residual Andhra Pradesh have two Stree Nidhis formed out of the earlier organisation at present. The data and discussion pertains to the undivided Stree Nidhi.
23. Adapted from Mission Document, Department of Financial Services (2014).
24. Sharma (2014) covers the process by which various banks arranged to open lakhs of accounts.
25. The Mor Committee's advocacy of a differentiated banking structure as a means to further inclusion led the way for RBI guidelines for payments to banks and small banks in July 2014. These are more fully discussed in Chapter 5.
26. Shetty and Deokar (2014).
27. Aiyar (2014).

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3

Agents of Financial Inclusion

Business Correspondents and Technology-Led Banking Models

This chapter deals with two critical aspects of the financial inclusion strategy—the use of business correspondents (BC) by banks and the deepening of technology-led financial service models. BC model is a critical component and channel within the financial services delivery architecture and digitization of financial services while at the same time, one that has yet to show conclusive positive results on scale and at the macro level. The chapter examines the evolution over time of the system of BCs and business facilitators (BFs) and provides an overview of the dynamics of the relationships among the current and potential stakeholders within the system. Thus, the interaction between banks on the one hand, and the technology service providers (TSPs), corporate BCs, field support agencies and BC agents or Customer Service Points (CSPs) of various kinds is examined in various contexts. A major theme discussed is the issue of viability which appears to pose a challenge to the successful large-scale implementation of the model. The chapter reviews the critical literature on the working and viability of the BC model. Also discussed are studies reporting continuing concerns such as low remuneration levels of agents and their high attrition rates, the deficiencies in implementation through corporate BCs and the limited commitment and investment by banks in the delivery of financial services to the unbanked. Underlying these difficult relationships and modest outcomes is the technology factor, which is found to have created its own opportunities as well as challenges, institutional and technical, in the implementation of the model. The perspective of customers in unraveling the potential of this channel to improve their access to financial services is also covered.

Notwithstanding the many difficulties in implementation of the BC model, a large number of innovations have been undertaken in service delivery at the last mile. Some of these innovations, which involve a role for MFIs, SHGs and their federations and cooperative institutions, otherwise excluded from the scope of financial inclusion, are instructive and potentially replicable on a larger scale. Among these, is the use of MFIs as BCs by banks to help crack the challenge of diversified product delivery, particularly credit. Thus, through a return of the partnership model, private banks and even public sector banks, are involving not-for-profit MFIs and increasingly

the for-profit NBFCs in financial service delivery to the poor in rural and even urban areas. These developments are documented along with the outstanding issues in this relationship.

The changing role of BCs in the new financial inclusion strategy is discussed. There appears also to be a retreat from the promotion of a universal model of a mobile BC delivering doorstep financial services to a more limited objective of providing services through a mix of fixed and mobile service points. In this model BCs operating common service centres (CSCs) and kiosks play a greater and more effective role in financial services delivery while at the same time being involved in the provision of other government to citizen services.

Finally the changing technology paradigm is examined. Here too, the cost effectiveness of various technology platforms has come in for question over the years. Kiosk banking and banking through point of sale (POS) devices linked to core banking solution (CBS) systems and servers have experienced poor connectivity and glitches related to both the hardware and software components of the technologies the improvement of which has become an urgent requirement. In this context, the mobile technology platform holds the promise of banking solutions at a fraction of the cost of other technologies for the majority of the population which has access to mobile phones. Nevertheless, challenges remain in respect of ensuring necessary capabilities to deal with m-banking and associated technologies for the unbanked population and an alignment of interests between the mobile network and financial services providers. The challenges and potential of technology will thus be an important determinant of whether the new financial inclusion strategy can indeed be a game changer.

3.1 BC MODEL: BACKDROP AND ROLE IN FINANCIAL INCLUSION

On 25 January 2006, Reserve Bank of India (RBI) notified guidelines for outsourcing of financial services by banks through BFs and BCs. The BCs were allowed to transact with clients, i.e., dispense and receive cash on behalf of the bank, while the BFs were confined to non-cash operations. A list of eligible entities to act as BCs and BFs was also notified, which has over the years been modified from time to time. At that time the direct involvement of such agents had not been seriously examined or proposed by the public sector banks. One of the leading Indian private banks, ICICI Bank, had, however, launched new arrangements and financial structures involving partnership with MFIs in order to expand the flow of loans to their clients. This 'partnership model' had also been adopted by a couple of other private banks who, with their limited branch network, started to use MFIs as BCs as part of their business strategy. It was felt, therefore, that the RBI guidelines were intended to facilitate the already existing partnership model adopted by certain banks. In both models (bank-MFI partnership model and the RBI BC model) funds *passed through* the hands of the agent on account of the bank loan to the clients instead of being borrowed and on-lent. Thus the MFI/BC was not a true financial intermediary. There were differences in the sourcing of the fees of the partner-MFI and the BC [as also the absence of the First Loss Default Guarantee (FLDG) in the RBI BC model]. Under RBI's BC model the bank was required to pay commission to the BC and the BC was not allowed to charge any fees from the clients.[1]

Substantial funds flowed to MFIs, particularly in the leading southern states, through the partnership model. The availability of easy funds for on-lending to their clients led to MFIs handling funds greater than their capacity to manage. This was seen as a contributory factor that led to the first microfinance crisis in Andhra Pradesh in 2006. The partnership model was withdrawn soon thereafter. At the same time, pilot projects were also launched for the delivery for liability products such as micro-savings, micro-insurance and micro-pensions. Experience and studies in different contexts suggested that the cost of raising small deposits through BC-MFIs was extraordinarily high, making such products unviable and resulting in the lack of interest of MFIs to participate as BCs in savings collection.

In November 2009, RBI advised banks to draw up a roadmap to provide banking outlets in every village with a population of more than 2,000 by March 2013. These services could be provided through a brick-and-mortar branch but also various forms of ICT-based models of branchless banking, including through BCs. Accompanying the provision of banking outlets was a drive for the opening of no-frills accounts for the target population of these villages. Given the fact that technology had emerged

as a key driver of the push for financial inclusion, the banks inevitably relied upon TSPs who were required to provide the hardware and software for the ICT applications necessary for economically viable operations. The TSPs also got involved in field operations, either directly or indirectly—often through their own financial services affiliate companies or through other support organizations managing networks to field BC agents or customer service providers (CSPs)[2] to deliver services to the rural clients.

As a result rather than individual BCs linked to a rural bank branches to assist in last mile service delivery, there emerged a whole superstructure of stakeholders with varied tasks and roles. Since the opening of no-frills accounts (NFAs) was the first step in the process of BC participation it effectively started with a non-financial (or BF) function, undertaken by the BC agent or customer service provider (CSP). It was only when accounts became operative and transactions effected in them (which was a challenge in itself) that the CSP would perform the true BC role involving financial functions and cash handling. The distinct category of BFs with more limited functions virtually disappeared and became subsumed within the BC terminology. Thus there was a significant difference in the focus of the main role and activities of the BCs when they were conceived in 2006 to what emerged several years later. While partner MFIs were also seen as key to the financial service delivery (mainly credit) the BC role became one of opening accounts and facilitating transactions and government payments to the clients, with virtually no involvement in lending operations. However, in recent years there has been a revival of bank partnerships with MFIs acting as BCs which use their client base and infrastructure to deliver credit and also savings and other services. At the same time in many cases the BC structures built up by corporate BCs in support of banks have proved to be unwieldy and given way to the direct relationship between the bank and individual BCs. Further, new types of agencies have emerged to take up the BC role and others such as NBFC-MFIs that were earlier debarred have been allowed to enter. Thus BC structures and agencies and their role and functions have been undergoing a transformation over the years resulting in an abundance of models and types.

With the introduction of the FIPs the penetration of banking services in the rural areas has increased to a great extent. As seen from Fig. 3.1 below, apart from 46,126 banking outlets, branchless banking connectivity had been extended to 337,678 villages by 31 March 2014, through BCs deployed by banks. When compared with 31,574 BC outlets as on 1 April 2010 at the beginning of the 12th five-year plan period, this represents a phenomenal ten-fold increase with four years. However, this statistic does not in itself convey the range of developments and issues surrounding BC outreach and relationships.

3.2 THE BC CHANNEL: VIABILITY OF STAKEHOLDERS AND RELATIONSHIPS

There have been a large number of studies that have examined the functioning of the BC model. Microsave, in particular, has over the years participated in extensive research on various aspects of BC operations, particularly related to costs and margins available to BCs and the viability and sustainability of the BC networks. The findings of Microsave studies have been reported in the *Microfinance State of the Sector Reports* 2012 and 2013. These studies covered pricing structures in revenues and costs of the BC models, and the commission structures. They highlighted the need for sustained earnings from transaction-based revenues and the need for diversified products to ensure the stability and diversity of revenues. Other major studies too confirmed apprehensions about the viability of the BC channel. A Sa-dhan study on the efficacy of the Banking Correspondent Model (Sa-dhan-CitiFoundation, 2012) too had highlighted the following shortcomings: (i) the unviable cost structure; (ii) the lack of commitment of banks; (iii) the absence of financial literacy; (iv) a lack of knowledge between customer service operators (CSPs) and clients; and (v) lack of a grievance redressal system.

3.2.1 CAB-CGAP Surveys

An important recent source of information and learning of the status of BCs in implementing financial inclusion in India has been the national surveys of BCs jointly undertaken by CGAP and the College of Agricultural Banking (CAB). The first survey covering 860 CSPs was undertaken from March–May 2012 (CAB-CGAP Survey 2013) in 11 states with higher reported financial inclusion coverage. The survey tried to contact 1,030 CSPs

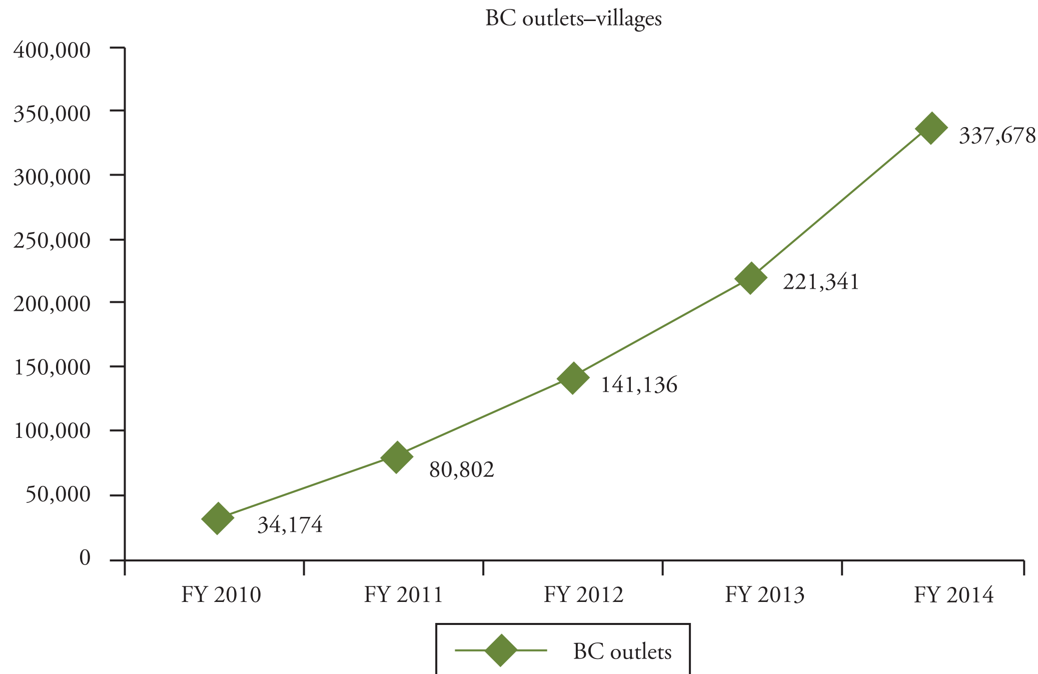

FIGURE 3.1 India: Number of BC Outlets

Source: *RBI Annual Report 2013–14*.

out of which 170 could not be surveyed, because of being unreachable or unwilling, having stopped CSP work or unhappy with it. It reported that a large proportion of these agents were no longer offering services with about a quarter of the CSPs being dormant and unavailable.

About 25 per cent of CSPs (215/860) were unable to transact mainly because of technological barriers such as poor connectivity and defective cards or devices. This compares with Microsave's estimates of CSP dormancy of 22–43 per cent. 29 per cent of CSPs offered only one product category, 23 per cent offered two products and 16 per cent offered only no-frills accounts. Median number of transactions was 14 per day and over 58 per cent of respondents reported that they earned less than Rs. 3,000 per month and 21 per cent reported that they earned less than Rs. 1,000 per month. The median monthly income of CSPs was Rs. 2,735.

There was a marked difference between rural and urban CSPs. While there was hope for a sustained business case for CSPs in urban areas, rural CSPs had fewer transactions and revenues and were not sustainable. It highlighted that improving remuneration of CSPs should be a priority and banks should provide marketing support to increase their number and value of transactions. The study had concluded that the business case for the CSP network remains to be proved and that banks would need to invest in making financial inclusion a part of their core business.

The second round of the above CAB-CGAP survey was conducted during September–November 2013. The findings suggest that a substantial number of the CSPs were untraceable and of even those found to be working a significant number had never conducted a single transaction.[3] The team tried to contact 2,358 CSPs of whom only 1,254 could be surveyed and of remaining 11,04, 983 were not reachable and 87 unwilling to be interviewed. Thus only 53 per cent of the BC agents could be reached with the remaining 47 per cent untraceable.

The survey also found that attrition rate of BCs ranged between 25 and 34 per cent per annum, thereby raising a question mark about the sustainability of the model. Of the 860 CSPs surveyed in 2012, 15 months later only 500 remained agents could be surveyed with 93 unreachable. Thus a minimum of 267 CSPs and up to a

maximum of 360 CSPs out of those earlier surveyed were no longer agents.

The median BC agent in India during the 2013 survey was found to have conducted only nine transactions per day. 16 per cent of those CSPs who could be reached had not done a single transaction till the time of the survey. This had increased from 5 per cent reported in the previous year. It was found that the remuneration for the CSPs remained low and near the minimum wage with the median agent earning only Rs. 2,700 per month reflecting no change as compared to the 2012 position. Besides only 48 per cent (602/1254 CSPs) had the technical capability that allowed clients to transact at other CSPs, down from 65 per cent in 2012.

Thus though CSPs were more experienced and there were some positive outliers, even after eight years of BC guidelines aggregate signs pointed to stagnation from 2012 to 2013 with low level of client use, low level of CSP compensation, strong evidence of viability problems in bank-led BC deployments. In the push into rural areas geographical targets were met but banking activity was found to be low. There was little evidence that the present trajectory would contribute significantly to financial inclusion or financial sector development.

The FII Tracker study referred to in Chapter 1 (FII, 2014) also raised the question of trust in BCs on the part of clients (Box 3.1). The data showed that only 3 per cent of account holders fully trust BCs, but also that 48 per cent were not properly aware of these services. The findings reinforce findings discussed earlier and show major shortcomings in the existing network of agent banking. In this context, quoting a Senior Programme Officer with the Bill and Melinda Gates Foundation, Singh and Sasi (2014) state that the mandate for banks to open a minimum number of accounts in poor and rural areas has led to 'card rampages', with banks aggressively opening accounts to meet targets but investing little in high-quality agent networks. It therefore remains to be seen how the account opening drive launched with the new financial inclusion mission will be qualitatively different. The Sa-dhan study in particular had recommended the involvement of MFIs[4] as also a role for SHG federations

BOX 3.1 Level of Trust in BCs Low

By March 2014 according to official RBI statistics there were BCs or agents in 337,678 villages. Nevertheless the FII India Tracker Survey shows that not only are levels of trust in BCs low, but a large number of 'don't know/refused' responses relate to a lack of awareness about these services. Low levels of trust and awareness of the BC model may also be related to a high turnover in agents, leading to a sporadic and interrupted connection with customers.

Level of trust in BCs

Type of response	% of responses
Do not know/refused	48
Do not trust at all	18
Rather do not trust	14
Neither trust nor distrust	7
Rather trust	9
Fully trust	3
Total	**100**

Source: InterMedia India FII Tracker Survey (*N* = 45,024, 15+) October 2013–January 2014. Further, BCs were not a common point of access for bank account holders. Only 0.2 per cent of rural, active bank-account holders* accessed their accounts, through an agent or business correspondent. Most in this group of rural, active bank-account holders said their preferred method of accessing their account was at a bank branch (82 per cent) and 18 per cent chose ATMs because they are 'safe', and safety is preferred over 'easy' or 'fast' access. Along with increasing awareness about BCs and the banking services they can offer, banks will need to invest in building trust for these services among low-income and rural segments.

Source: Adapted from Murthy (2014)
Note: *An individual who has a registered bank account and has used it during the past 90 days.

as BCs. One of the measures taken this year by RBI has been to allow NBFC-MFIs to act as BCs on behalf of banks, by-passing concerns about conflict of interest which had thus far held back their involvement.[5]

3.2.2 Corporate versus Individual BCs

Initially, banks asked technology companies or TSPs to take up the role of BCs and many such companies started providing end-to-end solutions by acting as the implementing field agency managing the frontline agents is hundreds of villages as well.[6] However, they did not have a sense of agency management and several major BCs closed down. Also BCs operating in a relatively small geographical area and with a limited volume of transactions tended to be squeezed out. It became clear that BCs would have to operate on a large scale to be successful in this potentially low-margin, high-volume environment. A matter of great concern was the introduction of the cluster approach towards financial inclusion, whereby India was been divided into 20 clusters and a common (corporate) BC to be appointed for all public sector banks operating in the large geographical cluster. Tenders for various states that were awarded through reverse auction resulted in startlingly low bids. There were genuine apprehensions that this would result in the entry of entities that did not have experience of financial services delivery in rural areas, who given the low bids would be hardly likely to innovate and provide high quality service to the clients. The auctions had eventually to be cancelled and the idea of corporate BC dropped. This brought to the forefront the unresolved questions of the feasibility of the bank-BC model which included the viability of the multiple layers of intermediaries in involved in financial services delivery. Questions nevertheless remain as to whether the current crop of BCs had the necessary bandwidth for financial services delivery. While several major banks had started with individual BCs and had a negative experience[7] with their involvement, for many banks the domination of and reliance upon the TSP providing critical technology inputs was irksome and the creation of monopolies in this space very real. The BC agents, managed by the BC or through a field partner, often found themselves working on very small commissions considerably lower than the charges allowed to the BCs by the banks. This further contributed to their low incomes and high attrition rates.

Ananth and Öncü (2014) studied the role of BCs in the expansion of banking services in Chittoor, Kurnool and Mahabubnagar districts of Andhra Pradesh (AP). A major proposition was that individual BCs could be more effective than the other types of BC correspondents in expanding financial inclusion. Their study covered seven public, one private and two regional rural banks. They found that with the exception of one bank the remuneration paid to BCs was paltry and often did not cover the cost of public transportation to make a trip to the bank to complete transactions.[8] The situation was even worse in the case of the compensation paid by corporate BCs to their BC agents who paid much lower compensation than the banks. They further observe that 'contrary to what was hoped, however, corporate BCs have often derailed banks' plans to implement financial inclusion. Many bankers we interviewed expressed exasperation with the corporate entities, emphasising their 'lack of control over the activities of the corporate BCs or BC agents'. This was found to be the main reason for the ineffectiveness of corporate BC agents. See also Box 3.2.

Box 3.2 Corporate BC Issues

1. Feedback from banks at a round-table organized by NABARD and Access-Assist in July 2014 included: (i) corporate BCs hold back a lot of information about clients from the banks; (ii) corporate BCs do not give full payment to BCAs which leads to grievances; (iii) upon merger of RRBs found that corporate BC performed unsatisfactorily in all RRBs, hence changed to direct dealing with BCs through ultra small branches; (iv) bank had to deal with 14 different TSPs in different regions with different and mismatched technology, BC work allotted according to L1 criterion resulting in poor performance.
2. One instance reported that the corporate BC agents in Kurnool district started by using mobiles but due to operational difficulties, the company promised PoS machines to them instead—which were not received. The BC agents who had spent Rs. 20,000, (Rs 10,000 as a deposit and Rs. 10,000 as the cost of a mobile and printer) financed by a loan with a monthly repayment of Rs. 620, were unable to transact for a prolonged period and suffered losses. This also resulted in the discrediting of the BC model in the eyes of the prospective clients.[9]

The corporate BC model being inherently a high cost-low margin business model was considered to be unsustainable in the short term. It was inevitable that corporate BCs would invest little in building infrastructure and also keep the compensation to their agents as low as possible until they built a large client base.[10] The withdrawal of corporate BCs by the banks in favour of individual BCs is a wider phenomenon reported from other states as well. Besides, TSP BCs may not have a financial policy and often are working with a funds constraint. Thus they neither upgrade technology nor are able to pay the BCs adequately. Other reasons for banks failing to use BCs to provided financial services to the excluded are given in Box 3.3.

3.2.3 Direct Benefit Transfer and Financial Inclusion through BCs: Experience of Andhra Pradesh

Great store is set for BC operations in facilitating government to people (G2P) programmes of Direct Benefit Transfers (DBTs)[11] in the form of electronic benefits transfers/direct cash transfers (EBTs/DCTs). The DBT programme covers 28 government schemes and is already being implemented in more than 100 districts of the country. It uses the biometric-based identification system, Aadhar, to help speeding up payments, removing leakages and enhancing financial inclusion. However, see also Box 3.4. BCs were generally located and doing relatively well in those areas where that EBT transfers were being made. Since these were in the pilot phase, BCs would have to await the expansion EBT to all the districts, for them to have the opportunity to be viable. Otherwise, stand-alone financial inclusion business by BCs was still essentially infeasible.

However, even these programmes with assured funds flow and transaction volumes were not able to ensure sustainability. In collaboration with the World Bank and SERP, CGAP carried out a research project from April to September 2013 to understand the electronic benefit transfer (EBT) system that the state of Andhra Pradesh had developed. Using quantitative and qualitative analysis, the research analysed the policy, supply and demand side of the EBT's ecosystem, to provide lessons for the DBT rollout across India, as well as the link of government to person payments to financial inclusion.[12]

Government of Andhra Pradesh delivers MNREGA and social security pensions (SSPs) worth Rs. 5 billion to 10 million beneficiaries through banks, post offices, BC companies, CSPs and community village organizations. The demand side findings from a survey of 2,460 households in 12 districts and an ethnographic study of 18 villages in 3 districts, found that EBT increased the payment convenience of recipients by reducing the

BOX 3.3 Reasons for Banks Failing to use BCs to Provide Financial Services to the Excluded

According to a study in Chittoor, Kurnool and Mahabubnagar districts of Andhra Pradesh, despite the potential demand for financial services, the constraints on individual BCs to expand financial inclusion almost invariably originated with the banks. The study identified eight reasons for reluctance of banks to expand formal banking services to the financially excluded:

1. Banks viewed financial inclusion (at least until recently) as a corporate social responsibility initiative rather than as a future business opportunity.
2. Banks were unwilling to spend time and resources to create and nurture a new market.
3. The sizes of financial inclusion portfolios of banks were minuscule compared to other high-growth sectors.
4. Banks perceived a 'perpetual viability gap' because of the high costs of servicing this market segment (so-called 'social' or 'holding' costs).
5. Banks felt that recovery in the rural areas would be difficult.
6. Banks were concerned about the lack of basic financial literacy and the associated information asymmetries.
7. There was a lack of tools or metrics to measure financial exclusion, which made banks unable to quantify the market and the attendant risks.
8. The geographic distance and inaccessibility of sub-districts from district headquarters also acted as a constraint.

Source: Ananth and Öncü (2014).

Box 3.4 Is Aadhar Mandatory?

The Pradhan Mantri Jan-Dhan Yojana (PMJDY) is committed to deploying the 12-digit biometric Aadhaar number project. As per the PMJDY brochure Aadhaar number will be seeded to make accounts ready for DBT payment and that they are to be the single point for receipt for all DBT. However, the Aadhar project is in itself controversial, legally contested, disapproved by the Parliamentary Standing Committee on Finance and ordered to be not mandatory for public services by the Supreme Court. The Supreme Court has passed an interim order on 23 September 2013 stating that availing of no public services can mandatorily be linked to Aadhaar. On 24 March 2014, the Court restrained the central government and the Unique Identification Authority of India (UIDAI) from sharing data with any third party or agency, while dealing with a case filed by Central Bureau of Investigation. While the Aadhar requirement for opening bank accounts is being routinely implemented by banks and related agencies it is not clear how Aadhar can be made mandatory in DBT and financial inclusion programmes.

Source: Adapted from Krishna (2014).

distance travelled from 1 km for manual payments to 0.57 km for electronic payments. The recipients were, however, found to be passive users of technology as their transactions were always mediated by BC agents.

Overall the business case for CSPs was found to be weak. Women agents disbursing MGNREGA and pensions received about Rs. 1,200 for 10 days' work—lower than the minimum wage rate. Similarly, for every Rs. 100 disbursed the bank received Rs. 2 as service fee, whereas the bank-BC models had a cost of Rs. 2.65 to Rs. 2.93. These costs were net of revenue earned from float income. The Department of Post relied on branch postmasters to distribute payments and utilized its existing infrastructure of cash management and storage. Nevertheless, its costs of disbursing Rs. 100 were Rs. 3.24. However, this system provides greater flexibility and can also provide agents to carry out disbursements similar to BC agents. Through this hub and spoke model, the Department of Post can bring down the costs of disbursing to Rs. 2.46 per Rs. 1,000. Accordingly, based upon the experiences in Andhra Pradesh, commission rates of 3 per cent (with 3.5 per cent in remote areas) would be necessary to make the BC channel viable for banks and agents. This would be in line with global trends on service commissions to banks. To integrate this channel with financial inclusion objectives, banks and agents would need to be incentivized to offer financial services alongside government payments.

3.3 BC MODEL: SUMMARY OF CURRENT STATUS

To sum up, in a presentation on building viable agent models, Microsave (2014), the leading researcher of BC agent networks, provided evidence on the status of agent networks in India and recommendations for the future.[13] Piecing together the evidence from government data and its own studies, it showed that the true reach and quality of the branch and agent network of banks was poor and characterized by very low levels of activity. Microsave field research further showed that a large number of BC agents complained about lack of support for their activities, the low revenue from their operations and the recoveries of operating expenses by the network managers regardless of the level of the revenue generation. However, where the BC models were focused on anchor products such as remittances, urban, and even rural, BC networks were becoming stable and even profitable. Similarly, where agents enabled a wider mix of products (credit services, involving leads as well as recoveries, along with savings) and received support from the bank branch, BC earnings were nearly five times higher than the average. Similar findings were also reported in a NABARD study of viability of BCs in RRBs (Box 3.5).

The majority of rural agents/CSPs were struggling to stay in business even while delivering G2P programmes with assured volumes thus failing to ensure sustainability. CSPs who received a minimum income- and transaction-based incentives were more motivated to continue. The choice of technology affected the total CSP investment and operational expenses. The mobile-based model had the lowest capital and operational expenses out of all models, including kiosk and point of sale (PoS) devices and was the technology of the future.

The perspective from a range of BC institutions was that 50 per cent of BC operations were not able to cover costs, 20 per cent barely able to cover costs and 30 per cent beginning to make profits, while none were

Box 3.5 Study on Viability of BCs in Regional Rural Banks

23 RRBs were covered based on the number of BC transactions undertaken by them up to 31 December 2013. The study was conducted in during April–May 2014.

Selected Findings:

- For almost 50 per cent of the CSPs interviewed, BC operations were the main source of income.
- In 60 per cent of the cases, the CSPs were earning in the range of Rs. 1,500 to Rs. 3,000 per month.
- The transaction charges paid to the CSPs were in the range of Re. 1 to Rs. 2 for deposit or withdrawal transactions and Rs. 5 to Rs. 15 for opening an account.
- All the CSPs were offering opening of savings bank account, deposit and withdrawal transactions.
- However, only one RRB was providing credit products like KCCs through CSPs as also microinsurance.
- Customers of the bank were appreciative of doorstep banking services provided by CSPs. There was a demand for more services to be offered through CSPs especially credit products.

Issues highlighted by the various stakeholders:

- Limited number of products being offered through CSPs and low per transaction commission provided
- Connectivity issues and Lack of interoperability of systems and devices
- Low per day cash limit of CSPs
- Lack of capacity building of branch managers and training to BCs on banking aspects
- Lack of financial literacy and awareness

It was concluded that the BC channel was viable provided banks were ready to invest in it. The cost of transactions was extremely low when compared to transactions at branch, ATM, etc.

Source: NABARD (2014)

highly profitable.[14] The lack of operational support and monitoring by banks was a major challenge cited by agents and CSPs and a lack of marketing and operational support by banks highlighted by the BC network managers. Liquidity management was a major barrier, particularly with G2P payments involving large sums of cash. A large number of NFAs were still inoperable and had still not been converted into BSBD accounts. Some of Microsave's recommendations were:

- Rationalize allocation of villages/panchayats to banks.
- Implement the recommendation of 3.14 per cent minimum commission per transaction and to mandate a minimum share for agents in G2P payments.
- Introduce standards for integration and interoperability.
- Mandate agents to have bank accounts to avoid carrying of cash for long distances.
- Allow mobile network operators to act as issuers of e-money with proportionate supervision.

3.4 BANKS AND NGO-MFIs AS BCs: RETURN OF THE PARTNERSHIP MODEL

While the BC model is basically associated with banks offering limited products and services in the form of or through a no-frills savings account using CSPs directly or through corporate BCs, some banks have tried different channels and attempted to provide credit facilities to the unbanked population.

As noted earlier, in 2006–07, a few banks in collaboration with MFIs introduced 'Partnership Model' in which the MFI played the role similar to that of a BC for bank lending as envisaged by the RBI, with the assets on the books of the bank. An example of such a model was the partnership between ICICI Bank with Cashpor,[15] and with several other MFIs, with FINO as an enabling technology provider. However, this model did not succeed due to issues related to KYC norms and low recoveries related to the over-extension of the credit facility. This model has returned with other private banks engaging

existing NGO-MFIs, or new section 25 companies promoted by NBFCs, to undertake lending as BC agents with wide-ranging responsibilities of loan origination, monitoring and recovery on commission basis. This revival of the bank-MFI relationship has substantially extended the scope of BC roles and relationships. While the model basically seeks to enhance the pre-existing role of MFIs in retailing credit, it has in several cases been used as the foundation to mount savings and other facilities.

3.4.1 Findings of GIZ-MFIN Survey

GIZ, the German technical and financial support agency and MFIN, the self-regulatory organization of NBFC-MFIs[16] collaborated to conduct an online survey (GIZ-MFIN 2014) of MFIs to understand the past experience of MFIs as BCs and the challenges faced by them. A survey invitation was sent to 180 NBFC-MFIs and NGO-MFIs in the MFIN and Sa-dhan databases and the survey conducted through an online form during December 2012 and January 2013. During the course of the study, more than 30 MFIs functioning as BCs of banks had been documented. However, several MFIs started BC operations thereafter. Of the 70 responding MFIs, only 14 had ever been BCs of banks—of which 8 were NBFCs, 5 NGOs and 1 cooperative. 9 out of these MFIs (6 NBFCs, 2 NGOs and the sole cooperative) subsequently closed down operations. Some of the findings of the survey were:

- BC operations were mainly through not-for-profit group entities, with even eight out of nine responding NBFC-MFIs running their BC operations through a not-for profit entity. Of the 14 MFI-BCs, eight partnered with private banks, four with public sector banks and two were BCs of both. The NBFC-BCs were offering a wider range of products than the NGO-BCs.
- It was found that few BC businesses had been viable, with only four profit making, one breaking even and nine loss making. However, ten MFIs expected to break even in less than two years. Nine MFIs that closed down did so because of lack of support from the banks and TSP, incurring losses with no clear route to profitability, and facing difficulty of managing the BC activity along with their core activities.

Nevertheless, 58 out of the 70 MFIs reporting stated that starting BC operations was a strategic fit for them, bringing with it possibilities of additional revenue, reduction in risks and costs and diversification of products. On the other hand, there were concerns about the stability of the BC model for small MFIs, the low revenues and higher operational costs and having banks as competitors to the MFI itself. There was a demand for capacity-building support, financial grants and technology inputs for starting BC operations.

Despite the poor uptake and performance of MFIs in carrying out BC operations and the high attrition rate reported in the aforementioned study, several private banks have during the past few years emerged as new players in successfully carrying out lending operations through MFIs acting as BCs. An important feature of such operations is that though they contribute to achieving the banks' targets for priority sector lending. The activity is undertaken on purely commercial lines with interest rates charged to the SHG members and other clients usually the maximum permissible under the 2011 RBI regulations for on lending of bank loans to MFIs.[17]

3.4.2 YES LEAP: BC model involving NGO-MFIs

YES Bank believes that only a commercially viable, scalable and sustainable business model can provide effective products and services to the customers leading to meaningful financial inclusion. It adopts frugal and flexible innovations to meet cost and outreach requirements by leveraging technologies and building complementary business enablers. The bank offers various financial services to the bottom-of-the-pyramid (BoP) segment such as direct micro-credit, micro saving, micro insurance and remittance services in urban, semi-urban and rural settings through the BC model. In rural areas, through YES Livelihood Enhancement Action Program (YES LEAP), the bank is providing credit and saving facility to the Self Help Group (SHG) through partner NGO-SHPIs acting as BCs.

Technology is leveraged to the maximum extent in order to bring in efficiency and effectiveness in the whole program. All transactions at the SHG level are recorded in the YES Sahaj Micro ATM cum Collection device by the BC staff in the field. Also dedicated software solution is being implemented—which is customized for booking

SHG loans as well as tracking individual borrower-level details. This is the first of its kind in the industry.

From a small pilot in October 2011, YES LEAP has reached out to over 5.3 lakh households. One of the highlights of YES LEAP is that all the SHGs linked with YES BANK are women-based SHGs. See Table 3.1.

TABLE 3.1 Highlights of YES LEAP Programme

Number of BCs	35
Number of savings-linked SHGs	28677
Total outstanding value in savings-linked SHGs (Rs. in billion)	0.27
Number of credit-linked SHGs	39034
Total loan outstanding in credit-linked SHGs (Rs. in billion)	6.47

Source: YES Bank

The focus of the bank is on rural lending through SHGs. The primary objective of YES Bank was lending as through lending a win-win situation can be created. It has appointed 35 BCs (MFIs and NGOs) starting with the NGO IBTADA in Rajasthan. These are Section 25 companies, trusts, societies and also some private limited companies formed by NGOs. Now the trend is that 2 to 3 people are forming a company only for BC activity. The ultimate cost to borrowers ranges between 15 and 26 per cent. There are several interest rate variants across BCs depending upon BC costs and comfort level subject to bank earning a minimum interest of 13–14 per cent with up to 12 per cent service charges for the partner. The bank charges 1 per cent as processing fee. 70 per cent of the fee is given to the BC. The security risk or first loss default guarantee (FLDG) ranges from 10 per cent to 5 per cent coming down over time with successful operations. BCs get a decent profit through this activity and break even in one to one-and-a-half years (see Box 3.6). Out of 35 BCs, 2 or 3 BCs are also receiving wholesale loans from the bank for their own lending operations.

BOX 3.6 Disha Microcredit—A Successful Credit BC of YES Bank

Disha is a 35 years old NGO, established for socio-economic upliftment of the rural poor, with special emphasis on women. SIDBI conducted a rating of Disha and found that Disha India Micro Credit (DIMC), a Section 25 company promoted by it, was an organization with potential to act as an MFI.

Other bankers like HDFC, HSBC, PNB, and FWWB (Ananya Finance) and NABARD also funded DIMC. However, after the Andhra crisis of 2010 smaller MFIs were severely affected and faced closure of their MFI operations. Ultimately YES Bank came forward to support DIMC to work as a BC. Had YES Bank not come forward DIMC's microfinance work would have ended.

DIMC started lending to SHG group members on behalf of YES Bank. As YES Bank became comfortable by working with DIMC they started extending larger loans to the SHG members through DIMC.

YES Bank started by giving loans to the SHGs at 24 per cent p.a. and subsequently has been charging 26 per cent p.a. In beginning YES Bank took 10 per cent of the loan amount as security in the form of a fixed deposit with YES Bank, to provide which was a big challenge for DIMC. Later, when YES Bank felt comfortable to work with Disha, they reduced the security to 5 per cent of the loan amount. In the beginning YES Bank was paying DIMC 10 per cent as service charge on amount returned but currently they are providing 10 per cent as service charge, 1 per cent as incentive for 100 per cent recovery and 1 per cent incentive on agriculture loans, therefore DIMC is getting up to 12 per cent as income now.

DIMC uses its profits every month to create fixed deposits with Yes Bank to enable it to get larger loans for its SHG members. YES Bank has given DIMC nearly Rs. 306 million up to March 2014 for lending to the groups. As a result DIMC has been able to provide loans to 23,000 SHG group members of 2,000 SHGs. Through the service charges which DIMC earns, it is able to meet salary expenses of its 73 staff workers, establishment and office expenditures. After meeting all these expenses, DIMC generated a surplus of about Rs. 114.9 million during the financial year 2013–14. This amount has been deposited with YES Bank towards the 5 per cent security amount to enable it to receive further funds for lending.

Since DIMC is a not-for-profit company private equity investors have not come forward with funds to invest in it. Such companies may face a problem in future since RBI has allowed NBFC-MFIs to become BCs of banks as well. These NBFC-BCs will be able to attract the lion's share of funds from banks by being able to deposit larger security amounts, which will pose a great challenge for the not-for-profit companies.

Source: Information provided by K.N. Tiwari, CEO, DIMC and *DIMC Annual Report 2013–14*.

YES LEAP's SHG lending portfolio is about Rs. 6.5 billion which is planned to grow 2–3 times during 2014–15 in partnership with 50 or 60 BCs. In the model a conscious call has been taken that at no point of time BC and TSP will be the same person as dependency increases. There is a TSP called Dhruv Technologies which provides hand-held devices, maintenance and other services. Though inspired by the ICICI and HDFC partnership models, there are differences with a larger number of staff (120 persons for 35 BCs) deployed in support. It is a new hybrid in which they are selective about the number of BC partners which is highly restricted. As a result for one-and-a-half years they do not have NPA and repayment issues. The bank is expecting that in view of the new regulations they will soon have NBFC partners to act as BCs as well. See also Box 3.7.

3.4.3 Branchless Banking by IndusInd Bank[18]

IndusInd Bank's vision for financial inclusion is to reach out to the financially excluded by providing basic banking and financial services in a commercially viable and sustainable manner. It believes in a collaborative approach since the diversity of the customer segment requires synergetic efforts to bring local institutions, technology players, mobile network operators, government institutions, etc., through a partnership/BC model.

The learnings from FI experience has been that BC channel is not viable and neither are stand-alone savings products. It is important to have credit product and to begin with and add on other products towards viability. Accordingly, under the partnership/BC model, the bank approach is a 'credit led' model involving players with the required distribution reach, understanding of the segment and proven business models for viability. As of March 2014 IndusInd Bank had an overall outreach of 1.1 million underserved households in 24 states, across all delivery models and had opened 2.5 lakh BSBD accounts through multiple modes. More than 70 per cent of these districts were classified as 'below average' or 'excluded' in terms of banking penetration in the

Box 3.7 SHG-promoting BC

Outreach Financial Services India Pvt. Ltd., formed by investment from SKS and some ex-SKS trust employees, provides financial services by forming and managing SHGs. The company was incorporated in 2014 in Hyderabad.

Outreach prefers to act as BC of a bank rather than raise the resources to act as an NBFC-MFI. However, they work in the border districts of Karnataka and Maharashtra exactly like an MFI does adopting a credit-led model and also doing some savings. Their approach begins with SHG formation in the villages, at own cost, to start credit and savings together. Rs. 300 of start-up savings per SHG member is required. Apart from insurance contribution and processing fee as a BC, no charges are imposed on SHG members who are also helped with group processes. There is a disincentive to withdraw group savings and loans are 4–5 times projected savings.

Lending can commence after doing credit bureau checks required by the bank. In a month's time the SHGs can receive loans with weekly repayments. Though loans are to SHGs they are tracked individually. The team is microfinance-driven and focused on saving and lending.

Loan officers prepare individual KYCs through a thorough process in order to build high-quality data to gain the trust of the bank; and to prepare to take on the role of credit approval as well in future. For most active banks adopting this credit-led BC model solves the last mile problem. They are not subject to the MFI act but they still follow similar practices. Outreach gives only two-year loans of between Rs. 15,000 to 25,000 with a recovery period of two years.

BC commission structures differ from BC to BC depending on the portfolio and territory and vary from 8 per cent to 10 per cent. Outreach does not have an independent lending programme and have formed SHGs only for YES Bank for which it is the BC. It is operating in extensive geographies. However, Outreach is hesitant to appoint CSPs since for their viability a sufficient number of villages and collections will be required. Individual bank accounts too will be opened later. It is taking a reverse approach by starting with SHGs, making them viable and using the surplus to fund technology—biometrics, printing, etc. The target is to have lady CSPs in one year's time and for the company to break even in two years.

Source: Interview with Mr. Surya Kumar, MD & CEO Outreach Financial Services Ltd.

CRISIL Inclusix Report. It is working with the excluded segment even in better off districts.

Under direct model (BC/partnership) the bank had an outreach of over 5.6 lakh clients spread over identified geographies—9 states through 9 intermediaries including MFIs. Credit bureau data is used effectively to work in different geographical areas and to help selection of MFI partners. From the time of implementation of the partnership project in May 2012, the bank has carried out more than 20 million low-value transactions smoothly.

The bank rewards the service provider for its services through a service fee or commission which is paid both in fixed as well as variable components. Care is taken to ensure that the service provider's revenue is adequate and offers a good business proposition for sustainable financial inclusion as against the experience of unsustainable BC models in the past. At the same time, a performance security (or FLDG) component is built into the service agreement which ensures that the partner/BC continues to source and service the end-customers of the bank as they would their own-funded clients. This structure brings about risk alignment of objectives of bank and the partner MFI. The bank does not attempt to charge other than market rates from the client, though there is no processing fee which results in an effective saving of about 1.8 per cent in terms of the rate of interest. Nevertheless there has been a drop of 3–4 per cent in the rate of interest to clients since it started business.

Sustainability of operations is paramount for the bank. It is open to the legal form adopted by the partner MFI and also prepared to work with whatever group methodology—SHG, JLG or individual which the partner prefers. However, it ensures that there is no incentive for the MFI partner to undertake on balance sheet lending. The bank does not view term lending to MFIs favourably and prefers to lend through MFIs, rather than to them, by adopting its own appraisal methodology through KYCs, etc. Accordingly, it is not even favour lending to the larger NBFC-MFIs. Under the BC model the average loan size is Rs. 13,000 and average repayment instalment is Rs. 325. Besides loans, the bank is also facilitating voluntary savings through normal SB accounts which are expected in turn to be the basis for further diversification of products.

In the light of few big ticket equity investments in large MFIs, and regulatory barriers to new entrants the bank believes that the partnership/BC programme can be a key enabler for the microfinance sector to expand its outreach with little incremental capital required since time-tested processes and systems have been built for reaching out to the poor. The bank aims to capitalize on such institutions while meeting its mandate of providing access to comprehensive financial services to a vast number of un- and under-banked clients in the country. The bank is optimistic about mobile technology emerging as the key technology of the future even though it is open to other technologies such as smart cards and POS devices at the front end. It has used mobile technology for its liability products but feels it is premature to extend it for credit operations.

3.4.4 Cashpor's Composite BC Model with Fee-Based Savings

For Cashpor, a leading not-for-profit MFI, its BC work with banks has become an important part of its total business accounting for 21 per cent of loans disbursed during the 2013–14 and for 22 per cent of the total portfolio as on March 2014. A three-way partnership was facilitated by Grameen Foundation between Cashpor, ICICI Bank and Eko India Financial Services Private Limited, the technology provider, to offer saving bank accounts to Cashpor's clients.[19] The savings function as BC was added to Cashpor's pre-existing role as MFI retailer and BC in loan disbursement for IndusInd Bank (Box 3.8). The existing credit infrastructure was used to offer savings services with only marginal costs being accounted for in the savings operation. Marginal costs comprised of staff incentives, automation of the account opening process, staff training and administrative costs. Cashpor earned its revenues from commissions that the bank paid on account opening, transactions and float (for the balance maintained in the accounts). Cashpor was guided by the 'total customer profitability' concept in offering savings services whereby the total costs of providing a basket of financial services to the customers is covered through total revenue from that customer.

Under this model Cashpor utilized its existing credit infrastructure of branches to offer saving services. Its centre managers double up as CSPs.[20] Customers must also pay transaction charges each time they deposit or withdraw from their savings accounts. For this, they

Box 3.8 IndusInd Bank: Financial Inclusion through Win-Win Model

Financial Inclusion, for IndusInd bank, is not simply a one-time intervention but it signifies a comprehensive bouquet of various services and products which can make meaningful impact in enabling the poor segment scale up the ladder of poverty. With this philosophy in mind, it engaged Cashpor Micro Credit, a Varanasi based MFI, as a BC for intermediating and offering an array of financial services on behalf of the Bank. Cashpor had developed certain key knowledge, understanding, systems and methodologies for dealing with the BPL segment in this part of the country in a sustainable and scalable manner.

The IndusInd BC arrangement with Cashpor commenced in May 2012 covering 4000 villages, spread over 11 districts. Till date the bank has extended more than 2.72 lakh loans. Currently, around 1.25 lakh customers loans from IndusInd. Close to 50,000 of these customers have also been offered savings accounts and eventually the entire customer base would be covered under the savings account facilities. The arrangement is a win-win situation for all the stakeholders as below:

Customer

- Low cost credit in a convenient and transparent manner at their door steps.
- Continuous and uninterrupted credit flow as Bank is in a better position to ensure the fund flow
- Savings account enabled through convenient mobile solutions
- Access to other services like insurance, pension and money remittances in future

Cashpor

- A reasonable revenue sharing thus ensuring commercial viability of its intermediation
- Easing of capital burden as the fund flow is being taken care of by Bank

Bank

- A cost effective and efficient way of reaching out to the segment which, otherwise, would have been very costly through a branch network

can either pay lump-sum, where an additional Rs. 50 is charged per customer per year for conducting unlimited transactions. Alternately, customers can pay each time they transact, and are charged Rs. 2.

A study of Cashpor's business model[21] found that the project has earned lower revenues than costs incurred in the initial 20 months. The BC model was a low-return, high-cost model where scale and efficiency would be critical to achieving profits. Financial viability of the model was a major concern.

While the bank wants to retain the fee because of the need for financial sustainability, the poverty of the clients has been a barrier to opening accounts. The savings product was thus demotivating to customers: when depositing Rs. 20 into their account, only Rs. 18 would be credited since Rs. 2 (10 per cent of the total deposit amount) would be taken up as a transaction cost.

There are assertions in many quarters that even poor people are prepared to pay for savings services. Despite the apparent success in mounting a savings facility on the existing infrastructure for MFI lending at Cashpor it appears that the introduction of such a fee-based facility[22] is not generally accepted. This especially so since the universal provision of basic savings bank deposit accounts with several attractive features and products is being implemented by banks on a priority basis under the financial inclusion mission.

The aforementioned examples highlight the manner in which private banks have tried to create business models that externalize the risks and costs of financial services delivery to the poor and excluded clientele in their attempts to extract the fortune at the bottom of the pyramid. In the case of lending operations—the alleged win-win proposition—the NGOs and non-profit MFIs engaged find themselves having to move away from their role as development contractors, while being compulsively involved in risk-taking as part of their efforts to provide the financial services generally being denied to their constituents under the classic direct SHG-bank linkage type of programme.[23] While the banks are able to extract a more or less assured return on their portfolio of about 13 to 14 per cent, the lending to SHGs is

increasingly the preferred social collateral arrangement being undertaken at up to 26 per cent plus processing charges. The disquieting feature of such arrangements is that apart from first loss guarantees in the form of 'alignment of risk' taken from the NGO-MFI partner, often the savings of the SHGs in their bank account is not withdrawable and hostage to the guarantee agreement. This also denies them the independence to use these savings for internal rotation for emergency needs while at the same time receiving loans at about twice the interest rate applicable under the SHG-bank linkage programme.[24]

3.5 NBFC-MFIs IN FINANCIAL INCLUSION: BC PARTNERS OR SMALL BANKS

MFIs registered as NBFCs have been keen to act as BCs of banks and to enlarge the scope and scale of their operations. While banks were happy to meet their priority sector lending targets through the MF portfolio default to MFIs on loans inevitably led to default by MFIs to the banks. By using MFIs operating as agents of banks in the form of BCs there is greater supervision by the banking system. Besides, the outreach and distribution structures of MFIs can be used by banks to provide credit as also a wider range of financial services. A critical service that is made possible under this arrangement is that of savings along with related services such as insurance and pensions and remittances. MFIs can develop a network of agents offering a wide range of services using card or mobile-based technological devices.

By sharing the risk and return of lending to this clientele many MFIs that have been functioning as NBFCs have taken on the additional role of operating as BCs of banks through subsidiary and affiliate organizations and undertaking lending through this channel and also initiating savings and other services. The areas of operations of the NBFC and the BC can be different. From the point of view of the NBFC-MFI economies of scope are also available by operating in parallel dual channels of financial services delivery as both retailer and agent. It also helps to cement the relationship with the partner bank for enlargement of the scale of operations of the NBFCs. In the case of Margdarshak, Lucknow, an NBFC-MFI, through an affiliate first took on the role of field support BC and later transformed it into credit intermediary BC for a private bank to complement and supplement its MFI operations.

Thus the industry association of 48 leading NBFC-MFIs greeted the RBI announcement on 24 June 2014 permitting banks to engage non-deposit taking NBFCs (NBFCs-ND) as BCs with unabashed delight as it was something that had been much sought after. Some MFIs felt that using the existing NBFC/MFI networks would allow a large increase in accounts opened and clients serviced, though client protection could be an issue. However, other MFIs feel that BCs may not be the solution as MFIs still remain dependent on banks for the daily settlement system. It would be good to explore if well regulated MFIs could be rolled out as payment banks.[25] Before any progress could be made in this direction, RBI issued guidelines for the setting up of small banks and payments banks. The profile of eligible promoters as per small bank guidelines issued by RBI on 17 July 2014 suggested a perfect fit for experienced NBFC-MFIs as the eligible promoters. Similarly, the payments bank option provided an opportunity for enlarged operations for them with over half the membership of MFIN understood to have expressed interest. At the same time it is hardly likely that when licences are given it will not be done on a highly selective basis. A process of differentiation may set in with the large NBFC-MFIs, having a portfolio of say Rs. 1,000 crores and above, transforming into banks with the vast majority left to fight within the BC space with the non-profit NGO-MFIs.

3.6 SHG NETWORK AS BC

In this context the possibility of SHGs and their members (as also their federations and associations) acting as BCs has not been widely examined by banks. There is a fairly large consensus among NGOs and SHPIs that primary/secondary SHG federations could function as BCs/BFs (or even BC agents of corporate agencies as BCs) and SHG members as BC agents/CSPs.[26] However, this idea does not seem to find favour with banks who would rather engage with good NGOs and SHPIs. In some respects it is the SHGs themselves that have the best qualifications to act as BCs or sub-agents. However, they still do not figure on the list of eligible entities.

Since there are large number of SHGs in India, an attempt is also being made to leverage their members as Bank Mitras or BC agents on behalf of a bank. Either a member of the SHG or the SHG Federation can act as a BC/BC agent of the bank. Under the National Rural Livelihoods Mission (NRLM) such a role is being built in into the SHG-bank relationship. At an RRB in Maharashtra male members of farmers' clubs and female members of SHGs have been recruited to act as CSPs. In an unrelated operational model in Maharashtra, SHG Federations act as the BC of a private bank.[27]

In UP, a pilot has been launched in Sumerpur block of Unnao district in March 2013 and is being run by using a member (Bank Sakhi) of SHGs as the CSP or BC agent supported by the village organizations and federations of the SHGs with the latter acting as a sort of 'super-CSP'. The pilot is an attempt to test if the SHG networks with their strength in terms of local resources, low attrition factor, wide membership base, entrepreneurial flair, and being community-driven can provide and develop BC agents capable of offering doorstep financial and banking services to low-income clients towards financial inclusion.

The Grameen Bank of Aryavart (GBA) in cooperation with the GIZ-NABARD Rural Financial Institutions Programme (RFIP) has identified a well-functioning SHG ecosystem that is being nurtured and promoted by Rajiv Gandhi Mahila Vikas Pariyojana (RGMVP) for this pilot project. Bank Sakhis—selected SHG members who have been acting as a link between the SHGs and the bank—have been trained and equipped to carry out the function of CSPs. Handholding/support as well as quality control and supervision capabilities have been built up at the level of the block level SHG federation,[28] with support from the RGMVP.[29]

Figure 3.2 illustrates the matrix of responsibilities under the pilot project.

Thus, the RRB, GBA, is responsible for providing training support for delivering banking services to the Bank Sakhi-CSP and SHG institutions regarding the process and procedure for the delivery of banking services and for conducting financial awareness and literacy campaign in the villages, Bartronics in the dual role of corporate BC and TSP provides enrolment and transaction kits and training on transactions and bookkeeping to the Bank Sakhi-CSP regarding handling of technology

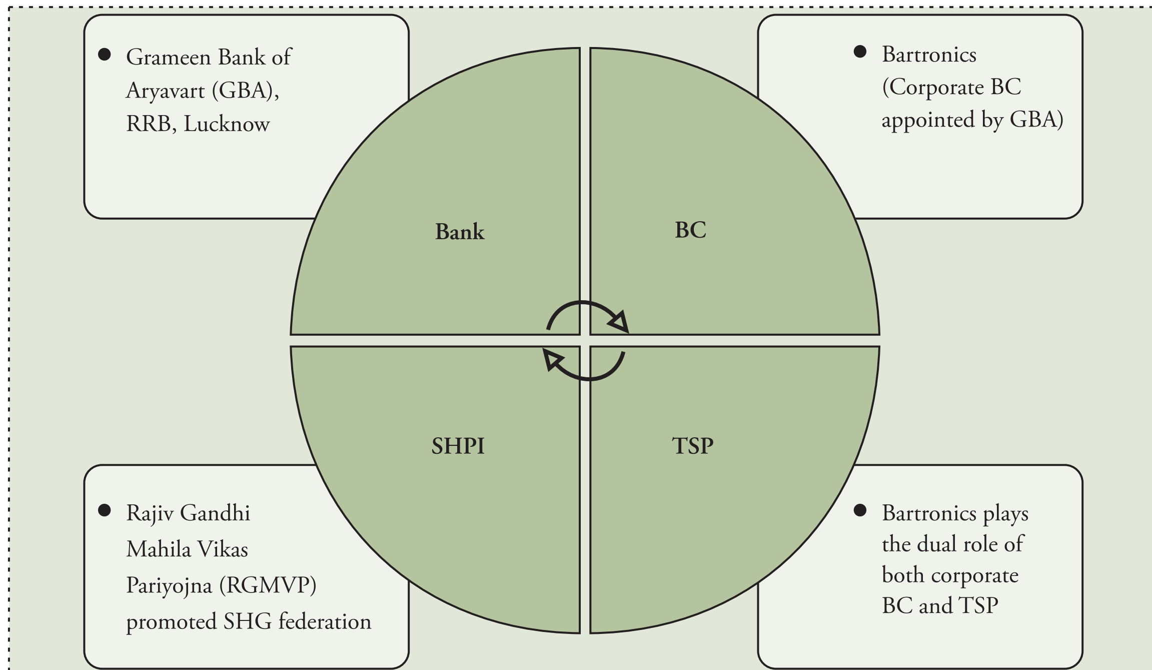

FIGURE 3.2 SHG Network as BC Agents Project, Unnao, U.P.: Responsibility Matrix

kits and troubleshooting basic technical problems and processes data gathered by the Bank Sakhi-CSP for opening of BSBD accounts. RGMVP provides the services and resource of the following institution promoted by it, i.e., the block federation and VOs which coordinate with the bank and BC, undertaking financial awareness and financial literacy work and ensuring completion of enrollment and other activities. The Bank Sakhis are members of RGMVP-promoted SHG federations. Each Sakhi is allocated one Gram Panchayat covering 4–5 villages. In the course of her duties she ensures prompt and efficient service to be provided to the customers and the safe custody of cash and equipment which are at their disposal.

The project has been able to break the glass ceiling and today the women, who never stepped out of their house, drive this innovative project. Bank Sakhis earn on an average Rs. 2,000 devoting a couple of hours daily operating from their home. Bank Sakhis express that their social stature has enhanced and they take lot of pride in being able to offer their fellow villagers banking services.

Over 35 per cent of bankable citizens have enrolled to use the formal savings services of GBA. 65 per cent of the SHG members have opened their individual savings accounts as part of the financial inclusion process.

A Bank Sakhi-CSP is doing an average of 500 transactions per month in a Gram Panchayat. She is earning over Rs. 1,000 per month. Bank Sakhis have recently started work as BFs as well by which they would earn a minimum of Rs. 2,000 per month. The use of CSPs as BFs provided with incentives to follow-up and facilitate recovery of overdue loans and bad debts has been successful in realizing significant volumes of past dues for the bank on one hand and generating supplementary incomes for the CSPs, over and above their limited earnings from account opening and transactions income, on the other. This role for the CSPs has been introduced in other areas by other banks as well. Other innovations by GBA include the use of the CSPs as agents on commission basis for marketing solar lamps and to purchase which the bank provides loan to the clients.[30] The SHG federation is planning to retain 15–20 per cent of the earnings of Bank Sakhis from the BC and BF activities. This will help the institution to manage the administrative and operational cost incurred on FI activities. Hence the FI initiative of SHG institutions will not only be socially relevant, but also be financially sustainable in the long run. The pilot project enters its second phase from June 2014 when 25 new GPs will be added with the objective of scaling up the services and strengthening the CSP network. In the second phase another pilot has been started in collaboration with Narmada Jhabua Grameen Bank in Indore district, Madhya Pradesh, with some changes from the UP pilot, which is in its initial stages with 6 Sakhis having started functioning. The project has opted for the kiosk model using laptops for a potential role as a CSC with a wider range of functions including G2C services. The bank also provides a fixed remuneration of Rs. 3,000 per month to the Sakhis, apart from commissions for various types of activities and transactions.

Table 3.2 provides data on coverage of the pilot project. It is envisaged that by October 2015 the project will have 15,000 active account holders across 50 GPs, and services offered through total distribution CSP agent strength of 50.

This SHG-led BC model is considered to have immense potential for replication in other parts of India where the traditional CSP and banking models have been less effective. However, an independent review of

TABLE 3.2 SHG Network as BC Agents Project, Unnao, UP—Progress Report (as of June 2014)

Particulars	Unit (No.)	Particulars	Unit (No.)
Gram panchayats	24	Villages	85
Households	11,346	Bankable population	22,692
Enrolled population	8062	SHGs in the project area	140
SHGs members in project area	1,509	Members of SHGs enrolled individually	989
No. of total transactions	42,795	Value of transactions	Rs. 47.01 lakhs

Source: GIZ.

the project would be necessary to ascertain the sustainability of the model. Even under the new model both the sakhi and the SHG federation are supposed to get commissions from CSC. However, since in the beginning revenue income for CSCs is low, federations do not take any commissions in the first year or so. But this is of course not sustainable. The time frame and business model for all stakeholders have to be considered.

The bank will soon introduce RuPay KCC and RuPay debit cards through the CSP touch points. The bank has now decided to route the transactions of SHG group and individual members (deposit, withdrawal, internal lending, and loan disbursements) through the POS platform which will increase the frequency of transactions and help CSPs increase their earnings significantly.

The key learnings from the pilot have been:

- Community-driven SHG-based networks can be leveraged to formalize effective BC agent network to provide doorstep banking services with high degree of trust and reliability.
- Banks need to provide diverse range of products and services through the CSP platform to ensure revenues and sustainability and viability of CSP.
- Social respect, economic empowerment, and pride of being associated with a bank are the socio-economic benefits of being a CSP agent for a bank.
- Concerted capacity-building approach coupled with customized user-friendly training materials and constant hand-holding of SHG members can help them drive the pilot project themselves.

Notwithstanding the positive expectations about the model, the fact that bank sakhis are prepared to work for limited earnings is a cause of concern. In other contexts as well where SHG women members have taken on the role of bank mitras in their individual capacity, they may work for low returns because they feel that they acquire visibility and receive recognition in society for their work. This fact has been noted in the current project as well. This supposed 'social sustainability', as against economic viability, of the CSP is perhaps an unacceptable basis to assign them the duties and responsibilities of acting as a BC agent for the banks.

3.7 ROLE OF BCs IN THE NEW FINANCIAL INCLUSION STRATEGY

As has been noted there have been changes in the conceptualization of the BC relationship with banks over the past 7–8 years since it was first introduced. While the list of eligible entities that can act as BCs has increased in number, the BC model has itself grown additional layers of sub-agents and intermediaries. Instead of a bank branch-BC-client relationship the bank's relationship with the client can now have multiple intermediaries thus: bank-common BC/TSP-BC-CSP-SHG/individual. There is not enough evidence that adequate margins exist to maintain the intermediary agents involved in this elaborate delivery structure especially in low-volume areas and contexts given the level of charges for various services. Indeed using commissions from EBTs as a source of revenue renders financial services delivery hostage to the continuance of these transfers and payments under various government programmes.

The revival of the credit-led partnership model by private banks appears by to offer a route to viable delivery of credit through NGOs and MFIs who can act as an extension of the banking system. Here the concerns are the resultant high rates of interest payable by the SHGs and the substantial risk sharing imposed by the banks on the partner agencies.

Though SHGs and women SHG members are a large and organized constituency suitable to be involved in the banking relationship some of the innovations such as the SHG Network as BC pilot are yet to show viability and sustainability. Implementation of the BF functions, however, has potential to be able to improve CSP viability, and help cement the CSP-bank relationship.

As far as government thinking is concerned, the MFI and SHG channels are still not being seriously considered for large-scale deployment of BCs. The strategy under the PMJDY is to take forward the Bank Mitr (BC) model for expansion of banking services by modifying it to ensure both operational flexibility and viability of the BC. It is intended that the existing rural infrastructure of post offices having Gramin Dak Sewaks would be optimally utilized to become BCs of the Banks. One of the key strategies will be deployment of the online fixed point BC to deliver basic banking services near to the

customer's doorstep. For this it is intended to activate the existing CSCs and build upon with their wider functions and services provided. There are 1,26,000 CSCs,[31] out of which only 12,000 are BCs of the banks. Thus the future of BCs involves a mix of fixed and mobile service points which could provide better quality and a wider range of services in a viable manner.

PART 2

3.8 TECHNOLOGICAL DEVELOPMENT IN FINANCIAL SERVICES SECTOR

Notwithstanding the larger social goals that drive financial inclusion, there are serious economic questions that bother the architects who structure the edifices of inclusive banking systems. Banks everywhere have started realizing that the costs associated with working through the traditional brick and mortar model, especially, in remote regions, are enormous and would continue to pose major hurdles on the way to promoting financial inclusion. Encouraged by the banking regulator, there has been a constant search for viable channels and methods of externalizing costs of intermediation which can lead up efficiently to the last mile user of financial services. As discussed in the previous section, the multiple experiments made with the BC/BF models have all been directed at evolving viable and business models that could push the reach of financial services to newer and newer sections of population. With many of these models failing to prove their viability in conclusive terms, the role of technology has come to be reemphasized as a key enabler for financial inclusion.

While reach, economy on scale and efficiency are the major advantages of technology-led models of financial intermediation, their fast dissemination more often than not gets hindered by various factors ranging from policy imperfections, infrastructural bottlenecks and incompatibility with users' values and perceptions. Figure 3.3 represents the timeline of innovation in Indian banking and financial services since 1980, the year when the first credit card was introduced in the country. Over a span of about three decades between 1980 and 2014, the initial 15 years did not witness many innovations in the financial sector. The 2000s turned out to be a highly productive decade in terms of innovation when many revolutionary technological changes that drew upon information and communication technologies were introduced. The 1980s, some would argue, marked the first phase of 'financial inclusion' in the country. That was the time when foreign banks realized that more than 200 million of the middle class households of the progressively

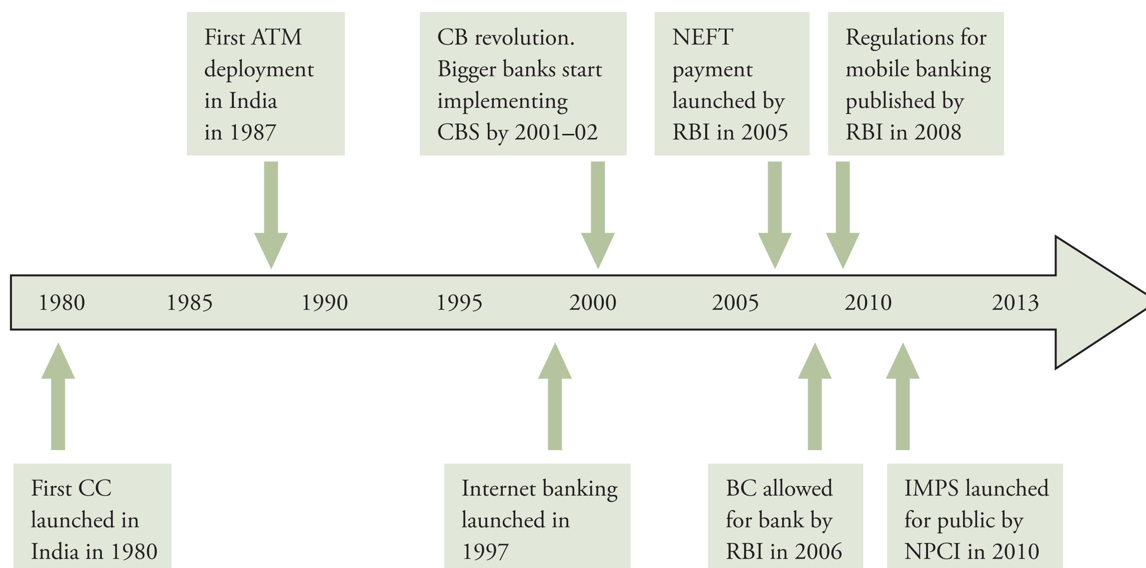

FIGURE 3.3 Technology Innovation in Indian Banking

Source: Deloitte (2013, 22).

liberalizing India were 'financially excluded' due to lack of supply of consumption credit. The new technology of credit card provided them with hassle-free consumer finance, which they could not access from mainstream banks directly. About seven years later was introduced the technology of automatic teller machines or ATM. It took another 10 years for internet banking to be launched. Mobile banking was the last major technology introduction.

To what extent has the adoption of new technologies helped broadbase access to banking? The recent InterMedia India Survey (2014) has made some pertinent observations regarding the use of digital financial services by customers. As Figure 3.4 shows a bank branch is still the preferred place for majority of the bank customers. Interestingly, in the 28 years of its existence, ATM technology could convince only 28 per cent of the active customers to engage with the technology.

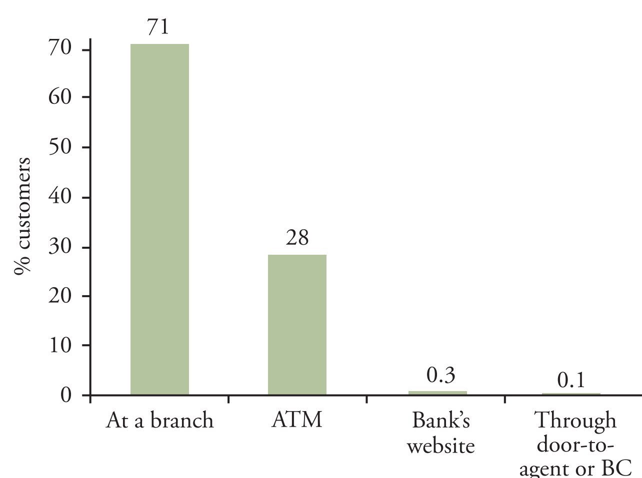

FIGURE 3.4 Mode of Accessing Banking Services by Active Bank Account Holders

Source: InterMedia (2014).

National Payments Corporation of India (NPCI) set up in 2009 operates the National Financial Switch (NFS) that facilitates routing of ATM transactions through interconnectivity between the banks' switches thus allowing the customers to use any ATM of a connected bank. In June 2012 the RBI issued guidelines for non-banking entities to set up White Label ATMs (WLA) under the Payments and Settlement Systems Act 2007 with a view to enhance the spread of ATMs in semi urban and rural areas where bank-owned ATMs are not working (RBI, 2013–14). NFS has 83 direct members, 196 members, 49 RRB members and 7 WLA operators, who together operate 1,80,494 ATMs in the country. The WLAs operate about 4,370 ATMs, 60 per cent of which are owned by Tata Communications Payment Solutions Private Limited.

The available data suggests that banks have not found the ATM technology viable for rural areas. Of a total of 1,60,055 ATMs in the country as of 31 March 2014 only 14 per cent (i.e., 23,334) are located in rural areas. The metropolitan and urban areas accounted for about two-thirds of the increase in the number of ATMs between September 2012 and March 2014. Table 3.3 shows that 48,400 new ATMs were set up during this period by banks across states. One of the factors that limits the usability of rural ATMs for economically weaker sections is that these machines cannot disburse smaller denomination notes.

3.8.1 Electronic Payments

It is the central bank's vision to proactively encourage electronic payment systems for ushering in a cashless society and to ensure that the payment systems are safe, efficient, interoperable, authorized, accessible, inclusive and compliant with international standards (RBI, 2012).

TABLE 3.3 Growth in ATMs: 2012–14

Time period	Number of ATMs operated by			
	Public sector banks	Private sector banks	Foreign banks	All banks
September 2012	60,573	39,812	1,361	101,746
March 2013	69,652	43,101	1,261	114,014
September 2013	83,146	45,941	1,246	130,333
March 2014	110,424	48,467	1,164	160,055

Source: RBI (2013–14).

The retail electronic payment systems [comprising Electronic Clearing Service (ECS), National Electronic Fund Transfer (NEFT), Pre-paid Payment System (PPI), Point of Sale (POS) Terminals/online transactions] grew substantially during the decade 2004–14. The number of transactions under retail electronic payments rose from 167 million to 2,268 million while the volume of transaction grew about 100 times from close to Rs. 500 billion to Rs. 50,000 billion (Table 3.4). It is evident from Figure 3.5 that momentum of growth in transaction

TABLE 3.4 Progress of Retail Electronic Payments

Year	Number (million)	Amount (Rs. billion)	Average volume of transaction (Rs.)
2003–04	166.94	521.43	3,123
2004–05	228.90	1,087.50	4,751
2005–06	285.01	1,463.83	5,136
2006–07	378.71	2,356.93	6,224
2007–08	535.31	10,419.92	19,465
2008–09	667.82	5,003.22	7,492
2009–10	718.16	6,848.86	9,537
2010–11	908.59	13,086.87	14,403
2011–12	1,190.40	22,137.40	18,597
2012–13	1,624.50	33,928.30	20,885
2013–14	2,268.50	50,122.00	22,095

Source: RBI (2012), Table No. 9A, p. S 1390; RBI (2014), Table IX.1, p. 110.
Note: Retail electronic payments include transactions through Electronic Clearing Service (ECS), Electronic Fund Transfer/National Electronic Funds Transfer (EFT/NEFT), and cards (debit and credit).

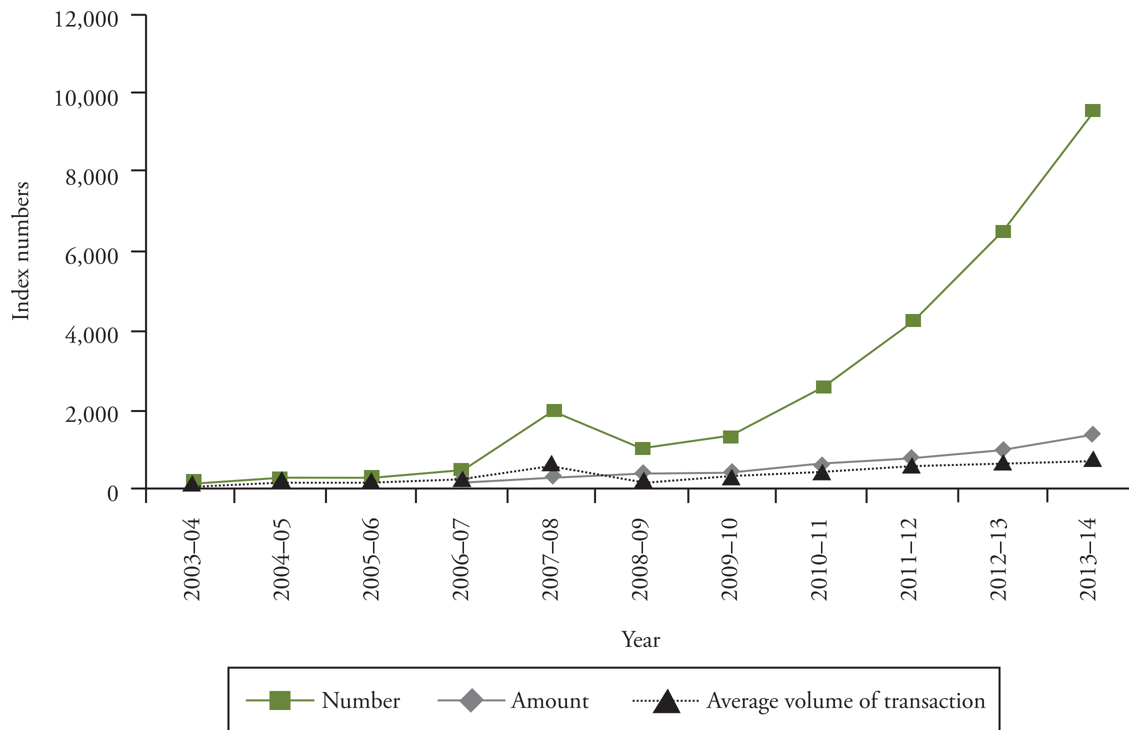

FIGURE 3.5 Growth in Retail Electronic Payments

Source: Same as Table 3.4.

volume picked up after 2009–10. Average volume of transaction during the period 2010–14 increased from Rs. 9,500 to Rs. 22,000.

The NPCI has successfully demonstrated through pilots the working of the Aadhar Enabled Point of Sales (AEPS) transaction which is meant to facilitate online interoperable transaction at MicroATMs/PoS through BCs. The transactions include withdrawals and deposits along with funds transfer between Aadhar card holders. The customer inputs required are issuer identification number (IIN), Aadhar number and the finger print used during her enrolment.

The performance indicators of various payment system segments show that during 2012–13 the share of paper-based instruments in the volume of total non-cash transactions was lower than that of electronic payments. For instance, the retail electronic segment too has registered a significant growth of 35.2 per cent in volume and 54.9 per cent in value (RBI, 2014). A close look at the working of the payment system, however, reveals that while the performance of electronic payments has been impressive over the years, all sections of the population do not have access to its benefits. The users are largely concentrated in tier 1 and tier 2 locations and already have access to formal financial services. 'The segment of the population that has missed out the bandwagon of modern electronic payments are the country's unbanked and under-banked people who constitute a significant portion of the population' (RBI, 2012, 5). Though there is a significant untapped market for electronic payments, issues such as standardization, interoperability, consolidation, data security and creation of common infrastructure remain major challenges. Also needed are innovations in product and delivery channels.

3.9 MOBILE BANKING

The first set of mobile banking guidelines issued by RBI in October 2008 permitted banks to facilitate funds transfer through mobile phones from one bank account to another bank account, both for personal remittances and purchase of goods and services. Currently, there is no monetary restriction on such fund transfer. It is left to the risk perception of banks and their bank-approved policies. For transactions in excess of Rs. 5,000 RBI mandates end-to-end encryption. Under the Domestic Money Transfer guidelines banks are permitted to facilitate transfer of funds from a bank account for cash payout to a beneficiary who does not have a bank account at ATMs/BCs. The limit is fixed as Rs. 10,000 per transaction with a cap of Rs. 25,000 per beneficiary.

Real time inter-bank mobile banking payment has been facilitated through the setting up of the Interbank Mobile Payment Services, rechristened recently as Immediate Payment Service (IMPS) and operated by the NPCI. The IMPS enables real time transfer of funds between bank accounts and provides a centralized interbank settlement service for mobile banking transactions. As on 31 May 2014, 86 banks, including 10 RRBs and 19 UCBs, had been permitted to launch mobile banking services. The customer base of banks who have subscribed to mobile banking services stood at nearly 30 million as of October 2013 (RBI, 2014b).

Despite low volumes, mobile banking has been growing in recent years. As per the data furnished by the Technical Committee on Mobile Banking the users of mobile banking increased from 6 million to 22.5 million in three years—2010–11 to 2012-13. The value of mobile banking transactions during this period rose from Rs. 6 billion to Rs. 60 billion.

Between December 2010 and August 2014, the number of Mobile Money Identifiers (MMID) issued increased from 4.7 million to 63.2 million and the number of transactions from 2001 to 5 million. The total amount transacted rose from Rs. 4.61 million to Rs. 37 billion. It was around the second quarter of 2012 that both the volume and value of IMPS transactions started rising rapidly (Table 3.5 and Figure 3.6). According to RBI statistics, 53 million non-IMPS mobile banking transactions amounting to Rs. 59,900 million took place in 2012–13 (RBI, 2013).

The Technical Committee has noted that mobile banking transaction is a more economical traditional banking channel in terms of per-transaction or per-branch costs. But, with a mobile subscriber base of 870 million and bank accounts of around 450 million, there are only 22 million active mobile banking customers in India. In other words the large mobile subscriber base has not been leveraged for financial inclusion in the country. The committee has recommended that the mobile banking channel be encouraged in view of the long-term economic gains.

TABLE 3.5 Progress of IMPS Transactions

Month	No. of member banks	No. of MMIDs issued (in million)	Inter-bank volume: No. of transactions (million)	Inter-bank volume: (Rs. Billion)	Intra-bank volume: No. of transactions (million)	Intra-bank volume: (Rs. billion)	Total no. of transactions (million)	Total (Rs. billion)
August 2014	67	63.23	4.80	35.20	0.26	1.58	5.06	36.78
July 2014	65	62.97	4.26	30.19	0.24	1.78	4.50	31.96
June 2014	63	61.90	3.71	26.10	0.20	1.35	3.90	27.45
May 2014	62	60.63	3.30	24.16	0.19	1.21	3.49	25.37
April 2014	60	59.52	3.11	21.57	0.16	1.09	3.28	22.66
March 2014	60	58.49	3.00	20.50	0.17	1.04	3.17	21.54
February 2014	59	58.15	2.23	14.56	0.13	0.76	2.36	15.31
January 2014	59	56.84	2.03	13.20	0.12	0.75	2.15	13.95
December,2013	59	55.76	1.84	11.70	0.11	0.65	1.94	12.35
November 2013	59	54.32	1.31	8.82	0.09	0.53	1.39	9.35
October 2013	59	53.76	1.22	7.32	0.09	0.53	1.31	7.85
September 2013	59	53.15	1.02	5.53	0.09	0.45	1.10	5.98
August 2013	59	52.72	0.79	4.71	0.06	0.36	0.85	5.06

Source: http://www.npci.org.in/bankmember.aspx (accessed 10 October 2014).

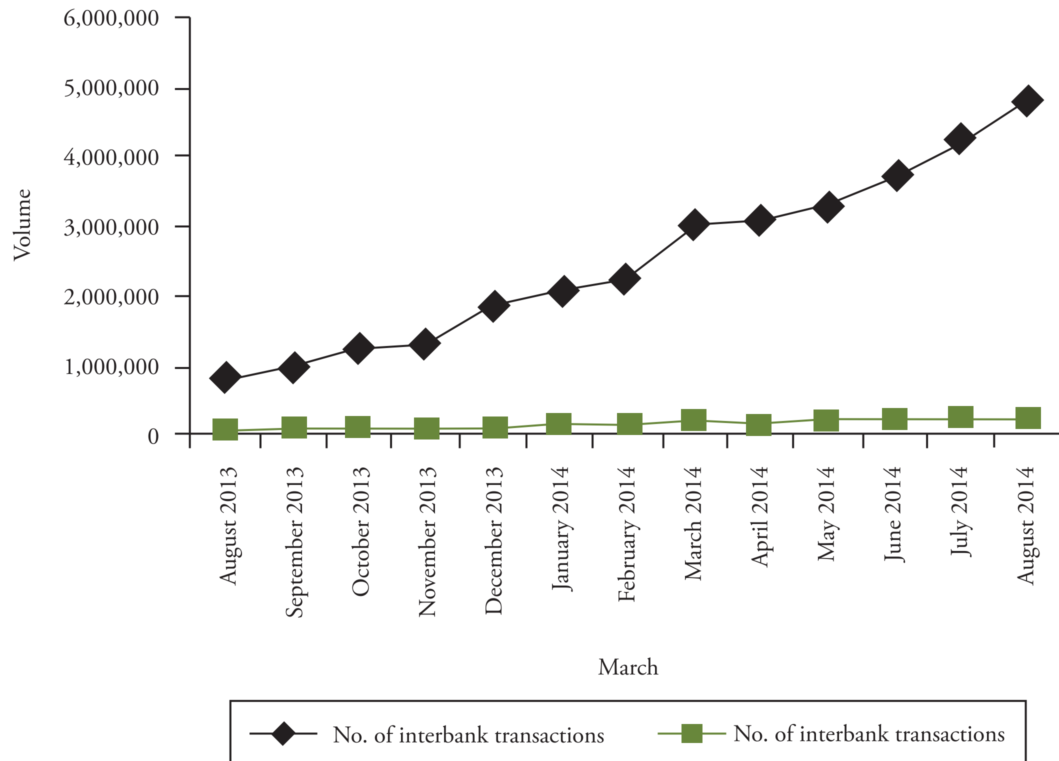

FIGURE 3.6 Growth in IMPS: 2013–14

Box 3.9 Major Recommendations of the Technical Committee on Mobile Banking

- Banks need to explore other means of facilitating customer/user registration process for mobile banking which does not require a visit to the bank branch. The potential of inter-operable ATM networks and BC arrangements has to be effectively harnessed towards meeting this objective. Committee felt that standardization is required in (a) user registration for mobile banking, (b) user authentication process, and (c) user interfaces. Recognizing the crucial role that customer/user awareness plays in adoption of any technology for financial transactions as well as the need for optimal utilization of resources, the committee is of the opinion that joint customer education programs by banks will go a long way in facilitating usage of mobile banking.
- Mobile Network Operators (MNOs) need to see a business model in it for themselves and play out their role in ensuring mobile banking reaches its full potential by cooperating with banks in their endeavor to provide the appropriate technology/ channel to the targeted users. Mobile banking can result in customer stickiness and reduce churn for MNOs. Mobile banking can increase revenue to MNOs and reduce costs to banks. The current solutions already provided by banks and various technological alternatives available can be put in place through a concerted effort between banks and telecom service providers.
- Common mobile banking applications and common technological platforms need to be built for reaping the benefits of 'network effects'. While bank-specific applications and individual platforms have a major role in building brand loyalty, an alternate uniform/common platform, interoperability and similar seamless transactional experience to the users/customers of all banks would encourage mobile banking.
- The Government of India can explore the options of offering fiscal incentives/economic subventions to the stakeholders in order to ensure participation of various players.
- The customer may not be required to visit the bank branch for mobile number registration. Alternate channels for mobile number registration may be made available, such as interoperable ATM network across banks as well as the BC/agent network using biometric authentication, so that the customer can register the mobile number conveniently.
- The process of M-PIN generation may also be simplified and standardized without necessitating a visit to the bank branch by the customer, so that the customer can be on-boarded in an easy manner and start transacting using mobile payments, and reduce barriers to entry.
- Banks may implement multiple channels (application, SMS, USSD, etc.) for mobile banking so that options are available to all types of customers with any type of handsets with suitable level of security.
- For facilitating funds transfer using mobile banking, the remitting customer may be facilitated to effect person-to-person funds transfer using just the mobile number and bank or just the Aadhaar number of beneficiary.
- Customer may be able to make merchant payment using just his mobile number and M-PIN/OTP on the merchant interface. The M-pin can be only interfaced on acquiring bank's interface such as USSD, application, etc., for security reasons. The merchant-based interfaces can accept OTP (One-Time Password) for authentication.
- To overcome the challenges faced by each bank in tying up with a large number of MNOs, and to facilitate the reach and usage of mobile banking through USSD, there is a need for common USSD gateway for mobile banking. A common USSD gateway-based mobile banking service offers an opportunity to provide convenient, cost effective and user-friendly payment option for all customers and thus a very convenient mechanism for banks for furthering financial inclusion objectives of the Government of India.
- The large corporates, third party players and MNOs, handset manufacturers/resellers may initiate pilot programs to develop the single multi-bank mobile banking applications which can use published public keys of the banks/banks' agents for encryption. The common application may be developed by reputed organizations having successful track record in this field.
- The common application may be pre-loaded in the handset—the mandate to be issued by Government of India to all handset manufacturers/resellers in India. Handset manufacturers may be directed to burn the application on all new handsets.
- It is imperative that the bank staff is well versed and thoroughly trained in various aspects of the mobile banking. For this workshop may be conducted for top officials including the chief executive of the banks; training program may be conducted during induction programs and probationary officer courses. Banks may also periodically conduct refresher courses to ensure staff is abreast with latest developments in these fast-paced technology areas in mobile banking.
- Banks must continue to invest in handholding and educating customers to increase the awareness of various aspects of mobile banking. Banks collectively may invest in marketing and advertising for widespread promotion of mobile banking.

Source: RBI (2014b).

3.10 ELECTRONIC PAYMENT: THE RUPAY CARDS

RuPay card payment scheme introduced by NPCI in March 2012 aims at 'mass cardification' of customers. It is designed to evolve into an efficient domestic alternative to international payment product facilitators such as Master Card and Visa. The other objective is to enable all Indian banks and financial institutions to participate in electronic payments.

Since its introduction the number of card-issuing banks has risen from around 60 to 238 (35 scheduled commercial banks and 203 cooperative banks and RRBs). In June 2013 RuPay went online for e-commerce use on its course to finally become a credit card. NPCI has tied up with two banks for e-commerce. The target is to cover all the banks and about 12,000 online merchants.

NABARD has taken the initiative to promote the use of the RuPay Kisan Cards among rural population as ATM cum debit cards by helping the cooperative and regional rural banking system implement the CBS, and facilitating the setting up of POS machines and micro ATMs. Up to May 2013 close to 65,300 RuPay Kisan Cards were issued. Karnataka and Maharashtra were the first states to have rolled out the scheme.

CONCLUDING OBSERVATIONS

The first phase of technology initiatives in financial inclusion was meant to develop systems to operationalize models based on low-cost branches and business correspondents. This phase to some extent has brought in more financial services such as loans, deposits, withdrawals and payments closer to customers in a fairly secured, convenient and low-cost manner. While the pace of technology adoption by the banking and financial services sector over the past decade has been rapid, majority of the customers seem more comfortable dealing directly with banks. The InterMedia study (2014) reports that typical consumer of financial services still trusts public sector banks, relies of personal networks and prefers to transact in cash. The experience so far with ATM and card technology shows that technology takes time to evolve and the policies take time to mature. Going forward, the newer technology initiatives linked to and enabled by complementary efforts such as Aadhaar and IMPS may bring in innovative ways to deliver financial services to customers in remote and difficult areas who can relate to the financial system in their individual right. This seems a plausible reality, but a distant and dear one, looking at the current level of trust and capability among the potential users and the required levels of investment.

NOTES

1. Under the interest rate policy at the time, loans of less than Rs. 2 lakhs, as envisaged under the RBI's BC Model, had to be contracted at no more than the Benchmark Prime Lending Rate (BPLR)—then around 11 to 13 per cent. This included the BC's commission to be met by the bank. This is a far cry from rates chargeable under the bank-MFI partnership model then and the bank-BC/MFI models being implemented currently. Khan and Dash (2007) noted that the commission paid by a leading private bank to the BC in Orissa was 2 to 3% of loans disbursed and that such activity alone could not be sustainable with this rate of commission at the current business level. This is a far cry from rates chargeable under the bank-MFI partnership model then and the bank-BC/MFI models being implemented currently.
2. The Customer Service Point (CSP) is typically a recognizable person in the village who is either stationary (typically a shop in the village) or mobile (visiting a series of villages on pre-defined days and providing doorstep services), offering account opening, deposits, withdrawals and balance checking on behalf of the BC (Grameen Foundation, 2013).
3. Chen, Srinivasan and Thoumoung (2013).
4. It had suggested that start could be made by allowing MFIs to be involved as BCs in savings services since as NBFC-MFIs they do not generally offer these services.
5. Vide RBI Circular no. RBI/2013-14/ 653 DBOD.No.BAPD. BC.122 /22.01.009/2013-14 dated 24 June 2014.
6. Corporate BCs would usually be Section 25 companies floated by TSPs towards a tie-up to carry out the financial functions in providing end-to-end services.
7. An early Microsave study suggested that in the perception of customers on all parameters except trust, BC network managers delivered better than individual BCs primarily because they were dedicated to, and focused on, the success of the overall system (Jos and Ramji, 2011).
8. One of the major difficulties in the growth of the BC model was also the unwillingness of most banks to provide loans through BCs. (See also Box 3.3.)
9. Summary of report in Ananth and Öncü (2014).
10. Ananth and Oncu (2014) also noted that an impressive technology platform had been built by the state to transfer various government welfare benefits through a technology company. Along with the network of this TSP-CBC, banks

had expanded their BC network to perform the same tasks and there were two such parallel networks in the region studied by them and in certain villages, two or more BCs (one corporate and one individual) operated simultaneously.

11. More than 2.5 million beneficiaries are withdrawing their benefits every month using Aadhaar biometric authentication. Over 75 million payment transactions had been put through until January 2014 and Rs. 4,000 crore had been transferred to more than 25 million beneficiaries. A scale-up of DBT is now underway (Pande, 2014). The new financial inclusion mission also envisages expansion of DBT under various government schemes through bank accounts of the beneficiaries of PMJDY.
12. More detailed findings of the research discussed below are contained in CGAP (2013).
13. The discussion that follows is adapted from evidence presented in Microsave (2014) to the Reserve Bank of India's Committee on Comprehensive Financial Services for Small Businesses and Low Income Households (Mor Committee).
14. Findings of a Microsave study reported in Kapoor and Shivshankar, 2012.
15. Cashpor Microcredit continues to be active as a leading BC providing loans on behalf of several banks. It also pioneered a model of supplementary fee-based savings services which is reviewed below.
16. The category of NBFC-MFIs was created by the RBI on 2 December 2011. NBFC-MFIs have a rural branch network of about 10,000 branches across 517 of the 653 districts, with over 30 million clients, of whom over 90 per cent are women. Over 75 million loan accounts for over 30 million borrowers are now on the databases of two credit bureaus (Prasad, 2013).
17. RBI Circular RBI/2010-11/505 RPCD.CO.Plan BC. 66 /04.09.01/2010-11 dated 3 May 2011 on Bank Lending to Microfinance Institutions (MFIs): Priority Sector Status. http://www.rbi.org.in/scripts/NotificationUser.aspx?Id=6381&Mode=0
18. Based upon interview and notes provided by Mr. Srinivas Bonam, IndusInd Bank.
19. Details of model that follow are as reported in Grameen Foundation (2013).
20. As of 31 March 2014, a total of 1,64,514 savings accounts had been opened for Cashpor clients of the bank that is offering such facilities—comprising about 56 per cent of its active loan clients. Most of these savings accounts (76 per cent) were active in that they had a positive savings balance (Cashpor Microcredit, 2014).
21. Grameen Foundation (2013).
22. The MFI made representations to the Bank to eliminate the onetime account opening fee and to enable the savers to 'earn-back' their transaction fee through actual deposits during the year. However, the bank has not yet accepted its suggestions. The savings products of another bank were more attractive to clients, particularly in that there was no account-opening fee, and no transaction fee, except in cases of more than 10 transactions per month.
23. In that sense it can be argued that this space has been created by the unwillingness or inability of the public sector banks to serve these clients despite their deeper and more widespread presence in rural areas.
24. These may be contrasted with the design and rates of interest charged to SHGs under BC models involving Stree Nidhi and NABFINS discussed in Chapter 2. An outcome of these varied lending channels, along with applicable interest subsidies and subventions, is that loans to SHGs are available in different contexts at interest rates that range from nil to 26+%. This has important implications for the roles that have emerged for SHGs and indeed their own internal dynamics. This is discussed in Chapter 4.
25. These views are taken from MFIN (2014).
26. This view was also put forward by Vijay Mahajan, noted microfinance practitioner in an interview with the authors.
27. These and other similar BC initiatives involving SHGs and their federations are discussed in Nair and Tankha (2014).
28. There are three types of institutions that work for social and economic transformation in the rural community through women. The institutions are SHG at the village level, Village Organization (VO)—at the village which has representatives from the SHGs of a village and Block Level Association (BLA)—a registered society at the block level which has representatives from the VOs.
29. The account that follows is drawn from GBA (2014), Lahiri (2014) and other material provided by GIZ.
30. Under the BC as BF scheme CSPs are used for loan monitoring and paid commissions for recovery of overdue accounts and various types of non-performing assets mainly from the KCCs. Besides, the CSPs market the subsidized solar lighting system to be purchased by clients and are paid to help the bank with the paperwork related to the loan component.
31. Refer also to discussion on CSCs in Chapter 2.

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4

Building an Inclusive Financial Sector in India

Status and Contribution of Microfinance

Microfinance best describes the idea of inclusive finance. The methodology of microfinance owes its genesis to global efforts to address the apparent imperfections in the financial services markets that particularly constrained poor households from fully participating in its functioning. Microfinance experiments in India had evolved through several phases over the past quarter of a century and have resulted multiple institutional models. SHGs, JLGs, federations, for-profit non-banking companies, non-profit NGOs and trusts, and mutually aided thrift and credit societies and all part of the microfinance sector in the country. While each such model has distinct working principles, they overlap each other in most of the markets. Collectively they have helped extend the reach of basic financial services to segments of population who were historically treated as outsiders to the mainstream financial markets. The savings-led model of SHGs and credit-led model of MFIs have both targeted these excluded sections served otherwise by high cost and exploitative informal agencies. Several enquiries have proven that microfinance has helped the poor build assets, enhance incomes and seek protection from external shocks.

As discussed in the introductory chapter microfinance is yet to be formally incorporated as part of the mainstream policy discourse on financial inclusion. If the omission of SHGs is justified on the ground of their lack of focus on individuals, the MFIs are excluded because they can offer only one product, i.e., credit. Such strict application of definitional boundaries, however, has seriously distorted the understanding of the nature and extent of inclusive financing in India, to the growth of which banks and formal financial institutions have contributed significantly.

This chapter is an attempt to amend this anomaly by mapping the microfinance sector in India by focussing on the two major components—SHGs and MFIs. The chapter is organized in two parts. Part 1 contains a detailed analysis of the growth performance of the SBLP during recent years and how it extended financial services to the financially excluded. It undertakes an analysis of lending and savings operations under SBLP, its regional

spread and bank-level growth in the NPAs. Also discussed are the various initiatives of NABARD and the role of SHG federations. In the second part the major patterns of change discernible in the MFI model of microfinance in recent years are presented and analysed. The discussion centres mainly on the size and structure of the MFI sector, the trends in financing of microfinance institutions, their regional distribution and overall performance. Some recent debates concerning the potential of microfinance to serve niche production segments are also presented in this section. Both parts 1 and 2 strive to highlight the plausible promise microfinance institutional models have come to represent in the overall financial inclusion system, the conflicts between the models and the need for greater policy attention.

PART 1

4.1 SBLP PROGRESS AND PERFORMANCE

The SHG movement represents a rich diversity of interventions and outcomes difficult to classify and analyse. As the number of SHGs has multiplied over the years, so have the types of activities and innovations that have been designed around them. Within the larger SHG 'movement', however, the programme for linking SHGs with banks has been a core innovation that has been the mainstay of SHG development over time. The SHG Bank Linkage Program (SBLP) has now completed more than 22 years of existence. Though SBLP is a savings-led and savings-linked program, the main thrust has been on the provision of microcredit. Over much of this period credit flow under SBLP grew steadily on account of support from the governments, public sector banks and NGOs. However, the SBLP, which followed virtually an exponential growth path for around 18 years until about 2010, has shown in recent years signs of having levelled off. This has included a period when the fortunes of SHGs became inextricably linked with the development of the alternative channel of lending through MFIs.

The decline in the growth of SBLP also coincides with the period of implementation of the financial inclusion strategy of government and RBI in the form of FIPs of banks, aimed at increasing outreach of individual-centered banking services through expansion of the banking infrastructure and innovations in outsourcing financial and non-financial operations of banks through BCs. With substantial social capital embodied in them, SHGs can be considered to have emerged as a significant part of the development infrastructure. Nevertheless, there has neither been a clear role or strategy as such for SHGs within the discourse nor within the recently launched financial inclusion mission, PMJDY.

4.1.1 Overall Performance

The progress of SBLP since 2010 is given in Table 4.1. The latest data (NABARD, 2014) shows a substantial decrease of nearly 6 per cent in the number of SHGs with outstanding bank loans to 4.2 million at the end of March 2014 as compared to the previous year. This follows a small increase of 2 per cent during 2012–13 which to some extent had reversed the decline during 2010–12. The number, however, is far short of the peak level attained with over 4.8 million SHGs as on 31 March 2010. The share of the southern states in SHG loan accounts remained stable at around 53–54 per cent as on March 2014. This suggests the decline in the number of loan clients is a more widespread phenomenon with varying causes across states. This is discussed in further detail in subsequent sections.

The volume of fresh loans issued by banks to SHGs during 2013–14 showed a significant growth of nearly 17 per cent to reach Rs. 240.17 billion. This maintains the steady and substantial increase over the years building upon the over 24 per cent increase during 2012–13. The average loan outstanding was Rs. 102,273 as on 31 March 2014 against Rs. 86,511 a year earlier. There was a 19 per cent increase in the number of SHGs getting loans from banks. This increase has been confined to a few states, mainly in the southern region. In other states repeat financing and deepening of loans to credible SHGs is the rule even as the problem of overdue accounts has begun to constrain lending.

Despite significant growth (20.4 per cent) in bank savings of SHGs to nearly Rs. 99 billion, the number of savings-linked groups increased only marginally over 2013–14 with a consequent increase in average savings. At 7.42 million the total number of SHGs savings-linked to banks is still lower than that in March 2011. The decline in number of SHGs could partly be explained by

TABLE 4.1 Growth Trends in SHG Bank Linkage Program (SBLP)

Particulars	2010	2011	2012	2013	2014
No. of SHGs with outstanding bank loans	4,851,356	4,786,763	4,354,442	4,551,434	4,197,338
Of which in southern region	2,582,112	2,706,408	2,355,732	2,415,191	2,221,038
Share of southern region (%)	53	57	54	54	53
Share of SGSY/NRLM/Other govt. programme groups (%)	26	27	28	27	23
Share of women's groups (%)	80	83	84	84	81
Loans disbursed to SHGs during the year (Rs. billion)	144.53	145.48	165.35	205.85	240.17
Average loan disbursed during the year per SHG (Rs.)#	91,081	121,625	144,048	168,754	175,768
Total Bank loan outstanding to SHGs (Rs. billion)	280.38	312.21	363.41	393.75	429.27
Average loan outstanding per SHG (Rs.)	57,794	65,224	83,457	88,455	102,273
Incremental groups with o/s loans (million)	0.63	(-)0.06	(-)0.43	0.10	(-)0.25
Incremental loans o/s (Rs. billion)	45.9	33.53	57.22	30.35	35.52
No. of SHGs with savings accounts with banks (million)	6.95	7.46	7.96	7.32	7.42
Total Savings of SHGs with banks (Rs. billion)	61.99	70.16	65.51	82.17	98.97
Average savings of SHGs with banks (Rs.)	8,915	9,402	8,230	11,229	13,321

Source: NABARD (2010 to 2014).
Note: # during the year ended 31 March.

better reporting standards adopted by banks by including only operative SHG accounts.

The growth in SHG loan outstanding (9.0 per cent) is associated with a 6 per cent decline in the number of SHGs having outstanding loans with banks over the past one year. This anomalous situation is apprehended to be the result of increased non-performing assets (NPAs) of SHG loans with banks. Indeed, as is discussed later, NPA levels in most states have reached well in excess of 10 per cent.

Annual growth rates of the major indicators of physical and financial progress of SBLP for the four-year period since 2010, the year of the AP crisis, confirm the impression of stagnation and decline (Tables 4.2 and 4.3).

It is evident that both physical and financial performance of SHGs suffered during 2010–14. In the case of physical performance all indicators, except number of SHGs having bank savings, experienced negative growth as compared to the phenomenal increase during 2006–10. There was a major deceleration in the growth rate of SHGs receiving loans and SHGs with loan accounts. The decline was sharper for the SGSY programme which was winding up before lending picked up under NRLM and other government programmes in 2013–14.

TABLE 4.2 Physical Performance of SBLP

Indicator	% Change				CAGR (%)	
	2010–11	2011–12	2012–13	2013–14	2010–14	2006–10
Number of SHGs having savings accounts with banks	7.3	6.7	–8.1	1.5	1.7	27.5
Number of SHGs receiving loans during the year	–24.6	–4	6.3	12.0	–3.7	26.4
Number of SHGs receiving loans during the year under SGSY/NRLM/Other govt. programmes	–9.9	–12.9	–13.8	24.7	–4.1	12.8
Number of SHGs with loan outstanding	–1.3	–9	2.2	–5.7	–3.6	18.7[a]
Number of SHGs with loan outstanding under SGSY/NRLM/govt. programmes	3.3	–5.4	–1.9	9.6	1.2	21.9[a]

Source: NABARD (2010 to 2014).
Note: For the period 2007–10.

TABLE 4.3 Financial Performance of SBLP

Indicator	% Change				CAGR (%)	
	2010–11	2011–12	2012–13	2013–14	2010–14	2006–10
Savings of SHGs with banks (Rs. billion)a	13.2	–6.7	25.4	20.5	12.4	26.9
Volume of loans disbursed to SHGs during the year# (Rs. billion)	0.7	13.7	24.5	16.7	13.5	33.8
of which under SGSY/NRLM/other govt. programmes (%)	12.8	6.6	–16.5	57.7	12.2	16.25
Bank loans outstanding with SHGs (Rs. billion) (a)	11.4	16.4	8.4	9.0	11.2	31.3[a]
of which under SGSY/NRLM/other govt. programmes (%)	25.2	2.9	6.7	18.4	13.0	24.2[a]

Source: NABARD (2010 to 2014).
Note: [a]For the period 2007–10.

If we consider the loan outstanding from banks to SHGs for the same period (2010–14) in real terms (Figure 4.1), the annual increase during the four years has been less than 4 per cent from Rs. 205.7 billion to Rs. 238.1 billion, that too in a period of rising NPAs. Overall, a clear break has set in in performance of SHGs around 2010 during which period the number of SHG clients of the banking system have declined by 13 per cent.

4.1.2 Savings Performance

The number of SHGs savings-linked with the banking system has grown steadily from 2007 since when records are available, and had peaked at 7.96 million groups in 2012. The number declined to 7.3 million as at the end of March 2013 (Figure 4.2) before increasing marginally to 7.4 million in March 2014. The decline in the

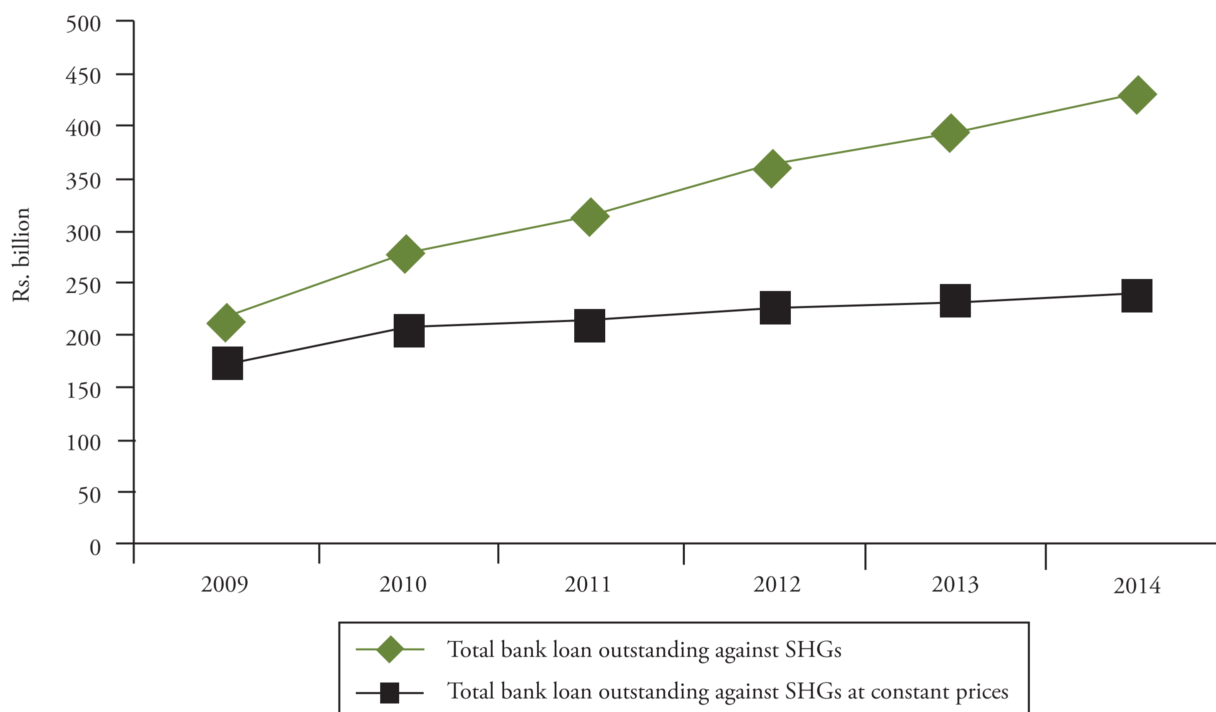

FIGURE 4.1 Loan Outstanding to SHGs: Nominal and Real Terms

Source: NABARD (2009 to 2014).

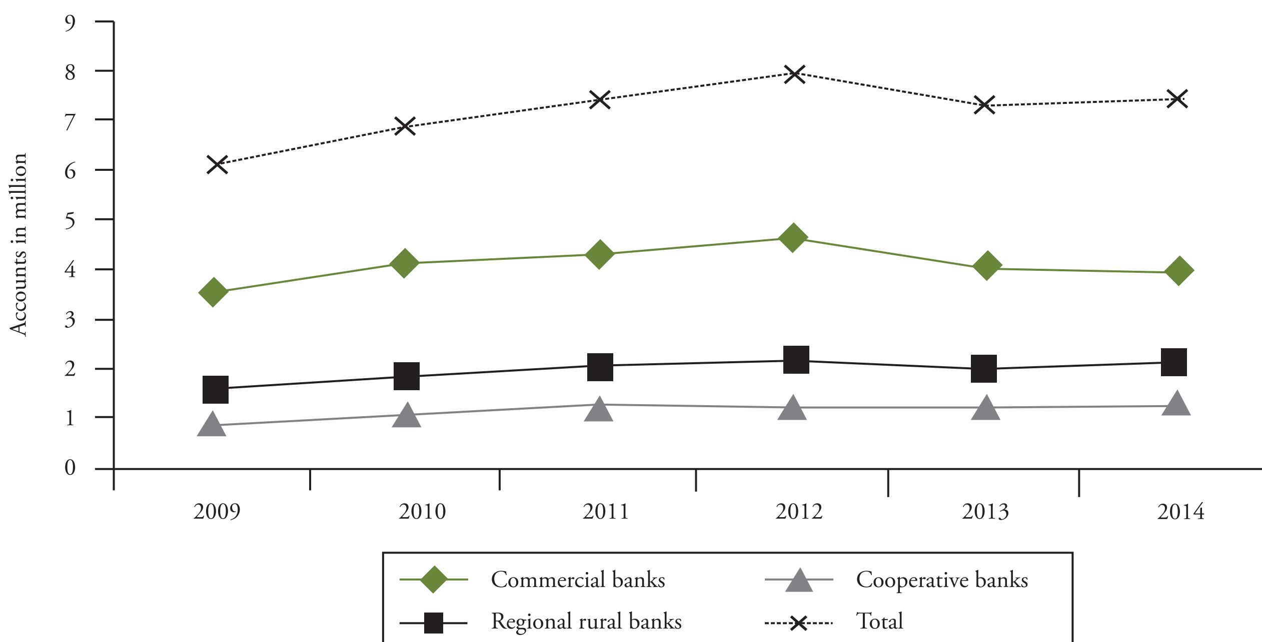

FIGURE 4.2 Number of SHGs Holding Savings Accounts 2009–2014

Source: NABARD (2009 to 2014).

previous year was probably on account of the weeding out of inactive accounts by the commercial banks. In keeping with the observed phenomenon of stagnation, the number of SHGs savings-linked to banks has not picked up during the past one year.

The total savings amount seems to have picked up momentum again in 2013 after a blip in 2012 (Figure 4.3) to reach Rs. 99 billion in 2014. SHG savings as a proportion of bank loans outstanding to SHGs has been steadily growing. SHG savings now constitute over 23 per cent of outstanding loans—up from a little over 20 per cent in the previous year.

This means that funding from SHG groups themselves accounts for nearly a quarter of the SHG lending portfolio of banks. It is also illustrative of the fact that SHGs have emerged not only as recipients of bank loans but also important contributors to resources being mobilized by banks. It is widely accepted that savings deposits are being used by banks as collateral for the loans given to SHG members. Besides, banks have been reported to be recovering overdue loans from savings accounts of SHGs.

Data on state-wise performance of SHG savings with banks is given in Appendix 4.1. While the number of SHGs accounts increased only marginally between March 2013 and March 2014, most of the states have registered reasonable increases in the amount of bank savings of SHGs. The exceptions among the major SHG states are Karnataka, Bihar and Gujarat where there has been a small decline in savings of SHGs. However, substantial declines have been registered in the northern and north-eastern states both in SHG numbers and amount of savings, a development which merits more serious investigation.

Among the financing agencies, commercial banks continued to have the leading share (54 per cent) in the number of SHGs with savings accounts, followed by RRBs (28 per cent) and cooperative banks (18 per cent). There has been no significant change over the years in the share of these agencies (Figure 4.4).

In terms of the amount saved by SHGs as on 31 March 2014 with different agencies, 67 per cent was accounted for by commercial banks, 20 per cent by RRBs and 13 per cent by cooperative banks (Figure 4.5 and Table 4.4). Over the years there has been a steady increase in the share of commercial banks, at the expense of cooperative banks, while RRBs have roughly maintained their relative share.

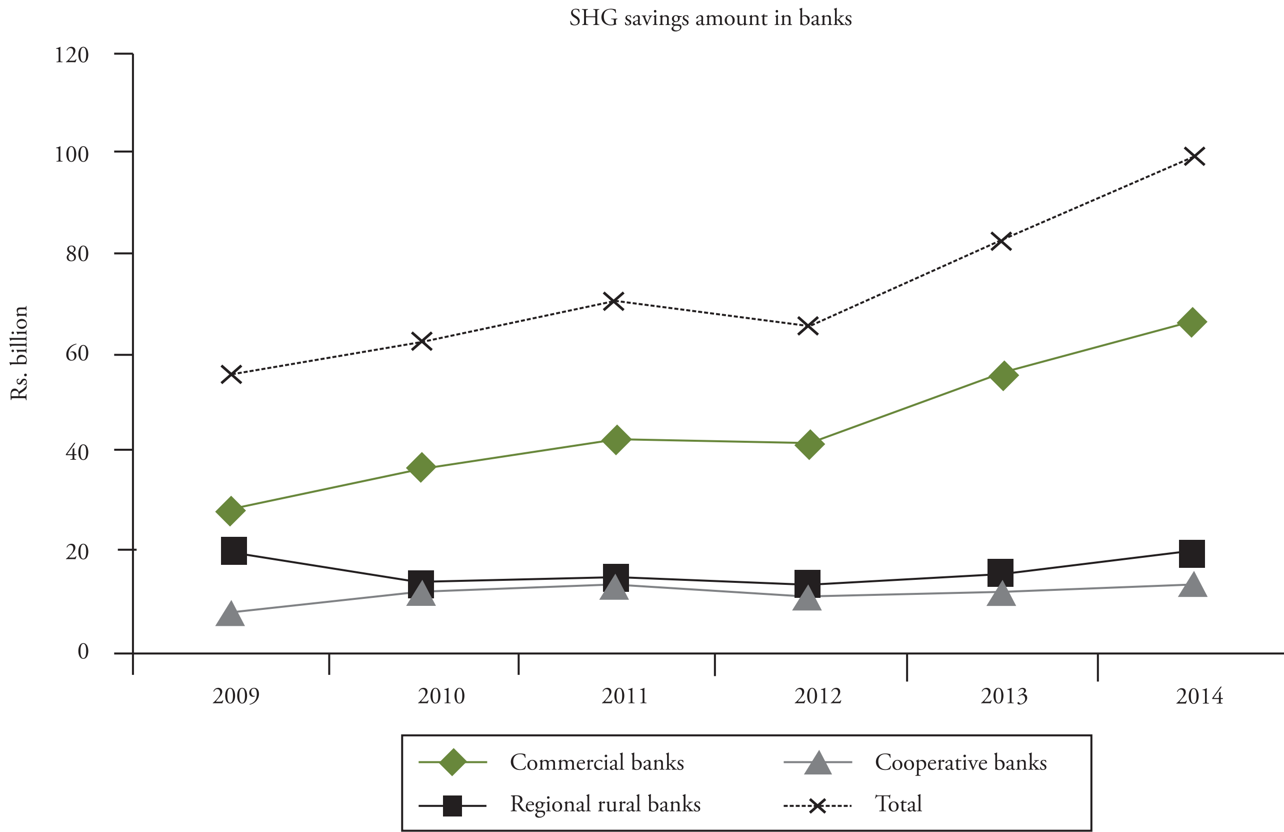

FIGURE 4.3 Growth in Amount of Savings by SHGs, 2009–2014

Source: NABARD (2009 to 2014).

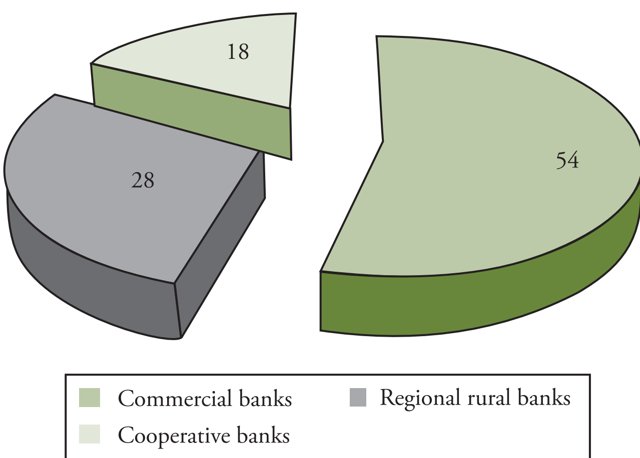

FIGURE 4.4 Number in Amount of Savings Accounts of SHGs with Banks (31 March 2014)

Source: NABARD (2014).

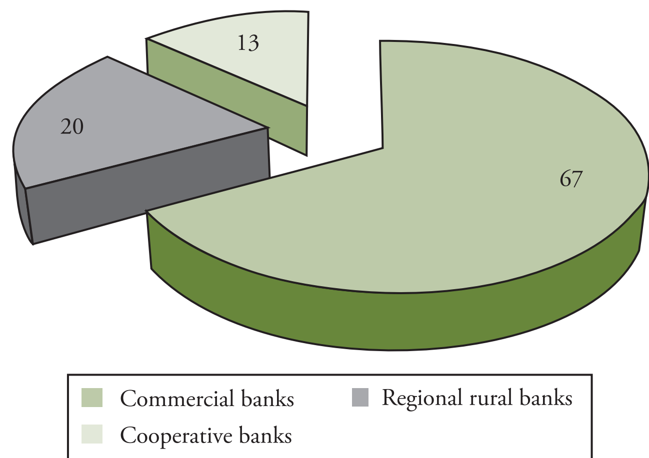

FIGURE 4.5 Savings Amount of SHGs with Banks (31 March 2014)

Source: NABARD (2014).

TABLE 4.4 Average Savings of SHGs by Agency

Agency	Year	CBs	RRBs	Coop banks	Total
Average savings per SHG (Rs)	2010	9,055	7,134	11,348	8,915
	2011	9,784	7,235	11,696	9,402
	2012	8,986	6,111	8,972	8,230
	2013	13,571	7,493	9,629	11,229
	2014	16,485	9,281	10,086	13,322
% share in savings accounts	2010	58	26	16	100
	2011	58	27	15	100
	2012	58	27	15	100
	2013	56	28	16	100
	2014	54	28	17	100
% share in total savings with banks	2010	59	21	20	100
	2011	60	20	19	100
	2012	63	20	17	100
	2013	67	19	14	100
	2014	67	20	13	100

The average savings per SHG (Table 4.4) had registered an increase since 2012. Between 2012 and 2013 the average savings per SHG rose by nearly 36 per cent. It rose by another 17 per cent during 2013–14. As on 31 March 2014 average savings per SHG stood at Rs. 13,322, with the average SHG savings with commercial banks being Rs. 16,485.

The decline in number of SHGs savings-linked to banks was substantial in the northern and north-eastern states. Even Andhra Pradesh recorded a 4 per cent drop in this number. Among the major states, Karnataka, Tamil Nadu and Kerala recorded a positive growth as on 31 March 2014 when compared to a year earlier.

The substantial increase in average SHG savings over the years suggests that they are being well-integrated into the banking system. The increase in the ratio of SHGs savings as a proportion of loan outstanding to SHGs, however, indicates a longer-term trend of contraction of credit facilities to them. The proportion of savings-linked SHGs to SHGs with loans outstanding has declined from 70 per cent in March 2010 to 61 per cent in March 2013 and further 56 per cent in March 2014. There continues to be a need for a wider range of savings products and options to be provided to SHGs by the banking system. This is over and above the universal opening of individual accounts as part of the proposed financial inclusion mission.

4.2 REGIONAL SPREAD OF BANK LENDING UNDER SBLP

Appendix 4.2 presents the comparative picture of SHGs with outstanding loans across states over the past two years (31 March 2012 to 31 March 2014). There has been a decline of nearly 6 per cent in the number of SHGs with outstanding loans as on 31 March 2014 as compared to the previous year. The southern region overwhelmingly contributed to the decline with the leading states of Andhra Pradesh, Tamil Nadu, Karnataka and Kerala all registering a decline ranging from about 4 to 23 per cent in the number of SHGs with loan outstanding. States which registered a big increase in the number of SHGs with loans outstanding during 2013–14 were Chhattisgarh, Madhya Pradesh and Uttar Pradesh. The average loan outstanding ranged from Rs. 50,509 per SHG in the Eastern region to approximately Rs. 143,137 per SHG in the Southern region. In all other regions the average SHG loan outstanding was within a narrow range of approximately Rs. 60,000 to Rs. 65,000.

Table 4.5 gives the share of different regions in SHGs with outstanding loans over the over the period 31 March 2010 to 31 March 2014. It is observed that overall there has been little change in the number of SHGs with bank loans outstanding. The number of SHGs substantially

declined in the western region over this period which has been made up for by the central region. The shares of most regions, however, has remained largely unchanged, including that of the southern region even though it continues consistently to have the majority of the SHG loan accounts with banks.

As for the changes in regional distribution, the share of the southern states continued to increase both in number of SHGs covered and the amount of loans disbursed (64 per cent and 86 per cent, respectively) during 2013–14. The position of the western and eastern regions too improved while the share of the northern, north-eastern and central regions experienced a decline during this period. The north-eastern states which reported 50 per cent decline during 2012–13 in the number of SHGs receiving loans recorded a further decline of 36 per cent. The average loan amount disbursed during 2013–14 was about Rs. 175,768 per SHG. It ranged from Rs. 50,783 in the eastern region to Rs. 235,718 in the southern region.

Table 4.6 presents the state-wise shares in fresh loans disbursed to SHGs during 2012–13 and 2013–14. The picture that emerges is mixed with several leading states continuing to display an increase in SHG disbursements (both in terms of number of SHGs and loan amounts disbursed) and others experiencing a decline. Tamil Nadu, Kerala and UP are among the major states that had fewer SHG disbursements during 2013-14 as compared to the previous year (see Appendix 4.3).

As for loan disbursement to SHGs considerable variations are to be observed across the 10 leading states. Table 4.6 shows the number of SHGs with loans outstanding to banks as on 31 March 2013 and 31 March 2014 as also the disbursement of loans to SHGs in the respective

TABLE 4.5 Regional Share in Linkage—SHGs with Outstanding Loans

Region	2010		2011		2012		2013		2014	
	Groups	% share	Groups	% share	Groups	% share	Groups	% share	Groups	% share
Northern	152,491	3.1	149,108	3.1	212,041	4.9	213,955	4.8	183,929	4.4
North-Eastern	133,785	2.8	150,021	3.1	159,416	3.7	143,660	3.2	124,569	3.0
Eastern	1,027,570	21.2	1,105,533	23.1	985,329	22.6	1,020,656	22.9	978,960	23.3
Central	497,922	10.3	358,872	7.5	352,452	8.1	362,521	8.1	419,834	10.0
Western	457,476	9.4	316,821	6.6	289,472	6.6	295,451	6.6	269,008	6.4
Southern	2,582,112	53.2	2,706,408	56.5	2,355,732	54.1	2,415,191	54.3	2,221,038	52.9
All	4,851,356	100	4,786,763	100	4,354,442	100	4,451,434	100	4,197,338	100

Source: NABARD (2010 to 2014).

TABLE 4.6 Number of SHGs with Loan Outstanding and Loan Disbursements by Major States (in Rs. billion)

State	Loan outstanding		Loan disbursement	
	2013	2014	2013	2014
Andhra Pradesh	1,356,720	1,306,076	484,292	504,351
Tamil Nadu	511,859	446,671	150,586	135,269
West Bengal	494,166	472,554	95,284	196,746
Odisha	277,954	249,550	47,676	53,699
Karnataka	379,305	337,196	145,733	175,778
Bihar	185,309	190,171	30,574	40,036
Maharashtra	219,651	204,355	54,749	72,908
Uttar Pradesh	228,646	246,973	33,140	27,674
Kerala	153,336	117,303	60,830	55,281
Madhya Pradesh	65,358	81,030	15,182	22,331

Source: NABARD (2013 and 2014).

states. The number of SHGs receiving loans during the year 2013–14 was up only marginally in Andhra Pradesh over 2012–13 but increased significantly in all states except Tamil Nadu, UP and Kerala with a dramatic increase in West Bengal which was greater than 106 per cent. All the other states, with the exception of Kerala, showed a decline in the number of SHGs receiving loans during 2013–14 as compared to 2012–13. The amount of loan disbursed (Table 4.6) shows an improvement in all states with the exception of Uttar Pradesh. Bihar registered a moderate increase in the amount of loans disbursed in 2013–14 over the previous year, while Madhya Pradesh witnessed a stagnation.

4.2.1 Credit-Savings Ratio

The percentage of SHGs that are credit-linked (i.e., having an outstanding balance of bank loans) to those that have savings accounts provides an estimate of the SHGs that have gone on to access and maintain a borrowing relationship with the banks. Even though a period of savings is necessary before SHGs become eligible for credit, and not all SHGs may be actively seeking loans, some analysts have tried to use this ratio to highlight the wide gap between SHGs with savings accounts and those receiving credit. The ratio of credit-linked SHGs declined from 62 per cent on 31 March 2013 to 56.5 per cent on 31 March 2014.

The credit to savings ratio, in terms of average loan outstanding per SHG as a ratio of the average savings per SHG, for various states as on 31 March 2014 is given in Appendix 4.4. While the figures for some of the smaller states are rather high, most of the major states have a ratio of 7 to 8 which is roughly in line with the norms adopted by most banks in lending to SHGs. Of course, SHGs savings for determining credit linkage also include, apart from bank accounts, their internal savings not placed with the banks.

4.3 PROGRESS OF SBLP IN PRIORITY STATES

In the mid-2000s, NABARD had identified 13[1] states with a large number of the poor, but SBLP performance lower than the potential. These states have been assigned priority for up-scaling SBLP in partnership with NGOs as part of the attempt to extend financial services to areas of these states with undeveloped banking services. District-level mapping was carried out to identify the districts where the number of SHGs was low as is shown in Table 4.8.

4.3.1 Outreach and SHG savings

The different states present a varied picture both in terms of the number of SHGs and the level of outreach achieved. Odisha was a clear leader in the number of SHGs which was nearly three times the identified potential. Other states too achieved a high degree of coverage. The states lagging behind with less than 50 per cent of

Table 4.7 Amount of Bank Loan Outstanding and Disbursement by Major States (in Rs. billion)

State	Loan outstanding		Loan disbursement	
	2013	2014	2013	2014
Andhra Pradesh	174.8	211.4	111.6	133.2
Tamil Nadu	50.4	49.2	29.2	31.9
Karnataka	32.9	39.2	23.0	29.6
Uttar Pradesh	19.6	19.3	4.5	3.4
Kerala	16.8	17.1	9.0	10.7
Odisha	18.0	15.4	4.7	5.0
West Bengal	24.2	21.8	5.1	6.9
Maharashtra	12.3	13.2	5.8	7.2
Bihar	9.3	9.0	2.2	2.8
Madhya Pradesh	4.4	4.5	1.4	1.4

Source: NABARD (2013 and 2014).

TABLE 4.8 Potential for SHGs in Priority States

State	Total number of districts	Districts with SHG numbers less than 50% of potential*	Districts with SHG numbers less than 80% of potential*	Potential Households to be covered (million)	% of potential Households covered** (as on 31.3.2014)
Assam	27	4	17	4.40	84
Bihar	38	27	35	7.27	48
Chhattisgarh	18	3	12	2.72	53
Jharkhand	24	13	20	2.38	47
Madhya Pradesh	50	23	40	6.37	32
Maharashtra	33	9	22	9.70	93
Odisha	30	1	2	2.32	290
Rajasthan	33	7	23	4.45	75
Uttar Pradesh	75	47	68	13.44	37
West Bengal	18	0	2	10.40	74

Source: NABARD (2013, 2014).
Note: *Savings-linked versus SHG potential. Data as reported by SLBC/DLCCs; ** No. of Savings-linked SHGs × 13 HH members.

potential households covered by SHGs by 31 March 2014 were Bihar, Jharkhand, Uttar Pradesh and Madhya Pradesh.

The average savings per SHG in Chhattisgarh as on 31 March 2014 was Rs. 16,341, the highest among the priority states. This was followed by West Bengal at Rs. 13,764. Average savings per SHG for Chhattisgarh and West Bengal were higher than the national average SHG savings of Rs. 13,322. Average savings per SHG for all other priority states continued to be considerably lower than the national average. Average savings per SHG for Assam were Rs. 3,957, which was the lowest among the priority states.

4.3.2 Number of Loans Disbursed

West Bengal topped the priority states in terms of number of loans disbursed during the period 2011 to 2014. Though the number of loans consistently declined in the state during 2010–11 through 2012–13, it more than doubled in 2013–14. Chhattisgarh followed with a 71 per cent increase in the loans disbursed during the same period. Madhya Pradesh registered improvement in the number of loans disbursed to SHGs from 2010–11 to 2013–14, while Assam experienced decline in both 2012–13 and 2013–14.

4.3.3 Amount of Loans Disbursed

The highest amount of loans was disbursed by Maharashtra in 2011–12 (Rs. 6,018 million), 2012–13 (5,781 million) and 2013–14 (7,181 million). Chhattisgarh, which disbursed the least amount throughout 2010–11 to 2012–13, registered the highest growth rate of 59 per cent in 2013–14. Jharkhand experienced the steepest decline (54 per cent) and remained in the last position among the priority states. Assam too witnessed continuous decline over the previous years.

Average loan disbursed per SHG in 2013—14 was the highest in Uttar Pradesh (Rs. 124,622), followed by Rajasthan (Rs. 111,793). However, none of the priority states achieved the national average for loan disbursed per SHG, which was Rs.175,768. West Bengal which topped the priority states in number of loans disbursed in 2013–14, had the smallest average loan size among all the priority states (Rs. 34,825).

4.3.4 Loan Outstanding

The highest amount of loan outstanding as on 31 March 2014 was in West Bengal (Rs. 21,785 million), followed by Uttar Pradesh (Rs. 19,369 million) and the least was in Chhattisgarh (Rs. 2,155 million). Madhya Pradesh,

Chhattisgarh, Maharashtra and Assam experienced continuous growth in SHG loan outstanding from 2010–11 to 2013–14.

4.3.5 Non-performing Assets

NPAs as percentage of loan outstanding were the highest in Madhya Pradesh on 31 March 2012 (22.4 per cent) and 31 March 2013 (21.2 per cent) and remained at 19.31 per cent on 31 March 2014. NPAs as percentage of loan outstanding were the highest in Uttar Pradesh (20.07 per cent) and the least in West Bengal (6.63 per cent) as on 31 March 2014 as compared to the national average of 6.83 per cent. NPAs in Bihar and Assam remained below 8 per cent as on 31 March 2013 and 31 March 2014 but increased in Chhattisgarh to 12.44 per cent on 31 March 2014 from 8.19 per cent a year earlier.

Overall, the picture that emerges for the year 2013–14 in respect of the SBLP is similar to that prevailing in the previous year which suggested a deepening of credit flow to a more limited number of SHGs in selected regions. It would appear that banks are lending to well-established SHG clients in the leading states while holding back in other states and regions where the SHG movement does not enjoy strong institutional support. Reports continue to be received of the reluctance of banks to lend to SHGs even of well-established SHPIs. In some states where NRLM activity has progressed disbursements have picked up slightly. However, the impact of the programme in terms of financial inclusion through SHGs is obviously limited to the districts covered. Indeed, the weak performance in some of the relatively backward states and in the north and north-east region, which are virtually falling off the map, needs to be fully understood and tackled on an urgent basis.

4.4 PERFORMANCE OF BANKS IN SHG LENDING

The number of SHGs with loan outstanding from banks as on 31 March 2014 was 4.20 million, down by about 254,000 over the previous year (Table 4.9). There has not been any change in the percentage share of difference agencies—commercial banks (60 per cent), RRBs (29 percent), cooperative banks (11 percent) (Figure 4.6). Thus the decline in the number of SHGs was more or less equally shared between the different types of banks.

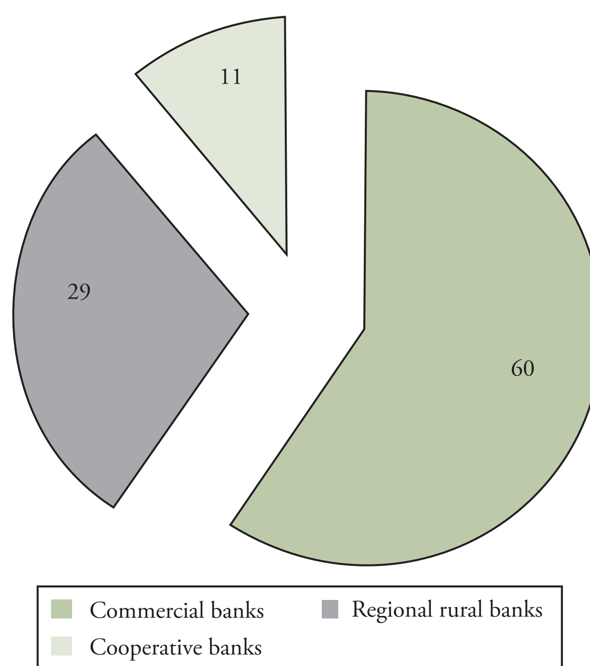

FIGURE 4.6 Agency-wise Distribution of Number of SHGs with Outstanding Loans

Source: NABARD (2014).

TABLE 4.9 Number of SHGs and Loan Outstanding by Agency

Banks	As on 31 March 2013		As on 31 March 2014	
	No. of SHGs	Loan outstanding (Rs. billion)	No. of SHGs	Loan outstanding (Rs. billion)
Commercial banks	2,643,971	266.4	2,501,264	293.9
Regional rural banks	1,327,367	105.2	1,227,563	110.5
Cooperative banks	480,096	22.1	468,511	24.9
Total	**4,451,434**	**393.8**	**4,197,338**	**429.3**

Source: SHG data from NABARD (2013 and 2014).

The share of different agencies remained unchanged in the case of loan outstanding too. The amount of bank loan outstanding against SHGs was Rs. 429.30 billion as on 31 March 2014. Of this Rs. 293.9 billion was accounted for by commercial banks, Rs. 110.5 billion by RRBs and Rs. 24.9 billion by cooperative banks, representing 68 per cent, 26 per cent and 6 per cent, respectively (Table 4.10, Figures 4.7).

As can be seen from Table 4.10 the average amount of loan outstanding by SHG account increased substantially for all three types of financing agencies as on 31 March 2014 as compared to a year earlier.

Commercial banks had a share of 60 per cent in the number of loans disbursed during 2012–13, followed by regional rural banks (RRBs) at 26 per cent and cooperative banks at 14 per cent (Table 4.11). During 2013–14 the share of commercial banks went down to 56 per cent as did the share of RRBs which came down to 24 per cent. The cooperative banks saw their share rise from 14 per cent to 19 per cent during 2013–14. As far as the volume of loans disbursed was concerned, the three agencies maintained their respective shares during 2013–14.

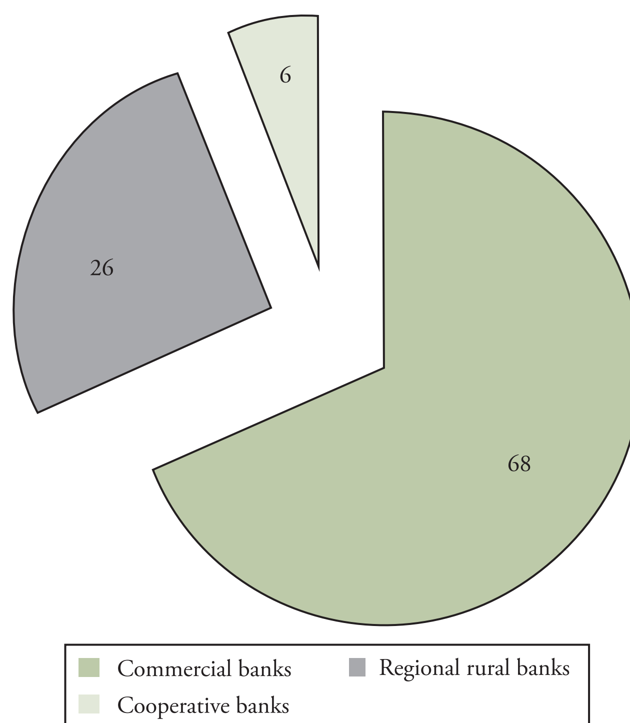

FIGURE 4.7 Outstanding Loan Amounts of Banks with SHGs

Source: NABARD (2014).

TABLE 4.10 Agency-wise Distribution of Loan Outstanding

Agency	Average loan outstanding per SHG (Rs.)		% share			
			No. of SHGs		Outstanding loan amount	
	2013	2014	2013	2014	2013	2014
Commercial banks	100,755	117,494	59	60	68	68
Regional Rural banks	79,264	90,007	30	29	27	26
Cooperative banks	46,129	53,151	11	11	6	6
Total	**88,455**	**102,273**	**100**	**100**	**100**	**100**

Source: NABARD (2013, 2014).

TABLE 4.11 Average Loan Disbursed by Agency

Agency	Average loan disbursed per SHG (Rs.)		% share in number of loans disbursed		% share in amount of loan disbursed	
	2012–13	2013–14	2012–13	2013–14	2012–13	2013–14
Commercial banks	181,966	209,025	60	56	65	67
Regional rural banks	180,331	188,595	26	24	27	26
Cooperative banks	91,378	63,659	14	19	8	7
Total	**168,757**	**175,768**	**100**	**100**	**100**	**100**

Source: NABARD (2013, 2014).

4.5 NON-PERFORMING ASSETS

According to data reported by NABARD, the overall NPAs of bank loans to SHGs were Rs. 29.2 billion as on 31 March 2014, or 6.83 per cent of loan outstanding, against Rs. 27.9 billion, or 7.1 per cent of loan outstanding as on 31 March 2013 (Table 4.12). Thus, though gross NPAs against bank loans to SHGs increased by about Rs. 1.4 billion, or by a little over 5 per cent during this period, there was a marginal decline in the ratio of NPAs to loan outstanding. This represents a small reversal of a discouraging trend which had seen an increase of 26 per cent (from Rs. 22.3 billion to Rs. 27.9 billion) during the period 31 March 2012 to 31 March 2013. Also gross NPAs, which had increased more than threefold between 31 March 2010 and 2013 (from 2.94 per cent to 7 per cent) seems to have been levelled off for the time being.

In regions other than the south and west the increase in NPAs had been as much as 31 per cent to 65 per cent between 31 March 2012 and 31 March 2013. The southern region with 5.11 per cent had the lowest percentage of NPAs as on 31 March 2013 the while central region with 17.3 per cent had the highest. The other regions had NPAs in the range of 8 to 12 per cent of outstanding loans. This position has roughly been maintained in during 2013–14. The percentage of NPAs to loan outstanding in the southern region has gone down marginally to 4.69 per cent with Andhra Pradesh and Karnataka maintaining their NPAs at a level of just over 3 per cent. In the other regions there was a marginal rise in percentage of NPAs. A source of continuing concern was the high NPA percentage in major states like Madhya Pradesh, Uttar Pradesh, and Odisha which continued to hover in the range of 18 to 20 per cent and Tamil Nadu continuing to report over 10 per cent of NPAs to loan outstanding as on 31 March 2014. In Kerala, however, NPA percentage was brought down to around 5 per cent as on 31 March 2014 from over 12 per cent the previous year.

An analysis of NPAs by type of banks (Table 4.12) shows a degree of variation over the years and across agencies. NPAs of commercial banks and cooperative banks rose steadily since 2010 to reach over 8 per cent of the total loan outstanding as on 31 March 2013. In fact, the NPA percentage of commercial banks, which was the lowest at 2.6 per cent of total outstanding to SHGs as on 31 March 2010, has steadily risen each year for three years before registering a moderate decline as on 31 March 2014 to 6.9 per cent not only in percentage terms but also in absolute terms. This has brought down the overall gross NPA percentage for all agencies even though RRBs and cooperative banks continued to show deterioration in the NPA position. RRB NPA percentages, however, in recent years have been lower than for other types of banks. In the case of cooperative banks, the NPA percentage more than doubled from under 4 per cent in 2010 to its present level of 8.7 per cent as on 31 March 2014.

National Institute of Bank Management (NIBM) was assigned by NABARD to conduct a study on 'Non Performing Assets (NPAs) in SHG loan portfolio of Banks' in four districts of Uttar Pradesh (Hardoi, Gorakhpur, Bareilly and Hamirpur) covering 500 SHGs. The objectives of the study were to analyse reasons for increasing

TABLE 4.12 Non-performing Assets of Banks and Loans Outstanding to SHGs

Agency	2010		2011		2012		2013		2014	
	Amount of NPAs (Rs. billion)	% of NPAs to the total loan o/s	Amount of NPAs (Rs. billion)	% of NPAs to the total loan o/s	Amount of NPAs (Rs. billion)	% of NPAs to the total loan o/s	Amount of NPAs (Rs. billion)	% of NPAs to the total loan o/s	Amount of NPAs (Rs. billion)	% of NPAs to the total loan o/s
Commercial banks	5.4	2.7	10.7	4.9	16.6	6.4	21.8	8.2	20.2	6.9
Regional rural banks	2.2	3.6	2.7	3.7	4.3	5.0	4.3	4.1	6.9	6.2
Cooperative banks	0.7	3.9	1.3	7.0	1.3	6.8	1.8	8.1	2.2	8.7
Total	**8.2**	**2.9**	**14.7**	**4.7**	**22.1**	**6.1**	**27.9**	**7.1**	**29.3**	**6.8**

Source: NABARD (2010 to 2014).

NPAs in SHG lending and suggest preventive measures to keep the NPAs at low level. Of the 500 sample SHGs, 84 per cent were SGSY SHGs. The major reasons for increasing NPAs were[2]: (i) lack of proper knowledge about group concept, (ii) absence of proper training and capacity building for bank linkage, book keeping, financial discipline, internal lending, (iii) inadequate handholding support from SHPIs, (iv) weak follow-up by bank branches, (v) inadequate income generation from economic activities, (vi) wilful default, etc. The preventive measures suggested included: proper selection of group members, improving effectiveness of SHPIs, supportive policy environment, involvement of BCs and BFs and e-book keeping for better transparency in SHG accounting.

Thus a variety of local and other factors appear to be contributory to NPAs under SBLP. As also evidenced by the aforementioned study, reasons provided for the increase of NPAs include the lax monitoring of loans by banks on account of staff shortages, the quality of SHGs and the effect on SHG repayments of loan waivers and political promises, etc. Indeed, at the present time, with the bifurcation of the state of Andhra Pradesh, expectations of loan waivers have brought SHG repayments to a virtual halt in the reorganized Andhra Pradesh. The effect is being felt in Telengana state as well.

4.6 NABARD SUPPORT FOR FINANCIAL INCLUSION THROUGH SHGs[3]

NABARD spent a sum of Rs. 513.9 million during 2013–14 from FIF, Women Self Help Group (WSHG) Development Fund and Rural Promotion Fund (RPF) for various microfinance-related activities such as formation and linkage of SHGs through SHPIs, training and capacity building of stakeholders, livelihood promotion, documentation, awareness and innovations, etc.[4] This was up from Rs. 456.2 million the previous year. It continued to extend support to NGOs, RRBs, CCBs, Farmers' Clubs and Individual Rural Volunteers (IRVs) for promoting and nurturing SHGs. During 2013–14, grant assistance of Rs. 363.3 million was sanctioned to these agencies. The cumulative assistance sanctioned to various agencies was Rs. 2628.3 million for promoting 746,000 SHGs. Cumulative assistance of Rs. 790.4 million was released for formation of 499,000 SHGs as on 31 March 2014. The NGOs were the most dominant SHPI, forming more than 379,000 SHGs.

NABARD's special initiatives in backward regions included support to Rajiv Gandhi Mahila Vikas Pariyojana (RGMVP), a special initiative of the Rajiv Gandhi Charitable Trust (RGCT) for promotion and credit linkage of SHGs and formation of SHG Federations in select districts of Uttar Pradesh in association with participating banks. Under this project, as on 31 March 2014, 105,996 SHGs were promoted, of which, 34,417 SHGs were credit linked and 4,142 cluster level organizations and 115 block level organizations were also set up.

NABARD is the Lead Programme Agency for implementation of Women Empowerment and Livelihood Programme in Mid Gangetic Plains, known as 'Priyadarshini Programme'. With a total outlay of US$32.73 million, the programme is assisted by International Fund for Agriculture Development (IFAD) and Ministry of Women and Child Development (MWCD), GoI. It is being implemented in five districts of Uttar Pradesh (Bahraich, Rae Bareli, Shravasti, Sultanpur and Amethi) and two districts of Bihar (Madhubani and Sitamarhi). It envisages holistic empowerment of around 120,000 rural poor women and adolescent girls through formation and nurturing of around 12,000 SHGs over a period of eight years. NABARD engaged resource NGO for the purpose of capacity building of the programme staff and field NGOs for implementation of the programme at the grass root level. A total number of 47 Community Service Centres, each covering about 200–250 SHGs have been set up in the programme area. The field NGOs have formed a total of 9,129 SHGs as on 31 March 2014, of which 6,861 SHGs have been savings-linked and 2,580 SHGs credit linked. An amount of Rs. 39.5 million was released as seed capital to 3,122 SHGs.

The scheme for promotion of women SHGs in backward/Left Wing Extremism (LWE) affected districts is being implemented in association with GoI in 150 select districts spread across 28 states through Anchor NGOs. These Anchor NGOs work as SHPIs for promotion and credit linkage of SHGs with banks. They also act as business facilitator for tracking and monitoring the SHGs and are responsible for loan repayments. Under the scheme, around 149,000 women SHGs were savings linked and

around 49,773 of these SHGs were credit linked as on 31 March 2014. A cumulative amount of Rs. 343.8 million was released as grant assistance out of the Women SHG Development Fund (WSHG) for various activities under the scheme.

4.6.1 Joint Liability Groups

NABARD designed joint liability groups (JLGs) of four to ten members to meet the farm and non-farm credit needs of small farmers, marginal farmers, sharecroppers and oral lessees with no access to formal credit to the absence of title deeds. These livelihood groups come together on the basis of mutual guarantee and include clients engaged in crop production or similar economic activities. Unlike SHGs, JLGs are basically credit groups but savings is encouraged, with no specific requirement of loans-to-savings ratio (Table 4.13).

By 31 March 2014, 658,000 JLGs had been promoted and Rs. 60.76 billion of credit disbursed cumulatively. During 2013–14, Rs. 13.93 billion was disbursed by banks to around 129,000 JLGs and the cumulative loan disbursement as on 31 March 2014. Grant assistance of Rs. 767.4 million had been sanctioned for promotion of 399,000 Joint Liability Groups (JLGs) across the country as on 31 March 2014.

500,000 JLGs of landless farmers are to be financed during 2014–15. Overall the JLG model of financing by banks has met with success in extending the scope of inclusive finance covering sections of the unbanked, weaker sections of society.

SHG members requiring larger amounts of credit too can graduate to the JLG mode. See, for example, Box 4.1. However, the idea of forming JLGs out of enterprising members of existing SHGs with a view to provide them larger loans is fraught with risks as well—for example, whether the 'joint liability' principle as applied to small-scale loans to Grameen-type groups could be extended to large loans as well. Besides, SHGs, many of which practice equal sharing of loans, need to be sensitized to

TABLE 4.13 Differences between SHGs and JLGs

Particulars	SHG-BLP	JLG-BLP
Group size	Informal group up to 20 members	Informal group with 4–10 members
Purpose	Initially for consumption and then for income generation activities	Focus on income generation activities
Savings	Savings-cum-loan product with loan size linked to savings	Credit product but savings encouraged No specific loan-to-savings ratio
Period	Credit linkage after six months of savings	Instant credit
Client	Focus on poor women with no access to banking	Small and marginal farmers, sharecroppers, etc.

BOX 4.1 Business Oriented Groups

Having faced competition from MFIs in the state, the Primary Agricultural Cooperative Society, Kinnal in Koppal district, Karnataka started financing 'Business Oriented Groups' (BOG) in addition to the normal SHGs. BOGs comprise of select members of 3 to 4 existing SHGs who are in need of a higher amount of loan. This new group is formed and, based on actual requirement, individual loans are issued. The PACS have initiated these new types of SHGs to counter the threat posed by the MFIs, who were trying to dismantle the SHGs formed by PACS. The members of the Business Groups also continue to be members of the parent SHGs. BOG members are happy to receive the required loan amount from the PACS at a relatively lower rate of interest. For the Business Groups, the PACS charges an extra 3 per cent per cent interest, i.e., 2 per cent per cent towards risk fund and 1 per cent per cent towards service charge. Further, the PACS, Kinnal has appointed animators for supervising these groups and is paying their salary out of the extra interest charged to members of these groups. This is similar to the 'JLGs within SHG' concept introduced in SHG 2.

Source: Adapted from Satyasai, Sahoo and Badajena (2014).

accept 'JLGs within the SHGs' in a positive way without internal conflict. Bankers also point to a lot of overlap between lending to SHGs and JLGs especially in the southern states, where numbers are high both for SHGs and JLGs, which is leading to multiple lending.

4.6.2 SHG-Based Livelihood Interventions

NABARD has supported various types of interventions in livelihoods over the years. These include support for watershed development as a comprehensive livelihoods approach, the WADI programme for tribal livelihoods, promotion and financing of producer organizations, support for rural entrepreneurship and skills and the development of local craft and rural industry clusters. These types of interventions have generally involved the efforts multiple agencies that go beyond the narrow provision of loans. At the SHG level, the initiative of SHPIs and the SHGs members themselves had enabled lasting increases in income and quality of life. Box 4.2 provides a case of a dairy value chain facilitated by Hand in Hand, a leading SHG promoter in Tamil Nadu and other states, along with support from a NABARD subsidiary.

Following the massive expansion of the SHG programme, the graduation of SHGs members to viable livelihoods is seen as a natural corollary—along the lines of the approach adopted by the NRLM. This transcends a narrow financing approach to a structured development plan involving a range of support institutions. NABARD

Box 4.2 SHG-based Dairy Value Chain of Hand in Hand India

Many of the SHG women involved in the dairying face exploitation by middle men in the sale of the milk produced. These dairy entrepreneurs face lack of capital to procure animals, low milk prices, and absence of support services. In August 2012, Agricultural Development Finance Tamil Nadu (ADFT), NABARD provided finance of Rs. 10 million to Hand in Hand for on-lending to 92 Activity Based Groups (ABGs) for dairying. The project created visible impact on of SHG members. In the second phase, ADFT extended further support of Rs. 1.86 million to 42 ABGs and Pallavan Grama Bank also sanctioned dairying loans of Rs. 5.9 million through 55 SHGs. The credit facilitated procurement of 1257 cross bred cows.

Hand in Hand India has planned a dedicated value chain to promote dairying as a remunerative enterprise by facilitating financial linkages, increasing income through bulk procurement of inputs and collective sales of milk and providing other necessary support services. It started Melmalayanoor 'dairy hub' in October 2013 as a separate Mutual Benefit Trust to deliver these missing links and to offer value added services to the SHG members involved in dairying. Two others are presently at the start-up stage.

These hubs are like training cum production centres, but managed by the entrepreneurs themselves. The hubs obtain contracts, undertake quality control, skill training, provide or procure inputs, veterinary care and insurance, packaging and branding, collaborate with government agencies and ensure fair and ethical trade practices. Individual entrepreneurs will reap the benefit on the basis of their contribution to the production. Each hub is expected to serve around 250 women at the outset.

There are seven Satellite Milk Collection Centres (SMCC) under the three dairy hubs. Each SMCC is managed by a SHG member. SHG members obtain sale proceeds of milk once in 10 days through the SMCC. The hub supplies milk to three private milk-processing units and realizes a price of Rs. 23 to Rs. 25 a litre of milk. The hub is provided with a freezer, cream separator and milk-testing facilities. The dairy hubs also took up the preparation of value added products like curd, buttermilk, rose milk and badam kheer. They have also enabled more than 200 SHG women raise the fodder on their farms. Technical Assistance and backstopping support is provided by Hand in Hand.

SHG women now obtain a price of Rs.21 to Rs.23 per litre of milk compared to Rs. 13 to 15 per litre in the pre-project period. Hand in Hand is planning to scale up by merging all the three dairy hubs into a producers' company towards building social business institutions and increase milk production to 10,000 litres per day.

Melmalayanoor dairy hub has crossed break-even level and is recording sales of around 1500 litres of milk per day and a turnover of more than Rs. 1 million per month. It covers a part of the staff cost as the salary of veterinary doctor, accountant, mobilizer and logistics staff. However, challenges remain, including the mobilizing of SHG/ABG members to take responsibility for dairy hub operations.

Source: *Adapted from Hand in Hand (2014) and discussions with N. Jeyaseelan, Hand in Hand India.*

has proposed a new approach to livelihood creation, which would[5]:

(i) nurture and support livelihood development activities for the poor through SHGs;
(ii) enable second-tier, community-based entities to facilitate and handhold SHGs and their members to establish sustainable livelihoods;
(iii) facilitate collaboration with resource agencies for end-to-end solutions;
(iv) encourage formation of livelihood groups from among members, on the lines of JLGs;
(v) further promote the concept of JLGs to enable individuals such as sharecroppers, oral lessees, etc., to avail bank loans.

While SHGs 2, which was launched by NABARD in March 2012, had proposed product- and system-level changes, its long-term policy level thrust was minimal. SHG 2 was also silent on the role of SHG federations. Basically, NABARD does not favour a role for SHG federations as financial intermediaries. On the other hand, it has been providing grants to federations to promote SHGs. This appears to be a further articulation of the intended role of SHG federations as envisaged by NABARD, i.e., in the provision of non-financial services and overall facilitation of livelihood promotion opportunities through promotion of micro-enterprises, etc., as part of a larger integrated thrust in convergence with NRLM. This would involve a shift away from the credit-driven approach of SBLP towards building member-driven institutions of the poor for livelihood development based upon SHGs.

4.7 FINDINGS OF SHG STUDIES

During the past year, a few studies on SHGs have been undertaken. NABARD initiated studies on topics such as voluntary savings, transaction costs, SHG federations as livelihood support organizations, SHGs as agents of social change and the quality of sustainability of SHGs in Bihar and Orissa. In addition to the above, IFMR-ACCESS-GIZ conducted in late 2013 a study on SHG-Bank Linkage through the lens of responsible finance. Besides, APMAS undertook a study of equality and sustainability of urban SHGs in Andhra Pradesh. The issue of SHG quality and sustainability has become the leading concern in respect of SBLP.[6] Earlier in 2013, ENABLE had conducted a study in eight states on the quality and sustainability of SHGs. Other studies by NABARD and GIZ are proposed in the future. The latest round of studies confirmed the role of the SHGs in bringing about wide-ranging change to the lives of their members. They also highlight serious shortcomings in the implementation and performance of the SBLP apart various issues related to bank support for SBLP, internal SHG dynamics, variations in outcomes in rural and urban settings, issues in graduation of SHG members to through individual savings accounts and microenterprise and the technical and business development support required sustained income generation through borrowing from SHGs.

(i) SBLP through the Responsible Finance Lens[7]

The study attempted to understand the intra-group dynamics of groups in terms of financial transactions, decision-making, cohesiveness, transparency and acceptance of technology and new policy. It aimed to understand the financial and non-financial interactions of external agencies as well. A total of 200 SHGs were selected from three states—Bihar, MP and Karnataka. The key finding of the study was that the sample SHGs were on the right track of achieving the objective of financial inclusion and empowerment through group formation, savings, lending, borrowing and community development. However, there was still a vast scope of improvement across several quality parameters of the SHGs. These parameters pertained to organizational management and efficiency, capability and achievement of group members and financial and social performance. The study also found substantial state-wise differences in group dynamics. Comparative analysis of the three states revealed that SHGs in Karnataka fared better than the other states. In spite of the scope for social and economic empowerment in the sample SHGs, a primary concern was their over-dependence on SHPIs. The study suggested that before taking further steps towards financial inclusion and introducing technology and other innovations for effective functioning of SHGs, there was need to emphasize self-reliance and assess the performance of the current SHG model.

(ii) Quality and Sustainability of SHGs in Bihar and Odisha[8]

The study on quality and sustainability of SHGs in Bihar and Odisha was undertaken by APMAS at the instance of NABARD. The study objectives included:

(i) to ascertain the quality of SHGs including SGSY groups promoted by various SHPIs, and their ability to effectively use their savings and excess credit under SBLP;
(ii) to know the role of SHGs in helping entrepreneurial members to better manage risks and shocks;
(iii) to assess socio-economic impact and to evaluate factors preventing SHGs from reaching the optimal quality.

The study covered 288 SHGs in 72 villages of eight districts in the two states during November–December 2013. On the basis of the findings of the study, it was concluded that SHGs in Bihar were relatively younger, had much stronger group dynamics and were increasingly becoming a part of the SHG federation system. This was because of the role of government as the predominant promoter under the Bihar Rural Livelihoods Promotion Society (BRLPS)/ NRLM with its dedicated programme of livelihoods promotion through SHGs. In Odisha on the other hand, the SHG movement had already achieved significant scale under Mission Shakti of Government of Odisha. However, in the latter state, there was no institutional support and monitoring of the SHG system due to lack of resources whereas in Bihar, resources and monitoring support was available. As a result there were comparatively higher NPAs under SBLP at around 18 per cent in Odisha as compared to 6 per cent for bank-linked SHGs in Bihar. This was also reflected in the quality of SHGs, which was higher in Bihar, as indicated by the grading exercise which placed with 56 per cent of SHGs in A grade in Bihar as against only 24 per cent in Odisha. The study suggested that as SHGs grew older their quality deteriorated which was another factor responsible for the differences in SHG quality in the two states.

Some of the other findings of the study included:

(i) There was an absence of lending from SHGs own funds in about one-third of the SHGs. This was because of (a) banks not allowing withdrawal of SHG savings during the period of loans (b) continual deposit of savings in the bank to get larger loans (c) SHGs deciding against internal lending in view of possible default. Accordingly, large amount of idle funds remained in SHG-SB accounts of an average of Rs. 20,000.
(ii) Percentage of SHGs with loan outstanding to banks in both Bihar and Odisha was low with about half of the SHGs never having accessed credit.
(iii) Loan repayment rates from SHGs to banks were a big concern with 37 per cent of SHGs having a repayment rate of less than 50 per cent.
(iv) There was also a high incidence of default in case of loans from internal funds in the SHGs studied.

SHG quality was also affected since both the SHGs and federations were formed through a target-oriented approach, resulting in compromises in the process of group formation. As a result, SHG meetings were mostly confined to collection of savings and loan instalments and the disbursement of loans. The social agenda was taken up in only some of the SHG meetings. Leadership rotation was minimal and leaders in many SHGs were themselves the book writers. Factors like frequency of migration to nearby towns and the low literacy levels also affected the quality of groups. SHG federations were not in a position to provide multiple services due to scarcity of funds.

Nevertheless, there was visible impact of SHGs at various levels, with the impact higher in Odisha as compared with Bihar. Dependency on moneylenders had decreased. Besides, there were changes in SHG relationships with village-level institutions, household-level impacts and changes in inter-personal relations between SHG women and other household members.

(iii) Urban SHGs in Andhra Pradesh: Quality and Sustainability Issues[9]

A study sponsored by the government of Andhra Pradesh covered the SHG-based urban programme MEPMA, which has facilitated 305,000 SHGs organized into 9104 Slum Level Federations (SLFs) and 189 Town Level Federations (TLFs) in the 189 municipalities of Andhra Pradesh. The study covered 2000 SHGs and 4000

SHG members in 40 towns and 10 districts of 3 regions in unbifurcated Andhra Pradesh, and was carried out between September and November 2013. The objective of the study was to grade the SHGs based on their performance, and to assess the members' access to credit from SHGs, banks and SLFs and their repayment rates and extent of default; and to know the issues and problems in the functioning of SHGs for action for the future.

MEPMA adopted a holistic approach with multiple strategies to improve the quality of life of the urban poor by organizing them into self-reliant and self-managed institutions. However, there were regional disparities and though the majority of members were poor, considerable number of non-poor members joined SHGs to avail low-cost loans from banks, SLFs and Stree Nidhi.

Government was the lead agency of all the SHPIs in urban Andhra Pradesh, promoting 69 per cent of the groups, though nearly one-fourth of SHGs (24 per cent), were formed by the community or individuals with the demonstration effect of older SHGs. The SHGs lend the funds mobilized internally and from external agencies such as banks, SLF and Stree Nidhi. The loan term, rate of interest, mode of payment and collateral security required varies depending on the fund source. Of the total SHGs, 79 per cent of SHGs availed bank linkage at least once since inception and 21 per cent of SHGs availed the Vaddi Leni Runalu (VLR) interest subvention scheme of the Andhra Pradesh government to the extent of Rs. 997.4 million.

As far as the quality of SHGs was concerned, the sample groups were graded according to the critical rating index (CRI) tool developed by NABARD. Most SHGs were rated C grade (46 per cent), followed by B grade (37 per cent) and A grade (18 per cent). The SHG members were good at promoting compulsory savings for different purposes, but the other aspects were weak, including frequency of meetings, member attendance and meeting agenda. Book-keeping was poor and needed to be addressed on a priority basis. However, loan repayment to banks and other external agencies was good.

The households joined SHGs primarily to avail low-cost credit and government pro-poor programmes, irrespective of their social and economic categories. At the same time a large amount of funds were lying idle in SHG SB accounts, and SHGs largely depended on external credit agencies, rather than mobilizing funds internally. A large number of SHGs had been waiting for a long time for repeat linkage from banks and other agencies. Of the 1,554 SHGs that have loan outstanding with banks, majority of the SHGs (84 per cent) have no defaulters and overdues.

The SHGs have been slowly taking up the role of SHPIs. About 17 per cent of SHGs had formed 983 new SHGs in their locality. The group size had declined in most SHGs (66 per cent of total) as compared to the time of formation. The incidence of dropouts/withdrawal of membership was high across the districts, and higher in older SHGs. The majority of the households had formed into groups to avail interest-free and low-cost loans and interest subsidy without which non-repayment and default would inevitably rise.

There were many issues at SHG, SLF, TLF and promoter levels. Some of them were (a) poor database management at SHG and federation levels; (b) irregular meetings with poor attendance and financial transactions outside the meetings; (c) poor quality of book-keeping; (d) leaders' dominance and low leadership rotation; (e) problems in SHG credit linkage—insistence on fixed deposits and insurance by banks, large amount of idle funds in SHG SB accounts, banks control on SHG withdrawal of savings, large payments by the SHGs in order to get credit linkage, etc.

Practices like distribution of group funds periodically, equal distribution of external loans to all the members,[10] flexibility in paying monthly savings and loan instalments and attending meetings and sharing group responsibilities were contributing factors for the smooth functioning of SHGs, even though not considered best practices.

SHG members reported significant changes as a result of access to credit. These included (a) repayment of high cost loans; (b) improvements in health of household members and children's education; and (c) increase in monthly household income and expenditure on food and employment generation for household members.

(iv) Graduation of SHGs

A study on 'Whither Graduation of SHG Members?' by the Economic Research Department of NABARD somewhat belatedly attempted to address an issue that has been vexing SHG practitioners for many years. A sample of 240 SHG members selected from four districts to each

of Odisha and Karnataka formed the basis for the study findings. The objectives of the study included:

(i) Conceptualization of the process of graduation among SHG members.
(ii) Measurement of the extent of graduation among SHG members in the study area.
(iii) Charting out policy options and strategies for up scaling the graduation process.

An SHG member acquiring such ability to start his/her own enterprise or income generating activity can be considered a graduate of microfinance system. The study defined graduation as a two-dimensional process and constructed a Graduation Index as a weighted average of the savings dimension and the micro-enterprise dimension. The Graduation Index was constructed as a combination of two dimension indices:

(i) Savings Dimension Index
(ii) Micro-Enterprise Dimension Index

The Graduation Index for SHGs was computed by using the proportion of members having individual savings bank accounts as an indicator (savings dimension) and the proportion of members having income-generation activity or micro-enterprise after joining SHG (micro-enterprise dimension). Weights of 0.33 and 0.67 were assigned to the savings index and the micro-enterprise index, respectively.

The Savings Dimension Index for the study SHGs was 0.256, which coupled with a Micro-enterprise Dimension Index of 0.565 gave a Graduation Index of 0.447. The graduation and micro-enterprise indices were higher in Odisha as compared to Karnataka on account of existence of older groups. Two-fifths of the SHG members did not graduate in terms of the savings dimension.[11] Interestingly, a higher proportion of Below Poverty Line (BPL) population in a SHG was associated with a higher level of graduation. Ordinarily BPL households would be expected to have weaker entrepreneurial skills. This was possibly the result of other parallel interventions targeting BPL households.

The determinants of graduation at SHG member level were found to be (i) age and family size; (ii) level of savings; (iii) pre-SHG income; and (iv) *low level* of development. Borrowing was negatively associated with graduation, even though higher borrowings should enhance graduation levels as well. In another counter-intuitive finding, members from less-development districts did better than their counterparts in developed districts. The results suggested that though savings were important for the poor, they could graduate to micro-enterprises with loan support and that membership in SHGs had given a definite edge to people in graduating.

An incidental finding of the study was that, barring a few exceptions, equal distribution of loans among members was the rule in the groups. Indeed, where distribution was according to need, it often led to the exclusion of several SHG members from borrowing activity. The study suggested alternate mechanisms such as allowing relending among members after equal distribution within the SHG to cater to the differential loan demand. See Box 4.3.

The study highlighted the need to (i) increase the frequency and amount of credit available to SHG members; (ii) incentivize them to save through suitable products; (iii) institute creative mechanisms for loan sharing by members; (iv) develop the micro-infrastructure to render small investments viable and fructuous; and facilitate convergence across programmes and processes.

BOX 4.3 Equal Sharing of External Loans in SHGs

It was observed that in a few SHGs in Andhra Pradesh, after equal loan sharing, members with higher loan demand borrowed from fellow members with smaller loan requirements, paying higher interest than they paid on their share of loan, but often less than the market rate. This was an informal practice outside the control of the SHG. Equal sharing of loans may be considered a market-driven solution for the problem of total exclusion of some of the members. In equal sharing of loans coupled with internal relending, borrowers are paying a premium on amount rightfully belonging to other members and re-lenders receive a small price for waiting for their turn. Alternatively, loan turns can be auctioned among members who can offer a price (interest rate) that reflects their demand for loan. The excess interest charged from the members can be distributed among the members who had to wait for their turn to avail loan.

Source: Adapted from Satyasai et al. (2014).

The study also found that a considerable proportion of SHG members were dependent on non-SHG loans for consumption needs and an equally sizable proportion availed non-SHG loans for farming needs at high rates of interest.

4.8 STATUS AND ROLE OF SHG FEDERATIONS

According to the estimates made by APMAS[12] as in March 2013, there were 178,664 SHG federations in the country. These included 171,511 primary federations (PLFs), 7,087 secondary federations (SLFs) and 66 tertiary federations (TLFs). Table 4.14 gives region-wise data on various types of federations. It is estimated that more than half (52 per cent) of the federations were in the southern region. Federations were predominant in Andhra Pradesh, Kerala, Tamil Nadu, Rajasthan and West Bengal.

Government of India, state governments and their projects implemented with external funding are the major players in promoting SHG federations with Andhra Pradesh in the lead. The number of government-promoted SHG federations had increased from 93,773 in 2009 to 130,631 by 2013. With the impetus given by the NRLM the total number of SHG federations in the country is likely to reach 500,000 by 2018.

With regard to quality, self-management and sustainability, there is still a long way to go as many SHG federations are dependent on their promoters to meet operational costs. In many states, SHG federations are chanellizing various government schemes and benefits at the risk of being co-opted by the government.

In order to mobilize savings SHG federations registered under MACS Act became quite common in Andhra Pradesh. Many SHG federations have registered as societies, trusts, etc., which are not suitable for financial intermediation, especially for mobilization of savings. Liberal cooperative acts are seen as the more appropriate legal form for financial intermediation, especially for SHG federations.

SHG Federations, where promoted, faced difficulties in leveraging loan funds from banks for financial intermediation.[13] RBI included registered federations among the agencies eligible to act as BCs[14] but banks have not involved them in this role either. NABARD also does not recognize MACS as financial intermediaries because of doubts over their governance and management, their limited assets and the past record of credit cooperatives. However, due to the credibility of the promoting NGOs, some MACS and other federations are getting loan funds from banks through their parent organizations. NABFINS is one institution that has come forward to support self-reliant cooperatives which are functioning as federations of SHGs. In Tamil Nadu bankers have issued loans to panchayat-level Federations. It is likely that the NRLM with its critical role for a federated SHG structure could yet ensure a wider acceptance of federations in financial intermediation.

The RBI Circular on Priority Sector Lending—Restructuring of SGSY as National Rural Livelihood Mission (NRLM)—Aajeevika (RBI, 2013) indicates that under NRLM a community investment fund (CIF) will be provided to the SHGs in the intensive blocks, routed through the village-level/cluster-level federations, to be maintained in perpetuity by the federations. The

TABLE 4.14 Distribution of SHG Federations by Region (31 March 2013)

Region	NGO				Government				Total			
	PLF	SLF	TLF	Total	PLF	SLF	TLF	Total	PLF	SLF	TLF	Total
Northern region	395	40	1	436	15,320	0	0	15,320	15,715	40	1	**15,756**
North-eastern region	300	4	0	304	1,205	0	0	1,205	1,505	4	0	**1,509**
Eastern region	27,970	2,757	2	30,729	17,180	453	39	17,672	45,150	3,210	41	**48,401**
Central region	3,611	149	0	3,760	3,459	0	0	3,459	7,070	149	0	**7,219**
Western region	1,073	4	0	1,077	10,539	315	0	10,854	11,612	319	0	**11,931**
Southern region	11,147	570	2	11,719	79,304	2,795	22	82,121	90,451	3,365	24	**93,840**
Union territories	8	0	0	8	0	0	0	0	8	0	0	**8**
	44,504	**3,524**	**5**	**48,033**	**127,007**	**3,563**	**61**	**130,631**	**171,511**	**7,087**	**66**	**178,664**

CIF will be used by the federations to advance loans to the SHGs and/or to undertake the common/collective socio-economic activities. However, it does not indicate a clear role for federations to intermediate borrowed funds over and above this limited facility. The annexure to the circular also clearly suggests that federations will play a role in financial inclusion. However, federation promoters are still grappling with the appropriate legal framework for the involvement of SHGs and SHG federations in NRLM.

As noted by Smita Premchander and M. Chidambaranathan[15] federations are second-level aggregators of SHG activities which can be listed under the old cooperative acts or, in seven states, under the Self-reliant Cooperatives Act. However, there is lack of clarity on their function as aggregators of credit demand without which they will not be acceptable to banks as serious actors in financial inclusion. The biggest regulatory hurdle for cooperatives is that they cannot receive external grants or equity investments, hence the need for an act on SHG federations. Promoters of SHGs and community-based MFIs are consulting with NRLM in developing a model act for this purpose.

4.9 SHG BANKING, NRLM, AND FINANCIAL INCLUSION

Though a large number of SHGs that are saving with banks appear to be still without access to credit, the SBLP has been mainly about providing loans rather than savings and a wider range of financial services. While the programme has expanded enormously, the growth story is not without accompanying concerns. The levelling off of the growth in the SHG clientele of banks during the past four years has been accompanied by concerns about its performance.

Issues related to SBLP that have emerged include, among others, poor quality of groups, limited products, rising NPAs in the SHG portfolio of banks, multiple memberships of SHGs and MFIs and equal sharing of loans. Constraints on the supply side appear to result in banks becoming unwilling to extend their SHG operations.[16] The function of SHGs in financial provision and management has also been diminished as indeed their role in empowerment and livelihoods promotion.

The innovation of SHG federations has proved to be a contested one. Where federations have had a financial intermediation role, they have contributed to reducing the margins available to SHGs. The undermining of the financial role of the SHG is similarly observed in cases where NGOs have promoted in-house MFIs to provide loans to SHG members. Reports also suggest that weak capacity building has resulted in an absence of sense of ownership among SHG members, and that SHG meetings are often routinely held for savings collection rather than with a wider empowerment agenda. In government-promoted structures SHG and federation leaders have been involved in programme implementation and members mobilized for political ends.

The banking system, along with NABARD, has been at the receiving end of much criticism. Very few banks have invested in their SHG clients to ensure financial discipline and financial expansion. SHGs have generally been promoted as part of a target-oriented approach, without thought to their institutional development or graduation of their members to individual loans under the banks' mainstream programmes. There are extensive reports of practices by banks that include impounding SHG savings, requiring mandatory fixed deposits, forcible selling of insurance and unilateral transfer of funds from SHG savings accounts into loan accounts.

It would appear that funding available from NABARD to SHPIs was inadequate for them to pursue a process-oriented strategy for SHG development that would ensure financial discipline and building of necessary skills among SHG members. This has led to a compromise in the quality and sustainability of the SHGs over time even as the level of the SHGs' borrowing increased. Besides, though NABARD was also involved in the SGSY, a tension came about among policy makers between SBLP and SGSY on the subsidy issue. With the successor to the SGSY, viz. NRLM, continuing with interest rate subvention and subsidies, a unified approach is needed for convergence between the two programmes (NRLM and SBLP).

The dilution of the role of SHGs as important financial intermediaries appears to be carried over to the financial inclusion model. The strategy and components of the financial inclusion thrust, both in the period of implementation of financial inclusion plans of banks as

well as in the new pronouncements, have not really elaborated a role for SHGs and SHG-based institutions. (An exception is their proposed role in promoting financial literacy.) In fact banks operating through BCs can now function as competitors to MFIs and the SHGs in the provision of credit and financial services to poor clients. However, a supplementary channel that has re-emerged is that of bank lending through SHGs promoted by the NGO-and non-NBFC MFIs acting as the BC.[17] Nevertheless, given the proposed changes in the financial service delivery structure, SHGs could become largely redundant unless they find a role within the emerging architecture of service delivery at the last mile.

Box 4.4 NRLM Financial Inclusion Objectives

Access to adequate amount of credit at reasonable rates of interest along with convenient terms of repayment is critical for poverty reduction. Therefore, the NRLM seeks to promote universal financial inclusion by promoting access to basic banking services. NRLM seeks to work on both demand and supply sides for this purpose. Key focus areas are:

- promotion of basic awareness on banking services, insurance products and remittances to all SHG members;
- preparation of all SHGs for opening of bank accounts;
- institution of appropriate systems of Bookkeeping and provision of revolving fund and Community Investment Fund (CIF)
- delivery of institutional credit
- promoting investment on productive livelihoods and monitor prompt repayments

Source: NRLM website.

The NRLM, nevertheless, has based its financial inclusion model and the larger livelihoods development approach on the strengthening of the SHG-bank relationship as well as SHG federations (see Box 4.4). NRLM sees SHGs as the building block both for financial federations as well as other cross-cutting livelihoods organizations as part of a broad-based strategy for poverty alleviation. In several states federated structures styled on the Andhra Pradesh Indira Kranti Patham (IKP) model are being implemented, with the help, among others, of community resource persons drawn from the ranks of the SHGs of Andhra Pradesh. It is critical how NRLM will develop the proposed infrastructure of SHG federations and other livelihood organizations of the poor; and arrange the financial resources for their needs. SHG federations could either act as MFI intermediaries or only as BCs/BFs. Sources of finance for the federations could be through dedicated funds and channels such as Stree Nidhi in Andhra Pradesh or through women's banks.

As things stand, the SHG continues to be a potential rallying point for NABARD and NRLM and a host of SHPIs supporting federations of SHGs as the base for an alternative model in financial services delivery. The place of SHGs and SBLP in the financial inclusion strategy needs to be re-examined and re-negotiated.

PART 2

MICROFINANCE INSTITUTIONS: PROGRESS AND PERFORMANCE

The microfinance institutions in India have evolved through different phases of crises and growth over the years. A significant aspect of this evolution has been progressive movement towards formalization, regulation and sustainability. Several factors have contributed to this process of change including transformation of microfinance providers, continued financial exclusion of different sectors and population segments, expansion of funding partners and options, technological innovations, and increasing policy attention on issues relating to microfinance. Even the crises that disrupted the growth momentum of MFIs at least in some regions in the last decade have left some great lessons for the sector and ended the prolonged phase of regulatory indifference. The key message that arises out of all the recent industry analyses is that the MFIs have improved their performance significantly in India during the past three years. The optimism kindled by a series of proactive initiatives by the central bank since 2012 to regulate microfinance business and protect consumer interests have particularly helped the 'buoyant growth' of MFIs through 2013–14 (CRISIL, 2014).

Part 2 reviews the growth and performance of MFIs in India with special focus on the last triennium, i.e.,

2011–14. Apart from analysing the major characteristics of the contemporary phase of evolution of the MFI sector, the discussion also presents the highlights of the recent discourses around the specific role of MFIs in financial inclusion. Finally, the chapter will try to draw some implication for policy and practice**.**

4.10 MARKET SIZE AND STRUCTURE

It is heartening to note that the data gathering and reporting systems around Indian MFIs have improved steadily and substantially since 2010–11. With the convergence of the data collection and reporting methodologies of MFIN and Microfinance Information Exchange (MIX), the information base on NBFC-MFIs has come to be streamlined and standardized. However, getting access to consistent and comparable data on the non-profit MFI segment is still a daunting task. With MFIN assuming the role of the self-regulatory organization with the overall charge of ensuring orderly conduct of microfinance sector, an appropriate arrangement to capture NGO-MFI data regularly and accurately may evolve.

Though the primary purpose of credit bureaus is to improve industry performance and protect customer interests, they generate in the process rich and detailed information which is otherwise difficult to compile. In estimating the size and analysing the structure of the MFI sector in this section the data compiled by Equifax Credit Information Services Private Limited is used along with MFIN and MIX data with a view to provide a comparative perspective. Equifax has a client base about 120 MFIs (including banks with JLG lending business units), whereas Microfinance Institutions Network (MFIN), the industry association of NBFC-MFIs and the RBI-designated self-regulatory organization for the microfinance industry, has a current membership of 48 NBFC-MFIs.

Table 4.15 based on credit bureau data shows that up to April 2014 all the MFIs reporting to Equifax have cumulatively issued 12.7 million loans worth Rs. 1,508.61 billion. The outstanding amount of all loans reported to the credit bureau as on April 2014 stands at Rs. 349.69 billion. Large MFIs with more than Rs. 5 billion portfolio accounted for 80 per cent of this amount. Cumulatively 68.4 million customers have been provided microfinance till 2013–14.

Going by the data published by MFIN pertaining to 42 of its NBFC members, the amount of loan outstanding for the year 2013–14 was Rs. 280 billion crore—the same as what Equifax reported for its Category 1 MFIs—with a client base of 28 million. For these MFIs (excepting those under corporate debt restructuring or CDR[18]) the growth rates of all parameters have improved quite significantly in 2013–14 compared to the previous year (Table 4.16). The gross loan portfolio registered 35 per cent growth rate, while the number of clients rose by 20 per cent during the period. The disbursal of fresh loans went up by 48 per cent in March 2014 indicating the enhanced ability of MFIs to access funds for onlending during the year. Though still below the 2011–12 level, employment figures too picked up after 2012–13, whereas the number of branches reached its level in 2011–12.

TABLE 4.15 Portfolio Size and Structural Composition of MFIs (April 2014)

Indicators	All MFIs	Category 1 (GLP > 5 bn)	Category 2 (GLP 1–5 bn)	Category 3 (GLP < 1 bn)	Category 4 (Banks with JLG lending)
No. of loans issued (cumulative) (mn)	127.05	107.77	12.16	6.09	1.04
Amount disbursed (cumulative) (Rs. bn)	1,508.61	1,264.39	163.01	66.09	15.12
% share	100	83.81	10.81	4.38	1.00
Amount outstanding (all loans) (Rs. bn)	349.69	280.50	47.78	12.37	9.05
% share	100	80.21	13.66	3.54	2.59
No. of consumers (cumulative) (mn)	68.43	55.38	8.44	3.76	0.86
% share	100	80.99	12.28	5.56	1.17

Source: Equifax records.

TABLE 4.16 Growth of NBFC-MFIs: Major Indicators

Parameters	2011–12	2012–13	2013–14	Growth rate		
				2011–12 to 2012–13	2012–13 to 2013–14	2011–12 to 2013–14
Gross loan portfolio (Rs. bn)	173.83	207.26	279.31	19.23	34.76	60.68
Clients (mn)	22.74	23.3	28.04	2.46	20.34	23.31
Loan amount disbursed (Rs. bn)	209.51	236.86	349.68	13.05	47.63	66.90
Number of Loans disbursed (mn)	17.65	18.57	24.38	5.21	31.29	38.13
Branches	9,777	9,103	9,780	–6.89	7.44	0.03
Employees	72,985	61,746	67,838	–15.40	9.87	–7.05
Loan officers	45,556	40,280	44,400	–11.58	10.23	–2.54

Source: MFIN (2014).

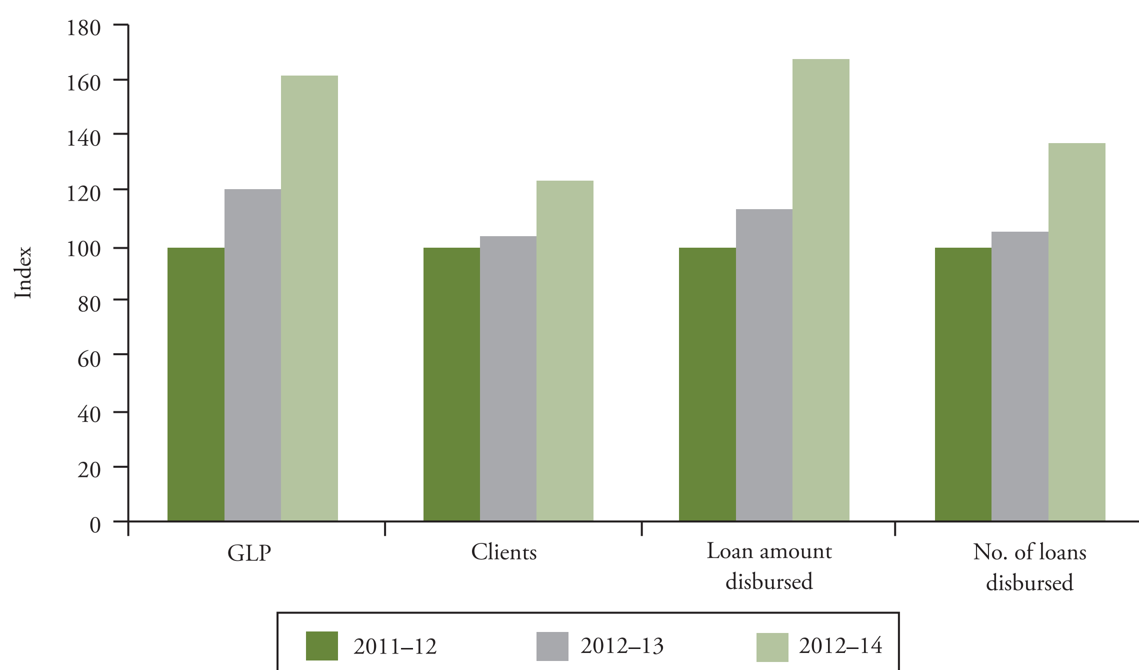

FIGURE 4.8 Growth in NBFC-MFIs: 2011–12 to 2013–14

Figure 4.9 presents the direction of growth in NBFCs over the triennium 2011/12–2013/14 captured through index numbers with 2011–12 as the base year.

The structure of the NBFC-MFI sector is clearly top heavy. The smaller NBFCs (having GLP below one billion) with 70 per cent share in number has only 14 per cent share in GLP (Table 4.17 and Figure 4.10). The nine NBFCs with portfolio above Rs. 1000 crore make up for 75 per cent of the sector's overall GLP, with the top two—Bandhan and SKS—accounting for about 45 per cent. In terms of growth as Figure 4.10 shows the medium sized MFIs (GLP 1–5 billion) are found to be the most dynamic. Those with GLP below 1 billion have grown at constant rates over the period 2011/12–2013/14.

It is difficult to have such standardized data for the non-profit segment of the microfinance industry. The MIX has data relating to more than 160 MFIs. The data on MFIs presented here has been compiled from the MIX database for the reporting periods 2012–13 and 2013–14. Since annual data was not available for all MFIs for

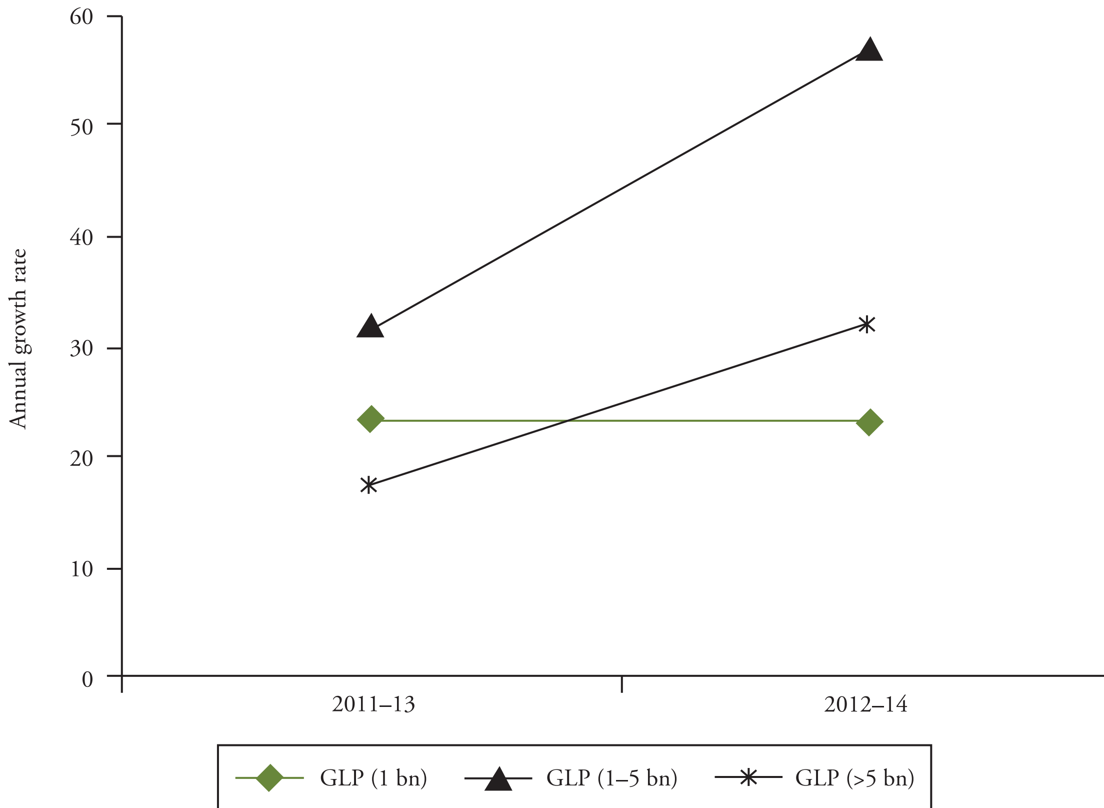

FIGURE 4.9 Growth Rates by GLP Size Class

Table 4.17 Structure of the NBFC-MFI Sector

Year	<1 bn		1 to 5 bn		> 5 bn	
	GLP	Clients	GLP	Clients	GLP	Clients
2011–12	3.91	0.68	19.35	3.13	150.56	18.94
2012–13	4.82	0.77	25.55	2.99	176.89	19.55
2013–14	5.93	0.73	40.06	4.09	233.32	23.22
Growth rate						
2011–13	23.27	13.24	32.04	–4.47	17.49	3.22
2012–14	23.03	–5.19	56.79	36.79	31.90	18.77

Source: MFIN (2014).

2013–14, only those MFIs are included in the analysis for which (a) the latest data available was for the quarter ending 31 December 2013; and (b) annual data is available as on 31 March 2014. In one case—that of BISWA—the data for the second quarter of 2013 has been used.

Importantly, the NGO MFI segment too is heavily skewed with just one MFI—Shree Kshetra Dharmasthala Rural Development Project (SKDRDP)—accounting for about half of all the borrowers and almost 60 per cent of the portfolio. Since we have considered SKDRDP along with the other major players—Cashpor, BISWA and Sanghamitra—in both the years, the data can be said to represent the actual trends quite closely.

Table 4.18 indicates that the non-profit MFIs grew their GLP by 40 per cent and borrower base by 23 per cent. There has been some growth in human resources and physical infrastructure too. What is critical about

this class of MFIs is that they have achieved this growth largely by remaining geographically focused.

TABLE 4.18 Non-Profit MFIs: Some Growth Indicators

Parameters	2012–13 (N = 30)	2013–14 (N = 28)	Growth rate
GLP (Rs. billion)	34.13	47.90	40.34
Active borrowers (mn)	4.05	4.96	22.47
Offices	1,370	1,457	6.35
Loan officers	5,738	6,675	16.33

Source: www.mixmarket.org
Note: Samples are unbalanced.

The available data suggests that the total portfolio size of MFIs in India (combining NBFC and non-profit MFIs as also credit cooperatives) is close to Rs. 350 billion. This is about Rs. 80 billion less than the loan outstanding under SHG Bank linkage programme.

4.11 REGIONAL DISTRIBUTION OF MFIs

The presence of MFIs has become widespread across the regions in the country, though they are still concentrated in certain states. As per MFIN estimates, the southern region accounts for 31 per cent the GLP followed by east (28 per cent), west (23 per cent) and north (18 per cent) in that order. The states regions that took to microfinance rather slow and late have picked up momentum in recent years. Gujarat is one such state.

Cumulatively the MFIs in West Bengal disbursed Rs. 200 billion till April 2014 (Table 4.19). Andhra Pradesh is closely behind with Rs. 194 billion. Had the

TABLE 4.19 Share of States in Loans Disbursements and Outstanding

State	No. of all loans ever issued	Amount of loans disbursed (ever) (Rs. billion)	Total amount outstanding (all loans) (Rs. billion)	% share in	
				Loans disbursed	Loans outstanding
Andhra Pradesh	17.42	194.43	65.14	12.89	18.63
Tamil Nadu	16.16	187.82	44.06	12.45	12.60
West Bengal	15.49	200.45	43.81	13.29	12.53
Karnataka	18.94	184.69	30.64	12.24	8.76
Maharashtra	10.57	131.44	29.56	8.71	8.45
Uttar Pradesh	8.92	109.32	26.04	7.25	7.45
Bihar	6.45	80.34	18.56	5.33	5.31
Madhya Pradesh	6.59	80.88	17.23	5.36	4.93
Odisha	7.88	86.86	12.75	5.76	3.65
Assam	2.70	41.44	12.59	2.75	3.60
Gujarat	3.12	41.57	11.49	2.76	3.29
Kerala	3.20	43.35	9.20	2.87	2.63
Rajasthan	2.70	35.65	7.78	2.36	2.22
Chhattisgarh	1.69	21.10	3.59	1.40	1.03
Jharkhand	1.75	19.51	3.59	1.29	1.03
Tripura	0.69	11.35	3.25	0.75	0.93
Uttarakhand	0.71	9.72	2.51	0.64	0.72
Haryana	0.62	8.46	2.24	0.56	0.64
Delhi	0.60	8.28	1.96	0.55	0.56
Punjab	0.39	5.00	1.94	0.33	0.56
Pondicherry	0.19	2.24	0.68	0.15	0.20
Meghalaya	0.08	1.44	0.42	0.10	0.12
Goa	0.06	1.01	0.26	0.07	0.07
Manipur	0.09	1.52	0.22	0.10	0.06
Others	0.05	0.73	0.2	0.05	0.05
Total	**127.05**	**1508.61**	**349.69**	**100**	**100**

crisis not halted the growth of MFIs in the state three years back, it would have surely gone way ahead of others in disbursing loans through MFIs. Four states—Andhra Pradesh, Tamil Nadu, West Bengal, and Karnataka—account for half of the microfinance loan disbursements and outstanding as per the credit bureau data. The data indicates that some of the larger and poorer states like Uttar Pradesh, Bihar and Madhya Pradesh are still to be covered widely by MFIs.

As for the NBFC-MFIs Kerala, Uttarakhand and Gujarat have witnessed the highest growth rates in GLP (ranging from 60 to 75 per cent), followed by Assam, Haryana, Uttar Pradesh, Madhya Pradesh, and Bihar (50–50 per cent). Their portfolio continues to shrink in Andhra Pradesh. In Karnataka, West Bengal and Rajasthan the MFI portfolio grew by around 28–31 per cent (Table 4.20).

4.12 FLOW OF FUNDS TO MFIs

What has been the contribution of mainstream banks to the growth of MFIs? As per the data published by NABARD (2014) all banks along with SIDBI disbursed Rs. 102.82 billion to MFIs in 2013–14, Rs. 24 billion more than what they deployed in 2012–13 (Table 4.21). With this, the loan outstanding against MFIs rose from Rs. 144 billion to Rs. 165 billion over the two years. The scheduled commercial banks are almost the singular sources of credit for microfinance institutions, if one keeps SIDBI aside as a development finance institution. Public sector banks account for about 55 per cent of MFI lending and private sector banks, 36 per cent during 2013–14 (Figures 4.11 and 4.12).

A substantial share of the bank credit flows in to the NBFC-MFIs. According to MFIN data, total debt fund received by its members rose from Rs. 101.15 billion to Rs.150 billion over 2012–14. Bank loans constitute 79 per cent of this (MFIN, 2014).

4.12.1 Alternative Sources

The need for alternative funding by fast growing MFIs has been long acknowledged. The regulator has been sensitive to the issue of capital constraints faced by MFIs and has

TABLE 4.20 NBFC-MFIs—Spatial Distribution

State	NBFC-MFI		GLP (Rs. billion)			Clients (million)		
	2012–13	2013–14	2012–13	2013–14	% Change	2012–13	2013–14	% Change
West Bengal	11	12	30.09	38.85	29.11	3.59	3.89	8.36
Tamil Nadu	20	20	27.6	38.25	38.59	3.35	3.89	16.12
Andhra Pradesh	9	8	39.86	33.16	–16.81	4.19	3.4	–18.85
Karnataka	15	18	20.5	26.21	27.85	2.13	2.49	16.90
Maharashtra	19	22	17.22	24.70	43.44	1.94	2.44	25.77
Uttar Pradesh	14	15	12.89	19.96	54.85	1.47	1.84	25.17
Bihar	14	17	9.92	15.56	56.85	1.28	1.73	35.16
Madhya Pradesh	17	21	9.78	15.20	55.42	1.24	1.73	39.52
Assam	5	6	7.3	11.13	52.47	0.67	0.88	31.34
Odisha	10	11	7.78	10.98	41.13	1.17	1.47	25.64
Kerala	6	7	6.44	10.31	60.09	0.63	0.9	42.86
Gujarat	15	18	4.67	8.13	74.09	0.51	0.78	52.94
Rajasthan	11	14	4.53	5.95	31.35	0.57	0.65	14.04
Jharkhand	8	10	2.51	3.36	33.86	0.36	0.44	22.22
Chhattisgarh	7	8	2.91	3.27	12.37	0.37	0.36	–2.70
Delhi	7	9	2.13	2.98	39.91	0.16	0.21	31.25
Uttarakhand	10	10	1.53	2.51	64.05	0.16	0.24	50.00
Haryana	8	9	1.39	2.12	52.52	0.16	0.2	25.00
Pondicherry	6	6	0.51	0.69	35.29	0.06	0.07	16.67
All	212	241	209.56	273.32	30.43	24.01	27.61	14.99

Source: MFIN (2014).

TABLE 4.21 Flow of Bank Funds to MFIs

Financing agency	Year	Loans disbursed to MFIs during the year		Loan outstanding against MFIs	
		No. of MFIs	Amount (Rs. crore)	No. of MFIs	Amount (Rs. crore)
Commercial banks	2010–11	460	7,601	2,153	10,647
	2011–12	36	4,951	1,684	9,811
	2012–13	368	7,423	1,769	12,468
	2013–14	481	9,379	2,241	14,120
RRBs	2010–11	9	4	23	42
	2011–12	113	13	128	38
	2012–13	14	5	153	71
	2013–14	16	163	124	222
Cooperative banks	2010–11				
	2011–12	4	2	19	5
	2012–13	3	4	18	7
	2013–14	4	4	17	8
SIDBI	2010–11	2	844	139	3,042
	2011–12	12	239	129	1,597
	2012–13	41	408	102	1,881
	2013–14	41	646	84	1,980
All agencies	2010–11	471	8,449	2,315	13,731
	2011–12	465	5,205	1,960	11,450
	2012–13	426	7,840	2,042	14,426
	2013–14	545	10,282	2,422	16,517

Source: Nair and Tankha (2014); NABARD (2014).

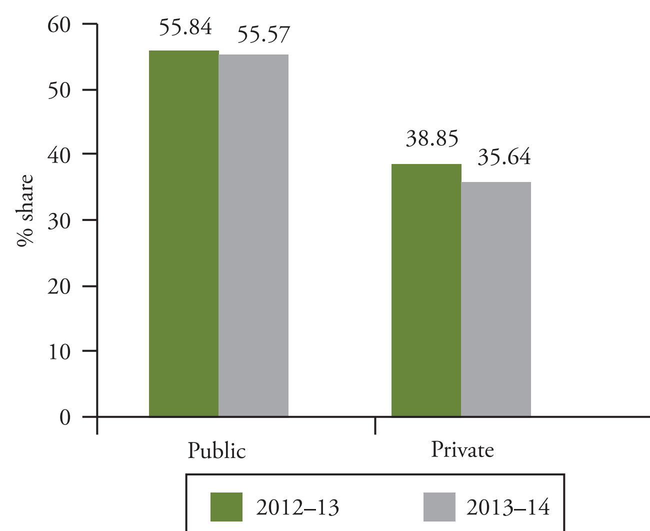

FIGURE 4.10 Share of Public and Private Sectors in Bank Loan Disbursed to MFIs

Source: Same as Table 4.10.

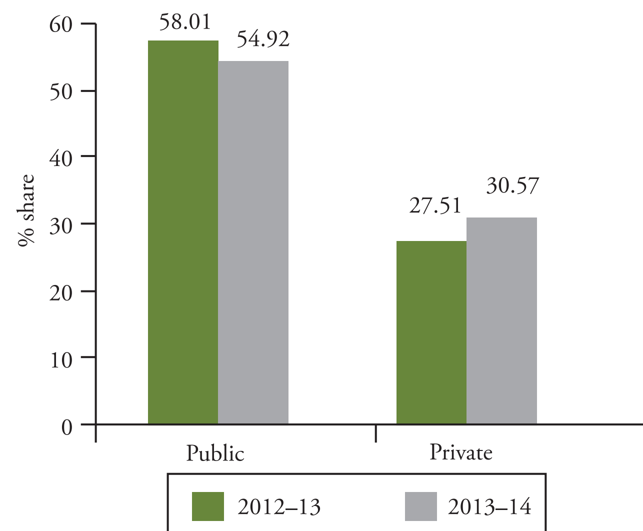

FIGURE 4.11 Share of Public and Private Sectors in Outstanding Bank Loans against MFIs

Source: Same as Table 4.10.

been sympathetic to innovations like the partnership model of the mid 2000s. It has allowed raising of capital through ECB route and been liberal with respect to equity investments in microfinance.

Equity investments continue to be reported by MFIs in 2013–14. We have compiled information relating to 11 investment deals involving as many MFIs between April 2013 and July 2014. These investments add up to Rs. 7.48 billion (Table 4.22). A range of overseas and domestic investors bought stakes in the MFIs through these deals, while some have divested theirs. In a few cases, the MFIS used non-convertible debentures (NCD) to raise equity. For instance, Ujjivan, Bandhan, Utkarsh and Grameen Koota raised about Rs. 2.76 billion through NCDs (http://www.mixmarket.org/premium).

SKS was the most active on the securitization front. During 2013–14 it completed 12 securitization deals worth Rs. 16.46 billion[19]. As per MFIN data, its members have done securitization/asset sales worth Rs. 5.14 billion during 2013–14, which is 54 per cent more than the previous year. This works out to be 18 per cent of the overall portfolio size of NBFC-MFIs

TABLE 4.22 Equity Infusion in MFIs—April 2013 to July 2014

Month of announcement	MFI name	Size of equity infusion (Rs. Billion)	Investors
April 2013	Satin Credit Care Network Limited	0.31	Microvest II Shore Cap II Ltd. Danish Microfinance Partners K/S
April 2013	Utkarsh	0.20	Aavishkar Goodwell IFC Incofin Investment Management
August 2013	Janalakshmi Financial Services Pvt. Ltd.	3.50	Morgan Stanley Pvt. Equity Asia Tata Capital Growth Fund QRG Enterprises Citi Venture Capital India Financial Inclusion Fund Vallabh Bhanushali
October 2013	Arohan	0.22	Aavishkar Goodwell II Michael & Susan Dell Foundation Swaminathan Anklesaria Aiyar
November 2013	Ananya Finance	0.18	WWB ISIS Fund IDBI
December 2013	Equitas	0.996	CDC Group
March 2014	Annapurna Microfinance Private limited	0.30	Incofin Investment Management's Rural Impulse Fund I Belgian Investment Company for Developing Countries (BIO)
April 2014	Satin Creditcare Network Limited	0.2844	Norwegian Microfinance Initiative (NMI) Fund III KS
May 2014	Grameen Financial Services Ltd (Grameen Koota)	0.80	Micro Ventures
June 2014	Suryoday	0.27	IFC Aavishkar Lok Capital
July 2014	RGVN	0.418	NMI Oiko credit
All		7.4784	

Source: www.vccircle.com; MIX Premium Services http://www.mixmarket.org/premium

or 16 per cent of the portfolio of all MFIs—both for profit and non-profit segments taken together.

Based on the analysis of a select set of 25 MFIs, CRISIL (2014) reports that the share of microfinance issuances in the total asset-backed security rated issuances rose to 17 per cent in 2013–14 from 9 per cent in 2010–11. In terms of number microfinance constituted about 35 per cent of all transactions in the domestic securitization market. The fact that loans to MFIs qualify as priority sector loans is the major trigger for this trend. Secondly, CRISIL data shows that there is an increasing preference for multi-originator transactions—pooling of small quantum of assets from multiple originators—as it could enhance originator and geographical diversification and reduce costs and risk. In 2013–14, 56 per cent of all the deals involved multiple originators. Also, the number of originators increased from 9 to 26 between 2010–11 and 2013–14.

The study argues that the current level of capitalization is adequate and expects the equity infusion to be around Rs. 18 billion in the coming two years. The gearing ratio increased from 3 to 5.4 between 2011–12 and 2013–14, and the net worth from Rs. 20 billion to Rs. 44 billion. The NBFC-MFIs are also found to have capital adequacy ratios above what has been prescribed by the regulator, i.e., 15 per cent. However, for the sector to maintain its current momentum regular capital infusion is the most vital. Depending solely or mainly on equity may be counterproductive in the long run as increased equity infusion would eventually dilute promoters' shareholding in MFIs, which is already low. This could limit the capacity of MFIs to raise equity in the long term. That might set a vicious circle in motion.

It is also argued that the RBI directive capping the margin of large MFIs (with portfolios above Rs. 1 billion) at 10 per cent and the interest rate 2.75 times the base rate of the top five commercial banks may affect the profitability of MFIs. The annual seminar in 'Risks in Microfinance' conducted by College of Agricultural Banking and M CRIL held in April 2012 hence recommended getting rid of interest cap to enable MFIs to cover reasonable operating expenses and provisioning requirements. Also, some liquidity gap funding arrangement for MFIs needs to be made by NABARD or SIDBI. Securitization is not an appropriate model for supporting MFIs.

One of the greatest roadblocks to fully realising MFIs' financial inclusion role, according to industry leaders, is that they are operating a single product industry. Samit Ghosh of Ujjivan elaborates: 'You can name the loans whatever you want—income generation, family loans or anything else. The structure of the product is the same and it serves only one purpose, which is cash flow management tool for the poor. It is a credit card'[20]. The larger urban-based MFIs who are keen to offer financial services to niche segments like micro entrepreneurs feel constrained by the RBI regulations that restrict loan sizes. They have been lobbying for removal of such barriers and for making priority sector a level playing field between banks and MFIs.

4.13 PRODUCTIVITY AND PORTFOLIO QUALITY: PROMISING TRENDS

The limited analysis based on MIX data clearly shows the general robustness of operational efficiency of all size classes of MFIs, though there are marginal variation across them (Table 4.23). The profitability of MFI too has improved between 2013 and 2014, especially in the case of large MFIs with GLP more than Rs. 10 billion and the medium sized institutions with GLP Rs. 2 billion and Rs. 5 billion. What is also to be noted is the slight increase in the financial expense ratio, which indicates that MFIs spend more now to source their capital.

The productivity ratios have all increased between March 2012 and March 2014 across size classes (Table 4.24). Overall a typical branch of MFI handles 540 more clients in 2013–14 compared to 2011–12. This gain was the contribution of the large MFIs who improved their branch productivity by an average of 642 clients. The productivity of loan officers in smaller MFIs improved over the three years, but not as much as what the medium and larger ones could achieve. The rise in GLP per branch was to the extent of Rs. 2.5 million for all MFIs. In terms of GLP size classes it varied between Rs. 1.3 million for smaller MFIs to Rs. 3 million for the medium-sized ones.

The improvement in performance of the productivity ratios has been driven primarily by the compulsion on the part of MFIs to achieve sustained growth in a competitive and increasingly regulated market. But competition and indiscriminate business expansion could in turn increase

Table 4.23 Performance of MFIs

GLP size class (Rs. bn)	Year	Return on assets (%)	Return on equity (%)	Profit margin (%)	Ratio of operating expense to loan portfolio (%)	Ratio of financial expense/ assets (%)
>10	2013	1.40	6.50	8.57	8.77	8.74
	2014	3.13	16.29	20.62	8.23	9.24
5 to 10	2013	1.27	7.41	6.87	10.35	10.26
	2014	1.20	13.25	8.59	8.86	10.40
2 to 5	2013	1.14	4.11	7.33	11.28	8.07
	2014	2.36	11.39	18.41	8.61	10.46
1 to 2	2013	2.27	7.31	14.01	10.65	9.75
	2014	2.91	12.15	18.39	9.95	10.32
<1	2013	0.81	2.11	7.37	14.25	6.74
	2014	1.38	3.85	9.68	13.56	9.06

Source: Audited financial statements sourced from MIX data base.
Notes: (1) The MFIs are classified on the basis of GLP pertaining to 31 March 2014; (2) all the ratios are median values.

Table 4.24 Productivity Ratios: Performance During 2011/12–2013/14

	2011–12	2012–13	2013–14	Growth rate 2013–14 over 2011–12
All MFIs				
Clients per branch	2,326	2,560	2,867	23.26
Clients per employee	312	377	413	32.37
Clients per loan officer	499	578	632	26.65
GLP per branch (Rs. mn)	17.78	22.77	28.56	60.63
GLP per employee (Rs. mn)	2.38	3.36	4.12	73.11
GLP per loan officer (Rs. mn)	3.82	5.15	6.29	64.66
Small (GLP < billion)				
Clients per branch	1,097	1,358	1,299	18.41
Clients per employee	179	226	218	21.79
Clients per loan officer	266	348	350	31.58
GLP per branch (Rs. mn	6.34	8.53	10.49	65.46
GLP per employee (Rs. mn)	1.04	1.42	1.76	69.23
GLP per loan officer (Rs. mn)	1.54	2.19	2.83	83.77
Medium (GLP Rs. 1–5 billion)				
Clients per branch	2,028	2,069	2,282	12.52
Clients per employee	218	306	351	61.01
Clients per loan officer	458	536	595	29.91
GLP per branch (Rs. mn)	12.56	17.7	22.38	78.18
GLP per employee (Rs. mn)	1.35	2.61	3.44	154.81
GLP per loan officer (Rs. mn)	2.83	4.58	5.83	106.01
Large (GLP > Rs. 5 billion)				
Clients per branch	2,485	2,755	3,127	25.84
Clients per employee	345	402	440	27.54
Clients per loan officer	523	601	655	25.24
GLP per branch (Rs. mn)	19.76	24.94	31.42	59.01
GLP per employee (Rs. mn)	2.74	3.64	4.42	61.31
GLP per loan officer (Rs. mn)	4.16	5.44	6.58	58.17

Source: MFIN (2014).

the credit risk. With the credit bureau information now available it is easier to keep track of loan repayment. In Table 4.25 is presented the delinquency percentage of different size classes of MFI across major states. The general inference from the data is that delinquency is an issue across states. The smaller MFIs appear as more seriously affected by delinquency.

However, the delinquency rates by the number of accounts that are more than 30 days outstanding has been on a decline. They declined from 1 per cent in April to 0.8 per cent in October 2013 (i.e., by 20 per cent). Keeping Andhra Pradesh aside, the delinquency across all size classes is the highest in Delhi, followed by Manipur. Tamil Nadu, Rajasthan and Kerala too have reported relatively higher delinquency rates. The specific reasons for delinquency in different states warrants detailed enquiry. The smaller states have reported low incidence of delinquency.

4.14 MFIs AND FINANCIAL INCLUSION: THE EMERGING DISCOURSE

MFIs and Urban Financial Exclusion

The market potential for microfinance in urban poverty pockets like slums and low income neighbourhoods caught the attention of MFIs since the mid 2000s. Urban focused MFIs like Ujjivan, Janalakshmi, Satin Credit-

Table 4.25 Delinquency in MFIs

State	% of 30 + delinquency (31–179 DPD)							
	All		GLP > 5 billion		GLP 1–5 billion		GLP < 1 billion	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Andhra Pradesh	74.38	127.79	0.55	0.50	8.62	81.50	65.21	45.79
Delhi	9.86	4.54	0.88	0.43	5.65	3.24	0.37	0.22
Manipur	8.74	9.29	0.00	0.00			8.74	9.29
Tamil Nadu	5.68	1.61	0.15	0.06	0.54	0.36	4.99	1.19
Rajasthan	5.36	1.94	0.86	0.83	0.20	0.13	4.30	0.98
Kerala	5.20	5.64	0.67	0.19	0.01	0.01	4.52	5.44
Jharkhand	4.93	5.38	0.43	0.25	0.35	0.25	4.15	4.88
Madhya Pradesh	4.44	2.32	0.13	0.07	1.30	0.53	3.01	1.72
Odisha	4.07	1.95	0.27	0.18	2.23	0.91	1.57	0.86
West Bengal	3.72	3.49	0.49	0.29	1.14	0.78	2.09	2.42
Karnataka	2.18	1.43	0.10	0.10	0.60	0.41	1.48	0.92
Haryana	1.98	1.03	0.35	0.22	0.00	0.00	1.63	0.81
Maharashtra	1.97	1.03	0.22	0.10	1.53	0.85	0.13	0.06
Gujarat	1.51	0.51	0.23	0.13	0.61	0.33	0.66	0.06
Bihar	1.13	1.16	0.18	0.10	0.29	0.10	0.29	0.31
Uttar Pradesh	0.84	0.70	0.17	0.08	0.02	0.01	0.65	0.60
Tripura	0.79	0.33	0.11	0.04	0.66	0.28	0.03	0.01
Chandigarh	0.76	0.51	0.28	0.26				
Dadra and Nagar Haveli	0.72	0.29	0.72	0.29				
Uttarakhand	0.72	0.45	0.15	0.08	0.23	0.33	0.33	0.04
Chhattisgarh	0.68	0.45	0.28	0.06	0.12	0.13	0.01	0.00
Sikkim	0.56	0.21	0.56	0.21	0.00	0.00		
Punjab	0.46	0.37	0.46	0.37			0.00	0.00
Pondicherry	0.30	0.04	0.00	0.00	0.30	0.04		
Goa	0.29	0.05	0.00	0.00				
Meghalaya	0.21	0.26	0.12	0.09	0.09	0.17		
Assam	0.00	0.00	0.17	0.07	0.20	0.18	0.76	0.91

Source: Equifax records.

care, SMILE and Arohan came up during this period. But microfinance still remained a predominantly rural phenomenon and did not attract much attention from banks and investors. The image of urban settlements as inorganic communities—both socially heterogeneous and transient—unsuitable to the application of group lending methodology held back meaningful investments in urban prgrammes. The situation has changed dramatically over the past 5 to 6 years. It may be noted that the rapid pace of urbanization and urban expansion coupled with the peculiar demographic transition in favour of the youth (demographic dividend) has brought the 'urban' to the core of development debate in the 2000s. A study done by the McKinsey Global Institute estimated that by the year 2030 cities could generate 70 per cent of the net new jobs created in India and account for 70 per cent of the country's GDP and increase per capita income by about four times (MGI, 2010). In 2011 for the first time since Independence, urban population registered an absolute increase greater than that in rural population. The urban population in the country increased by 91 million (from 286 million to 377 million) and the level of urbanization rose from 28 per cent to 31 per cent over the decade 2001–11 (Census of India 2011). The number of slum blocks stood at 108,227 in 2011 with 137.49 lakh households.

This is the setting in which several MFIs have gradually shifted their business priorities to include more of urban clients. It is estimated that over a period of just 5 years the urban microfinance market has cornered one-third of the gross loan portfolio of MFIs. In another three years the ratio is expected to change to 50:50.[21] About half of the top 10 MFIs have substantial share of urban portfolio. They have introduced many innovations to replicate the retail banking model to micro lending. The growth in the urban portfolio has been more than the rural portfolio even in the case of Bandhan, the largest rural-based MFI, which is in the process transforming to a bank by early 2015. This experience has informed the MFI's proposed strategy. Reportedly it is planning to establish branches in both rural and urban areas to tap the growth potential in urban markets.[22]

According to Ramesh Ramanathan, Founder and Chairman of Janalakshmi Financial Services urban financial exclusion has peculiar characteristics. The urban livelihoods are substantially informal and invisible. But they are richer and more vibrant compared to the rural livelihoods. Also barriers to entry into livelihood activities are relatively low in the urban informal economy. One could migrate to the city to work in construction, acquire skills and start a petty business over 3 to 5 years. These petty entrepreneurs need access to a range of financial services at good price. They need information with choice. They need to save and want insurance. However, since they live in the penumbra of urban formal economy and are unseen, they get excluded by formal financial institutions. MFIs do have a role to play in 'including' these entrepreneurs in the financial sector.

The informal entrepreneurs do not form a monolithic group. There is a pyramid at the bottom of the pyramid, at the bottom of which are located the ultra-poor who face distinct challenges. At the top are flourishing micro entrepreneurs who either have service-based or manufacturing enterprises. They do well and want to grow. But they have no access to the right kind of financial services. For one, these different categories need a new typology (pre-, nano-, micro-, tiny, for instance) to describe them. Secondly, and more importantly, the needs of each of these categories are vastly different. At the pre-enterprise level, for instance, there is fungibility between personal and economic finances. At some point in the evolution the separation may happen. There may emerge a threshold of separation where the entrepreneur starts thinking seriously about 'enterprise'. The threshold of formalization follows, where she starts acquiring signals of formalization (PAN card, IT returns, chartered accountant). Beyond this threshold, formal financial institutions might step in with support. However, more than 90 per cent of the enterprises in India are below the threshold of formalization and are spread across the multiple layers of enterprises. Their demands are bypassed by the mainstream players with stringent and inflexible norms of what is 'bankable'.

The two issues that Janalakshmi considers critical while discussing financial inclusion are the importance of urban livelihoods and the segmentation of urban clientele. It has realized that serving the financial needs of a highly segmented set of clients in systematic and sustainable ways is a complex innovation challenge, which can be undertaken only by a full-fledged financial institution, ideally a bank. Given the regulatory constraints to forming banks, the MFI has tried to partner with banks.

Box 4.5 Informality and Exclusion

Janalakshmi conducted a footprint enterprise survey in 2013 in one of its branches in Banglore. The survey covered all enterprises excluding large franchises, shopping malls and large retail chains. It included street vendors, both stationary and mobile. The sample was made up predominantly of enterprises with two or lesser employees, accounting for over 90 per cent of the enterprises. All enterprises in the sample have less than six employees. 98.2 per cent of the sample consists of proprietary enterprises. 70 per cent of micro-enterprises have a bank account. The percentage of respondents who reported accessing public or private banks for term loans was just 5 per cent. As for working capital, the percentage of respondents who reported accessing public banks for was 0.5 per cent. None reported accessing private banks for working capital needs.

The study found a large extent of informality among survey respondents. 90 per cent of the respondents never filed income taxes, 67 per cent had maintained no book of accounts and 65 per cent had no enterprises registration of any form. Not surprisingly, a majority of respondents accessed informal sources of finance for their credit needs. Over the previous two years the average credit requirement for micro enterprises in sample was estimated to be Rs. 439,911. With the estimated number of urban micro enterprises to be 420813 this would translate into an aggregate demand for credit of Rs. 189 billion. Since banks alone would not be able to meet this demand, other regulated local players like MFIs need to be facilitated to contribute to the process of financial inclusion of urban micro and tiny enterprises.

Source: Jana Foundation (2013).

But, as Ramanathan points out, 'it is very hard to innovate in partnership arrangements as partners have their own legacy and constraints'.

CONCLUSION

Despite their unclear role in the process of financial inclusion, microfinance purveyors have steadily emerged as an important component of the general scheme to liberalize the financial sector, which has accorded them a degree of salience in recent times. The recent policy pronouncements indicate that they are poised for a drastically different direction of growth thanks to the RBI's emphasis on restructuring and reforming the banking structure with a definite push towards opening up financial markets for more competition and deepening. The recommendations that have arisen from the current constellation of ideas see a distinct role of MFIs to be part of the financial inclusion arena either by linking with large banks as limited BCs to provide savings services, or, more importantly, become deposit taking small finance banks (Government of India, 2009). It appears that Indian MFIs—at least the bigger and the more efficient among them—will soon be playing a more independent and substantive role in financial inclusion.

APPENDIX 4.1
State-wise Bank Savings of SHGs

State	As on 31 March 2013		As on 31 March 2014		Growth (%)	
	No. of SHGs	Savings amount (Rs. million)	No. of SHGs	Savings amount (Rs. million)	No. of SHGs	Savings amount
Andhra Pradesh	1,421,393	25,417.9	1,418,676.0	34,996.2	–0.2	37.7
Tamil Nadu	873,012	8,496.7	942,469	10,514.5	8.0	23.7
Maharashtra	687,717	5,137.0	692,274	7,480.6	0.7	45.6
Karnataka	645,695	11,561.9	709,171	10,875.7	9.8	–5.9
West Bengal	586,821	7,269.5	591,464	8,140.7	0.8	12.0
Kerala	581,325	5,175.9	601,325	5,694.2	3.4	10.0
Orissa	522,837	4,182.8	517,391	4,573.4	–1.0	9.3
Uttar Pradesh	403,932	3,920.1	379,270	4,385.9	–6.1	11.9
Assam	271,072	1,075.1	285,327	1,129.0	5.3	5.0
Bihar	270,890	1,696.8	268,721	1,646.7	–0.8	–3.0
Rajasthan	231,763	1,576.1	257,262	1,790.7	11.0	13.6
Gujarat	208,410	1,755.5	196,510	1,687.2	–5.7	–3.9
Madhya Pradesh	159,457	1,232.1	157,481	1,301.0	–1.2	5.6
Chhattisgarh	98,493	613.6	111,884	1,828.4	13.6	198.0
Jharkhand	85,334	769.0	86,386	893.3	1.2	16.2
Himachal Pradesh	53,242	427.8	37,634	273.2	–29.3	–36.1
Haryana	42,580	403.1	43,029	453.9	1.1	12.6
Uttarakhand	40,316	476.4	37,294	390.3	–7.5	–18.1
Punjab	35,060	363.5	23,041	228.4	–34.3	–37.2
Puducherry	20,053	173.2	24,454	240.6	21.9	39.0
Manipur	12,656	23.5	9,039	9.5	–28.6	–59.6
Tripura	10,438	21.9	9,148	55.8	–12.4	154.4
Goa	9,889	66.1	8,170	131.3	–17.4	98.8
Meghalaya	9,573	51.6	7,230	53.7	–24.5	4.1
Nagaland	8,478	18.6	2,437	21.0	–71.3	13.0
Jammu and Kashmir	5,796	97.0	873	4.1	–84.9	–95.8
A and N Islands	5,217	14.6	4824.0	11.6	–7.5	–20.7
Arunachal Pradesh	5,033	41.2	2,588	15.3	–48.6	–62.9
New Delhi	3,787	34.8	2,901	66.1	–23.4	89.8
Sikkim	3,529	7.9	343	3.5	–90.3	–55.3
Mizoram	3,117	61.2	187	0.4	–94.0	–99.3
Chandigarh	609	9.5	468	13.1	–23.2	37.7
Lakshadweep	27	0.7	229	64.9	748.1	8949.0
Total	**7,317,551**	**82,172.5**	**7,429,500**	**98,974.2**	**1.5**	**20.4**

Source: NABARD SHG data 2013, 2014.

APPENDIX 4.2

Number of SHGs with Bank Loans Outstanding by States

State	As on 31 March 2013		As on 31 March 2014		Growth (%)	
	No. of SHGs	Loans O/S (Rs. million)	No. of SHGs	Loans O/S (Rs. million)	No. of SHGs	Loans O/S
Andhra Pradesh	1,356,720	174,810.5	1,306,076	211,410.4	–3.7	20.9
Tamil Nadu	511,859	50,401.8	446,671	49,245.2	–12.7	–2.3
West Bengal	494,166	24,244.7	472,554	21,785.3	-4.4	–10.1
Karnataka	379,305	32,935.8	337,196	39,158.4	–11.1	18.9
Odisha	277,954	17,967.6	249,550	15,431.8	–10.2	–14.1
Uttar Pradesh	228,646	19,572.7	246,973	19,368.9	8.0	–1.0
Maharashtra	219,651	12,290.0	204,355	13,202.5	–7.0	7.4
Bihar	185,309	9,323.1	190,171	8,981.4	2.6	–3.7
Kerala	153,336	16,782.8	117,303	17,052.6	–23.5	1.6
Rajasthan	129,571	6,329.4	129,830	6,422.9	0.2	1.5
Assam	121,490	6,485.6	109,587	6,554.9	–9.8	1.1
Gujarat	72,671	2,203.9	61,848	2,921.4	–14.9	32.6
Madhya Pradesh	65,358	4,441.9	81,030	4,473.3	24.0	0.7
Jharkhand	61,728	3,774.8	65,507	3,157.1	6.1	–16.4
Chhattisgarh	44,037	2,137.6	71,665	2,154.5	62.7	0.8
Himachal Pradesh	40,157	1,381.6	17,618	1,140.4	–56.1	–17.5
Uttarakhand	24,480	1,616.2	20,166	970.0	–17.6	–40.0
Haryana	23,294	2,639.7	20,656	2,402.6	–11.3	–9.0
Punjab	14,871	857.7	14,207	884.5	–4.5	3.1
Puducherry	13,959	1,422.4	13,777	1,046.4	–1.3	–26.4
Tripura	6,860	559.9	5,505	517.2	–19.8	–7.6
Manipur	4,591	209.3	3,934	138.8	–14.3	–33.7
Jammu and Kashmir	4,240	191.0	587	77.2	–86.2	–59.6
Goa	3,129	181.3	2,805	280.7	–10.4	54.9
Sikkim	2,856	123.8	222	23.2	–92.2	–81.3
Mizoram	2,667	194.7	112	21.0	–95.8	–89.2
Nagaland	2,428	179.4	1,678	126.0	–30.9	–29.7
Meghalaya	2,376	176.2	3,075	126.8	29.4	–28.0
A andN Islands	1,499	71.2	1,178	90.7	–21.4	27.4
New Delhi	1,371	162.9	893	65.1	–34.9	–60.0
Chandigarh	451	44.5	138	13.6	–69.4	–69.4
Arunachal Pradesh	392	38.8	456	30.1	16.3	–22.5
Lakshadweep	12	0.3	15	0.4	25.0	8.6
Total	**4,451,434**	**393,753.0**	**4,197,338**	**429,275.2**	**–5.7**	**9.0**

Source: NABARD SHG data 2013, 2014.

APPENDIX 4.3
Loans Disbursed by Banks to SHGs By States

State	During Year 2012–2013		During Year 2013–2014		Growth (%)	
	No. of SHGs	Loans disbursed (Rs. million)	No. of SHGs	Loans disbursed (Rs. million)	No. of SHGs	Loans disbursed
Andhra Pradesh	484,292	111,644.0	504,351	133,248.2	4.1	19.4
Tamil Nadu	150,586	29,161.0	135,269	31,928.1	–10.2	9.5
Karnataka	145,733	22,994.1	175,778	29,640.2	20.6	28.9
West Bengal	95,284	5,141.5	196,746	6,851.6	106.5	33.3
Kerala	60,830	8,989.2	55,281	10,725.5	–9.1	19.3
Maharashtra	54,749	5,780.7	72,908	7,181.3	33.2	24.2
Odisha	47,676	4,732.8	53,699	5,048.6	12.6	6.7
Uttar Pradesh	33,140	4,509.8	27,674	3,448.8	–16.5	–23.5
Bihar	30,574	2,220.2	40,036	2,840.0	30.9	27.9
Assam	21,497	1,375.6	14,918	1,186.8	–30.6	–13.7
Rajasthan	20,161	2,108.8	17,407	1,946.0	–13.7	–7.7
Madhya Pradesh	15,182	1,372.7	22,331	1,420.5	47.1	3.5
Gujarat	14,756	1,198.2	14,119	1,293.8	–4.3	8.0
Jharkhand	8,874	753.6	6,742	346.2	–24.0	–54.1
Chhattisgarh	7,992	701.3	13,644	1,117.1	70.7	59.3
Uttarakhand	7,866	405.0	2,744	194.3	–65.1	–52.0
Puducherry	4,494	849.9	3,905	613.1	–13.1	–27.9
Himachal Pradesh	4,164	415.3	2,770	370.7	–33.5	–10.7
Haryana	3,241	515.6	1,920	306.1	–40.8	–40.6
Punjab	2,021	227.9	1,508	150.9	–25.4	–33.8
Jammu and Kashmir	1,196	84.4	94	8.3	–92.1	–90.1
Goa	924	120.6	819	169.3	–11.4	40.4
Tripura	801	125.1	396	19.2	–50.6	–84.6
Nagaland	796	97.4	150	27.1	–81.2	–72.2
Manipur	659	40.6	352	9.4	–46.6	–76.7
Mizoram	544	82.7	7	2.0	–98.7	–97.6
New Delhi	455	64.0	143	14.4	–68.6	–77.5
A and N Islands	415	53.8	255	20.3	–38.6	–62.3
Meghalaya	400	46.2	175	20.0	–56.3	–56.7
Sikkim	359	21.3	67	6.8	–81.3	–67.9
Arunachal Pradesh	112	13.3	136	10.5	21.4	–20.6
Chandigarh	47	6.9	76	8.5	61.7	23.4
Lakshadweep	1	0.1	1	0.0	0.0	–70.0
Total	**1,219,821**	**205,853.6**	**1,366,421**	**240,173.6**	**12.0**	**16.7**

Source: NABARD SHG data 2013, 2014.

Appendix 4.4

SHG Credit to Savings Ratio of States (as on 31 March 2014)

State	Loan outstanding/ SHG (Rs.)	Savings/ SHG (Rs.)	Loan to savings ratio (multiples)
Mizoram	187,473	2,385	79
Manipur	35,280	1,050	34
A and N Islands (UT)	77,009	2,396	32
Jammu and Kashmir	131,523	4,667	28
Tripura	93,950	6,100	15
Kerala	145,372	9,470	15
Assam	59,815	3,957	15
Arunachal Pradesh	65,899	5,912	11
Haryana	116,315	10,550	11
Sikkim	104,486	10,347	10
Tamil Nadu	110,249	11,156	10
Himachal Pradesh	64,730	7,261	9
Nagaland	75,105	8,620	9
Puducherry	75,953	9,841	8
Bihar	47,228	6,128	8
Karnataka	116,129	15,336	8
Rajasthan	49,472	6,960	7
Orissa	61,838	8,839	7
Uttar Pradesh	78,425	11,564	7
Madhya Pradesh	55,205	8,262	7
Andhra Pradesh	161,867	24,668	7
Punjab	62,257	9,913	6
Goa	100,086	16,076	6
Maharashtra	64,606	10,806	6
Meghalaya	41,244	7,423	6
Gujarat	47,235	8,586	6
Jharkhand	48,195	10,341	5
Uttarakhand	48,099	10,466	5
Chandigarh	98,739	27,983	4
West Bengal	46,101	13,764	3
New Delhi	72,936	22,770	3
Chhattisgarh	30,064	16,341	2
Lakshadweep	24,333	283,323	0
Total	**102,273**	**13,322**	**8**

NOTES

1. Chhattisgarh, Jharkhand, Bihar, Uttar Pradesh, Madhya Pradesh, Rajasthan, Odisha, West Bengal, Maharashtra, Assam, Himachal Pradesh, Uttarakhand and Gujarat.
2. Study findings as provided in NABARD *Annual Report 2013–14*.
3. Based upon information in NABARD (2013) and NABARD *Annual Report 2013–14*.
4. NABARD also introduced an incentive scheme for tracking and revival of dormant SHGs on a selective basis as a bank-led initiative so as to ensure continuance of banking support to dormant SHGS after their revival. Under the scheme promotional grant assistance up to Rs. 3,000 per SHG revived will be provided as incentive to banks. Banks may engage the services of suitable agencies and share the incentive available from NABARD on mutually agreed terms.
5. Mishra et al. (2014).
6. A variety of concerns are linked to the question of quality of groups. One issue is related to the support provided by NABARD for promotion of SHGs and whether it adequately covers not just cost of SHG formation but also maintenance costs towards credit linkage, capacity building and federating SHGs in the interests of self-reliance and sustainability and longer term livelihood development. From the bankers' point of view, SHG quality is obviously an essential requirement for their lending operations even though they are invariably reluctant to invest in SHGs and federated structures.
7. Summary of findings drawn from Agarwal et al. (2013).
8. Brief report of findings contained in APMAS (2014).
9. Drawn from APMAS (2014a).
10. There are differences and debate on the validity of the practice of equal sharing of external loans. While this study identifies the practice as contributing to the smooth functioning of the groups, others have castigated the practice as going against the ideal of need-based SHG on-lending operations. See also Box 4.3.
11. This specification and the corresponding findings would possibly be reviewed in the light of the view of the campaign for universal provision of savings bank accounts by 26 January 2015.
12. Based on information provided by APMAS to the *Microfinance State of the Sector Report, 2013*. APMAS has been collecting data related to SHG federations in India through secondary sources. During the period 2009–2013, SHG federation data was updated annually through information collected from various SHPIs. However, data for 2014 is not available.
13. It is understood that The District Credit Cooperative Bank (DCCB) whose mandate it is to extend loans to cooperatives, has to seek special permission to do so to a self-reliant SHG

cooperative (as reported in UNDP Solution Exchange Microfinance Community discussion group).

14. RBI Circular (RBI/2005-06/288DBOD.No.BL.BC. 58/22.01.001/2005-2006), 25 January 2006.
15. In a contribution dated 5 August 2014 in response to a query on a Model Act for SHGs and SHG Federations posted on the UNDP Solution Exchange Microfinance Community discussion group.
16. An exception must be made of ICICI Bank, the leading private bank, which plans to double its women SHG clientele to 2 million by March 2015.
17. NBFC-MFIs have since become eligible for this BC role.
18. MFIs under CDR are Asmitha, Bharatiya Samruddhi Finance Limited, Share, Spandana and Trident.
19. The details are as follows:

Month and year	Deal size (Rs. Crore)
September 2013	321.00
December 2013	80.81
December 2013	215.00
December 2013	55.00
January 2014	55.56
February 2014	158.27
February 2014	222.65
February 2014	162.62
March 2014	26.73
March 2014	80.30
March 2014	183.02
March 2014	95.50
Total	1656.46

20. Discussion with the members of the Association of Karnataka Microfinance Institutions (AKMI), June 2014, Banglore.
21. 'MFIs Shift Focus to Urban Areas', *Business Standard*, Kolkata, 27 August 2014.
22. http://economictimes.indiatimes.com/articleshow/44756032.cms?utm_source= contentofinterest&utm_medium=text&utm_campaign= cppst

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5

Inclusive Financing

Policy Directon and Future Prospects

The crux of the financial sector reforms in recent years in India, as per the statements of the central bank, has been to develop financial markets by getting rid of structural barriers, de-regulating interest rates, encouraging competition and introducing new instruments, organizations and networks. The banking system in the country has gradually been goaded towards market-led business and regulatory models, particularly since the 1990s. The *Reports of the Banking Sector Reforms Committee* (1997–98) ushered this shift by recommending greater market orientation of banks and urging them enhance their competitive efficiency, productivity and quality and range of services. Through the years that followed there has been a gradual movement towards aligning the much talked about developmental mandate of the Indian banking system with the global financial market imperatives aided largely with the help of technology. The estimates of financial market deepening, reportedly, show a steady rise since the 1970s, a process to which the banking sector seems to have made significant contributions.[1] The future reforms, it is indicated, will also be anchored around broadening and deepening financial markets and creating a competitive and differentiated banking structure. Interestingly, financial inclusion has been coopted into the larger initiatives as a major 'pillar' of such financial sector reforms (Mohanty 2014, Rajan 2014). The policy statements from RBI with a bearing on inclusion testify to the intention of the regulator to further the process of market-based financial inclusion by 'enlisting competitive forces to compete for the bottom of the pyramid's business' (Rajan 2014). Financial inclusion clearly has emerged as a 'peg to hang' an ambitious agenda of reforms in the financial sector (Sriram, 2014).

The pace of efforts to further financial inclusion has accelerated since the late 2000s, especially since March 2013, thanks to a few important policy directives from the RBI and the increased accent by the central government on extending banking coverage to spatially reach out to un-banked and under-banked sections of population. The Union budget 2013–14 paved the way for a few important initiatives to extend financial inclusion such as the setting up the first women's bank in the public sector, extending the coverage of the Rashtriya Swasthya Bima Yojana (RSBY), the national health insurance scheme, to rickshaw-pullers, rag pickers, mine workers, sanitation workers and autorickshaw/ drivers and taxi drivers, making interest subvention scheme applicable to private

sector commercial banks for short term crop loans, and acceleration of IT modernization project of post offices.

In April 2014 the RBI granted two preliminary licenses to Infrastructure Development Finance Corporation or IDFC Limited and Bandhan Financial Services to set up new banks in the country. This announcement came a decade after the last private bank—Yes Bank—was founded in 2004. As a culmination of all these initiatives came the report of the Committee on Comprehensive Financial Services for Small Businesses and Low Income Households (Chairman: Nachiket Mor) which has set the target date to achieve universal financial access as 1 January 2016.

Building on these efforts, the Union Budget 2014–15, the first from the newly elected government at the centre, announced two measures—launching of the financial inclusion mission and creating a framework for licensing private sector universal banks as also small differentiated banks. As for the first measure, the Finance Minister in his budget speech pronounced:

> To provide all households in the country with banking services, a time bound programme would be launched as Financial Inclusion Mission on 15 August this year. It would particularly focus to empower the weaker sections of the society, including women, small and marginal farmers and labourers. Two bank accounts in each household are proposed to be opened which will also be eligible for credit.

It must be noted that the Department of Financial Services had prepared a Comprehensive Financial Inclusion Plan or Sampoorn Vitteaya Samaveshan (SVS) in June 2014 wherein the learnings from Swabhiman, the ongoing financial inclusion campaign were analysed as also the building blocks for future efforts spelt out. The major drawbacks of Swabhiman were identified as non-coverage of all villages, poor remuneration to BCs, lack trust in mobile BC, issues with the technology (for instance, offline transactions, lock-in to particular vendors), lack of financial literacy and the resultant poor operation of accounts), and non-covergence of financial inclusion benefits. The SVS mission was expected to address these gaps in two phases, i.e., 2014–15 and 2015–18, by which time almost every habitation and all the households in the country would have access to small credit protected by the credit guarantee, micro insurance and micro pension.

Interestingly, the term Sampoorn Vitteaya Samaveshan abruptly disappeared from usage with the launching of Jan-Dhan Yojana (JDY) by the Prime Minister on 15 August 2014. The main components of JDY, as explained in Chapter 1, are similar to SVS. The scheme aims to ensure two Aadhar-linked bank accounts per every household, each account having an overdraft facility, RuPay debit card and accident insurance cover of Rs. 1 lakh. Like the previous financial inclusion plan, JDY acknowledges that its operational viability critically depends on direct transfer of benefits and subsidies to beneficiary bank accounts. It may be noted that since 2011 the central and several state governments have begun linking social safety net programmes to banks in an effort to ensure leakage-free delivery of benefits and payments to the right target population. This has resulted in the opening of thousands of bank accounts mainly by individuals from the poor and marginalized households.

In the following section of this chapter we discuss in some detail the major policy developments in the banking and finance sectors that have influenced or can potentially influence the status and quality of access to financial services by the excluded/partially included segments and sectors. We will closely analyse the main debates around these policy initiatives in Section 5.3.

5.1 FINANCIAL INCLUSION IN TIMES OF REFORMS: EXPERT PRESCRIPTIONS

How has the ideation and strategies around financial inclusion evolved in India since it was formally introduced in the official banking jargon in the mid 2000s? As it is well known, the inclusion agenda that the country has been following since the end of the last decade draws on the framework implicit in the recommendations of the Committee on Financial Inclusion (2008; Chairman C. Rangarajan) for improving supply side mechanisms or delivery systems to tackle the problem of exclusion. After mapping the existing institutional architecture of the rural–semi-urban financial services, the committee acknowledged RRBs as the 'powerful and best suited instruments' of financial inclusion, if their rural orientation is reinforced with a specific inclusion mandate. In the light of the increasing conflict between profit orientation of banks and the fiscal compulsion to extend outreach to farther regions and populations, the committee

recommended use of business correspondents and business facilitators 'riding on appropriate technology' as a core inclusion strategy. Apart from the categories of individuals and institutions already allowed to function as BC/BF, the report recommended engaging non-banking finance companies in the microfinance sector as limited BCs of banks for providing savings and remittance services. As regards the SHG-bank linkage programme, the suggestions in the report were more promotional in nature. It however did not find merit in engaging SHG federations as financial intermediaries.

Many of the recommendations of the Rangarajan Committee have been reiterated by those that followed suit and incorporated in subsequent policy pronouncements. The Committee on Financial Sector Reforms (Chairman Raghuram Rajan) in their report (2009) dwelled further on the strategies that would help deepen the reach of financial services. It underscored the need to increase commercial viability (by removing interest rate ceilings and allowing market-based pricing) and cost efficiency, while emphasizing the necessity to innovate around vulnerability-reducing financial instruments (saving, remittances, crop insurance, health insurance, pensions, etc.). Exclusion, as per the report, increasingly reflects the rich–poor dichotomy rather than rural–urban differentials. The inclusion efforts, hence, must be made to target segments of excluded people (for instance, urban poor) rather than distinct sectors (agriculture, for example). The report questioned the efficacy of using branch expansion as an exclusive strategy to increase outreach, pointing out that even in densely banked urban areas poor are excluded.

While endorsing the recommendations of the Rangarajan Committee with respect to BCs, the Raghuram Rajan Committee suggested broadening the definition of BC by involving non-traditional channels that have extensive and low cost networks (e.g., post offices), keep regular contact with the potential customers (e.g., kirana shops, cell phone companies) or with some leverage over potential borrowers (e.g., buyers of produce, sellers of inputs such as fertilizers) as they could function as viable business entities in the financial inclusion space. Going a step ahead, the committee presented a case for authorizing some of these channels (telecom companies, for instance) to become direct and independent financial intermediaries dealing in regulated financial services. It reiterated the suggestion of the previous committee to allow MFI-NBFCs to be BCs of banks, not only to facilitate limited savings and remittance services, but in extending credit too.

The task of framing the vision for and working out an institutional and regulatory framework of financial deepening and inclusion was entrusted by the RBI with the Mor Committee in 2013. The committee, as indicated earlier, set some ambitious targets for the financial system to fulfill by the end of 2015 with respect to inclusion of low-income households and small business activities—full service electronic (Aadhar linked) bank accounts for all adults, universally distributed electronic payment access points; convenient access to regulated lenders and suitable and affordable loan products, convenient access to suitable deposit and investment products; and legal right to suitable financial services. Each of the vision statement of the committee combines an inclusion (defined as access) goal with financial market deepening (measured as credit/deposit/investment/insurance to GDP ratio) goal. The vision of the committee indeed is inspiring, though one would wonder about their feasibility in terms of the accelerated time frame and costs of implementation.

5.1.1 Priority Sector Lending: Transforming or Waning in Importance?

Directed credit through priority sector allocation has been used in India since the late 1960s as the major policy instrument to make the financial system cater to the needs of the 'vulnerable' sectors and segments (agriculture, small and tiny enterprises, and other weaker sections) that are more likely to be bypassed by commercial banking activity. The priority sector norms have been in line with the logic of centralized planning, the chief mechanism by which national resources have been redistributed among states as also social and real production sectors.

During the decades of the 1970s and 1980s the scope and description of the sectors were revised a few times, and targets and sub-targets reviewed. In 1991, the year when the economy embarked on the path to reform and restructuring, there was a recommendation from the Committee on the Financial System (Chairman: M. Narasimham) to reduce the scope of mandated credit under priority sector from 40 per cent (fixed in the mid

1980s) to 10 per cent and thus phase it out as it apparently reduced profitability of the banking system. The government, however, could not accept this recommendation in recognition of the problems faced by small and marginal farmers and tiny businesses to access credit. The second committee under Narasimham's chairmanship—the Banking Sector Reform Committee—which dealt with banking sector reforms (1998), while acceding to government's position, proposed elimination of interest subsidy for priority sector loans. The regulator, however, initiated steps towards interest rate deregulation as suggested by this committee.

Nair Committee Recommendations

The *Report of the Committee to Re-examine the Existing Classification and Suggest Revised Guidelines*, appointed by the RBI (Chairman: M.V. Nair; CREC hereafter) submitted its report in 2012. This committee endorsed the importance of directed lending until the time the country achieves 'the desired level of financial deepening at all levels of society, in rural as well as urban…' and recommended the retention of priority sector (consisting of agriculture, micro and small enterprises, micro credit, education, housing, off grid energy solutions for households and exports) lending target at 40 per cent of adjusted net bank credit. Some of the other recommendations made by the committee which submitted its report in 2012 that are relevant to financial inclusion are:

- Considering priority sector loans to individual women as loans to weaker sections
- Discontinuation of Differential Interest Scheme
- Specific sub-targets for small and marginal farmers (including landless agricultural labourers, tenant farmers, oral lessees and share-croppers) within agriculture sector and micro enterprises within MSE sector
- Classification of loans sanctioned to NBFCs to be further on-lent to specific segments as priority sector loans (up to 5% ANBC)
- Piloting of priority sector lending certificates (PSLC)
- Setting up of Agricultural Credit Risk Guarantee Fund

The report was optimistic that affirmative financial inclusion will help mainstream the marginalized by ensuring 'access'.

Mor Committee Recommendations

The latest set of recommendations with respect to priority sector came out in 2014 from the Mor Committee. The strategy for inclusion (more precisely financial deepening) from the perspective of Mor Committee is creation of a 'vibrant risk transfer mechanism' within the country's financial system. In line with this logic, the committee essentially recommends certain fundamental changes in the scope of priority sector lending. It has suggested the inclusion of a variety of instruments of investments—bonds, pass-through certificates, guarantees—into the PSL fold, if they relate to entities that qualify for lending under priority sector. It also suggested PSl status to investments made by banks in complementary infrastructure like warehouses, market yards, silos, godowns and NBFCs in districts with low financial depth. Such investments that are risky and illiquid, it is suggested, may use a multiplier of four.

In order to increase the efficiency of lending and promote customer discipline, Mor Committee urged for the replacement of measures like interest subvention and loan waivers with DBT in bank accounts and linking them with credit bureaus. According tax-free status to securitization SPVs, allowing banks to use PSL certificates to meet priority targets (similar to the suggestion of Nair Committee, 2012), and freeing of interest rates charged to customer from the base rate plus stipulation are the other recommendations made by Mor Committee. (The detailed recommendations of committee are reproduced in Appendix 5.1.)

The committee has made a case for Adjusted PSL of 50 per cent of ANBC as against 40 per cent. This is proposed on the basis of a system of weighting that takes account of depth of credit at the district and sectoral/sub-sectoral levels, or relative difficulty in lending or accessing loans.

These recommendations are informed by an assessment of the committee that the current arrangements of financial inclusion create inefficiencies and disincentives for the banks and other players. Effective inclusion happens only when there is system-wide acceptance of the critical importance of 'risk and cost to serve' considerations and free markets are created 'for risk and liquidity transfers' among multitude of players. Such an environment, it is argued, would encourage bankers to play a more active role in inclusion.

5.2 STRUCTURAL REORGANIZATION OF THE BANKING SECTOR

Reorganization of the banking system has remained a recurring theme in the financial liberalization debate in India. It must be noted that along with proposing liberal entry of private and foreign banks in the country, the Narasimham Committee (1991) recommended restructuring of public sector banks in India by reducing their numbers significantly. It suggested that three to four big banks including SBI should be developed as international banks. Eight to ten banks having nationwide presence should concentrate on the national and universal banking services, while region specific banking can be carried out by local banks. It also recommended that the RRBs should focus on agriculture and rural financing.

In the *Technical Paper on Differentiated Bank Licences* (2007) the RBI recognized the desire of certain banks to follow a niche strategy to match the distinct risk profiles of customers as also supervisory resources. However, it also acknowledged the desirability of the system of full service and universal banking given the low penetration of banking services and the risks associated with any liquidity crunch.

The Raghuram Rajan Committee (2009) in its report proposed a two-pronged approach to restructuring the banking system: (a) to facilitate the creation of deposit taking small finance banks that are private and voluntary institutions similar to LABs; and (b) to strengthen the linkages between large and small financial institutions. The higher risk of these banks can be offset by their geographically focused operations, higher capital adequacy norms, and strict monitoring and supervision of transactions.

'Localness' and 'smallness' are the two chief attributes of the small finance banks as proposed by the Raghuram Rajan Committee—'local' in terms of the proximate location of management and intimate knowledge local financial needs and 'small' in terms of the flexibility and ease of decision making by loan officers as also their low-cost structure. These are 'private' or 'voluntary' banks in that the management has a significant stake in the bank. The large commercial banks in such an ecosystem would be able to retail their financial products to small clients by building linkages with small banks. The success of small banks depends critically on flexibility and independence to adopt low cost, innovative processes and structures, including technological solutions.

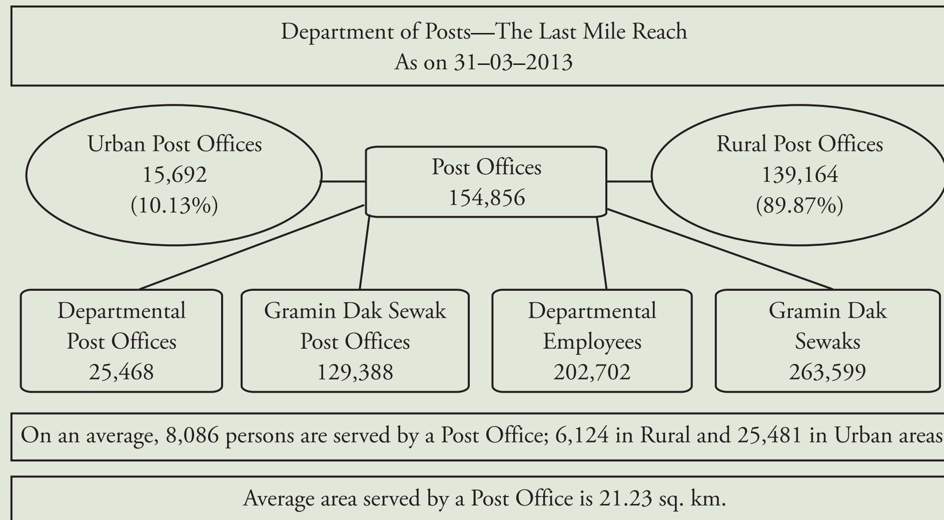
Mention must be made here of the RBI discussion paper, *Entry of New Banks in the Private Sector* (August 2010), which raised certain questions for deliberation by the public and other stakeholders with respect to extending licenses to new banks. Granting of fresh licenses to banks and thus expanding the number of competing payers in the market, the paper argued, would eventually reduce costs, improve service quality of the overall banking system, and promote financial inclusion and inclusive growth. Notably, after reviewing the results of the earlier rounds of licensing, the paper observed that the country's experience with small banks has not been encouraging. Even the relatively well functioning LABs suffer from growth constraints as the small bank model has inherent inefficiencies—unviable and uncompetitive cost structures (resulting from small size and concentration risk), dearth of competent staff and poor governance standards. Other small banks like urban co-operative banks and small deposit-taking NBFCs too, the paper argued, were found to be facing problems such as low capital base, lack of professional management, poor credit management, and diversion of funds. The paper invited comments and responses from the interested stakeholders and larger public on issues like suitability of issuing bank licenses to industrial houses and NBFCs, desirable shareholding patterns, business models etc. The wide range of comments received in response indicated lack of consensus about the issues raised and reflected the distinct sectoral positions held by banks, NBFCs and industrial houses.[2] However, as per the final guidelines released in February 2013 private entities/groups, public entities and NBFC promoters/promoter groups were all made eligible to apply for banking licenses.[3] In April 2014 'in-principle' approval was granted to two of the 25 applicants—IDFC Limited and Bandhan Financial Services Private Limited—to set up banks under the guidelines.[4] That some of the most 'eligible' entities—the India Post for instance—lost out in the final selection surprised many (Box 5.1). The validity of the 'in-principle' approval is of 18 months. By September 2015 the grantees would have to fulfill all the requirements under the guidelines to be eligible to be issued a regular license that will enable them to embark on their banking business.

Box 5.1 A 'Postal Bank' for India: Hopes and Concerns

Had the Cabinet Committee of Economic Affairs approved the application of the Department of Posts in January 2014 to set up a universal bank, the 'Postal Bank of India' (PBI) would have been on it way to fruition by now. Many argue that an important opportunity was missed to leverage the over 1.3 lakh post offices (PO) to accelerate financial inclusion in rural areas. As Tarapore (2014) put it: 'Trying to achieve financial inclusion without a central role for India Post would be like staging *Hamlet* without the Prince of Denmark.'

The POs acting as BCs can provide a range of financial products to the rural households including deposits, loans, insurance, remittances, pension and government subsidies and payments. Of the total 1.55 lakh POs in the country 90 per cent are in rural areas. This means that there is one PO every 5 km. The rural postal network includes 16 head POs, 12172 sub-POs and 126,976 branch POs.

The rural postal network has brought close to 85 million rural people into the ambit of formal financial services by opening bank accounts for them for disbursement of social security scheme payments. As part of a special arrangement, the post offices in the Andhra Pradesh Circle undertake Aadhaar Enabled Payment of wages/benefits under MGNREGA and other social security schemes with the support of AP Online and the state government. For this purpose 9000 micro ATMs have been deployed by the circle.



Source: DoP, *Annual Report 2013–14*.

Postal life insurance and rural postal life insurance has covered about 20 million households. The Department of Posts has embarked on an information technology modernization project. It has installed CBS in 675 post offices and opened two ATMs under the project. The Department reportedly has spent about Rs. 5,000 crore on enhancing technology platform since 2012.

The PBI is proposed to be run as a unique model. The proposed pyramid like structure will have 150 branches at the top which would be linked to 800 head post offices (HPO) across the country. The HPOs will be connected to sub-post offices (about 25,000) and further downstream to branch post offices (1.39 lakh). The branch POs would cover the entire rural landscape including the remote and the politically disturbed. The branches will be opened over the next five years and would employ 3,000 employees. Of the total estimated capital investment of Rs. 1,800 crore, the government's contribution is expected to be Rs. 623 crore (i.e. about 39 per cent). The rest would be raised from the market. The PBI is expected to have a turnover of over Rs. 21,000 crore in five years with a profit of Rs.300 crore.

Concerns have been raised about the capability of the postal system to handle the large network of branches. Tarapore (2014) suggests that a cautious and calibrated process to expansion of operations will take care of this issue. But the Bank would need specialists skilled in managing investments to ensure viability of operation.

Source: Department of Posts, Government of India, *Annual Report 2013–14*; Joshi (2014); Tarapore (2014); *Business Standard* (2014).

It may be noted that the central bank brought out a discussion paper in August 2013 titled *The Banking Structure in India—The Way Forward*, which outlined the reorganization of the existing banks into a layered structure composed by distinct strata—local banks (privately owned or cooperatives, LABs), regional banks (RRBs, old private sector banks, multi-state urban cooperative banks), national banks and international banks. This, the paper argued, would be possible only when banks—including mid-sized private banks, niche banks, small-sized local banks, and foreign banks—are allowed continuous entry into the financial market through a system of differential licensing. The likelihood of transformation of existing banks—both conversion (UCBs into commercial banks, or LABs or small banks, for instance) and consolidation (for example, across medium or large commercial banks) has been envisaged in the paper (see Box 5.2 for the course actions on the licensing front since the early 1990s).

The communication that came from RBI along with the announcement of granting of licenses also signalled a clear shift in approach in favour of differentiated licenses and enhanced competition.

> RBI's approach in this round of bank licences could well be categorised as conservative. At a time when there is public concern about governance, and when it comes to licences for entities that are intimately trusted by the Indian public, this may well be the most appropriate stance. Going forward, RBI intends to use the learning from this licensing exercise to revise the Guidelines appropriately and move to give licences more regularly, that is, virtually 'on tap'. It will also frame categories of differentiated bank licences, building on its prior discussion paper, and this will allow a wider pool of entrants into banking.[5]

This vision was re-emphasized in the budget speech 2014–15: '… a structure will be put in place for continuous authorization of universal banks in the private sector in the current financial year … Differentiated banks serving niche interests, local area banks, payment banks etc. are contemplated to meet credit and remittance needs of small businesses, unorganized sector, low income households, farmers and migrant work force.'

Box 5.2 Bank Licensing: The Course of Actions since 1993

January 1993: RBI released guidelines for licensing of new banks in the private sector. 10 new banks were formed on the basis of the guidelines—Global Trust Bank, ICICI Bank, HDFC Bank, Axis Bank, Bank of Punjab, IndusInd Bank, Centurion Bank, IDBI Bank, Times Bank, and Development Credit Bank.
January 2001: RBI revised the guidelines for new bank licences. Two new banks—Kotak Mahindra Bank and YES Bank—were formed.
26 February 2010: The then Finance Minister announces in his budget speech 2010–11 that companies and business houses will be allowed to set up new banks.
11 August 2010: RBI releases discussion paper on entry of new banks in the private sector.
23 December 2010: RBI releases gist of comments from the feedback on the discussion paper.
29 August 2011: RBI releases draft guidelines for licensing of new banks in the private sector.
10 July 2012: RBI releases gist of comments from the feedback on the draft guidelines.
22 February 2013: RBI releases guidelines for licensing of new banks.
1 July 2013: Last date for submitting applications for new banking licence. RBI discloses names of 26 applicants for new banking licence—two of them drop out while one new player gets added to the list later.
4 September 2013: RBI governor Raghuram Rajan announces setting up of a committee headed by Bimal Jalan to screen the applications.
1 November 2013: Bimal Jalan Committee holds its first meeting.
25 February 2014: Bimal Jalan Committee submits its report to RBI.
12 March 2014: RBI seeks Election Commission's permission to issue in-principle approvals for banking licence.
1 April 2014: Election Commission allows RBI to issue new bank licences.
2 April 2014: RBI grants in-principle approval to IDFC and Bandhan Financial Services to set up banks. The in-principle approval will be valid for 18 months.

Source: *Business Standard* (2014).

5.3 MAKING WAY FOR THE SMALL TO BLOOM

As described earlier the report of the Raghuram Rajan Committee made proposals for the setting up of private sector small finance banks and bestowing appropriate legal status to channels like telecom companies to become regulated financial intermediaries as part of its suggestion to restructure Indian banking system. As for small finance banks, the committee recommended the establishment of more of them 'with the ability to provide both asset and liability products to their clients' (p. 60). According to the assessment of the committee such banks have not proven their viability in India historically because of poor governance structures, excessive government and political interference, and an unwillingness/inability of the regulator to undertake prompt corrective action' (p. 59). A strong emphasis on good quality lending, low cost structures mediated by technology, effective governance and management, and tight prudential norms, could help the emergence of a competitive small bank sector to provide financial services to the poor. Importantly, the committee did not look small banks as ends in themselves. They could be 'an important entry point into the banking system from which some banks could grow into large bank' (p. 60).

The 2013 discussion paper of the RBI cited in the previous section reinforced the arguments in the Raghuram Rajan Committee about small banks and re-emphasized their undeniable role 'in the supply of credit to small business units, small farmers and other unorganized sector entities' (p. 19). Small capital requirement, small scale of operations, spatially limited and niche markets, simple structure, low operational expenses, and the potential for relationship banking were identified as the major strengths of small banks, while their vulnerability to concentration risk and local economic shocks were highlighted as the major weaknesses. The paper concluded that 'on balance … small banks do embody the potential for furthering the cause of financial inclusion' (p. 20). Again the paper took the position that the specific risks on account of the business model of small finance banks can be overcome 'by calibrating the prudential regulations'. It was expected that these banks would be able to manage their costs by exploiting communication technology and by making use of the deregulated interest regime.

Most recently, the More Committee (2014) has elaborately discussed the concept of differentiated banking structure. The report presents two types of differentiation in the banking system—horizontal and vertical. In a horizontally differentiated banking system design, the basic design element is of a full-service bank that combines the three building blocks of payments, deposits, and credit. It is differentiated primarily on the dimension of size or geography or sectoral focus. In a vertically differentiated design, the full-service bank is replaced by banks that specialize in one or more of the building blocks of payments, deposits, and credit. Most banking systems will have a mix of both designs. Drawing on the theoretical understanding of banking system, the committee makes the recommendation for setting up wholesale banks and payment banks in India under the Banking Regulation Act (Table 5.1). Specifically, the recommendations urged the regulator to facilitate conversion of pre-paid instrument issuers to payments banks and setting up of such banks as subsidiaries by SCBs.

TABLE 5.1 Wholesale and Payment Banks: Comparison

	Wholesale consumer bank[6]	Payment bank[7]
Primary role	Lending; can accept deposits larger than Rs. 5 crore	Provide payment services and deposit products to small businesses and low-income households; maximum allowed balance per customer Rs. 50,000
Minimum entry capital requirement	Rs. 50 crore	Rs. 50 crore
Plausible relationship with full service banks	BC	Subsidiary

Those who wholeheartedly appreciated the proposals (PPIs, BC companies, NBFCs for instance) pointed out that they have the potential to accelerate financial inclusion by making it viable for the banks to devise customized business models that suit the target population. The introduction of payment banks, it is argued, would eventually 'move more savings into the

formal sector', provide better safety to customers and de-risk the inclusion strategy of banks' (Aggarwal, 2014). It opens up for non-banks including MFIs substantial opportunity to deal in payments and remittances and experiment with multiple revenue streams that help them improve long-term profitability. Rajiv Lall, the Executive Chairman of IFDC thinks: 'The idea of differentiated licenses is very appealing… we need to find some way of creating or bridging the regulatory continuum from NBFCs to a bank. Today the difference between two is too stark.'[8]

While applauding the committee for a rich and detailed analysis of financial inclusion, some of the commentators think that the proposals are too ambitious to be practical. For instance, the proposal for universalisation of bank accounts by 1 January 2016 with the Aadhaar as the basis of authentication is seen as an unreal goal given the technical constraints and legal barriers[9] associated with it (Narasimhan, 2014; Rajshekhar and Sivaramakrishnan, 2014). Setting artificial deadline for full inclusion, it is argued, is fraught with systemic risk, apart from being unrealistic.

5.3.1 Small Banks and Payment Banks: RBI Guidelines

The recommendations substantively informed the vision of the central bank for initiating the movement towards a differentiated banking structure. They formed the basis for a set of guidelines issued in July 2014 for setting up two new classes of banks: payments banks and small banks.

The primary objective of both small and payments banks as described in the draft guidelines is to further financial inclusion by providing savings vehicles to the underserved and unserved sections of the population. The other objective for the small banks is to ensure supply of credit to small business units, small farmers, micro and small industries, and other unorganized sector entities. As for the payments banks, provision of payments/remittance services to migrant labour workforce, low-income households, small businesses, other unorganized sector entities and others forms the second objective. They will be required to use the word 'payments' in their names as a mark of differentiation from other banks. Both small and payments banks are expected to develop operational models that are high on technology and low on costs.[10]

It is clarified that the key criteria for licensing Small Banks—preferably promoted by professionals from banking/financial sector, NBFCs and MFIs—would be local focus and the ability to serve smaller customers. They should primarily undertake basic banking activities of acceptance of deposits and lending to the designated set of clientele. However, with the prior approval of the RBI they can also undertake other simple financial services activities.

The guidelines for small and payments banks were discussed in many fora since they were announced by the central bank. As expected, depending on the interests of the participants the consultations too have come out with different responses (Box 5.3). For instance, the Round Table on Payments Banks organized by the Poorest States Inclusive Growth (PSIG) Programme with PPIs, telecom companies and BC companies agreed that the guidelines provide the scope for non-banking establishments like them to enter the banking space. They however recommended several changes as follows to make the room larger for them play the game more viably. For instance the contiguous districts criterion is resented by large NBFCs, MFIs and others, as most of them have 'an all India footprint' (Saha, 2014).

5.4 MICROFINANCE AND THE INCLUSION DEBATE

We briefly discussed in the beginning of the chapter the recommendations made by the Rangarajan Committee (2008) towards strengthening the role of the microfinance sector in the process of financial inclusion. The recommendations pertained to both SHGs and MFIs. Regarding SHGs, the Committee recommended the following:

- Upscaling of SBLP.
- Pomotion of SHGs in regions with high levels of exclusion by developing models suited to their local contexts.
- Incentivising NGOs to diversify into backward areas for promoting SHGs.
- Encouraging voluntary federations of SHGs, with no role in financial intermediation.

TABLE 5.2 Draft Guidelines for Small Banks and Payments Banks: Comparison

	Specific guidelines Small banks	Payments banks
Eligible promoters	Resident individuals/ professionals with 10 years of experience in banking and finance; companies and societies; NBFCs, MFIs, LABs; (preference to banking/ financial sector professionals, NBFCs and MFIs)	Authorized* non-bank PPI issuers NBFCs, corporate BCs, mobile telephone companies, super-market chains, companies, real sector cooperatives and public sector entities; banks (through stake in equity)
Assessment of fit and proper status	Promoter's past record spanning at least 5 years of sound credentials and integrity; financial soundness and successful track record of running business	Promoter's past record spanning at least 5 years of sound credentials and integrity; financial soundness and successful track record of running business
Scope of activities	Area of operation limited to contiguous districts in a homogenous cluster of states/ UTs; branch expansion needs prior RBI approval during the initial 3 years; no subsidiaries to undertake non-banking financial services activities allowed; no comingling of banking and other financial/ non-financial activities allowed	Acceptance of demand deposits (current/ savings deposits); Deposit Insurance and Credit Guarantee Corporation of India (DICGC) coverage extended to deposits mobilized; maximum balance holding per customer restricted of Rs. 100,000; a variety of channels—branches, BCs, mobile banking, ATMs, POS terminals—to be used for cash in and cash out; secure internet banking is a possibility; can function as BC of other banks for credit and other services; no non-banking subsidiary allowed
Requirement of capital	The minimum paid-up voting equity capital of Rs. 100 crore; minimum CAR of 15% (risk weighted assets) maintained on a continuous basis	The minimum paid-up voting equity capital Rs. 100 crore; a net worth of Rs. 100 crore to be maintained at all times; Minimum CAR of 15% maintained on a continuous basis; outside liabilities limited to a maximum of 20 times the networth/paid capital and assets
Promoter contribution	Preference for diversified shareholding; Minimum 40% initial contribution locked in for 5 years; Promoter stake to be brought down to 30% in 10 years and 26% in 12 years	Preference for diversified shareholding; minimum 40% initial contribution locked in for 5 years; promoter stake to be brought down to 30% in 10 years and 26% in 12 years
Voting rights and transfer/acquisition of shares	Capped at 10 per cent; can be raised to 26% in phases with RBI approval	Capped at 10 per cent; can be raised to 26% in phases with RBI approval
Prudential norms	CRR and SLR as applicable to commercial banks; maximum loan size and investment exposure capped at 15% of capital funds; at least 50% of the loan portfolio to be constituted by loans and advances of size up to 25 lakh	Not applicable
Others	PSL targets and sub targets as applicable to domestic SCBs; in the initial 3 years at least 25% of the branches to be opened in unbanked rural centres; technology-driven operations; customer grievances cell	At least 25% of access points in rural centres; fully networked and technology driven operations right at the start; customer grievances cell

Source: http://rbi.org.in/scripts/bs_viewcontent.aspx?Id=2856; http://rbidocs.rbi.org.in/rdocs/Content/PDFs/FPB170714FL.pdf
Note: * Under the Payment and Settlement Systems Act, 2007.

Box 5.3 Suggested Changes by the Stakeholders in the Draft Guidelines for Payments Banks

- Application of the criterion of minimum (not 'at least') track record/experience of five years for the promoter company in cases where the BCs/ PPIs qualify other fit and proper criteria and their promoter companies have a sound background and vintage of over 5 years.
- Term deposits and recurring deposits should also be allowed to be offered by the payments bank as the target clients need them.
- Instead of restricting payments banks to hold a maximum balance of Rs. 100,000 per customer, they may be allowed to hold a minimum percentage of accounts with balance up to Rs. 1 lakh; this may allow *all* members of a community including the affluent minority to be part of the formal financial institution and increases the viability of the payments banks.
- Both inward and outward remittances (international cross border and domestic) should be allowed to be offered by payments banks.
- Payments Bank may also be allowed to offer other financial services such as micro insurance, pension, mutual funds as corporate agents/aggregators.
- A lower capital and net worth requirement of Rs. 50 crore be considered, in line with the recommendation by the CCFS Committee considering the CRR and SLR requirements, the time lag involved in turning profitable and limited requirement to make upfront capital investment in technology.
- The timeframe for dilution to 40 per cent shareholding be brought up to seven years (from the proposed 3 years) in the light of the imminent difficulties of a nascent business model to attract diversified investments. For the same reason non-promoter entities may be allowed to have shareholding of up to 26 per cent of the voting equity capital of the bank.
- Promoters should be allowed voting rights equivalent to that of their shareholding.

Source: Adapted from the 'Recommendations on Draft Guidelines for Licensing of "Payment Banks"', Submitted to the Reserve Bank of India under Poorest States Inclusive Growth (PSIG) Programme, on 28 August 2014 based on the Roundtable organized by ACCESS-ASSIST on 20 August 2014 in Mumbai.

- Extending SHGs to urban areas.
- Taking up the JLG model to purvey credit to mid-segment clients such as small farmers, marginal farmers, tenant farmers.

The report stopped short of prescribing any definite role for SHGs in financial inclusion. However, the committee, just as its successors, envisioned a larger role for MFIs, particularly for-profit MFIs in financial inclusion. For instance, it proposed some concrete measures to bring them under regulation as a separate category of non banking companies. Once regulated, they could also be recognized as BCs of banks for providing savings, remittance services and micro insurance. The proposal to create NBFC-MFIs was later endorsed by both Raghuram Rajan and Malegam (2011) Committees and implemented by the RBI in 2011.

As for recognizing them as BCs the central bank has been hesitant in view of the conflict of interest between the BC and NBFC operations and the possible risks of co-mingling or mingling of deposits collected for the bank with the loan funds of the company (RBI, 2010). Mor Committee argued that 'with technology enabling intra-day claring of funds it is not obvious that this (i.e., co-mingling risk) is anymore a risk factors that cannot be managed by a bank. Regulation should permit ND-NBFCs to be BCs for national banks where they can take deposits on behalf of the national bank and offer credit from their own balance sheet or in risk-sharing partnerships with that bank or any other bank. ND-NBFCs have a vast reach on the ground and those that are classified as NBFC-MFIs in particular are able to access customers well beyond the reach of the bank branches. BC partnerships between banks and such NBFCs could prove to be very valuable' (p. 67). The Monetary Policy Statement 2014–15 (April) indicated that these suggestions were under serious consideration by the regulator and in June 2014 came the revised guidelines allowing banks to engage non-deposit taking NBFCs as BCs.

A close reading of the developments in the regulatory sphere of microfinance helps one see how the for-profit

microfinance sector has steadily gained legitimacy over the rest of the institutions. The Andhra Pradesh crisis and the subsequent state government action temporarily arrested the process. But the creation of separate category of NBFCs re-energized the MFIs—excepting those in Andhra Pradesh. As reported in *Microfinance State of the Sector Report 2013* the bigger players among the NBFCs, particularly, could 'regain their confidence and settle down' as funds flow to these MFIs resumed. Though the much awaited microfinance legislation was still in the anvil, this class of MFIs gained from improvement in the overall investment climate. The permission to be BCS to banks came as another enabling provision from the RBI in 2014. The sector as whole received a 'shot in the arm'[11] when the central bank officially accorded the status of industry self-regulatory organization (SRO) to the Microfinance Institutions Network (MFIN). As an SRO, MFIN is authorized to carry out the key functions surveillance, grievance redressal, dispute resolution, investigations, data collection and training and knowledge development for the regulated microfinance sector.

What then is about the other segment of the MFI community, viz., the not-for profit MFIs that constitutes about 15 per cent of the sector? They do not come under the regulatory purview of RBI, though they are indirectly governed by the regulations issued by the central bank due to their borrowing relationship with banks. They can volunteer to become members of an SRO like MFIN. But the apprehension is that they will be dominated by the NBFCs (Sa-Dhan 2014). There can also be a different self regulatory dispensation for them. But there is no clarity as to the design of such an institutional arrangement. The neglect of the non profit MFIs sector is considered by some as a gap in the microfinance policy framework in India. More conspicuously, the hesitation on the part of the government and the RBI to leverage the success of SBLP to achieve the financial inclusion goals is rather inexplicable (NABARD, 2013). Though they are allowed to be BCs to banks, SHGs have been kept outside the purview of the mainstream 'policy discourse' on microfinance presumably because of their informal and unregulated nature. But their position in the microfinance market is critical as the SBLP dispenses more credit to the weaker sections than the MFIs and mobilizes savings unlike the MFIs.

5.4.1 The Parliamentary Committee's Observations on the Microfinance Bill 2012

As reported in the *Microfinance State of the Sector Report 2013*, it was well understood that the Micro Finance Institutions (Development and Regulation) Bill, 2012 would lapse unless its got tabled during the winter or budget sessions of the outgoing government at the centre after the review of the Parliamentary Standing Committee on Finance. The Standing Committee presented its report to the upper and lower houses in February 2014 rejecting the draft Bill as 'sketchy with inadequate groundwork and lacking in consensus'.[12]

> The Committee having considered and heard the views of different stakeholders … observe that *prima facie* the Micro Finance Institutions (Development and Regulation) Bill, 2012 has failed to address certain key issues which are germane to an ideal legislation on micro finance in the Country. The Committee, thus, desire that fundamental proposals in the Bill relating to margin; interest-rate cap; allowing collection of thrift by MFIs; enabling MFIs to render services other than credit like insurance, pension etc., ceiling limit on credit; regulation etc., should be reviewed *de-novo*…. (p. 47).

The following are the major observations made by the PCF on the MF Bill:

- The Bill defeats its very objective by insisting on security or guarantee from poor households and thus keeping them out of the microfinance ambit.
- The terms financial inclusion, micro finance and poor households are not defined in the Bill indicating lack of focus on facilitating financial inclusion.
- In the absence of a national policy on financial inclusion, there us no guiding document for formulating a national level legislation on microfinance.
- MFIs emerge as a threat to the sustenance of SHGs.
- MFIs may pose substantial risk to the financial system.
- Instead of tapping the potential of rural banks and PACS to catalyse financial inclusion, the Bill exempts them from the definition of MFIs.
- No provision is made in the Bill to include elected local representatives in the state and district level monitoring bodies proposed.

- The high loan ceiling of Rs. 5 lakh would provide ample scope for MFIs to focus on non-poor sections of borrowers.
- The Bill leaves scope for MFIs to charge usurious interest rates in course of time.
- In the matter of the provision of thrift collection, instead aligning it with the RBI policy the Bill provides for the central government to make rules. This may create overlap or conflict of jurisdiction with the regulator.
- Issues like multiple lending, over-indebtedness, multiple memberships and coercive collection measures are not addressed by the Bill.

The PCF proposed the establishment of a three-tiered Micro Finance and Development Regulatory Council (MFDRC) with representatives from all agencies and institutions concerned with microfinance—RBI, NABARD, SIDBI, MFIs—apart from central government, state governments and local elected representatives to oversee the functioning of the sector.

The *Report of the PCF* clearly brought forth the contested character of policy thinking on Indian microfinance. Much of the contest concerns the role of the different institutions that are engaged in microfinance. RBI supports a bank-led financial inclusion, but sees a role for other intermediaries. NABARD has been arguing for building complementarity between SHGs and the financial inclusion intermediaries like BCs. MFIN, the association of non-banking microfinance companies, is convinced that NBFCs are effective channels of even DBT distribution in remote villages. The Indian chapter of INAFI, or the International Network of Alternative Financial Institutions, demands an alternative system which can make banks accountable to the public rather than 'having a system which is highly dangerous for the savings of the public'.

5.4.2 MFIs: From 'Non-banks' to Banks?

The policy salience of MFIs has increased of late not only due to the augmented regulatory control over their operations but to the prospect of them crossing over to becoming banking establishments in the near future. acknowledging the success and contribution of MFIs and generally concurring with some of the proposals of the Rangarajan Committee on Financial Inclusion, the Raghuram Rajan Committee (2009) saw the future growth of microfinance as constrained mainly by factors like inadequate supply of finance, unclear regulatory environment, lack of well-developed management information systems and dearth of trained management. Over the past months RBI has come out with several measures that are suggestive of its intention to help the regulated and market oriented MFIs to circumvent some of the limitations and graduate to formal banking entities by making use of the available legal options—like setting up new private sector banks or converting to small bank/ payments banks. Even while continuing as NBFCs they could link up with banks as their BCs.

Bandhan became the first NBFC MFI to get an in-principle license to set up a bank. The MFI is working towards starting the operations in 2015–16. With 58 lakh borrowers and about Rs. 6,500 crore loan outstanding,[13] Bandhan is one of the largest MFIs in, but is less than a percent of the size of the largest bank in the country. As a bank it will have to broad base the clientele, diversify products and expand spatially. Bandhan hopes to retain its microfinance clients while doing this[14]. Retraining the existing staff to acquire new skills and fit into newer roles in the bank seems to be another challenge before the MFI. Bandhan has eight training centers which train 1400 staff members every month by 41 in-house trainers. It is also reported that the composition of clients would continue to be 70 per cent rural and 30 per cent urban as it currently is (Box 5.4).

Being the pioneer in the MFI-bank category, Bandhan's experience in managing its second transformation would be an important case to document and analyse. As a bank, how long can it remain loyal to the micro clientele? If the bank wants to grow its microfinance portfolio at the same rate as it has been growing so far, how will it finance the growth? How will the bank build its deposit base? These are critical questions that Bandhan would have to eventually find strategic responses to.

If the grant of license to Bandhan demonstrated the explicit policy acceptance of microfinance institutions becoming full service banking establishments, the issuance of draft guidelines for Small Banks by the RBI in July 2014 opened up another door of opportunity in

Box 5.4 Why Bandhan Bank? Excerpts of Interview with C.S. Ghosh, CMD[15]

'We started thinking of setting up a bank in 2009. When we started the microfinance services, there was a need of such services. Just before the AP crisis and before or during the time of SKS IPO, a lot of negative noise was created in the media. We have always been uncertain whether our borrowers will have to go back to money lenders once we stop lending. What is the alternative? How can we ensure that the poor get financial banking services on a sustained basis? RBI has been pushing the BC model and other models which are not working well. Our model is financially viable. Many people suggested that the only way out is to become a bank.

In March 2010 came the parliament decision to allow RBI to issue new banking licenses to private players including NBFCs. We started from there. From that day onwards we have started preparing the systems and people. We recruited a few bankers to help us build a system similar to banks. We also went in for equity at that time. Several investors were interested in Bandhan. We chose IFC considering the value that association will create for Bandhan.

We finally got the banking license. Our main objective is to serve the poorer people. A major concern is how we can slash interest rates. It is possible only if the source of fund is cheaper as two-thirds of the cost goes to the bank for borrowing money. One third is cost of operation, out of which two-thirds, cost of human resources (HR) which cannot be cut. You can only cut cost of funds and not HR cost. Costs are low if we directly source finance rather than through banks or other intermediaries. As per RBI rules you can take deposit only if you are a bank. This is the other major reason why we want to become a bank.

The objective is not to leave the existing customers. We would like to grow in this segment along with others. Micro enterprise borrowers can graduate to MSME borrowers only if we support them. As per the microfinance regulations, there are several constraints to offer loans to MSMEs. India has 28 million MSMEs out of which 26.2 million are unregistered and not getting any bank loans. Who will serve them? As a bank we can serve them.

But again the challenge is on the deposit part. Poor people will have poor deposits. If we do not serve large segments, our deposits will not be large which will push our cost of funds up again. Hence as a bank we have decided to serve every citizen of the country. But we will continue to serve the micro clients. All such clients will be converted into individual bank customers from day one.'

Source: Personal interview on 25 June 2014, Kolkata.

front of the MFI sector. Transformation into small banks, according to MFIN, would help MFIs shed their negative image of 'non-bank', earn customer trust and build viable businesses leveraging the opportunity to provide deposit services, money transfer services and micro insurance[16]. As per MFIN 'half of its members could graduate to become banks'.

Sriram (2014), however, points out that the draft guidelines for establishing 'small banks' would have greatly benefitted from a review of the experience of local area banks (LAB). Only one LAB could achieve the target of Rs. 25 crore capital (they started with Rs. 5 crore) within the timeframe of 5–7 years that was provided. A review of the LAB experience shows that diversification of shareholding within a 3–12 year period is impossible to achieve.

Mahajan (2014), while welcoming the RBI initiative, pointed out that unless certain 'improvements' are made the guidelines MFIs would find it difficult apply for Small Bank license. Most importantly, the guidelines limit the scope of operation of small banks to contiguous districts in a homogenous cluster of states/UTs. In India most of the MFIs have non-contiguous multi-state operations, who will either be ineligible for the license or will have to procure license only for a small part of their operations. He hence suggests dropping of the contiguity condition and insisting instead on a 3:1 ratio of financially excluded and other districts. Further, if small banks are allowed to deploy half their assets in loans and advances of any size (while the other half in loans below Rs. 25 lakh), they would soon be banks for the local elite. He hence argues for appropriate sub-limits to make sure that the small banks cater to diverse constituencies in need of financial services. These concerns and suggestions were shared by several others.[17]

5.5 RIGHT TO INCLUSION AND SUITABLE SERVICES

One of the key consequences of the global financial crisis of the last decade is that the financial services industry the world over has come to place greater policy

and regulatory focus of consumer protection. The crisis made the industry and the global supervisory institutions wake up to the reality that complex products, rapid technological transformation and increased risk-taking by consumers co-exist with financial exclusion and illiteracy (KPMG International, 2012). Also the regulatory intent has moved progressively towards outcomes, which in turn has shifted the onus on financial providers to ensure they offer products and services that responsibly satisfy customer needs as well as generate profit.

The right to suitability is an important aspect of the consumer protection framework suggested in the *Mor Committee Report*. '[T]he "caveat emptor" principle has led to fundamental flaws in India's customer protection architecture and has created large welfare losses for customers. As the recent examples of customer protection failure in India highlight, there is a pressing need to shift away from this approach to financial customer protection. There is a need to move to a customer protection regime where the provider is held accountable for the service to the buyer, by ascertaining that the products sold or the advice given is suitable for the buyer considering her needs and current financial situation, i.e. the customer must have a Right to Suitability' (p. 173). It is proposed that every low-income household d small-business would have a legally protected right to be offered only 'suitable financial services'. While the customer will be required to give informed consent she will have the right to seek legal redress if she feels that due process to establish 'suitability' was not followed or that there was gross negligence. This appears a bold and empowering provision in the report. But for the conscientious witnesses of the developments in Indian microfinance over the past decade this may sound more like a naïve hyperbole. As Rajasekhar and Sivaramakrishnan (2014) argue suitability may work in the case of well-run pilots and cannot be expected to be systemised and scaled up to the national level. Further, from the angle of financial services provider assessing suitability would involve carrying out 'a limited due diligence of the customer' using credit bureau information along with assessment of her financial capacity and risk tolerance. Would such a process help the systematically 'excluded' to access products and services on their terms? The answer appears quite vague.

The RBI has codified the basic rights of consumers of financial services into a Charter recently (Box 5.5). The draft Charter has five fundamental rights—right to fair treatment; right to transparency, right to suitability; right to privacy; and right to grievance redress and compensation.

5.6 CONCLUSION

Having been launched less than a decade ago, the current bank-led version of the financial inclusion project is young and evolving. Policies have also been evolving often in response to the problems and opportunities that emerge through implementation of various initiatives and strategies. In that sense it would be somewhat premature to evaluate the pros and cons of the current policies. Also it is important to appreciate that the policies of the government and motives of the different other stakeholders may take time to match. The 'face line' is critical in that it would define the strength and sustainability of the edifice being built.

A close review of the current policy framework of financial inclusion reveals that it has shifted decisively towards a process of expansion of financial markets and from a targeted approach to a more universal one. Promotion of multiple tools, strategies and institutions has come to be the central focus of RBI's recent policy pronouncements. In the process, many existing institutions have been given the option of redefining or reorienting themselves as niche players to be part of the expanding financial markets. As different from the past, protection of customer interests forms an important component of the current phase of financial inclusion, though much needs to be done to make the customers aware of their rights and entitlements.

Box 5.5 Draft Charter of Customer Rights of RBI (22 August 2014)

1. Right to Fair Treatment: Both the customer and the financial services provider have a right to be treated with courtesy. The customer should not be unfairly discriminated against on grounds such as gender, age, religion, caste and physical ability when offering and delivering financial products.
2. Right to Transparency, Fair and Honest Dealing: The financial services provider should make every effort to ensure that the contracts or agreements it frames are transparent, easily understood by and well communicated to, the common person. The product's price, the associated risks, the customer's responsibilities and the terms and conditions that govern use over the product's life cycle, should be clearly disclosed. The customer should not be subject to unfair business or marketing practices, coercive contractual terms or misleading representations. Over the course of their relationship, the financial services provider cannot threaten the customer with physical harm, exert undue influence, or engage in blatant harassment.
3. Right to Suitability: The products offered should be appropriate to the needs of the customer and based on an assessment of the customer's financial circumstances and understanding.
4. Right to Privacy: Customers' personal information should be kept confidential unless they have offered specific consent to the financial services provider or such information is required to be provided under the law or it is provided for a mandated business purpose (for example, to credit information companies). The customer should be informed upfront about likely mandated business purposes. Customers have the right to protection from all kinds of communications, electronic or otherwise, which infringe upon their privacy.
5. Right to Grievance Redress and Compensation: The customer has a right to hold the financial services provider accountable for the products offered and to have a clear and easy way to have any valid grievances redressed. The provider should also facilitate the redress of grievances stemming from its sale of third party products. The financial services provider must communicate its policy for compensating mistakes, lapses in conduct, as well as non-performance or delays in performance, whether caused by the provider or otherwise. The policy must lay out the rights and duties of the customer when such events occur.

Source: http://rbidocs.rbi.org.in/rdocs/content/pdfs/DCHARTER220814.pdf, dated 22 August 2014 (accessed 24 August 2014).

APPENDICES

Appendix 5.1

Mor Committee Recommendations—Priority Sector Lending

4.28 All loans given to landless labourers and small and marginal farmers should be counted as a part of Direct Agriculture and not merely the wages component of a loan given to a farmer for financing her agricultural production.

4.29 Investment by banks in bonds of institutions must qualify for PSL where wholesale lending to the same institutions already qualifies under PSL.

4.30 Credit facilities documented as bonds or Pass-Through Certificates (PTC), whether originated directly or purchased in the secondary markets should be permitted to be held in the—banking book of a bank based on declared intent and not merely based on source or legal documentation.

4.31 Investment by banks in the form of non-fund based limits (such as guarantees) should qualify for PSL to the extent of the credit equivalent amount of the off-balance sheet facility where loans to these categories qualify for PSL. ANBC should also be adjusted to include such PSL-linked, non-fund based limits.

4.32 Equity investments by banks in complementary infrastructure within the purview of PSL guidelines, such as rural warehouses, market yards, godowns, silos, and NBFCs in low financial depth districts should be eligible for contribution to the overall priority sector lending targets. They should be permitted where debt already qualifies for PSL but with a multiplier of four, to reflect the higher risk and the illiquid character of these investments. The benefit must accrue as long as the equity investment is held by the Bank. This list of eligible equity investments may be varied from time-to-time.

4.33 PSL targets should be applicable on the last reporting Friday during the last month of each quarter in exactly the same manner as it is currently applicable in the month of March, so as to ensure more timely and continuous credit flow into priority sectors. In order to ensure administrative ease, requirements such as investment into RIDF can continue to be levied on an annual basis and computed on the basis of the average of the quarterly requirements.

4.34 If the government does desire to provide relief in any form to the small farmer, it would be best carried out as a direct benefit transfer (DBT) to the bank account of the farmer and not through the mechanism of either interest subvention or debt waiver. This would ensure that the banking system is able to price loans in a sustainable manner and also protect credit discipline amongst its borrowers. Adding a universal requirement to report all defaults to credit bureaus would ensure that the borrower also builds a strong interest in protecting his credit history, even if he is a recipient of DBTs.

4.35 In order to guard against large scale defaults resulting from catastrophic events, banks should be permitted to work closely with insurance companies to purchase bank-wide portfolio level insurance against events such as large scale rainfall failure on a regional or national basis, instead of having an expectation that relief would be provided from national or state budgets.

4.36 For the provision of food-credit, Food Corporation of India (FCI) and State Governments should be required to originate warehouse receipts and raise low-cost funds in the market against these receipts instead of being reliant only on bank credit.

4.37 The stipulation that the all-inclusive interest charged to the ultimate borrower by the originating entity should not exceed the Base Rate of the purchasing bank plus 8 per cent per annum should be removed.

4.38 The RBI should represent to the Government of India to restore the tax-free status of securitisation SPVs as pass-through vehicles for tax treatment so as to create pathways for Wholesale Banks to provide liquidity to other Banks and Financial Institutions directly originating assets in priority sectors.

4.39 While a market that trades PSL assets will be of critical importance, regulation should additionally enable the use of risk-free PSL Certificates as a means to achieving PSL compliance amongst banks that wish to do so.

4.40 In order to enable greater regional and sectoral specialisation among Banks, the Committee recommends that the RBI revise the PSL targets and require banks to meet an Adjusted PSL target of 50 per cent against the current requirement of 40 per cent. Districts and sectors are weighted based on the difficulty in lending to them, and a Bank lending to a difficult sector in a difficult to reach district can benefit from a multiplier value based on the specific sector and district. Every sector-district combination has a weight associated with it and the Bank will have to reach an adjusted PSL value of 50% taking these weightages into account.

4.41 The Committee recommends that RBI seriously examine moving to a new framework in which two parameters: District level credit depth, and sector and sub-sector level credit depth be used to determine the sector, sub-sector, and regional weights which are published every three years. Using these weights banks would be required to reach an Adjusted PSL target of 150 per cent of ANBC. Executive Summary and List of Recommendations.

4.42 There is a need to develop a robust legal and regulatory framework around customer data generated in various transactions (payments and credit, digital and off-line), with the objective of customer ownership of their own transactions data and its use, among others, for signalling credit-worthiness. RBI should constitute a Working Group comprising TRAI, CERC, and Credit Information Companies to develop a framework for sharing of data between telecom companies, electrical utilities, and credit bureaus. This framework should be in keeping with the FSLRC's draft Indian Financial Code which recommends the creation of regulations on the collection, storage, modification and protection of personal information by financial services providers; and establishment of mechanisms to ensure that consumers have access to, and are given an effective opportunity to seek modifications to, their personal information.

4.43 Universal reporting to credit bureaus should be mandated for all loans, both individual and SME, but in particular SHG loans, Kisan Credit Card, and General Credit Card.

4.44 Equity investments by banks in complementary infrastructure within the purview of PSL guidelines, such as rural warehouses, market yards, godowns, silos, and NBFCs in low financial depth districts. These equity investments should be eligible for contribution to the overall priority sector lending targets. They should be permitted where debt already qualifies for PSL but with a multiplier of four, to reflect the higher risk and the illiquid character of these investments. The benefit must accrue as long as the equity investment is held by the Bank. This list of eligible equity investments may be varied from time-to-time.

4.46 RBI needs to write to each of the State Governments expressing its support for the recommendations of both the PLATINUM Group and the Rajan Committee (2009) and urge them to implement those ideas by pointing out the potential benefits to the expansion of banking and financial activity in their respective states.

4.47 Banks and Financial Institutions should be required to verify the land records of their clients at the time of making loans and in those states where this is possible, to insist that transfers take place before a loan can be renewed for a second time.

4.48 Equity investments by banks in private companies engaged in the task of installing and operating weather stations, or in creating markets for second-hand assets should be eligible for PSL treatment. These investments should also get a multiplier of four, to reflect the higher risk and the illiquid character of these investments.

APPENDIX 5.2
Small Banks: Comparison of Major Policy Recommendations

Sl. No	Broad Policy Element	Draft Small Bank Guidelines (July 2014)	Local Area Bank Guidelines (June 2014)	Raghuram Rajan Committee
1.	Objective	To further financial inclusion by providing savings to under- and un-served sections and credit to small businesses, small farmers, micro and small industries and other unorganized entities	To cater to credit needs of local people and provide efficient and competitive financial intermediation in the area	to increase financial inclusion by reaching out to poorer households and local small and medium enterprises; may graduate to serve other clients
2.	Promoters	Individuals with 10 years of banking/ finance experience, companies and societies, NBFCs, MFIs and LABs	Individuals, corporate entities, societies, NRI promoters (share less than 20%)	MFLs, private entities, community financial institutions; track record of promoters important
3.	Minimum Capital	Rs. 100 crore	INR 5 crore raised to Rs. 25 crore (2002)	Initial capital low consistent with intent
4.	Minimum CAR	15% of RWA on continuous basis	8% raised to 15% (2002)	More conservative because they operate in small geographies And lend to riskier businesses
5.	Area of Operation	Restricted contiguous districts in homogenous cluster of States/UTs	3 contiguous districts	'Local', area of choice given the bank
6.	Branches	Branch Expansion for initial 3 years by prior approval by RBI; 25% of branches in unbanked rural centers	Only one urban branch in a district(Ramachandran committee) suggested 1 urban branch per 10 rural branches)	Restrict initial license to certain no. branches and asset size; and remove restrictions after performance review
7.	Ownership	Promoter contribution at least 40%; (locked in for 5 yrs.); Excess promoter shareholding to be brought down to 40% in 3 years, 30% in 10 years and 26% in 12 years; Foreign shareholding as per FDI policy; Non promoter entities not permitted shareholding in excess of 10% of voting equity capital	Promoters min 40% capital (min of Rs. 2 crore); non-promoter holdings capped at 10% of share capital; Individual voting rights capped at 10%	Could be majority owned by a single promoter; Ensuring appropriate incentives
8.	Business/ products and services	Basic banking activities—acceptance of deposits and credit to small businesses, small farmers, micro and small industries and other unorganized sector entities; Other simple financial services with prior approval of RBI: Cannot set up subsidiaries for non-banking activities	Focus on local customers; Lending expected to agriculture and allied activities, SSI, agro-industrial activities, trading activities and the non-farm sector	Comprehensive suite of financial services (Credit, savings, insurance, remittance and investments)
9.	Priority sector norms	As applicable to existing domestic banks	Priority sector lending targets —40% of net bank credit; 25% of PSL (10% of NBC) to weaker sections	

Sl. No	Broad Policy Element	Draft Small Bank Guidelines (July 2014)	Local Area Bank Guidelines (June 2014)	Raghuram Rajan Committee
10.	Other prudential norms and regulations	As applicable to existing commercial banks including maintenance of CRR and SLR; Max loan size and investment exposure to borrowers/ issuers restricted to 15% of capital; At least 50% of portfolio to constitute loans and advances up to Rs. 25 lakh	As application to commercial banks	Exposure limits set at a lower fraction of capital than for SCBs; Allowing greater ticket size with growth; Interest rates deregulated; Strict norms for self lending to promoters
11.	Governance	Majority of independent directors; Fit and proper criteria for Directors as issued by RBI	Majority of independent directors; Fit and proper criteria for Directors as issued by RBI	Fit and proper criteria
12.	Supervision and Regulation		Department of Banking Supervision, RBI (RRBs and Coops which are closer to LAB in nature are supervised through NABARD); Regulation earlier with RPCD, later shifted to DBOB	Need greater monitoring; Regulatory capacity should adapt to the needs
13.	Process	High tech and low cost; high powered customer grievance mechanism		Low cost structure and low staffing costs will allow small loans to be profitable
14.	Support Infrastructure			Creation of low cost tech platforms; Banks may be encouraged to functions and a centralized skill based

APPENDIX 5.3

The G20 Consumer Protection Principles

- Financial consumer protection should be an integral part of the legal, regulatory and supervisory framework.
- There should be oversight bodies explicitly responsible for financial consumer protection, with the necessary authority to fulfil their mandates.
- All financial consumers should be treated equitably, honestly and fairly at all stages of their relationship with financial service providers.
- Financial services providers and authorized agents should provide consumers with key information that informs the consumer of the fundamental benefits, risks and terms of the product.
- Financial education and awareness should be promoted by all relevant stakeholders and clear information on consumer protection, rights and responsibilities should be easily accessible by consumers.
- Financial services providers and authorized agents should work in the best interest of their customers and be responsible for upholding financial consumer protection.
- Relevant mechanisms should protect consumers' deposits, savings, and other similar financial assets, including against fraud, misappropriation or other misuses.
- Consumers' financial and personal information should be protected.
- Consumers should have access to adequate complaints handling and redress mechanisms.
- Nationally and internationally competitive markets should be promoted in order to provide consumers with greater choice among financial services and create competitive pressure on providers to offer competitive products, enhance innovation and maintain high service quality.

Source: KPMG International (2012).

NOTES

1. The ratio of total financial claims to national income and total financial claims to net domestic capital formation increased from 0.17 to 0.61 and 1.38 to 2 respectively during 1970/75–2011/12. The ratios of both deposits and credit to GDP too improved during this period from suggesting an enhanced role of the banking sector in developing the country's financial sector. See Mohanty (2014). There has been financial deepening: the deposits/ GDP ratio rose from 16.4 per cent in 1971–75 to 36.1 per cent in 1989–90 and further to 60 per cent in 2004–05. Bank credit to commercial sector increased from 15.6 per cent to 30.3 per cent of GDP in 1989–90 and 48 per cent in 2005–06.
2. 'RBI Releases Gist of Comments on the Discussion Paper on Entry of Small Banks', Press Release dated 23 February 2010. Available at http://rbidocs.rbi.org.in/rdocs/PressRelease/PDFs/IEPR883R1210.pdf
3. 'Guidelines for Licensing of New Banks in the Private Sector', 22 February 2013. http://rbidocs.rbi.org.in/rdocs/Content/PDFs/GFLNB2222013.pdf
4. 'RBI Decides to Grant 'In-principle' Approval for Banking Licences' (2014), Press Release dated 02 April 2014. Available at http://rbidocs.rbi.org.in/rdocs/PressRelease/PDFs/IEPR1945ABL0414.pdf
5. Ibid.
6. Wholesale banks with twenty or fewer branches could be referred to as wholesale investment banks.
7. The Mor Committee (2014) explains that the Payments Bank can be nested or independent. A Nested Payments Bank would need to partner with a bank (Sponsor Bank), while an Independent Payments Bank would directly participate in the payments system. While nested payment bank hold an escrow account with its sponsor bank, its independent counterpart would hold some combination of CRR and SLR directly with the central bank.
8. Personal interview, 16 June 2014, Mumbai.
9. In March 2014 the Supreme Court directed the Centrral Government to withdraw with immediate effect all notifications making Aadhaar cards mandatory for availing benefits under social security schemes and not to deprive any citizen of any benefit because s/he does not possess an Aadhaar card. It also restrained the UIDAI from sharing biometric or any other data of the Aadhaar card holder with any agency without the express consent of the card holder. The UIDAI is committed to protecting the right to privacy as a basic human right of an individual. Venkatesan (2014).
10. 'Draft Guidelines for Licensing of "Small Banks" in the Private Sector, 17 July 2014 http://rbi.org.in/scripts/bs_viewcontent.aspx?Id=2856; 'Draft Guidelines for Licensing

of "Payments Banks", 17 July 2014, http://rbidocs.rbi.org.in/rdocs/Content/PDFs/FPB170714FL.pdf (Both accessed on 14 September 2014)

11. 'MFIN Receives Self-Regulatory Organization (SRO) Recognition from RBI', http://mfinindia.org/mfin-receives-self-regulatory-organization-sro-recognition-from-rbi/#sthash.B4vUDoju.dpuf (accessed 20 September 2014).
12. Lok Sabha Secretariat (2014).
13. As on August 2014.
14. Authors' interview with C.S. Ghosh, CMD, on 25 June 2014, Kolkata.
15. On 25 June 2014, Kolkata.
16. Alok Prasad, CEO, MFIN as quoted in Ram Kumar (2014).
17. See the 'Recommendations on Draft Guidelines for Licensing of "Small Banks" in the Private Sector' submitted to the Reserve Bank of India under Poorest States Inclusive Growth (PSIG) Programme, 14 August 2014.

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6

Looking Ahead

In terms of design and approach the 'bank-led' financial inclusion drive started around the mid-2000s has been significantly different from the earlier initiatives. The SHG bank-linkage programme generated similar hype in the 1990s, but it largely concerned women and their groups. Since the objective of the programme was to help the poor collectively build their savings, which could then be leveraged for bank credit, individual banking engagement was not considered a priority. Even when the programme expanded its reach to several regions, only a minuscule proportion of ordinary women members got the opportunity to directly deal with commercial banks or learn about commercial banking. The Swabhiman scheme launched in 2011 shifted the focus to households and individuals and promised to create a branchless system of financial services provision at the village level in the form of business correspondents. It also promised to spare them from exploitative middlemen by directly crediting benefits, payments and subsidies to their bank accounts. It showed a way to the large population of workers living in cities and towns far away from their homes and villages to earn a living and their dependents back home to send and receive money safely and quickly. For the innovative and entrepreneurial minds, financial inclusion offered the best opportunity to innovate around viable business models that combine the interests of technology and society.

Jan-Dhan Yojana, the third phase in financial inclusion marks 'the big push' strategy from the state, and is a continuation of what the earlier regime started off with. The several features added in the new dispensation (extending to urban areas, interoperability to RuPay cards and AEPS, simplified or e-KYC, emphasis on financial literacy, etc.) apparently have evolved from the learnings of the earlier phase. It also indicates the Indian reality that governments cannot afford to leave the problem of poverty and exclusion to be resolved by the market forces alone.

The analysis in the earlier chapters indicate that the financial inclusion project of India involves several initiatives and institutions. Technology—both social and physical—has undoubtedly been the key to operationalizing the financial inclusion machinery developed over these years. Policies too have evolved alongside the maturing of these technologies. The governments at the centre and states have taken keen interest in promoting financial inclusion as an agenda for inclusive development. However, practices and processes appear to differ across institutions and regions. Those banks with more agile systems the transmission of financial inclusion philosophy happened

faster through the ranks. The states that are privileged to have initial conditions to promote inclusion or proactive administrative leadership have outdone others.

Despite such multipronged efforts to accelerate financial inclusion, the drive is yet to gather momentum. Its intent, however, has become clearer over the years—to deepen the financial markets by encouraging multiple institutions and methodologies to co-exits in competition with each other. This indeed seems a broader interpretation in terms of scope and strategy compared to the earlier concerns of making financial services available to the poor households. Be it the targeted credit programmes, or the microfinance initiatives including SHGs and other community based microcredit programmes, the thrust in the past was singularly on economically weaker sections. Exclusion was seen as a natural corollary of poverty and hence, these terms were often treated as conterminous. Such an interpretation of exclusion/inclusion is fast becoming irrelevant in India.

The RBI has been working progressively towards developing a pro-market interpretation of financial inclusion. The earliest efforts in this direction can be seen in the first Narasimham Committee Report 1991. The subsequent policies and guidelines from the central bank have extended the idea of 'inclusion as market deepening' bit by bit till it came to be fully articulated through the prescriptions of the Mor Committee. The report of this committee also became the point of convergence with the parallel developments in the non-banking sector. As of now, the proposed Small Banks and Payments Banks constitute the central pieces of the package that RBI offers to further financial inclusion. The pertinent question is whether we should make fresh and coordinated efforts to leverage the existing institutional structure or we need a fresh set of institutions (Ram Mohan, 2014). There has not been any dearth of 'big ideas', some of which did produce results (like cooperatives, bank nationalization and regional rural banks). The current wisdom suggests that banks tend to be universal rather than specialized given the pressures on viability. In fact this is what the granting of private bank licenses to Bandhan and IDFC seek to facilitate.

As of now financial inclusion has evolved into an all encompassing concept. Searching for the excluded is increasingly seen as a redundant exercise. In the words of Raghuram Rajan, governor of RBI '…we don't need to choose between people. Whoever can benefit, they should get it' (i.e., financial services).[1] It is argued that within economically dynamic settings, there are pockets of exclusion created by institutional infirmities or sheer gaps. The micro entrepreneur in an urban slum has a buoyant business to fall back on in case she applies for a bank loan. But her business is not 'formal' and hence risky for the lender. Or a farmer group may be capable enough to organize their production collectively and face up to market challenges, but they cannot borrow from a formal institution as the latter has no instruments to appraise them. Similarly there are migrant workers who are forced to get trapped in illegal money transfer corridors, despite their willingness to pay, as there is no easily accessible legal alternative. The current discourse on financial inclusion concentrates on these aberrations—regulatory failures, institutional fissures, and capacity differentials—as having caused pools of exclusion preventing smooth expansion of a market driven economy. The renewed interpretation of financial inclusion, no doubt, has expanded the scope of action and ideation by a host of financial market players. New players have emerged, especially who can combine technological prowess with knowledge of the financial system. Technological innovation seems to thrive on financial inclusion.

Importantly, the banks in India are going to spearhead the inclusion project. The RBI clarifies that banks will continue to drive the process as they are trusted by people the most and have better credibility than non-banking institutions and NGOs. As limited service providers, both NBFCs and NGOs have also certain inherent limitations in championing a project that revolves centrally on making a wide range of products suiting the specific needs of a wide constituency of potential customers. Through its new guidelines for small banks and payments the central bank has opened a channel for these agencies to formalise their institutional structures further. Or they can link with the formal structures as agents and lend them a hand in extending the market reach. The central bank foresees the advent of diverse approaches and channels as result of some its inclusion-focused initiatives.

The MFIs are now faced with a critical and difficult choice: should they walk the path alone and confident

as niche agencies focused on serving the lower income and poorer populations or should they shift to a different orbit to join the multitude of banks competing for a slice in the customer pie. The central bank is clearly in favour of formalization. It is increasingly intolerant of arrangements that create regulatory arbitrage and inefficiencies, but more tolerant of failures of vulnerable institutions leaving insignificant systemic effects.

The current financial inclusion plan has not left any major role for SHGs too. At the same time, looking at their central role in NRLM and their active contribution to livelihood development in programmes like Kudumbashree in Kerala, it may be argued that the relevance of SHGs has just been redefined and not rendered redundant. The substantial increase in average SHG savings over the years suggests that they are well-integrated into the banking system. Despite this fact, credit flow to them has progressively declined in recent years. With doors open for MFIs to become banks, a new alliance may evolve between them and SHGs in the years to come. On a larger plane, it indeed is a matter of concern that the earlier questions about exclusion perpetuating poverty and marginalisation are fading in intensity and significance and the deeper and more fundamental debates around the structural aspects of financial exclusion and the intricate interrelations between multiple exclusions—social, cultural, economic, and political—are being dumped as irrelevant.

The experience so far does not indicate that agency banking model using BCs and BF is sure to succeed in all regions and contexts, though it has been very helpful and deserves to be promoted. The question is whether they can be a substitute for the wholesale rural financial system. The recent assessments have found that people tend to trust banks, and not agents or non-banking structures. In such a scenario non-banks and non-profit agencies cannot be expected to play any decisive leading role in facilitating inclusion. In that sense the current thrust on the banking system to lead and coordinate financial inclusion seems the most logical. While the regulated MFIs have been given options to be part of this process, the SHGs and non profit MFIs are in a state of flux. They should also constitute an essential and important component of the financial inclusion architecture, their significance measured not in terms of size of financial transactions but in terms of the number of marginal groups covered.

Whatever be the nomenclature used, a mission of the nature and magnitude of JDY demands closer scrutiny. To begin with there are obvious points of conflict between what the government considers desirable from the point of view inclusive development and what the central bank estimates as feasible from the angles of efficiency and stability. For instance, the scheme envisions that the bank accounts would be opened by 15 August 2015. It also offers an overdraft facility of Rs. 5,000 for all new basic bank accounts one year after satisfactory operation of the account. In RBI's view it will take more than a year to put the necessary processes and institutions in place to open the massive number of new accounts. The rising NPAs, especially in the PSBs, is a major source of concern for the regulator. It has recommended a rollout of overdraft over three years. The recent warning from the RBI governor cautions bankers that hasty implementation of JDY is likely to create three main risks: opening of multiple accounts for the same person; patchy coverage of the scheme; dormancy of accounts. According to him 'The system is going to be a waste if what we do generates a whole set of duplicate accounts. It is going to be a waste if you do not have full coverage. It is going to be a waste if those accounts are not used, they open and they languish.'[2]

As the Parliamentary Committee on Finance had suggested the state needs to ensure statutory right to the citizens to open bank accounts in order to further financial inclusion. Mor Committee too has endorsed this proposal and suggested that any adult individual whose identity is verified and authenticated (through Aadhar for instance) must have the right to open a bank account. 'The aggrieved individuals would need to have the right to seek redress from RBI in case they have not received this account. Upon receiving such a complaint the RBI would need to ensure that such an account is opened within 30 days of receipt of the complaint' (p. 59).

Prior to making such revolutionary changes, however, the state must formulate a national policy on financial inclusion so as to prevent regulatory arbitrage and to represent the concerns of different stakeholders, more importantly, of the relatively weaker customer groups. The central bank seems to have reconciled to the idea

that banking system alone cannot solve the problem of exclusion. Also no single programme or strategy is adequate to achieve the large task of financial inclusion. Multiple methods, tools and institutions are needed for this. Whereas the recent policies have opened up avenues for players like MFIs to be part of the mainstream inclusion drive, whole hearted and innovative efforts are yet to be made to leverage the un-utilised capacities of the vast network of grass-root level organisations such as rural cooperative banks, PACS and post offices. An 'inclusive' financial inclusion policy integrating the diverse institutional resources and operational models—old and new, pro market and community centric—would go a long way in ending 'financial untouchability' in India.

NOTES

1. 'Poverty definition immaterial for financial services: Raghuram Rajan'. Available at at: http://www.livemint.com/Industry/TiZ0gyvvqNpCAXnqlffy9K/Poverty-definition-immaterial-for-financial-services-Rajan.html?utm_source=copy
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Annexure

Annexure 1

QUERY ON *INCLUSIVE FINANCE INDIA REPORT 2014*

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SUMMARY OF RESPONSES

The decision of changing the name of the report from 'State of the Sector Report' to 'Inclusive Finance India Report' is highly appreciated by the members. Members mentioned that the term inclusive finance indicates that the focus is on client-side perspectives and sustainable financial deepening. The *Inclusive Finance India Report* needs to be more holistic covering all the dimensions of inclusion such as social inclusion, digital inclusion, financial inclusion, geographical inclusion, and cultural inclusion.

Further members feel that most of the efforts from policymakers and banks have been 'supply-driven' and by push of the regulators. There has been serious mismatch between the needs of people and supply of banks and other financial service providers, so a new thinking and new approach is required.

Broadly, members suggested coverage of following aspects in the *Inclusive Finance India Report 2014*:

- Urban microfinance—demands of urban poor, service providers and M gaps in urban areas
- Examples of state-led successful models in the report
- Impact of the microfinance—coverage of impact studies
- Cooperative initiatives for inclusive finance
- Innovations in financial inclusion including innovative financial products
- Successful pilots on community-based institutions and individuals acting as business correspondents and challenges faced by business correspondents
- Replicable models/sustainable models on financial inclusion
- Financial inclusion across value chain
- Success stories emerging out of financial literacy /financial capability
- Critical analysis of SHG-Bank Linkage Programme
- Micro financing for elderly
- Policy–practice gaps

State-Led Successful Models: Members endorsed that the 'Samruddhi'—Madhya Pradesh Model for Financial Inclusion has generated lot of interest among microfinance practitioners and various state governments. Many state governments are in process to replicate the same. They also shared a short paper that incorporates step-by-step approach and also concerns and debate among the microfinance community.

Using Post Offices to Reach the Unreached: Members mentioned about the large network of post offices which can be utilized for financial inclusion. They shared that out of the total 154,866 post offices, 139,040 (89.78 per cent) are in the rural areas. Apart from the advantage of reach, post offices are also having added benefit of having information about each and every family in their area of operation. Members recommended utilizing post offices for microfinance after building capacities of the human resource engaged in post offices and establishing better systems and procedures.

SHG-Bank Linkage Programme: The SHG bank linkage programme is one of the largest programmes of microfinance in the world. Members feel that the programme has not kept pace with the delivery systems as still many bankers are reluctant to open the accounts of SHGs and provide them loans in rural areas irrespective of the clear-cult guidelines of RBI and NABARD. In some cases, branches of banks also force NGOs/SHPIs to provide informal guarantee for the repayment of loans of SHGs. An analysis of the programme needs to be covered in the report.

Incorporating Urban Microfinancing in the Report: Highlighting on the importance of urban micro financing, members informed that it is difficult to get a consolidated information about financial inclusion in urban areas. The reports of NABARD provide state-wise and agency-wise information about SHGs and micro financing but not in terms of rural and urban. Further, members informed about National Urban Livelihood Mission (NULM) of Ministry of Housing and Urban Poverty Alleviation (MoHUPA) wherein there is a component of financial inclusion also. Members recommended going through the suggestions made by the members of MF Community on micro financing in urban areas in a discussion on NULM.

Banking Set-up for Microfinancing in Urban Areas: Banks are the major channels of financing urban poor. All the banks need to do priority sector lending and also provide microfinance services under SHG bank linkage programme. Recently private banks like HDFC, ICICI, Axis, and YES bank have also entered into retail micro financing and started functioning in few states. It will be good to have a glimpse of the initiatives being taken up by these private sector banks in the report.

Examples of Private Microfinance Institutions in Urban Areas: There are well-proven examples of MFIs doing micro financing in urban areas. Members shared names of some of the leading microfinance institutions working in urban areas: Bandhan Financial Services Pvt. Ltd.; BASIX (through Bhartiya Samruddhi Finance Ltd.); Arohan Financial Services Pvt. Ltd.; CASHPOR Micro Credit; SKS Microfinance Ltd.; SONATA Finance (P) Ltd.; Ujjivan Microfinance; Spandana Spoorthy Financial Ltd.; Midland Microfinance; Utkarsh Micro Finance Pvt. Ltd.; and Janalakshmi Financial Services Pvt. Ltd.

Members also shared the example of microfinancing by Drishtee Foundation which provides MF services to the individuals as a business correspondent of State Bank of India. Drishtee in collaboration with Jantaa Foundation also provides education loans to the students to pursue primary and vocational education. Members feel that the model of Drishtee can be very useful in case of people with disabilities (PwDs), older persons and other segment of population living in urban and rural areas.

Members shared some of the good examples of urban cooperative banks and urban thrift and credit cooperatives that are providing microfinance services to the urban poor:

- SEWA bank, Ahmedabad, Gujarat
- Cuttack Urban Cooperative Bank, Cuttack
- Bhagini Nivedita Sahakari Bank, Pune,Maharashtra
- Mann Deshi Mahila Sahakari Bank (MDMSB), Maharashtra
- Apni Sewa Sahkari Samiti, district Jaipur, Rajasthan
- Mahila SEWA Urban Cooperative Thrift and Credit Society, New Delhi

Members also quoted names of two scheduled urban cooperative banks Cosmos and Saraswat urban cooperative bank and suggested that these banks can also be used for providing financial services to the urban poor. They also suggested that government need to promote such established urban cooperatives banks to cater to the needs of the urban poor. Finally, members suggested for the coverage of financial cooperatives especially urban cooperative banks in the report.

Housing Microfinance: Giving the scenario of housing microfinance, members informed that the middle class people who have a steady cash flow like salary are able to get credit for house at a normal rate of interest from banks, however people living below poverty line and not having regular source of income get loans at a high rate. We need to think on the need for financial products for sectors which are not familiar in the formal financial institution.

Coverage of Microfinancing for Elderly: Members shared the scenario of elderly in India and informed about the initiatives that have been taken up by Help Age India. Help Age India could organize nearly 42,000 rural elderly men and women into more than 3,500 Elders Self Help Groups (ESHGs) and their higher order federations, over the past five to eight years. Moreover, 930 ESHGs are established in contiguous flood affected villages of North Bihar and a similar number from the mother experiment in Tamil Nadu and Kerala. These SHGs are federated further and there is an independently managed Apex federation with direct credit linkage of the Groups with NABFIN. The ESHGs and their higher-order federations, similar in structure and style as the Self-Help Groups of women have been working on providing age appropriate livelihoods and livelihood credit.

It is evident that elderly need different microfinance products such as mobile banking services, efficient remittance and payment services so that they can transfer and receive money conveniently. These people also need reverse mortgage schemes/products as some of them are having valuable properties in their names but not having liquid money required at the time of emergencies, medical treatment and hospitalization. Members also shared that based on the discussion on National Policy for Older Persons in Microfinance community, the revised version of the policy is having a clear section on microfinancing. It will be useful if the report covers issues related to microfinance for the elderly.

Inclusion of a Chapter on Cooperatives in the Report: Cooperatives have seen a major change in the enabling environment, with a threat to Self-Reliant Cooperatives, which are not fully integrated in the data and state support systems, despite official claims of commitments to cooperatives. A separate chapter could be devoted to cover cooperatives.

Coverage of the Status of Voluntary Savings: After the release of SHG-2 (SHG bank linkage programme Phase II) circular, voluntary savings is given due importance by NABARD and study of the pilot phase was undertaken and incorporated in the annual report of NABARD. References and output of the studies on voluntary savings can be given in the *Inclusive Finance India Report*. It will be good to have some analysis on the status and mechanism of collecting voluntary savings by SHGs, federations and other institutions in the report.

Coverage of National Level Apex Finance and Development Organizations: Mentioning about six national-level apex finance and development organizations such as National Scheduled Caste Finance and Development Corporation; National Minorities Finance and Development Corporation; National Handicapped Finance and Development Corporation; National Safai Karamcharis Finance & Development Corporation; National Backward Classes Finance and Development; and National Scheduled Tribes Finance and Development Corporation, members suggested sharing the programmes and challenges faced by these organizations in the *Inclusive Finance India Report*. These apex institutions offer very good programs, but, the schemes do not reach the target groups.

Poorest States Inclusive Growth (PSIG) Programme: As a part of the Poorest States Inclusive Growth (PSIG) Programme, some studies were conducted for Access to Finance, in four States: Madhya Pradesh, Bihar, Uttar Pradesh and Odisha. These studies contained a good overview of the situation in these States, perspectives of stakeholders and recommendations for going forward. The key lessons of these studies can be shared in the report.

Financial Capability: The concept of Financial Capability is developed by GIZ in consultation with rural households, covering members of SHGs, PACS, MFI clients and financially excluded people. A study of GIZ gives a good understanding of the demand side capabilities that need to be built, and environmental factors needed for enabling meaningful financial inclusion. The concept and the study on financial capability undertaken by GIZ can be shared in the report.

Coverage of Impact Studies: The earlier microfinance conferences, in 2009 and 2010 had sessions on impact of microfinance. The focus has, since, moved to social performance. Social performance shifts attention to institutional responsibility, and to customer protection, leaving the issue of impact of microfinance under-studied. The report will do well to cover an analysis of impact studies that have taken place in the past three years.

Quick Study of Financially Excluded People: A quick study should be done with a sample of financially excluded people across the country to understand their perspective, needs and experiences. This will help in putting up a road map of financial inclusion.

Policy–Practice Gaps: Members mentioned about the Policy Practice Atlas on Micro finance produced by UN-Solution Exchange and UNDP, wherein the policy–practice gaps of microfinance sector are presented. *Inclusive Finance India Report* can highlight these policy–practice gaps to draw the attention of policy makers.

Value Chain Financing: Further, members quoted example of the dairy sector and shared a case study of a CBO that highlights the needs of financial products like credit for purchase of milch animals, establishing feed shops, fodder plots, milk collection centers, milk sale points, etc. Members shared a case study on how a CBO was able to overcome the challenges on such financial products.

Financial Inclusion of Rickshaw Pullers: Highlighting about the importance of financial inclusion of rickshaw pullers, members informed about an e-discussion conducted by Microfinance Community and also about a national-level study of UNDP that covers financial inclusion issues of rickshaw pullers. The reports provide key policy and operational issues related to financial inclusion of rickshaw-pullers. Members also shared another comprehensive report of a study on rickshaw pullers—'Evolving Participatory Relationships for Uplifting the Urban Poor Rickshaw Pullers: Next Step Forward'.

Coverage of Livelihood Insurance and Micro Leasing Model: The Goat Trust, working in domain of small livestock-based livelihoods with women from poor families has piloted 'Bakari Bank' program. Under the programme, integrated leasing and insurance and technical support services are provided at the door steps through mobile vans. The service providers use mobile vans to reach target villages and provide micro leasing services for procuring goats and ducks along with credit limit facilities (something like Livestock Credit Card-LCC).

Wholesaler–Retailer Model: While on one hand SHG banks linkage programme is focusing on outreach, the wholesaler–retailer model stresses on commercial banking. Besides NABARD and SIDBI, other important players of microfinance are Rashtriya Mahila Kosh, sectoral national and state financial corporations, private banks like ICICI bank, Citibank, ABN Amro bank and funding agencies. These apex financial institutions and funding agencies including NABARD and SIDBI are providing support to a large number of MFIs in India with different operational strategies. The report may cover various linkage and operational arrangements that are coming under 'Wholesaler—Retailer Model'.

Members shared about the small pilot initiated by CARE Indiathat communicates that people living in poverty are able to access diverse range of financial instruments to run their business, build their assets, balance expenses, shielding themselves from risk.

Role of Regional Rural Banks Like Punjab Gramin Bank: Sharing the initiative taken up by Punjab Gramin Bank, members informed that door to door survey was conducted to know the real living conditions of the poor and landless people considering village as a single unit. Further, environment was created to start the project of micro finance without any external assistance and grant in the light of the model of Gramin Bank, Bangladesh. This was within the limits prescribed by the Bank. Members informed that the initiatives on financial literacy were proved to be very useful as it helped bringing the non-bankable poor close to the Banking Institutions.

NABFINS Initiatives: Members shared about microfinancing initiatives of NABFINS and also expansion plans of the organization, more specifically on financing Producer organizations in a big way. NABFINS lends to Self Help Groups at interest rates ranging from 15 per cent to 16 per cent against the RBI cap of 26 per cent. With a margin of 5–6 per cent NABFINS made a net profit after provisioning of Rs. 14 crore in financial year 2013–14 with a disbursement/loan portfolio of Rs. 644 crore. While a major share of its portfolio comprises direct lending to SHGs/JLGs, it has taken up the challenge of supporting second level institutions like producer companies and cooperatives which manage

inputs in bulk, aggregate commodities produced by small farmers, add value and market them.NABFINS partners with existing institutions like NGOs, cooperatives, federations of SHGs which act as BCs. NABFINS has named them Business and Development Correspondents. This is because NABFINS is convinced that credit alone is inadequate to bring poor, out of poverty and therefore other supporting services are required.

YES Bank's Initiatives: Additional research reveals that banks like YES Bank could create a specialized division 'Inclusive & Social Banking' (ISB) for implementing the Financial Inclusion Plan (FIP). This division aims to create viable business models for providing comprehensive financial services to the 'Bottom-of-the-Pyramid' in a commercially viable and sustainable manner. Inclusive & Social banking division is currently experimenting with various models of providing direct micro-credit in urban, semi-urban and rural settings across various geographical and socio-economic contexts. It also offers micro-insurance and micro-savings services to its customers.

Coverage of Migrants and Role of UID: One major reason, among others, for the financial exclusion of migrants is lack of possession of any personal identification documents either in the form of an address proof or an identity proof. The roll-out of Unique Identification—UID or AADHAR cards—by the Government of India is considered as a game changer in establishing their identity to the banks and boost efforts in banking the excluded. In the report, coverage of UID or AADHAR card's contribution in speeding up of financial inclusion is suggested.

Role of Gramin Vikas Trust: Gramin Vikas Trust (GVT), has made an utmost attempt to bring targeted tribal community/Wadi families under the aegis of financial inclusion by enabling them to access the wide range of financial services like, savings, credit, pension, insurance, remittances, KCC, GCC, financial literacy to these tribal families based on systematic linkages, coordination with the local bank branches. Members recommended sharing the model of GVT in the report.

Members recommended referring to MIX data and its knowledge products which are based on market analysis and research on the microfinance sector.

Micro-finance Institution Development and Regulation Bill: Referring to the long pending Micro-finance Institution Development and Regulation Bill (MFIDRB) 2012, members felt the need of its clearance from the parliament.

Finally, members suggested that the success and failure cases of various initiatives being undertaken by many proactive institutions may be collected and included in appropriate chapters, which will enable the reader to take some lessons out of it and replicate in their area.

Annexure 2

POVERTY

MICROFINANCE COMMUNITY

REPORT OF THE ROUNDTABLE ON INCLUSIVE FINANCE INDIA REPORT 2014

Empowered lives.
Resilient nations.

Date: 10 June 2014
Time: 10:00 A.M. to 2:45 P.M.
Venue: UN Conference Hall, UNDP, 55, Lodhi Estate, New Delhi, 110003, India

BACKGROUND

For the past seven years as part of Microfinance India Summit, *State of the Sector Report* (SOS Report), microfinance has become an important annual initiative. The document covers not only the status of MF in India but also issues, innovations, practices, and models of microfinance sector. This report has consistently been brought out by ACCESS Development Services and considered as an authentic national level document that describes the state and growth of the Indian Microfinance sector. Moreover, this has been a unique and widely referred to document not only in India but also in other parts of the world. The report has widened its ambit and evolved to become the 'Inclusive Finance India Report' from this year with greater focus on financial inclusion.

ROLE OF UNDP FACILITATED MICROFINANCE COMMUNITY OF PRACTICE

Since last six years, Microfinance Community—Solution Exchange, United Nations has been proactively contributing in the formulation of the SOS report in the form of holding e-discussions and roundtables wherein leading MF practitioners of the country participate and contribute.This makes the whole process more democratic as suggestions on the structure of SoS are also taken from the members and initiatives of both small and big players of MF sector are duly recognised. Full report of roundtable on SoS 2013 is available at: http://www.in.undp.org/content/dam/india/docs/poverty/roundtable-on-state-of-the-sector-report-2013-microfinance.pdf

ROUNDTABLE ON INCLUSIVE FINANCE INDIA REPORT 2014

Objectives of the Roundtable on Inclusive Finance India Report 2014

- To seek suggestions from the participants on what should be included in the *Inclusive Finance India Report 2014*
- To discuss about the innovative activities in the area of microfinance going on in different parts of the country
- To enumerate and discuss the specific emerging issues in different areas of work being done on financial inclusion

Participants of the Roundtable and their Organizations

Tara Nair, Associate Professor, Gujarat Institute of Development Research, co-author, *Inclusive Finance India Report 2014*, Ahmedabad; Ajay Tankha, Independent Expert, co-author, *Inclusive Finance India Report 2014*, New Delhi; Vijayalakshmi Das, Chairperson ACCESS Development Services and Managing Director, Ananya Finance for Inclusive Growth Pvt. Ltd., New Delhi; Pallavi Sen, Associate Vice President, MFIN, Gurgaon; Vipin Sharma, CEO, Access Development Services, New Delhi; Sachin Hirani, Asia Regional Manager, Microfinance Information Exchange, Hyderabad; P.C. Sabharwal, Director, Director World Association for Small and Medium Enterprises, NOIDA, UP; Rohit Kumar, Manager (Skill Development), World Association for Small and Medium Enterprises, NOIDA, UP; Shweta Banerjee, CGAP, World Bank, New Delhi; N. Jeyaseelan, Chief Executive Officer, Hand in Hand India, Chennai; Amit Mittal, Lead Analyst, Asia Region, Microfinance Information Exchange, Hyderabad; Ruski Mahal, Program Manager, Livelihoods, American India Foundation, New Delhi; Smita Premchander, SAMPARK, Bangalore; Jai Pal Singh, Independent Resource Person—Microfinance, Jaipur; Rabindra Kumar Singh, CMD, National Scheduled Castes Development and Finance Corporation (NSFDC), Delhi; Satish Chandra Upadhyay, Advisor, National Cooperative Development Corporation, New Delhi; Sushant Tripathy, Inclusive and Social Banking, YES BANK, Mumbai; Deepak Verma, Joint Director, National Saving Institute, Ministry of Finance, New Delhi; A.K. Chauhan, Director, National Saving Institute, Ministry of Finance, Nagpur; Leonore Gruenberg, GIZ, New Delhi; Madhu Saran, Addl. COO—North and North-East India and Country Head—Myanmar, Hand in Hand India, New Delhi; Madhawi Bisht, America India Foundation, New Delhi; Praniti Maini, America India Foundation, New Delhi; Sourav Roy, NMMU, NRLM, New Delhi; Shilpi Neil Shastri, IFC, New Delhi; Anoop Mittra, Margdarshak, Lucknow; Shruti Gonsalves, Chief Executive Officer, SEWA GrihRin Pvt. Ltd. New Delhi; ArindomDatta, Rabo India Finance, Senior Director and Head, Rural & Development Banking/Advisory, Gurgaon; Rishab Sood, Rabo India Finance, Gurgaon; Meera Mishra, Country Coordinator IFAD, IFAD, New Delhi; Anoop Kaul, Basix, New Delhi; C Ramesh Rao, AGM, NSFDC, New Delhi; Prateek Tandon, VP, Inclusive and Social Banking, Yes Bank, Delhi; Naveen Das, Solution Exchange, UNDP, New Delhi; Ramesh Jalan, Solution Exchange, UNDP, New Delhi; Ramkrishna Biswal, Project Director, Sewa Bharat, Delhi; Radhika Agashe, Executive Director, ACCESS ASSIST, New Delhi; Navin Anand, Resource Person and Moderator, Solution Exchange, UNDP, New Delhi; Mohammad Anas, Solution Exchange, UNDP, New Delhi; Amit Arora, Lead Advisor, GIZ-NABARD, New Delhi; Suneira Rana, Associate, CGAP, World Bank, New Delhi; Amit Gupta, Principal Advisor, Smart Campaign, Bangalore.

Opening Remarks and a Brief About the *Inclusive Finance India Report 2014*—Vijayalakshmi Das, Chairperson, Access Development Services

Giving the opening remarks, Vijayalakshmi Das, Chairperson, Access Development Services welcomed all the participants and thanked UNDP and Microfinance Community, Solution Exchange for all kind of knowledge support. She appreciated the diversity of stakeholders present for the workshop.

Vijayalakshmi Das mentioned that the report is going to become *Inclusive Finance India Report* from *State of the Sector Report* with greater focus on Financial Inclusion. She further added that this change is going to increase the content and scope of the report to manifolds and conveyed her best wishes to the authors to come up with a different report this year covering all the excluded segments.

Making note of a news item in *Mint* on Financial Inclusion Conclave results, she discussed about the subject of the news item on the handicap of the formal banking structure in reaching out to the poor. She added that some MFIs claim that they can do financial inclusion much better than banks. She emphasized that the demand side of the financial inclusion still needs to be understood by us and it would be slightly premature to claim that we have a solution to Financial Inclusion.

She expressed that in urban and metro cities there are segments of people who earn but cannot save because they don't have an identity card (KYC) to open bank accounts. Thus lack of KYC documents does not permits that segment with access to banking services and these segments needs to be looked at in the report. She also mentioned that bankers have a larger role to play and take financial inclusion more seriously and work on the gaps to include the excluded segments. UNDP has been doing a wonderful work by organizing roundtables are like cursor that helps to flag off issues in an informal way.

Sharing the Outputs of the E-discussion on Inclusive Finance India Report 2014

Dr. Navin Anand, Resource Person and Moderator, Microfinance Community, Solution Exchange, UNDP welcomed all the participants with brief introduction on the collaboration of the Microfinance Community of Practice (MF CoP) with Access Development Services for the *State of the Sector* (SOS) *Report* and the authors. He mentioned that the relationship of the community with this report and authors has completed 6 years of coexistence.

He further welcomed the change in title of the report from 'State of the Sector—Microfinance' to 'Inclusive Finance India Report.' He thanked ACCESS and the authors for bringing a change in the approach of the report by mentioning that the report lays more focus on clients, customers, people, and looks at the MF sector from client's perspective.

UNDP implemented long-term projects on financial inclusion from 2008 to 2012. Post 2012 UNDP has been supporting other initiatives on Financial Inclusion which includes—The Microfinance India Summit; UNDP and Microfinance Community supporting the *State of the Sector Report*; and Evaluation of Madhya Pradesh Model of Financial Inclusion: as an example of how state led initiatives can bring change.

MF CoP had conducted an e-discussion on the structure and content of the *Inclusive Finance India Report 2014*. The e-discussion provides an opportunity to those experts and practitioners to share their thoughts and ideas on the subject who are unable to attend the roundtable and face to face discussions on the subject. Following are some of the key ideas and views shared by the members:

Presentation on Key Highlights of the E-discussion

- Urban Microfinance: Urban Poverty and Urban Microfinance needs more focus as there is great demand and more focus is required on financial inclusion in urban areas. There is no apex institution/bank like NABARD. There is limited or no data available on financial services to the poor in urban areas.
- Studying State Level Initiatives: Stateswho have done good work for example Andhra Pradesh, Madhya Pradesh needs to be documented. It is to be studied that what possible roles states can play in such initiatives.
- Coverage of Cooperatives: The issues of financial cooperatives are related to regulations, functioning of Urban and Rural Cooperatives, Self-Reliant Acts or Traditional Cooperatives Acts. A lot more needs to be done on financial cooperatives as well.
- Role of Post Offices in Financial Inclusion: Bringing Post Offices into Core Banking Platform, efforts made in MP and others states can be taken up in the report. Ministry of Finance has already moved a proposal to RBI for allowingPost Offices to function as banks by giving banking license.
- Microfinance for Elderly: Help Age has created more than 1000 SHGs of the elderly in Bihar. Many other issues related to social security and micro financing of the elderly population needs to be discussed. Reverse mortgaging needs more research and experiments.
- NABFINS Financing to Producer Organizations: NABARD supported NABFINS has started financing producer companies, cooperatives and even producer organizations apart from SHG and JLGs. Commercial banks and other financing institutions still need to open up to finance producer organizations.

- Financial Inclusion of Excluded Segments of Population: During Workshops on NRLM and NULM it was revealed that there are different subsets of people that remain excluded like Transgender, Persons with Disabilities, minorities and elderly. A different strategy and mechanisms is required to cover these subsets of segments as it is difficult to form SHGs/JLGs of such segments.
- Coverage of Voluntary Savings Aspects: There is a need to promoting voluntary savings in SHGs and other collectives. NABARD in its revised SHG-II scheme has provided scope for promoting voluntary savings amongst the members of SHGs. UNDP is closely working with Ministry of Finance to link SHGs and other collectives to function as intermediary for promoting voluntary savings.
- Financial Inclusion and Livelihood Issues of Rickshaw Pullers: There was no exclusive report/study about financial inclusion of Rickshaw Pullers at national level. UNDP has recently conducted a national study on Financial Inclusion on livelihood issues of the rickshaw pullers.
- SHG Federations: Many SHG Federations formed under IFAD project are now registering under multipurpose cooperatives. It is still to be studied that—What are the different type of federations existing in India? To what extent they are doing financial or social intermediation or both? How can these federations be strengthened? NABARD has a scheme to supportthese federations but at the ground level whether banks are supporting them or not? This needs to studied and covered in the report.
- Housing Microfinance: More focused approach is required for housing MF in India including research. Presently there seems a significant gap in practice and theory of housing microfinance.
- Micro Leasing: Micro leasing could be taken up as an alternative to credit based micro financing but needs more in-depth study. There have been successful examples of micro leasing in India and abroad. The Goat India has successfully experimented micro-leasing.

Introduction and Briefing by Mr. Ajay Tankha and Dr. Tara Nair—Authors of *Inclusive Finance India Report 2014*

Mr. Ajay Tankha thanked UNDP for organizing the round table and expressed his hope for good set of inputs from the discussion. He mentioned that this year's report represents both continuity and change. Last year's SOS report basically covered two channels—the MFIs and SHGs and special products and services around the MF initiatives in India.

He informed that *Inclusive Finance India Report 2014* of this year will aim to focus more on the segments which have been neglected and Banks will be at the centre of this new discourse on Financial Inclusion as envisaged by the Government. In the previous years, we have not been able to access the banks but this year they would like to a better understanding of how banks feel, their business model, how they work in relation to various FI initiatives.

This report will begin with revision of whole concept of Financial Inclusion. There are many ways people present their work and views on Financial Inclusion. There is a need to unpack and demarcate various perspectives on Financial Inclusion. Some people talk about real Financial Inclusion, the demand side and so many others ways in which this term is used, abused and understood. This issue of defining the Financial Inclusion will be covered in the opening chapter and discussion on the landscape of Financial Inclusion.

The second area would be the status of Financial Inclusion in the country and various state government's initiatives, their numbers and how and to what extent they cover the large number of unbanked people in the country. They will also examine how various other initiatives in this space and discourse around SHG, JLG and MFIs, how they can be fitted in the financial inclusion from the perspective of a dominant discourse of the government.

Apart from the above, the authors also mentioned to cover policy development in this area and see what are the implications of the recent committees including Nachiket Mor committee report. The question of bank licenses, new channels, payment banks, how and what are the implications of these for financial inclusion efforts in the country.

Another chapter in the report will chart the whole institutional structure of what are the channels, sources of fund flow, how funds percolate down through different intermediaries to the poor and financially excluded. Some of the specific discussion like models and means to reach the excluded will also be examined. Mr. Tankha also mentioned about a section on technology and development of CBAs. He highlighted on capturing technology in RRB, cooperatives, banking channels and various challenges posed while implementing technology solutions. Another section will look at regional disparity, demographic divide and what is the level of inclusion in certain packets or geographies. The authors also disclosed their intention to conduct their own small set of study to find out the true picture on the ground.

He mentioned that the government has become very important player in financial inclusion. The government's initiatives related to Direct Benefit Transfer (DBT) and some of the initiatives taken in other states like MP will also be examined. There are a lot of case studies and specific initiatives to embellish the report and he would welcome suggestions from participants to further refine the structure. As suggested by Solution Exchange, UNDP in its presentation, there are areas which we have not covered but plan to cover like Urban Microfinance, Cooperatives, Producer Organisations and the role of states. He will try to cover these in a more significant way.

Dr. Tara Nair mentioned that about seven years have passed after Rangarajan Committee report came out and we began the debate and discourse on doing Financial Inclusion in India. A lot has been done, a lot has changed. The Government and RBI has shown certain path on evolution of Financial Inclusion. Some of these have worked while some did not work. Some banks have done well while some have not. There have been some policies which have really done well but in some other cases they have really been detrimental to the entire process. So the report may come at a time when we seriously need to evaluate what has been happening over the past.

What is really missing in the process of inclusion is an atmosphere for cross learning from the experiences. People have been working in organizations as islands. Bank level policies were neither talked nor discussed much amongst the practitioners. This document may for first time create a platform for multiple perspectives and methodologies to speak with each other and this could be one of the ultimate goal of this document other than just documenting the initiatives. Analytically if some sort of cross learning happens system wide then the report can serve the purpose marginally.

Dr. Tara acknowledged that the understanding of financial inclusion has widened over the years, it started with opening of Bank Account for every single individual later other kinds of financial services were added to it. We also realized that it is not only rural problem but also an urban problem. If there are rural solutions then there has to be urban solutions also. The component of enterprise activities also needs to be added to it because there is gradation of exclusion with productive assets.

Presentation on the Study of Financial Capability-GIZ: Smita Premchander, Jaipal Singh and Leonore Gruenberg

The GIZ initiative on financial capability looks beyond financial inclusion. Financial inclusion will actually be meaningful if people use the money and account productively. GIZ conducted a study looking at how capable people are in using their finances and came out with a report. The report analyses results from 96 Focus Group Discussions with 524 low-income people in 8 districts of Odisha, Uttarakhand, Rajasthan, and Karnataka. The objective of this study was to understand the financial behavior of low income people by looking at their own perceptions as users of money and financial services: How do people perceive money and financial services? What do they mean to them how do they make their financial decisions? Which factors support or constraints their financial behavior and capability.

Based on the findings of the study GIZ defined Financial Capability as an ensemble of abilities that relates to making of informed financial choices, managing money effectively and using financial services for one's own benefit. Thirteen abilities emerged from the study and based on these abilities a set of tools were developed for people to use it readily and understand the abilities with help of games and stories. The development of tools was followed by seven road shows to promote the concept. GIZ is now seeking partnership with organizations to take it ahead and also has plans to pilot

this with SHGs, CBOs, MFIs and the Government next year. The report is available at: ftp://ftp.solutionexchange.net.in/public/mf/resource/res28041401.pdf

Mr. Jaipal mentioned that GIZ has also developed a tool to contextualize the financial abilities. He said that the crux is to understand and define the Financial Inclusion which happens to be an important component of *Inclusive Finance India Report*. Despite financial need and presence of the Financial Service Provider at the supply side, people are unable to reach financial service provider and one reason could be that people don't have the financial capability. The pilots will reveal how financial capability of people is enhanced or how it impacts the real financial inclusion.

Ms. Leonore Gruenberg mentioned that GIZ has also defined the evolution from financial inclusion to financial capability. She informed that the element of social impact and coordination within the family and access within the community should also be factored while studying the impact.

MIX Presentation: Sachin Hirani and Amit Mittal

A lot has been happening on both demand and supply side of Financial Inclusion but one should also try to consolidate whatever is happening in the sector. This year as pointed out by Microfinance Community, urban poverty and microfinance is in focus. Last year it was Business correspondents, Banking Channels and Housing Microfinance. The question comes here is—what is financial inclusion and how do we define that and collect those data set together to look at the overall picture. MIX serves the Industry in this kind of initiative. MIX wants to work with the authors of the *Inclusive Finance India Report 2014* to build a platform for further research. More than 2000 MFIs have been reporting to MIX but as the theme of report has changed from Microfinance to Inclusive Finance a broader role now needs to be played at the FI side.

Mix initiated a new country workbook- finclusionlab.orgto create data sets on financial inclusion both at the supply and demand side. The tool may be helpful for the authors of the report to do further research or to understand what the trend is. The tool will help to compare different indicators of financial inclusion and assess the progress we have made over a period of time and at different levels like district, state and national. The tool has the potential to become a common reporting platform and may also help the MFIs to reduce the burden of multiple reporting if all the MFIs contribute to this platform and the data is regularly updated. The MFIs, banks and the funding institutions should also develop their capacities to understand common reporting.

VIEWS AND SUGGESTIONS OF THE PARTICIPANTS

On Overall Structure of the Report

- *Inclusive Finance India Report* should have a section on climate change impact, climate change adaptation, disaster management and how it is impacting livelihoods of the poor.
- The report can highlight some of the case studies and these case studies should bring out some of the real challenges faced by the promotional organizations in the field. The report should also capture successful case studies from the organizations working in remote locations like Jharkhand, Odisha and North East.
- An element on convergence of MFIs, BCs and SHGs could be included in the report—How these stakeholders have converged, benefitted or leveraged.
- While talking about scale, we might miss on quality. The report should also highlight about maintaining quality of SHGs/JLGs. All the emerging issues of MF and FI can be included in one chapter.
- The report should contain emerging architecture of inclusive finance including the positioning of various institutions in the financial inclusion system.
- Priority Sector Lending should be taken up in the report, including what are the issues with Priority Sector Lending.
- The feedback from main stream private equity investors apart from social PE investors should also be captured in the report.

- Loan waivers by government are an impediment to advancement of financial inclusion and needs to be examined critically in the report.
- The feedback from Credit Bureaus like Highmark and Equifax needs to be taken. The report should also document their contribution and value addition to the sector. Feedback of mainstream credit bureaus like CIBIL also needs to be taken. Issues related to SHG-Credit Bureau problem also needs to be undertaken.
- Dormant accounts give a confusing picture of financial inclusion as it does not serves any purpose. The report could present an analysis of the reasons for account being dormant and possible suggestions how it could be revived and facilitated by the government.
- Focus on the impact which gradually took a back seat in previous year reports. The participants and stakeholders should share as many research-based evidence of impact which can be included in the report.
- With regard to structuring of the chapters, at the end of each chapter we can summarize giving opportunities, challenges, and policy recommendations.
- Largely we have to position the report around inclusive growth debate, the effort should be to position FI in the larger landscape of Inclusive growth.

(Vipin Sharma, Ramesh Jalan, N. Jeyaseelan, Shweta Banerji, Amit Arora, Madhu Saran, P.C. Sabharwal, Vijayalakshmi Das, Pallavi Sen, Radhika Aghashe, Sachin Hirani, A.K. Chauhan)

Microfinance for PwDs, Minorities and Dalits

- We have to give space to the marginalized sections which are not very visible like PwDs, elderly, etc. Largely we have to position the report around inclusive growth debate, our effort will be to position financial inclusion in the larger landscape of Inclusive growth. We also need to discuss about entitlements like social security, pensions, insurance in a separate framework.
- Last year, the microfinance community conducted workshops on NRLM and NULM. One important thought which came up during the workshops was about collectivization of different segments of people like PwDs, minorities, transgender and disaster affected people. For PwDs it is difficult to form JLGs at all the places. Hence a different process of collectivization and financing needs to be adopted.
- NSFDC interest also lies in providing livelihood support to SC/STs in backward regions of the country where chronic poverty lies because money is not flowing in that area. It is also a question of developing the region, and there is no in situ growth.
- IFAD is running many projects for tribals and PVTGs in the states of Jharkhand and Odisha. Remoteness has been a great challenge in implementation of the projects. There are other challenges like informal cashless economies, need for very tiny amount of loans and lack of participation by local communities which also affects the delivery of projects. The case studies from such projects should be included in the report.

(Tara Nair, Navin Anand, R.K. Singh, Meera Mishra)

Gender Aspects

- Gender participation and mainstreaming should be the prime focus of the report and be highlighted separately as even government announced at least one bank account per household is meant for women.
- The gender issues also needs to be looked at. The demand side needs of women like education loan are not met by the supply side as men with bigger ticket size are more attractive to banks than women. We can have a section on how loan size excludes women from access to these financial services. Also due to KYC norms, the women remain excluded from accessing financial services.

- In terms of gender till last year the trend was 90 per cent of the clients in MF but now the trend is going down between 86 per cent and 83 per cent.

(Vijayalakshmi Das, Smita Premchander and Madhu)

Financial Literacy

- Financial literacy/capability is an important component of financial inclusion but funding the financial literacy initiatives is still a challenge. There is no established funding mechanism to bear the cost. Options like PPP or Viability Gap Funding should be explored and taken to the government as most appropriate strategy for promotion and sustainability of financial literacy initiatives.
- A lot of money is being spent by ICICI foundation and Citi Bank for financial counselling. The impact of these financial counselling needs to be studied as a lot of money has been spent and we need to analyse the actual investment as each counselling centre costs around 50–60 lakhs to set up.
- The GIZ initiative on financial capability looks beyond financial inclusion and is based on the assumptions that if FI is there, people have money and access to bank accounts then what? FI will actually be meaningful if people use the money and account productively.
- Based on the findings of a study, GIZ defined financial capability as an ensemble of abilities that relates to making of informed financial choices, managing money effectively and using financial services for one's own benefit.

(Amit Arora, Vijayalakshmi Das, Smita Premchander)

Micro Insurance

- On insurance and pension, the role of private sector should also be considered in the report. Social security and the role of private sector should be an important area which could be included in the report. Examples from RSBY can be taken which has seen huge success in efficiency and management.
- Janashree and Aaam Aadmi Bima Yojana can be managed with the help of private sector rather than the government sector to increase accountability and efficiency.

(AnoopKaul, Pallavi Sen and Tara Nair)

Business Correspondent Model

- The players in the BC space have formed an industry association (BCNM) which is now legally established as BCFI, we can ask BCNM to share industry views, issues and challenges being faced by the entire industry.
- There are lots of MFIs that have gone into BC Model but don't see an impact on the interest being changed after successful growth of BC. Unless the cost of funds for the poor is lowered they will not come forward and access all the services.
- The client protection and certification initiatives also need to be documented. What does client protection means under new models like BC or savings needs to be discussed in the report. Policy impediments should be discussed in the report as some of the financial institutions shy away from being a BC.
- BASIX has helped some SHGs to function as BCs in Delhi. BASIX Local Area Bank started BC operation and focused on credit apart from deposits and as a result the Bank became viable in seven months and BC became sustainable in 13 months. This can be taken up in the report. FI cannot be a standalone model but developed as inclusive growth model.

(Amit Arora, Vijayalakshmi Das, Pallavi Sen, Anoop Kaul)

Urban Microfinance Issues

- There should be a separate chapter on urban microfinancing, it is expected by 2030 the total population in urban areas will be 600 million and lot more needs to be done in this area. Some other specific issues are: creation of an organization for financing or modifying the norms and rules of NABARD so that they can also cover urban areas or there should be a central financing agency for urban microfinance. There should be one agency which should cover the database as there is no classified data available on rural and urban.
- In urban and metro cities there are segments of people who earn but cannot save because they don't have an identity card (KYC) to open bank accounts. Thus lack of KYC documents does not permits that segment with access to banking services and these segments needs to be looked at in the report.
- Urban poverty and financial services is a common problem all across. Microfinance services for micro entrepreneurs should be taken up as a challenge in the report as no banks or financial institutions are supporting them. WASME can help to provide content for this part.
- In urban areas BASIX has helped 800 SHGs through skill development and also helped some SHGs to function as BCs in Delhi.
- There is a need for national study of cooperatives. We need to classify between the urban and rural cooperatives as most of the urban cooperatives have been doing very well in many areas.

(Sachin Hirani, Anoop Kaul, Tara Nair, Navin Anand)

Housing Microfinance

- Presently there seems a significant gap in practice and theory of housing microfinance. More focused approach is required for housing MF in India including research.
- There are two main factors in housing microfinance (i) Informality of Income and (ii) informality of tenure/title. Since most of these loans are considered as unsecured loans by National Housing Bank many housing finance companies like Shubham, Aadhar, India Shelter and SwarnaPragati have developed models to ascertain household income and work out the affordability and EMI part. These HFCs have tried to reach the informal segment through means of alternative documents. There are several alternative documents available or could be created which could provide as a security for lending to this segment.

(Shruti Gonsalves, Navin Anand)

Cost of Delivering MF Services and Need for Cross Subsidization

- Financial literacy/capability is an important component of financial inclusion but funding the financial literacy initiatives is still a challenge, there is no established funding mechanism to bear the cost. Options like PPP or Viability Gap Funding should be explored and taken to the government as most appropriate strategy for promotion and sustainability of financial literacy initiatives.
- The real cost of financial inclusion should be examined in the report as the banks find it very expensive and want only bigger MFIs to partner with. It is important to understand what it costs to provide a package of services and reach the poor households. There are lots of MFIs that have gone into BC model but don't see an impact on the interest being changed after successful growth of BC. Unless the cost of funds for the poor is lowered they will not come forward and access all the services. Even the producer organisations are not able to open bank accounts due to costs associated. If there is any example where more than one service is provided with lowered costs then it can be taken up as a case study in the report.

- The ministry and government should provide some cross subsidization when we talk about reaching the unreached. There should be specific strategy for the remote areas.
- On financing the FI, investment required and how much is being the investment, per person cost by various institutions should be recorded.
- RBI has not defined the cost of service to the client. There is a need to study the cost of value chain of different products and services to identify the variations and gaps.
- Since NSFDC limit of operational cost is only 3 per cent, the MFIs find it too low for MFIs to manage. The Tata Trust has assured to provide some grant in aid to cover the cost.

(Amit Arora, Vijayalakshmi Das, Navin Anand, Jaipal Singh, Pallavi, Tara Nair, R.K. Singh)

MF Products and Services

- Evolution from microfinance to inclusive finance brings a complex confluence for the report with focus on lot more new products like savings, insurance and remittances. However, some focus should also be given to micro leasing. In last one year 4–5 international organizations have expressed their intention to do a pilot on micro leasing in India after doing successful pilots in Africa and Latin America, especially in the field of agri.-implements and agri.-products.
- As a part of financial inclusion, savings are very important and we are stuck because of KYC issue.On Savings side some attention should be given on Chit Funds and Ponzi savings schemes, the report should put a note across all the stakeholders.
- There is an entire range of products and services ready to get into financial inclusion sector, right from credit and insurance to remittances, and we should also consider the cost of providing financial literacy to the customers for the entire range of products available and should not keep it restricted to insurance only. Moreover, the basic fundamentals of financial literacy should be made clear to the customers in order to bring change in their financial behavior.
- Financial inclusion has widened over the years, it started with opening of bank account for every single individual later other kinds of financial services were added to it. There are a lot of initiatives happening at the private sector as well, the telecom companies have their own products on payments and remittances.
- Last 2–3 years we have seen that yes bank and many other private banks have come up with innovative products and models. These are transaction based or credit led model. This is done either through Business Correspondence by providing, remittances and savings or in the form of direct lending by banks to SHGs/JLGs without intermediaries.
- On insurance and pension the role of private sector should also be considered. For pensions we can have some inputs from the EPFOs also.

(Arindom Datta, Vipin Sharma, Tara Nair, Pallavi Sen, Sushant Tripathy, A.K. Chauhan)

Voluntary Savings

- There is a need for promoting voluntary savings in SHGs and other collectives. NABARD in its revised SHG-II scheme has provided scope for promoting voluntary savings amongst the members of SHGs. UNDP is closely working with Ministry of Finance to link SHGs and other collectives to function as intermediary for promoting voluntary savings.
- A separate section on voluntary savings by SHGs should be included in the report.

(Navin Anand)

National Rural/Urban Livelihood Missions (NRLM/NULM)

- During workshops on NRLM and NULM, it was revealed that there are different subsets of people that remain excluded like transgender, persons with disabilities, minorities and elderlies. Different strategy/mechanisms are required to cover these subsets of the MF segments as it is difficult to form SHGs/JLGs of such segments.
- In the recommendations section of the report the authors should suggest that whenever a large government programme like NRLM is introduced at community level in every state of the country an effort should be made to consult all the stakeholders of a state and develop specific norms for that particular state.
- We should also map large programmes like NRLM and how these programmes locate financial institutions.

(Navin Anand, Meera Mishra, Jaipal Singh, Smita Premchander)

Cooperatives

- There is need for a national study of cooperatives. We need to classify between the urban and rural cooperatives as most of the urban cooperatives have been doing very well in many areas. The government is not providing any support to these institutions.
- As suggested by Solution Exchange, in its presentation, areas like cooperatives, and producer organisations needs to be covered in more significant way.
- The MF CoP conducted a separate discussion on the issue of financial cooperatives in partnership with Rabo Bank. The issues related to cooperatives are many like regulations, functioning of Urban and Rural Cooperatives, Self-Reliant Acts or Traditional Cooperatives Acts. A lot more needs to be done on financial cooperatives as well.
- Attention should be given to Cooperatives, we have serious problem with data, especially with self-reliant cooperatives as there is no data available nor anyone is collecting the data.
- Sampark has Self Reliant Cooperatives with 11,500 women but except NABFINS no other bank or financial institutions are funding them. Even SRLM refuses any sort of partnership with these cooperatives. Out of nine states, two have repealed Self Reliant Cooperative Act and it is almost defunct in remaining seven states. We expect some advocacy for these cooperatives through the report.
- Cooperatives are important stakeholders that have relevance in Financial Inclusion. While cooperative banks have been there for more than hundred years but are largely out of formal definitions of FI. These banks have evolved a lot in last couple of years and have enhanced their capabilities with technology based interventions like adopting CBS platforms. GIZ has worked with NPCI and NABARD to bring these banks on board for formal payment systems like RuPay card and mobile banking. The cooperative banks are evolving and the ones which are most close to the rural poor and main stream farmers. These can be good case study related to technology being leveraged and included in the report.
- NABARD-supported NABFINS has started financing producer companies, some cooperatives have also started supporting producer organisations apart from SHG and JLGs but commercial banks and other financing institutions still need to open up.

(Amit Arora, Smita Premchander, Meera Mishra, Navin Anand)

Interest Free Microfinance

- Micro equity support model is a Shariah compliant product that has been piloted in Mewat. It's a profit sharing model which has given 100 per cent result. In fact, this model has generated more income than interest driven

models. In Mewat a lot of MFIs and banks have burnt their fingers but this model has gained 100 per cent success due to participatory finance model which is also a good model for the poor and needs to be highlighted in the report as an innovative and alternative model of financing.

(Anoop Kaul)

Client Protection

- *Inclusive Finance India Report* will bring a change in the approach of the report as the report will lay more focus on clients, customers, people, and looks at the whole sector from client's perspective.
- The client protection and certification initiatives also need to be documented. What does client protection means under new models like Business Correspondent Model and in context of savings? This needs to be discussed in the report.

(Amit Arora, Navin Anand)

Differentiated Banking

- Now after Nachiket Mor Committee report, we have started talking about differentiated banking but even the large MFIs don't have the wherewithal to graduate to a bank. A graduation strategy could be looked at in the report as the new financial architecture of differentiated banks make a strong pitch for creating a new category of banks which becomes a way for the MFIs to graduate. The differentiated banking structure and impediments like capital requirement in moving towards differentiated banking.

(Vipin, Pallavi)

Micro Finance Policy

- It is important to cover policy development in financial inclusion and see what are the implications of Nachiket Mor committee and other committees. The question of bank licenses, new channels, payment banks, how and what are the implications of these for financial inclusion efforts in the country is also to be covered in the report.
- Technology has been a dictator in terms of ensuring the connectivity at the last mile and unless we have a facilitative policy framework we cannot harness technology completely.
- The Policy Practice Atlas was initiated by MF Community of Practice, Solution Exchange, UNDP. All the circulars issued from 1989 by RBI, NABARD and Ministry of Finance are incorporated in the document. It contains around 300 pages and is useful for Bankers, practitioners, MFI, it is one of its kind initiative in India.
- Another challenge is left wing extremism area, even MFIs are not present in those areas. We are open to suggestions and window of policy is open for government.

(Ajay Tankha, Tara Nair, N. Jeyaseelan, R.K. Singh)

Technology and Innovation

- Efficiency of multiple channels and the role of technology needs to be discussed separately in the report.
- The role of Government and the role of technology in financial inclusion should be taken up in the report. A huge amount is invested by the government in Aadhar/ UID cards initiative. It is now time to analyse the benefit of the

nationally sponsored UID to the service provider, the government, the last mile agent and the end user. The role of government and technology should also take DBT into consideration.
- This report not only appeals to Indian sector but is also of great significance to stakeholders outside the country therefore it is important to cover technology innovations, payment gateways and innovation by telecom companies in context of financial inclusion.
- The report should look at policy gaps that don't allow to scale-up technology based innovations which are happening elsewhere and not being allowed to be undertaken in India.

(Vipin Sharma, Shweta Banerjee, Ajay Tankha, Amit Arora, Pallavi Sen)

Direct Benefit Transfers

- The government has become very important player in Financial Inclusion. The government's initiatives related to Direct Benefit Transfer (DBT) and some of the initiatives taken in other states like MP need to be examined and covered in the report.
- The role of government and technology should also take DBT into consideration. DBT is an opportunity to create an inclusive payment ecosystem and facilitate branchless banking. The entire initiative needs huge investments in infrastructure at national, state and last mile level. What should be the nature of investment, like public or private should also be considered.

(Ajay Tankha, Shweta Banerjee)

Closing Remarks By the Authors

- Participants have brought wide range of issues which simply tells that financial inclusion is not as simple as the term is generally understood. It has multiple layers to it with multiple complexities and diverse requirement of data sets and analytical frameworks. We cannot have all of them in one report but we may have three rounds of report.
- Most of the suggestions were really helpful and address the way we are going to write this report. One major part of the challenge will be the compilation of the data. The report has become fairly complex over the last few years. One interesting thing that has come out this year is about the excluded segments as far as financial inclusion is concerned. We have to give space to the marginalized sections which are not very visible like PwDs, elderly etc. Largely we have to position the report around inclusive growth debate, our effort will be to position financial inclusion in the larger landscape of Inclusive growth. We also need to discuss about entitlements like social security, pensions, insurance in a separate framework.

(Ajay Tankha, Tara Nair)

The roundtable ended with the concluding remarks from the lead authors.

Annexure 3

LIST OF PERSONS THE AUTHORS MET FOR PERSONAL DISCUSSIONS

Name	Designation	Organization
P. Satish	Chief General Manager	NABARD, Mumbai
Niraj Kumar Gupta	Chief General Manager	NABARD, Mumbai
M.V. Ashok	Chief General Manager	NABARD, Mumbai
Subrata Gupta	Chief General Manager	NABARD, Mumbai
A.K. Singh	General Manager	NABARD Mumbai
G.R.Chintala	Chief General Manager	NABARD, Bangalore
K.J.S. Satyasai	Deputy General Manager	NABARD, Mumbai
Raji Gain	Chief General Manager	NABARD, Kolkata
D.K. Mishra	Deputy General Manager, Micro Credit Innovation Department	NABARD, Mumbai
D.K. Routray	Deputy General Manager, Micro Credit Innovation Department	NABARD, Mumbai
K.C. Panda	Chief General Manager	NABARD, Ranchi
Munish	General Manager	NABARD, Ranchi
Krishna	Deputy General Manager, Micro Credit Innovation Department	NABARD, Mumbai
Aloysius Fernandez	Chairman	NABFINS, Bangalore
Ruth Anand	Executive Director	Rural Unit for Health and Family Welfare, Bangalore
G. Vidya Sagar Reddy	Managing Director	Stree Nidhi, Department of Rural Development, Govt. of Telengana
Dr. Ranga Rao	General Manager	Stree Nidhi, Department of Rural Development, Govt. of Telengana
Vijay Mahajan	Chief Executive Officer	Basix Group, Hyderabad
Anoop Kaul	National Head, Inclusive Growth Services	Basix, New Delhi
Bhavana Srivastava	Associate Director	MicroSave, Lucknow
Akhilesh Kumar Singh	Specialist	MicroSave, Lucknow
Lokesh Kr.Singh	Specialist	MicroSave, Lucknow
Priyank Mishra	Senior Analyst	MicroSave, Lucknow
Sourabh Singh	Senior Manager	UCO Bank, Bakkas Branch, Lucknow
Sushanta Tripathy	Senior Vice President, Inclusive and Social Banking	Yes Bank, Mumbai
Srinivas Bonam	Head, Inclusive Banking Group	IndusIndBank, Mumbai
Sachin Hirani	Regional Manager, Asia	MIX, Hyderabad

Amit Mittal	Analyst, Asia and the Pacific	MIX, Hyderabad
R. Ramakrishna	Senior Programme Manager	GIZ, New Delhi
Amit Arora	Senior Technical Specialist	GIZ, New Delhi
Jonna Bickel	Adviser, Financial Systems Development	GIZ, New Delhi
K. Raja Reddy	Research Director	APMAS, Hyderabad
A. Kalamani	Chief Operating Officer	APMAS, Hyderabad
M.B. Subramanyam Reddy	Director	APMAS, Hyderabad
N. Srinivasan	Consultant	Pune
Rajesh Kr. Singh	State Head	CDOT, Lucknow
H.S. Gupta	State Project Director	Jharkhand Tribal Development Society, Ranchi
A.B. Jetly	General Manager	Jharkhand Gramin Bank, Ranchi
Ramesh Kumar Singh	Senior Manager, Information Technology	Jharkhand Gramin Bank, Ranchi
M.R. Mahto	Director/Secretary	Mahila Jagriti Samiti, Ranchi
Rajesh Kr. Sinha	Director	Sparrow Softech Pvt. Ltd., Ranchi
Abdul Wadood	District Coordinator	Sparrow Softech Pvt. Ltd., Ranchi
V.B. Bhagavathi	General Manager	Andhra Bank, Hyderabad
Soma Anantha Ramulu	Senior Manager—IT	Andhra Bank, Hyderabad
Rajiv Lal	Executive Chairman	IDFC, Mumbai
Animesh Kumar	Co-CEO	IDFC Foundation, Mumbai
Sarbani Bose	Team Leader	PRADAN, Hazaribagh
Chanchal Mitra	District Development Manager	NABARD, Nadia
Mahadev Ghosh	Manager	PACS Tarinipur, Nadia, West Bengal
Sushil Mondal	Supervisor	Tihotto Block PACS, Nadia West Bengal
K.N. Tiwari	CEO	Disha Microcredit, Saharanpur
Surya Kumar	MD and CEO	Outreach Financial Services, Hyderabad
Dilip	District Coordinator	Prerna Gram Vikas Sansthan, Rae Bareli
C.M. Sinha	IT Manager	UP Baroda Gramin Vikas Bank Rae Bareli
Dinesh Kumar	Senior Manager (Credit)	UP Baroda Gramin Vikas Bank Rae Bareli
Ravikant Mishra	Project Coordinator, E-bookkeeping and Monitoring	Leaps and Bounds, Rae Bareli
Swati Shukla	Sakhi Centre Cordinator	Priyadarshini Project, Rae Bareli
Rukmini Tankha	Consultant	UN Women, New Delhi
S. Balachander	General Manager	Indian Overseas Bank, Central Office, Chennai

R. Ashok Kumar	Chief Executive	Sarvodaya Nano Finance
N. Jeyaseelan	President	Hand in Hand India, Chennai
Anand S.		IFMR Finance Foundation, Chennai, Chennai
Santadarshan Sadhu		IFMR Finance Foundation, Chennai
Deepti George		IFMR Finance Foundation, Chennai
John Alex	Head, Social Initiatives	Equitas, Chennai
Varathkanth E.	Head, Retail Assets	Equitas, Chennai
Ramesh Tenkil	Chief General Manager	NABARD, Regional Office, Thiruvananthapuram
Usha Ramesh	Deputy General Manager	NABARD, Regional Office Thiruvananthapuram
Liby Johnson	Programme Manager	Kudumbashree, National Resource Organisation, Thiruvananthapuram
K. Jagjeevan	Former Programme Officer	Kudumbashree, Thiruvananthapuram
Balakumaran K.N.	Lead District Manager	Indian Overseas Bank, Thiruvananthapuram

Knowledge and Outreach Partner

SOLUTION EXCHANGE INDIA

The United Nations in India, has since 2005, supported a knowledge-sharing initiative to help improve development effectiveness in support of India's Five Year Plans and the Millennium Development Goals. This initiative branded as 'Solution Exchange' develops 'Communities of Practice' for sharing knowledge and experience among practitioners from the government, NGOs, private sector, cooperatives, academia, activists, etc. The UN serves as a catalyst and plays a facilitative role, offering a free, impartial space where all development professionals are welcome to participate. Solution Exchange connects development professionals in similar fields from diverse organizations ranging from government, bilateral and multilateral development partners, and non-governmental organizations to academics, corporate, and the media.

Solution Exchange is focused on practitioners, and brings out tacit experiential knowledge sitting in the heads of practitioners, for the use of others through sharing. This leads to enhanced knowledge capture, storage, and use. Solution Exchange seeks to empower practitioners by offering them 'knowledge on demand' based on solutions from their peers. It has led to enhanced capacities of individuals and institutions, influence on programme implementation, influence on policies, and has made changes in knowledge and attitude of practitioners.

MICROFINANCE COMMUNITY, SOLUTION EXCHANGE

Microfinance Community of Practice was launched in October 2006. The community is facilitated by United Nations Development Programme (UNDP) and has around 4,500 members from banks, donor agencies, and community-based organizations, civil society institutions, microfinance institutions (MFIs), associations and networks of microfinance. Microfinance community works as a powerful instrument of knowledge sharing to develop individual and organizational capacities and strengthen policy environment to reduce poverty through microfinance initiatives and innovations leading to enhance financial inclusion.

Till date, more than 250 knowledge products including consolidated replies (135), updates (80), reports of roundtables and workshops, action group reports, ready reckoner, synthesis documents are produced and disseminated by Microfinance Community. It undertakes eight types of activities and services—virtual knowledge-sharing services; regular information services; knowledge to practice services (action groups); research-based activities; publication services; key information/resource services; face-to-face events; and networking services.

For the last six years, Microfinance Community, Solution Exchange has been organizing e-discussions and roundtables so as to provide consolidated inputs received from MF practitioners for this report.

Technical Partner

MIX promotes responsible financial services for underserved communities through data analytics and market insight. We do this through two decision support platforms, MIX Market and FINclusion Lab. As basic infrastructure for responsible and inclusive markets, these platforms provide a necessary ecosystem to enable and inspire coordinated investment, effective policy, and positive social outcomes for the financially underserved.

Incorporated in 2002, MIX is a non-profit organization headquartered in Washington, DC with regional offices in Africa, Asia, Europe, and Latin America. Our efforts are strengthened through our collaboration with the following global partners: Bill & Melinda Gates Foundation, CGAP, The MasterCard Foundation, IFAD, Michael & Susan Dell Foundation, DFID, and Citi Foundation. MIX leverages an ideal solution model to ensure the sustainability and public good of our platforms.

MIX Market (www.mixmarket.org) is a public data hub where microfinance institutions (MFIs) and supporting organizations share institutional data to create transparency and market insight. This exchange enables users to establish reporting standards, reduce reporting burden, and promote responsible investment. MIX Market provides analysis on the risks and opportunities in the markets where MFIs operate and validation of social and financial performance.

FINclusion Lab (www.finclusionlab.org), is an analysis and data visualization workshop designed to inspire the coordinated delivery of responsible financial services to underserved communities. Currently in beta development, FINclusion Lab is MIX's latest product offering. FINclusion Lab tools enable users to analyze the access, quality, and usage of financial services for excluded communities at national and sub-national levels. Transforming financial inclusion data into insight, FINclusion Lab allows policymakers and financial service providers to optimize their strategies and measure progress toward national goals.

About the Authors

Tara S. Nair is currently Professor at the Gujarat Institute of Development Research, Ahmedabad. An economist by training, Dr. Nair has done substantive research on rural financial institutions, including microfinance institutions in India. She has undertaken primary research across Indian states and countries like Bangladesh and Myanmar, and consulted many national and international programmes and organizations. Her publications span a range of topics like role and contribution of commercial banks in rural financial intermediation, commercialization and social responsibility of microfinance institutions, and issues in microfinance regulation.

Ajay Tankha is an economist with over 35 years' experience of teaching, training and research in development studies, rural finance and microfinance.

He has served as Head of Microfinance of ActionAid UK, where he directed a global review of its savings and credit programmes, including impact assessment studies in India, Bangladesh, Kenya, Ethiopia and Ghana. He has also been associated as a consultant with CARE-India's CASHE project, GIZ Rural Financial Institutions Programme, American India Foundation, Sa-Dhan, Access Development Services, EDA Rural Systems and Small Industries Development Bank of India. In addition, he has prepared studies sponsored by the World Bank, International Finance Corporation, Ford Foundation, Rabobank, ICCO and Cordaid, the Netherlands.

He has authored several research papers and publications on microfinance and rural livelihoods including two books on self-help groups. He is currently based in New Delhi.

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Sarthak Luthra

Manager- Inclusive Finance India

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