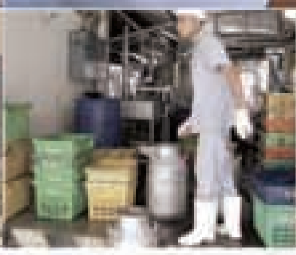
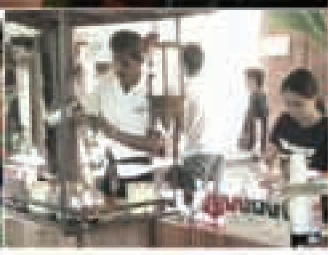
Report on Best Practices for Sustainable Models of Pro-Poor Rural Financial Services in INDIA





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Report on

Best Practices for Sustainable Models of Pro-Poor Rural Financial Services in INDIA

Anil Kumar Singh and Team NABCONS

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The Secretary General
Asia-Pacific Rural & Agricultural Credit Association (APRACA)
Room No. A 303, BAAC Building
469, Nakhonsawan Road, Dusit, Bangkok-10300, Thailand
Tel: +66 2 280 0195, Fax: +66 2 280 1524
E-mail: apraca@apraca.org
Website: www.apraca.org

Secretary General Chamnong Siriwongyotha

Project Manager Prasun Kumar Das

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Foreword

Promoting pro-poor growth is a pattern of growth that is inclusive and enhances the ability of impoverished people to participate, benefit in, and contribute to the growth process. This is a critical factor for developing countries to achieve a sustainable way out of poverty and to enable achievement of the Sustainable Development Goals.

The causes of poverty are complex and multi-dimensional. They involve, among other things, culture, climate, gender, markets, access to finance and public policy. Likewise, the poor are quite diverse in both the problems they face and the possible solutions to these problems. Poverty remains a predominantly rural problem with a majority of the poor in developing countries living in rural areas. It is estimated that 76% of the developing world's poor live in rural areas whereas only about 58% of the overall global population lives in rural areas. Because of the complexity of rural poverty, each country needs to evolve its own strategy for addressing the concerns of rural poor that is in tune with its socioeconomic ethos.

APRACA has been in the forefront to lead access to finance in the rural areas through its member institutions in the Asia-Pacific region by providing technical assistance in capacity building, research and knowledge management. Documenting pro-poor rural finance best practices and disseminating of information that promotes innovations, productivity, inclusive growth, self-reliance, and welfare of the rural poor in the region is the one of the major objective of the Association of the rural financial institution who is devoted for the rural population since last forty years. We are sure that documenting the best practices on sustainable practices of pro-poor financial services in the countries like China, Indonesia, India, Philippines, and Thailand will prove to be extremely useful to the countries in the Asia-Pacific region to draw lessons in evolving suitable strategies for the benefit of their people and will add value to global knowledge resources.

This particular document on rural finance best practices in **India** is a part of the series of country reports being published by APRACA with the financial support from International Fund for Agricultural Development (IFAD).

Chamnong Siriwongyotha

APRACA Secretary General

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We are also thankful to the management and staff of the organizations/agencies such as NABFINS, Kudumbashree, SKDRDP, SERP, SAMRUDDHI, and Bandhan FSPL for providing insights through interaction/discussions with them/their clients and also for several resource materials/write-ups provided by them and presentations made by them, which have been used extensively in our report. We express our special thanks to the officers and staff of HDFC Bank, Bank of India, Bank of Baroda, Bihar Kshetriya Gramin Bank, Baroda UP Kshetriya Gramin Bank, Gramin Bank of Aryavart, Bhagalpur DCCB, Barabanki DCCB, Raebareli DCCB, and other banks for their insights, and our interaction with them and their clients.

Special thanks are also due to the officers of NABARD regional offices and DDMs in Bihar, Uttar Pradesh, Kerala, Karnataka, and other states that helped the team by coordinating and making arrangements for the field visits to diverse and innovative credit delivery systems in the country, and for providing data from the field. We also thank the officers of NABARD in head office departments such as DFIBT, MCID, FSDD, and DEAR for supporting with details regarding several practices.

Lastly, we would like to extend a special thanks to Dr. Prasun Kumar Das and his team at APRACA for continuously guiding us in conducting this study at every stage.

Anil Kumar Singh and Team NABCONS

Abbreviations

AD	authorized dealers
ADS	Area Development Societies
AEPS	Aadhar Enabled Payment System
AML	anti money laundering
APRACA	Asia-Pacific Rural and Agricultural Credit Association
ATM	automated teller machine
BC	business correspondent
BCNM	business correspondent network manager
B&DC	business & development correspondent
BF	business facilitator
BLP	Bank Linkage Programme
BFSPL	Bandhan Financial Services Private Limited
BoD	beginning of date
BPL	Below Poverty Line
BSBDA	Basic Savings Bank Deposit Account
BIRD	Bankers Institute of Rural Development
CAPEX	capital expenditure
CBNP	Community-Based Nutrition Programme
CBO	community-based organizations
CDS	Community Development System/Community Development Societies
CGAP	Consultative Group to Assist the Poor
CMFR	Centre for Microfinance Research
CMG	Credit Management Group
CO	Credit Officer
CRP	community resource person
CSP	Customer Service Points
DBT	direct benefit transfer
DCC	District-Level Coordination Committee
DFI	Development Financial Institution
DWACRA	Development of Women and Children in Rural Area
EoD	End of Date
E-KCC	electronic Kisan Credit Card
FFMC	full-fledged money changers
FI	Financial Inclusion
FIC	Financial Inclusion Centre
FLC	Financial Literacy Center
FS	field supervisor
FMC	Forward Markets Commission
GBA	Gramin Bank of Aryavarta
GO	government organization
GP	Gram Panchayat
GoI	Government of India
GDP	gross domestic product
GSLP	Gender Self-Learning Programme

IRDP	Integrated Rural Development Programme
ILO	International Labour Organization
IFAD	International Fund for Agricultural Development
IMPS	Immediate Payment Service
INR	Indian rupee
IRDA	Insurance Regulatory and Development Authority
IVR	interactive voice response
JLG	joint liability group
KCC	Kisan Credit Card
KYC	know your customers
LBS	Lead Bank Scheme
LIC	Life Insurance Corporation of India
MACS	Mutually Aided Cooperative Society
MFIs	Microfinance institutions
MKSP	Mahila Kissan Sashaktikaran Pariyojana
MLP	micro-level planning
MEPA	Micro-Enterprise Promotion Agency
MEDP	Micro-Enterprise Development Programme
MYRADA	Mysore Resettlement and Development Agency
MNC	multinational corporation
MGNREGA	Mahatma Gandhi National Rural Employment Guarantee Act
MNREGS	Mahatma Gandhi National Rural Employment Guarantee Scheme
MOA	Memorandum of Association
MPIN	mobile PIN
MoF	Ministry of Finance
MSE	micro and small enterprises
MTO	money transfer operators
NABARD	National Bank for Agriculture and Rural Development
NABCONS	NABARD Consultancy Services Pvt. Ltd.
NABFINS	NABARD Financial Services Limited
NAIS	National Agricultural Insurance Scheme
NBFC	Non-Banking Financial Company
NBFC-ND	Non-Banking Financial Company – Non-Deposit-Taking
NBFC-MFI	Non-Banking Financial Company – Microfinancial Institution
NHB	National Housing Bank
NJGB	Narmada Jhabua Gramin Bank
NGO	non-government organization
NHG	neighbourhood groups
NICT	Network for Information and Computer Technology
NEFT	National Electronic Fund Transfer
NRLM	National Rural Livelihood Mission
NPA	non-performing assets
NULM	National Urban Livelihood Mission
OPEX	operating expenses
PACS	Primary Agriculture Credit Society
PAIS	Personal Accident Insurance Scheme
PIN	personal identification number
PRI	Panchayati Raj Institutions
PAP	Poverty Alleviation Programme
PMJDY	Pradhan Mantri Jan Dhan Yojana
PO	Producers' Organization
PFRDA	Pension Fund Regulatory and Development Authority

PoS	Point of Sale
PSMS	Priya Sakhi Mahila Sangh
PSL	Priority Sector Lending
RBI	Reserve Bank of India
RRB	Regional Rural Bank
RFIP	Rural Financial Institutions Programme
RGMVP	Rajiv Gandhi Mahila Vikas Pariyojana
RTGS	real-time gross settlement
RUDSETI	Rural Development & Self-Employment Training Institute
SAA	service area approach
SBI	State Bank of India
SBLP	SHG-Bank Linkage Programme
SEWA	Self-Employed Women's Association
SEBI	Securities and Exchange Board of India
SIDBI	Small Industries Development Bank of India
SHG	Self-Help Group
SHPI	Self-Help Promoting Institutions
SKDRDP	Shree Kshetra Dharmasthala Rural Development Project
SLI	Sustainable Livelihood Initiative
SP	Seva Pratinidhi
SS	Suvidha Sahayak
SLBC	State-Level Bankers' Committee
SPEM	State Poverty Eradication Mission
SGSY	Swarna Jayanti Gram Swarojgar Yojana
TSP	technology service provider
UIDAI	Unique Identification Authority of India
UBSP	Urban Basic Service Programme
VO	village organization
WSHG	women's self-help group

Pancha Sutras (five principles): regular meeting, regular savings, regular internal lending, timely repayment, and proper bookkeeping.

US$1 = INR 65 (approximately)

Executive Summary

This IFAD- and APRACA-supported study is a part of the project on "Documenting Global Best Practices on Sustainable Models of Pro-Poor Rural Financial Services in Developing Countries." It has attempted to document the best sustainable practices of pro-poor financial services in India and to select the most sustainable and replicable practices for the countries in the Asia-Pacific region to draw lessons in evolving suitable strategies for the benefit of their people.

In India, of the estimated 269 million people who are categorized as poor, 74% live in rural areas. The majority of the rural poor are marginal, small farmers, or landless households mainly dependent on agriculture. Since independence, successive governments have recognized the link between improved access to finance and poverty reduction. This resulted in the development of a vast network of rural cooperative banks in the 1950s, the nationalization of commercial banks in 1969 and 1980, the introduction of regional rural banks in 1975, targeted low-cost priority sector loans in the 1970s and '80s, and partial deregulation of interest rates, increased competition, and new microfinance approaches in the '90s.

The present rural financial infrastructure in India comprises a very wide variety of formal, semi-formal, and informal financial service providers. The formal players comprise Apex Development Banks, Development Financial Institutions (DFIs), commercial banks, cooperative banks, regional rural banks (RRBs), insurance companies, and post offices. The semi-formal players consist of the microfinance institutions (MFIs) and the SHG-Bank Linkage Programme (SBLP). The informal sector includes landlords, local shopkeepers, traders, professional moneylenders, etc.

India possesses a vast network of financial institutions, including Rural Financial Institutions (RFIs), that include more than 32,000 rural branches of commercial banks and RRBs, 14,000 cooperative bank branches, 98,000 PACS, several NBFCs, MFIs, and a vast network of post offices. Naturally, India compares favourably with other developing countries with the average population per bank branch being 12,800. However, despite the improvements in access to rural finance over time, the supply of formal rural finance is skewed in favour of the urban population. The volume of deposits and credit is lower in rural areas than in urban areas, a rural branch serves almost three times the number of people served by an urban branch, and the number of loan accounts in rural areas as a ratio of the total rural population is only one-third that of urban areas. Further, the choice of products offered by a rural branch is not on a par with those offered by urban branches.

Important challenges in rural finance stem from the dependence of agricultural production on natural vagaries, high elasticity of prices of produce, a lack of marketable collateral, high transaction cost resulting from low amount and scale of credit, weakness of the legal framework, a lack of credit information, a lack of suitable products, distance from banking outlets, and also little financial relation with the formal financial sector. This makes the development of suitable financial products and practices a difficult task.

Informal financiers have the advantage of knowing their clients better than most formal institutions, such as banks. They are better able to enforce contracts and provide flexible products. It is reported that around 44% of the households have borrowed from informal lenders at least once in the preceding 12 months, but the interest charged on informal loans averages 48% per annum.

The financial environment has brought about regular efforts and innovations on the part of the Government of India, state governments, regulators, NABARD, NGOs, and others to create different types of suitable rural financial practices and systems in India. Numerous types of products have emerged for microfinance. The early nineties was a watershed regarding the development of microfinance, when NABARD/RBI introduced the SHG-Bank Linkage Programme on the one hand and also helped NGOs to experiment with other microfinance products. Later on, different types of MFIs developed with active support from NABARD and SIDBI. Most of the state governments have also experimented with their own microfinance and financial inclusion products. Starting in 2005, serious discussion on financial inclusion led to the development of other financial services such as deposit accounts, micro-insurance, remittance support, and micro-pension. With the help of a conducive regulatory environment and technological advancement, several financial products and practices emerged during the period. The plethora of such rural financial practices has made the identification of best rural financial practices in India a difficult task. We have tried to identify the practices that are different from each other and, from this, the best/most representative ones have been included in the study.

Although secondary sources have helped a lot in identifying the best rural financial practices prevailing in India, their details such as unique features, operational details, stakeholders, strength, challenges, sustainability, and the possibility of replication are based on the validation of these secondary sources from the primary data. The identified best practices were further analyzed regarding the basic system, stakeholders, benefits to stakeholders, SWOT analysis, sustainability and replicability, and conclusions. Key findings and conclusions from the study of these practices are briefly outlined as follows:

1. SHG-BLP (Self-Help Group-Bank Linkage Programme): The SHG-BLP, introduced in the early nineties, was an innovation in the marriage of flexibility of the informal system with the strength and affordability of the formal system. Currently, it is one of the largest microfinance programmes in the world.

   Self-help groups are informal groups of 10–20 members having a homogeneous background coming from a small contiguous area, who operate on the principles of self-help, solidarity, and mutual interest. The members make compulsory thrift of a uniform amount mutually decided by themselves and pool resources so created to extend interest-bearing loans to their members to meet their emergent needs. SHGs are given the freedom of charging interest from their members at the rate decided by group consensus. Recovery is to be a mechanism of peer pressure. The SHG itself maintains necessary books of accounts regarding its financial transactions and also the proceedings of its meetings. The process helps SHG members imbibe the essentials of financial intermediation, including prioritization of needs and setting terms and conditions. The groups follow Pancha Sutras (five principles), that is, regular meeting, regular thrift, regular internal lending, timely repayment, and proper bookkeeping, which are suitable for being financed by banks to the tune of one to four times their corpus and even higher depending upon their maturity.

2. Microfinance institutions (MFIs): Microfinance Institutions have also grown very fast in India in the last 15 years, mainly to meet the large unmet credit need of the poor, not only in areas that do not have deep banking infrastructure and are backward, but also in regions that are well banked, including urban areas. However, the MFIs cannot provide any support for savings accounts in India as they are not permitted to raise deposits. Bandhan FSPL, one of the best MFIs in India, is following the ASA model of microfinance, and it has a very strong people connection, staff strength, and solid management. It has diversified borrowing from 32 banks/FIs and regularly has a profit. It shows the way as to how an MFI, without any subsidy or support, can sustain itself and grow.

3. SHG member as BC (Business Correspondent): Despite the banks achieving the targets of recruiting BCs and opening basic accounts for financial inclusion, transactions are low in the

accounts served by BC/BF, resulting in low remuneration and high attrition of BCs. Another issue is the low confidence of banks and the general public in BCs. In 2012, the Rural Financial Institutions Programme (RFIP), a joint NABARD-GIZ programme, decided to connect two dots: improving the integration of bank agents into the community by appointing SHG members as agents. The RFIP engaged in two pilot projects to test the potential of SHG members functioning as bank agents to offer banking services on the doorstep of villagers, particularly for women and poor households. These pilots have been successful in addressing both issues and several other banks are now adopting the model. This is a highly replicable model in which the BCs/BFs are from the community and suitably trained to use the technology and banking system.

4. MFI as BC: Another solution to the issue of low faith in BCs, low transaction level, low remuneration, and high attrition rate of BCs is being provided by another model in which SKDRDP, an MFI working through the SHG model, has started to work as an MFI with several banks in Karnataka State of India. SKDRDP (Shree Kshetra Dharmasthala Rural Development Project) has adopted a distinctive self-help group-business correspondent (SHG-BC) model to provide financial services to the rural poor to maximize efficiency and scale. The model enables convenient doorstep banking to the non-banking and financially excluded sector using the business correspondent model promoted by the Reserve Bank of India. As a BC, SKDRDP promotes SHGs, helps SHGs to open accounts with the partner bank, processes loan documents, disburses loan cash (and savings withdrawals), collects repayments (and deposits), and monitors SHG performance. All the stakeholders are performing their roles as per their strength and contribute the most toward the credit linkages. They are highly satisfied with the model. The model is suitable for MFIs, which are NGOs, and trust or non-profit companies as capital contribution or borrowing is difficult for them and they are not permitted to raise public deposits in India.

5. JLG: A joint liability group (JLG) is an informal group comprising 4 to 10 individuals coming together for the purpose of availing of a bank loan on an individual basis or through a group mechanism against a mutual guarantee. Generally, the members of a JLG would engage in a similar type of economic activity. The members would offer a joint undertaking to the bank to enable them to avail of loans. JLG members are expected to provide support to each other in carrying out occupational and social activities. The model has emerged as an effective credit product for mid-segment clients having access to productive assets/skills, but unable to assess bank credit because of a lack of collateral.

6. The Kudumbashree model: The *Kudumbashree* of Kerala launched in May 1998 but became effectively implemented in early 2000, and is patterned on the SHG-based microfinance system. Its organizational setup is based on the three-tier community development system (CDS). Kudumbashree complements the decentralization of governance and development plans in Kerala. The basic units are NHGs, which work as SHGs. Each NHG prepares an action plan on the basis of the needs of the member households of the NHG and such plans are called the Micro Plan of the NHG. Federal structures are called ADS and CDS. In addition, activity groups are developed on the pattern of JLGs. Most of the programmes of the Government of Kerala for poverty alleviation and social security support are being implemented through the Kudumbashree model.

7. Kisan Credit Cards: Kisan Credit Cards have proved to be a very successful credit solution for farmers in India. The KCC scheme has been formulated to ensure the provision of adequate and timely credit support from the banking system under a single window to farmers for cultivation and other needs. Under the modified KCC scheme, a smart card/debit card is issued. Moreover, facilities are being developed to ensure withdrawal from the card through ATMs/

micro ATMs, business correspondents using smart cards, a point of sale (PoS) machine with input dealers, and also mobile banking with immediate payment service (IMPS) capability/ interactive voice response (IVR). Through the linkage of crop insurance with improved technology reach and adoption of the e-KCC by bankers, merchant points, and farmers, adequate, timely, and cost-effective credit will be available to most farmers in India. A similar product can be used in banks in both the public and private sector in other countries.

8. NABFINS model: NABARD Financial Services Limited (NABFINS) is a subsidiary of the National Bank for Agriculture and Rural Development (NABARD) with equity participation from NABARD, Government of Karnataka, Canara Bank, Union Bank of India, Bank of Baroda, Dhanalakshmi Bank, and Federal Bank. NABFINS is a non-deposit-taking NBFC. NABFINS, for undertaking microfinance activities, has adopted a business & development correspondent (B&DC) model. The B&DCs are involved mainly in lending activity of NABFINS, which lends directly to SHGs continuing the SHG-Bank Linkage model. The NABFINS model is the model example of an MFI working on both the SHG model and business correspondent model. It has proved that an MFI can provide quality credit at a very affordable rate of interest and ensure almost one hundred percent recovery without resorting to coercive methods. There is scope for expansion and replication of the model in India.

9. Producers' organizations: Producers' organizations are formed for collectivization of support to individual small producers in both the farm and non-farm sector. The recent thrust in the formation and financing of producers' organizations by GoI, NABARD, and SFAC make the product important.

10. Abhaya Hastham: Micro-insurance and micro-pension are essential aspects of financial inclusion. The SERP has mobilized a large number of poor women in SHGs under its Indira Kranthi Patham (IKP) programme. The Government of Andhra Pradesh inaugurated the "**Abhaya Hastham**" IKP co-contributory insurance and pension scheme for eligible poor on 6 February 2009, followed by enactment of the "**Andhra Pradesh Self-Help Groups (SHG) Women's Co-Contributory Pension Act, 2009**" on 2 March 2009. This scheme primarily acts as a social insurance programme for women as well as the family by providing social protection against conditions including old age, disability, death, and others. Although the scheme will require government support for a longer period, it can become viable in the long term through the mechanism of group savings cash accumulation with an increasingly higher level of livelihood options and income of the members.

11. SAMRUDDHI model of MP: The Madhya Pradesh Model of Financial Inclusion (SAMRUDDHI) has three segments:
    i. Financial inclusion and inclusive development.
    ii. Madhya Pradesh Samagra Samajik Suraksha Mission for a common citizens' database (Integrated Social Security Mission) for social security e-payments.
    iii. Implementation of e-FMS and direct transfers of funds in the beneficiary's accounts.

    The financial inclusion drive had a boost in the state, especially in the interior and inaccessible areas, and the state is moving fast towards inclusive growth. The aim of the Government of Madhya Pradesh is to ensure inclusive growth through financial inclusion, thereby bringing SAMRUDDHI for one and all.

Out of these 11 practices, an attempt has been made to select a few best practices based on a rating scale for pilot testing in other countries/expansion in India. Rating has been made regarding seven dimensions of robustness of the models. Based on the cumulative score, SHG-BLP (Self-Help Group-Bank Linkage Programme), JLG-Bank Linkage Programme, and e-KCC have emerged as the three best practices for replication in other countries/areas, while the NABFINS model, which has come in a close fourth in the rating scale, has been recommended for expansion in other areas of India. Projects for pilot testing of selected financial practices in new countries have been formulated detailing important steps and interventions required for them. An attempt has been made to estimate the cost of pilot testing of the three models based on the prevailing cost in India. Accordingly, pilot testing of the SHG-BLP in new countries for 100,000 households is estimated to cost INR 213.5 million in a threeyear period. Pilot testing of the JLG-BLP in new countries for 50,000 households would cost INR 73.8 million in two years' time and the pilot testing of providing e-KCC to 100,000 farmers would require INR 19.5 million in three years' time. Financial cost estimated is indicative only. It could change according to field situation and design of the programme, depending on the project area, Socioeconomic conditions, and requirements for financial services by the community to be served.

Contents

List of Tables

List of Figures

CHAPTER 1
Introduction

1.1 Background

Roughly 4 billion people living in developing countries do not have access to financial services such as credit, savings, and insurance. It is widely recognized that the lack of access to a range of financial services is a major hindrance to lifting people out of poverty. Formal financial intermediaries, such as commercial banks, are often hesitant to serve the poor and micro-enterprises because of the high transaction costs involved, lack of traditional collateral, geographic isolation, etc. This causes such institutions to ignore the enormous potential in entrepreneurship available in this stratum of society. Moreover, gaining access to financial services is a critical step in connecting to the poor and building their confidence to play a greater role in community life.

Many of the reasons for the limited financial access of the poor are well documented. Formal financial institutions often avoid financing rural areas because of the perceived higher costs and risks. These are related to the widely dispersed population, poorly developed infrastructure, and specific client needs of the agricultural sector. Access to financial services for the poor will contribute to achieving the MDGs in many ways. Financial services enable the poor to increase and diversify incomes; build human, social, and economic assets; and improve their lives in ways that reflect the multi-dimensional aspects of poverty. Evidence shows that poor people choose to invest in a wide range of assets: better nutrition, improved health, access to schooling, a better roof on their house, and expansion of their small businesses (CGAP, 2002).

The numerous initiatives of governments and development agencies in recent decades to provide access to financial services for the part of the population not being served by the formal financial sector did have some positive impact. However, significant challenges still remain, the most important ones being the creation of an appropriate economic environment, a conducive legal and regulatory framework, and the development of sustainable (subsidy-free) financial intermediaries, in both urban and rural areas. Without a well-functioning financial system, neither aid nor local entrepreneurship as such can create the right business climate conditions for long-term economic growth.

IFAD's extensive experience in the sector demonstrates, however, that both agriculture and rural finance can be profitable businesses. Furthermore, the new and innovative approaches should be given both the opportunity and the appropriate resources (fiscal, institutional, political, etc.) to show their true potential to help lift the typical smallholder farmer out of poverty. IFAD is widely considered to be one of the institutions that has invested strategically in supporting these new approaches, as a way to deliver appropriate and sustainable agricultural finance to the rural poor and to the marginalized households and communities. This proposed grant is designed to respond to the specific requests from clients for support in expanding access to rural financial services for the poor, and to further advance IFAD's track record of supporting innovative new approaches to supplying rural financial services.

1.2 Objectives and Scope of the Study

The International Fund for Agricultural Development (IFAD) has approved a grant of US$1.1 million to the Asia-Pacific Rural and Agricultural Credit Association (APRACA) to implement a project on "Documenting Global Best Practices on Sustainable Models of Pro-Poor Rural Financial Services in Developing Countries." The goals and objectives of the project follow:

a) The overall **goal** of the project is to sustainably reduce rural poverty and improve food security for rural communities in the Asia-Pacific region. Its purpose is to help rural finance providers and governments extend financial services on a sustainable basis, through the application of best practices suitable to their unique operating environments. More specifically, its immediate objectives are to identify, study, critically review, and selectively pilot the adaptation of various best practices that can be replicated and successfully scaled up by IFAD and others.

b) The project **objectives** are to

- Select global best practices in the identified themes and rate them in terms of appropriateness to the Asia-Pacific region;
- Adapt and scale up the best practices to test their effectiveness in projects sponsored by governments, IFAD, and others;
- Have a dialogue with policymakers to promote the best practices in providing financial services to the rural poor; and
- Share the best practices through workshops, conferences, and knowledge hubs (existing, such as IFAD Asia, or to be established).

The countries selected for the study are China, India, Indonesia, Philippines and Thailand based on their experience in providing a broad range of financial services to the poor. The best practices identified during the study will be promoted for adoption in all IFAD projects in Asia, and more broadly throughout the Asia-Pacific and other regions.

The key outputs expected of the project are as follows: (a) the study and documentation of rural finance best practices and the lessons learned during their implementation; (b) identifying key best practices, critically reviewing the application thereof, and sharing countries' experiences in implementing them; (c) piloting the adaptation of the selected best practices; (d) making recommendations for promoting, scaling up, and replicating the best practices; and (e) publishing the proceedings, and results, of the different activities and knowledge-sharing events organized under the study.

The above outputs are expected to lead to defined outcomes such as greater knowledge sharing among government agencies leading to replicable pro-poor rural financial policies and practices, adoption of best practices within existing projects, and the creation of knowledge hubs for further dissemination.

The project will be implemented in four phases: (1) mapping and scoping survey of the selected major themes of rural finance; (2) the design and execution of pilot activities involving contributions from IFAD and other projects; (3) promotion of best practices through raising awareness, advocating their implementation, and policy dialogue; and (4) establishment or strengthening of a knowledge hub.

The study will include (1) rural finance products, service delivery, business models, and use of technology; (2) policies and regulations on micro-insurance, Internet banking, remittances, financial intermediation, and financial literacy; and (3) risk management and governance.

1.3 Content of the Report

A brief background along with the objectives and scope of the study is given in Chapter 1 while the details of the methodology such as study design, sampling methodology, and data analysis are dealt with in Chapter 2. Some of the important published literature on the best practices dealing with pro-poor financial services is reviewed in Chapter 3. Chapter 4 sets the context for rural financial services in India by discussing the key players, challenges, the regulatory framework, and capacity. Chapter 5 identifies the best practices prevailing in India with details such as unique features, operational details, challenges, and the possibility of replication. Two best practices have been selected for pilot testing in other countries in Chapter 6 and finally the conclusions, policy recommendations, and the way forward have been dealt with in Chapter 7.

CHAPTER 2
Methodologies

2.1 Study Design

Keeping in view the broad objectives of the study under the RuFBeP Project and the need to capture relevant information, data collection from primary and secondary sources was resorted to. The study design included desk review of the existing literature on various best practices on sustainable models of pro-poor financial services prevalent and adopted in the country, shortlisting of best practices based on certain inclusion criteria that are detailed in the next section, field studies at various locations in the country where such practices are in vogue, and discussion with stakeholders including focus group discussions to document the best practices in close cooperation with lead institutions involved in rural finance. Although details on the literature reviewed are given in Chapter 3, some of the major literature (publications referred to during the study) follows:

A. Publications of NABARD

- Status Reports of Microfinance in India
- SHGs Paving Pathways
- Study Reports of Microcredit Innovations Department
- NABARD Annual Reports
- NABARD Rural Pulse
- Study Reports of Department of Economic Analysis and Research

B. Publications of the Reserve Bank of India

- Annual Reports
- Trend and Progress of Banking in India
- Report on Mobile Banking
- Report of Committee on Comprehensive Financial Services for Small Business and Low-Income Household

C. Asia-Pacific Rural and Agricultural Credit Association (APRACA)

- Finpower Project
- Finservaccess Project
- Microserv Project

D. Publications of major programmes/agencies

- SERP
- MAVIM
- RGMVP
- BRLPS
- Kudumbashree
- Dhan Foundation
- MYRADA

2.2 Inclusion Criteria

The best practices documented in the study satisfy three major criteria which were formulated in consultation with the India country team led by NABARD. The inclusion criteria firstly focussed on the pro-poor approach, that is, accessible and favourable to the poor; Secondly, the product and services should be technically and financially feasible which will help in hassle replication and finally, they should be cost effective, profitable and sustainable. The selection of the products and services under different themes were selected based on their scores as per road inclusion criteria such as suitability of delivery system, business model, outreach, flexibility, replicability, adaptability, and enabling environments.

Accordingly, products suitable for inclusion in the study were identified as SHG-BLP, MFI (Bandhan), JLG, KCC, SHG member as BC, MFI as BC, NABFINS, producers' organizations, Kudumbashree, Abhaya Hastham, and Samruddhi.

2.3 Geographical Area Coverage

Even though the country as a whole is considered for conducting the study, It was decided to, undertook field studies in the states of Bihar, Uttar Pradesh, Maharashtra, Kerala, Karnataka, etc., to document the best practices being adopted in these states which actually representing the North-South-East-West part of the country.

2.4 Sampling Methodology

Although the best practices being adopted in the country were shortlisted using the inclusion criteria indicated above, field studies were conducted using the following sampling methodology.

The consultant team interacted with the community, community-based organizations, self-help promotion institutions, microfinance institutions, other rural financial institutions, state-level nodal departments of the state governments, etc., depending on the practice under study. Although purposive sampling was done for the identification of NGOs/MFIs and other rural financial institutions involved in the study, random sampling was adopted to identify members of the community with whom the interactions took place.

2.5 Field Work and Data Collection

Each of the best practices studied was documented in a specified format covering the name of the best practice/innovation in rural finance, the organization involved in identification and implementation of the practice and complete contact details, features of the practice in terms of description of the practice/innovation, geographical coverage (state, districts, blocks, villages, etc.), number of households/beneficiaries covered, other stakeholders involved with the practice and their role, replicability of the practice, and issues in implementation of the practice.

Interaction with a cross section of stakeholders such as research institutions involved in rural finance (Bankers Institute of Rural Development, Centre for Microfinance Research, etc.), government organizations, financial service providers, etc., took place during the course of the study.

2.6 Data Compilation, Analysis, and Preparation of the Report

The data collected during the study are mostly qualitative in nature apart from details on geographical coverage, number of beneficiaries covered, etc.

The report has been prepared based on the major practices studied during the field visits and also some of the best practices that have been documented by NABARD/NABCONS during the past three decades.

CHAPTER 3
Review of Literature

While assessing the best practices on sustainable models for pro-poor rural financial services, it is imperative to look at the existing institutions and their practices, their impact and efficiency, issues involved and solutions/innovations to overcome them including institutional reforms and the creation of new products and delivery channels so that these time-tested practices are not overlooked and at the same time need-based improvements can be suggested. Accordingly, a review of the literature on the existing institutional infrastructure for rural finance, its outreach and efficiency, and the practices/ models adopted by the institutions and their impact, efficiency, and innovative practices has been attempted.

Strength and Outreach of Rural Financial Institutions

Over the years, two broad categories of microfinance institutions (MFI) have come up in India, mainstream MFIs and alternative MFIs. The first category of MFIs includes formal financial institutions such as NABARD, SIDBI, regional rural banks, commercial banks, and other formal financial institutions. The alternative MFIs are those organizations that arose to meet the demand and supply gap of the microfinance sector and they include NGOs, Non-Banking Finance Company (NBFC), etc. (Wanchoo, 2007).

Financial Practices for Rural India

The SHG-Bank Linkage Programme, which started on a modest scale as a pilot in 1992, has turned into a solid structure today. The rural women who were largely confined to household chores benefited from this SHG movement. Significant improvement in the attitude of SHG members in all five dimensions (socioeconomic upliftment; education and training; marketing and entrepreneurship qualities; technology adoption and participatory research; and banking/credit aspects) were observed (Meena & Singh, 2013).

The SHG-Bank Linkage Programme has brought the traditional skills, organizational skills, and collective power of women, especially those from an economically disadvantaged background, to the forefront. The women's SHG members have ventured into hitherto unexplored areas and proved that they can deliver when trusted and entrusted. Membership in SHGs enhances women's bargaining power and helps them negotiate with strength in community institutions. Having knowledge of the broader context to their lives empowers women (UNICEF, 2013).

Involvement of the local SHG network in increasing the outreach of insurance services to the rural population has been successfully carried out by the Society for Elimination of Rural Poverty (SERP) in association with the Life Insurance Corporation (LIC of India). The release of insurance was managed by the district-level SHG federation called Zilla Samakhyas along with the help of a call center at the district level. The SHG federation, the Mandal Mahila Samakhyas (MMS) and Bima mitra, both at the Mandal level, as well as the village federation of SHGs are involved in providing these services (NABARD, 2013).

Poor people need a variety of financial services, not just loans. They need savings, insurance, and money transfer services. Microfinance will reach its full potential only if it is integrated into a country's mainstream financial system. Microfinance can pay for itself, and must do so if it is to reach very large numbers of poor. The job of the government is to enable financial services, not provide them directly. Governments can almost never do a good job of lending, but they can be a supporting policy environment (CGAP, 2006).

A study of 2,040 group microenterprises under Kudumbashree in Kerala revealed that the monthly income of the women after becoming a member in microenterprises under Kudumbashree was significantly higher than the income before becoming a member and there was significant economic empowerment and a moderate degree of entrepreneurship development and social development (Vasantha Kumari, 2009).

The Society for Elimination of Rural Poverty (SERP) implementing the IKP and NABFINS have made a beginning in channeling funds to SHGs at reasonable rates of interest as a supplement to the SHG-Bank Linkage Programme by using BC relationships (Tara Nair & Ajay Tankha, 2013). The NABFINS approach is emerging as a unique model of an NBFC-MFI with greater attention to appropriate governance leading to transparency in accounting, remuneration, and disclosure, and reasonable rates of interest and other costs, which earn a profit but do not maximize profits or profiteer at the expense of the clients at the bottom of the pyramid (Puhazhendhi, 2012).

The Kshetriya Gramin Financial Services (KGFS) model aims for a fundamental shift from a supply-driven, one size fits all focus to a customized sales process centered on client needs. The model reflects the belief that geographical focus ensures a sustained effort to engage clients intensively (Girija Srinivasan, 2013).

The Stree Nidhi Credit Cooperative Federation, an apex financial cooperative, is promoted by Mandal Mahila Samakhyas (MMS), federations of SHGs at the Mandal level, in association with the Government of Andhra Pradesh. Stree Nidhi has been set up as an alternative to MFIs to provide low-cost credit to SHG members, especially in the aftermath of the microfinance crisis in Andhra Pradesh. Its operational costs are low as it lies on the architecture of the Indira Kranthi Patham (IKP)'s tiered structure of SHGs and their organizations, but it has kept its margins thin and still has posted impressive profits. Its mobile-based MIS and fast sanction processes seem effective (Girija Srinivasan, 2013).

Financial Inclusion

Banks need to make it easier to open savings bank accounts? SB a/c by streamlining their bureaucratic processes and implementing relaxed KYC norms. There should be financial products specially designed to help families cope with health risks. Financial service providers and institutions should work on designing and selling general insurance products to cope with livelihood and health risks. Insurance penetration should be increased (Johnson & Meka, 2010).

The Committee on Comprehensive Financial Services for Small Businesses and Low-Income Households envisaged Six Vision Statements to be achieved by 1 January 2016: (i) Universal Electronic Bank Account (UEBA), (ii) ubiquitous access to payment services and deposit products at reasonable charges, (iii) sufficient access to affordable formal credit, (iv) universal access to a range of deposit and investment products at reasonable charges, (v) universal access to a range of insurance and risk management products at reasonable charges, and (vi) a Right to Suitability (Reserve Bank of India, 2014).

SHPIs acting as business correspondents have been documented in the country and there are several cases such as Chaitanya acting as a BC for YES Bank under the YES Livelihood Enhancement Action Programme (YES LEAP), wherein credit and savings facilities are provided to SHGs through various NGOs acting as BCs of the bank. The arrangement with Chaitanya covers federations promoted as Community-Managed Resource Centres (CMRCs) that happen to be providing services that are non-financial in nature to the members (Bharat Microfinance Report, 2013).

In relation to global best practices (the G20 Principles for Innovative Financial Inclusion globally), Samruddhi (the MPFI model) stands at the crossroads of inclusive growth. The MP model of financial inclusion offers immense opportunities for financial deepening as there are opportunities and potential for the CSPs/USBs to offer products and services to keep themselves floating and attain sustainability.

Besides the services as offered under various government schemes, the demand for regulated products could be generated by means of financial education as well as converting the need to demand. Promoting well-managed financial deepening in low-income states such as MP can enhance resilience and capacity to cope with shocks, improve macroeconomic effectiveness, and support solid and durable inclusive growth (Bhatnagar & Gupta, 2013).

Financial Innovation

The Aflatoun Financial Education Programme, a project sanctioned and implemented by Mel Jol, an NGO, aims at bringing financial literacy to 43,000 school-going children in 300 schools across three states (Andhra Pradesh, Bihar, and Maharashtra) through the innovative and interactive Aflatoun School model. Under this model, schoolchildren open "Aflatoun Banks" and take on the role of bank staff on their own. The schoolteachers act as banking (business) facilitators/correspondents (Annual Report, NABARD, 2013-14).

"RuPay," a new card payment scheme launched by the National Payment Corporation of India (NPCI), is expected to offer a domestic, open-loop, multilateral system that 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 involve a number of positive features such as zero entry fee, highest security, processing of an adjustment file to enable Tip and Surcharge processing on the SMS platform, low administration costs and quarterly charges, and a smart card that can be used at the nearest ATM/PoS (Annual Report, NABARD, 2013-14).

Rural finance innovations are observed among delivery channels and most tend to use ICT to bring banking services closer to the non-banking at a reasonable cost, especially in remote and rural areas. Many strategic partnerships among financial, ICT, and non-financial service providers are observed to achieve scale and scope economies to provide inclusive services in combination with essential non-financial services using various types of institutional arrangements (Geetha Nagarajan, 2011).

Emerging Practices

The new approach to rural finance continues to focus on income expansion and poverty reduction but makes the case for cost-effective alternatives, such as increased investment in rural infrastructure or in human development, to reach these goals. Advocates of this approach propose that governments play a much more limited and efficient role in the direct provision of rural financial services, concentrated on establishing a favourable policy environment that facilitates the smooth functioning of rural financial markets (Yaron, 2004).

CHAPTER 4
Findings on Rural Financial Services

4.1 Introduction

Both theoretical and empirical research show that a sound and effective financial system is critical for economic development and growth. Access to financial markets is even more important for poor people to manage risks and increase their earning potential. However, financial markets often do not satisfy the needs of poor people, thus denying those with talent from obtaining resources to fulfill their ideas for the benefit of society.

In India, of the estimated 269 million people who are categorized as poor, 74% live in rural areas. The majority of the rural poor are marginal, small, or landless households mainly dependent on agriculture. Although they are multiple-income households, their main sources of income are the sale of agricultural products and wage labour. Evidence shows that the poor value financial services and want them to be reliable, convenient, and flexible. They need a wide range of financial services – from small advances for consumption needs to loans for investment purposes to long-term savings that help them to manage life-cycle needs.

Rural finance in India has a long history. Money lending as a business activity in India finds references in the writings of the Vedic period. Kautilya's Arthashastra (400 BC) contained references to creditors, lenders, and lending rates. However, lending on interest was considered a grave sin in that period. Before independence, the erstwhile British Government introduced rural credit by government in the 1790s with Taccavi loans to farmers and subordinate tenants for various purposes. Setting up and encouraging cooperatives as a means of providing agricultural credit was another focus area. It was stipulated, while establishing the Central Bank for the country, that is, the Reserve Bank of India (RBI), that RBI would be responsible for ensuring a credit supply not only to organized urban industries and trade but also to agriculture in the rural areas. Since independence, the rural financial structure has been strengthened in both its spread and reach. This resulted in a vast network of rural cooperative banks in the 1950s, nationalization of commercial banks in 1969, targeted low-cost priority sector loans in the 1970s and '80s, and a partial deregulation of interest rates, increased competition, and new microfinance approaches in the '90s. The important events in this journey are given in Table 1.

Although these measures did result in an improved access to finance for the rural poor, the vast majority of the poor still do not have access to either formal finance or microfinance, with the informal sector lenders still retaining a strong presence.

4.2 Key Players in Rural Financial Space

The present rural financial infrastructure in India comprises a very wide variety of formal, semi-formal, and informal financial service providers, each with distinctive cultures and characteristics. They can be categorized as follows:

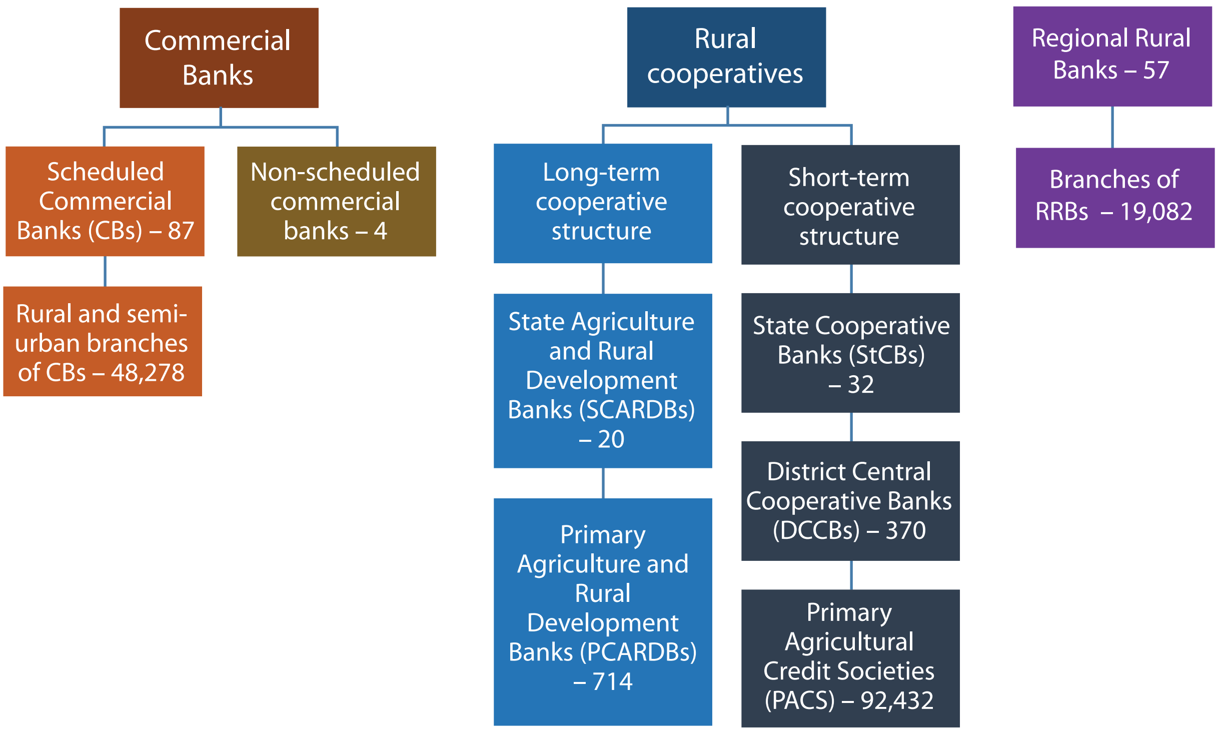
Formal Service Providers

The formal players are made up of Apex Development banks/DFIs, commercial banks, cooperative banks, regional rural banks, insurance companies, and post offices. In addition, India has public and private sector insurance companies and their branches and a large network of post offices spread across the countries that offer financial services. Figure 1 depicts the rural financial system of the country.

Table 1. Progress of the Rural Financial System over the Years

Sl. No.	Events	Year
1	Taccavi loan from Government	1792
2	Cooperative banks – regulation and establishment	1904
3	Reserve Bank of India	1935
4	Banking Regulation Act	1949
5	Establishment of State Bank of India	1955
6	Bringing cooperative banking under RBI supervision	1965
7	Nationalization of banks	1969, 1980
8	Establishment of regional rural banks	1975
9	Lead Bank Scheme	1969
10	Establishment of NABARD	1982
11	Potential Linked Credit Plan/Service Area Plan	1988-89
12	Establishment of SIDBI	1990
13	Pilot project SHG-BLP	1991-92
14	Introduction of KCC	1998-99
15	JLG, BC/BF guidelines	2006
16	Banking outlet in all villages with population above 2,000	2011-13
17	Pradhan Mantri Jan dhan Yojana	2014

Figure 1. Formal Rural Banking System in India (as of 31 March 2013)



Semi-Formal Service Providers

The semi-formal players consist of the SHG-Bank Linkage Programme (SBLP) and the microfinance institutions which are decribed below:

Self-Help Group Bank Linkage Programme (SBLP): The SBLP, pioneered by NABARD, has been described as the largest microfinance intervention in the world (Christen, 2006). Today, there are more than 7.3 million savings-linked SHGs and 4.5 million credit-linked SHGs, covering approximately 97 million households. The programme envisages three broad models of linkage:

- Model I: Bank-SHG-members: In this model, the bank itself promotes and nurtures the SHGs until they reach maturity.
- Model II: Bank-facilitating agency-SHG-members: Here, SHGs are formed and supported by NGOs or government agencies. This is the dominant mode and accounts for around 75% of cumulative loans of banks.
- Model III: Bank-NGO-MFI-SHG-members: In this model, NGOs act as both facilitators and MF intermediaries and often federate SHGs into apex organizations to facilitate inter-group lending and greater access to funds.

Although the programme has expanded exponentially over the years, there is at present a high degree of concentration in the southern states with just two states, Andhra Pradesh and Tamil Nadu, accounting for more than 66% of the SHGs receiving loans through bank linkage.

Microfinance institutions: There are more than 200 MFIs in the country, out of which about 50 are substantial in size. The microfinance Industry in India is growing very fast and has developed various products, delivery systems, and business models for the poor. The regulatory framework for NBFC-MFI (regulated by RBI) is well established, whereas a central legislation is likely to be passed in the parliament in the coming years.

The MFI sector in India has gone through three broad phases – high growth (till 2010), volatility (2010-11), and consolidation (2011-13) – and is now entering a phase of relative stability. Phase I saw high growth in the sector attracting both debt and equity investments to a highly profitable segment. In phase II, legislative action taken by the Government of Andhra Pradesh severely limiting the role of MFIs in the state led to the bankruptcy of major Andhra Pradesh-based MFIs due to geographic concentration and funding constraints. With the RBI providing a strong regulatory regime from 2011, the sector entered a consolidation phase with the MFIs adjusting their business model to the new market and regulatory environment. The current focus of the MFI sector is mainly on microcredit with other products still evolving, including thrift, insurance, and remittance.

Informal Sector

Informal financiers include a range of actors – landlords, local shopkeepers, traders, professional moneylenders, etc. Survey data indicate that poor rural households rely heavily on informal finance to meet a range of financing needs: from consumption and emergency financing to investment loans. It is reported that the interest charged on informal loans averages 48% per annum. Not surprisingly, informal borrowing is very important for the poorest, which are most deprived of formal finance. Informal financiers have the advantage of knowing their client better than most formal institutions, such as banks. They are better able to enforce contracts and provide flexible products.

4.3 Challenges Related to Rural Finance in India

Some of the major challenges related to rural finance in the country are captured in Table 2.

Table 2. Major Challenges Related to Rural Finance in India

Major challenges	Reasons	Impact on the outcome
Risk	– Systemic risk: agriculture is highly weather dependent. – Long gestation period of projects, uneven cash flows – Market risk: due to production variations as a result of political price controls, subsidies, etc.	Failures in agriculture affect farmer household and also production and marketing linkages and rural non-farm economies. Cyclical price fluctuations in agri-commodities
Collateral	– Lack of collateral to offer due to small pieces of land that cannot be easily mortgaged – Complicated process of registration of collateral and its repossession	Lack of collateral limits access to rural credit for rural people.
Transaction cost	Small size of loans, large geographical areas, illiteracy, and high frequency of transactions	Increased transaction costs for banker requiring high degree of supervision and resultant trade-off between loan default rates and cost of management
Credit information	Information bureaus not focused on rural borrowers, lack of reliable information	Perceived risks by banker and rural poor relying on informal credit
Social exclusion	Exclusion from formal banking channels	59.5% of rural households did not have a savings bank account (World Bank Financial Access Study of 2005), 8% had a formal loan account in India (Global Findex), one out of every two Indians had a savings account, and only one in seven had access to a bank loan (CRISIL-index).
Legal framework	– Securitization and asset reconstruction law does not cover agricultural loans – Land titles and registration remain weak, making it difficult to transfer or lease land	Encourage the inefficient oral lease system
Financial products	Lack of flexible products and services, including insurance and remittance	Lack of interest in availing of such financial products
Borrowing costs	As per World Bank-conducted RFAS 2003, the median distance to the nearest financial institution ranges from 2 to 5 km and the procedure for opening an account is cumbersome.	Effective cost of borrowing remains high for the rural poor

4.4 Typology for Providing Rural Finance

A comparison between the formal and informal systems of providing rural finance can be made on the following parameters as given in Table 3 below.

Table 3. Formal and Informal Financial System

Parameter	Informal financial sector	Formal financial sector
Access for smallholders	Provides savings and credit facilities for small farmers and low-income households	Prefers bigger and literate borrowers
Loan sanctioning processes	Simple; emanate from local cultures	Complex administrative processes
Collateral requirements	Based on local conditions and borrowers' capacity	Well-laid-out collateral requirements
Transaction cost	Low	High
Working time	As per convenience of farmers	Do not take the convenience of farmers into account
Information dissemination	High	Low
Interest rates	High	Low
Loanable funds	Availability subject to seasonal fluctuations	Regular availability of loanable funds

4.5 Regulatory Framework and Enabling Environment

India has a diversified financial sector comprising commercial banks, insurance companies, non-banking financial companies, cooperatives, pension funds, mutual funds, and other entities. The financial sector is dominated by banks where commercial banks account for more than 60% of total assets of the system, followed by insurance. Many non-banking finance companies operate in specialized segments such as leasing, microfinance, and infrastructure finance. The Indian financial system's regulatory architecture is complex – in terms of both the number of regulatory, quasi-regulatory, and non-regulatory-but-still-regulating bodies and because of their overlapping, ambiguously defined spheres of concern and influence.

Regulatory agencies: Broadly, there are supposed to be product-wise demarcations of regulatory space for various regulators. A brief description of the various regulatory agencies is given below:

- *Reserve Bank of India:* The Reserve Bank of India (RBI) is the country's central banking authority involved in the regulation and supervision of commercial banks, NBFCs, and development finance institutions. Most of the banking sector in the country is governed by the Banking Regulation Act, 1949. For cooperative banks, there is dual control in that while incorporation, management, and winding up of primary cooperative banks are regulated by the authorities under the State Cooperative Societies Act, the banking functions of cooperative banks are supervised by RBI and those of rural cooperatives by NABARD.

- *Securities and Exchange Board of India (SEBI):* SEBI regulates the Indian security markets, merchant banks, mutual funds, stockbrokers, registrars, FII, and credit rating agencies.

- *Insurance Regulatory and Development Authority (IRDA):* IRDA regulates life insurance companies, general insurance companies, and reinsurance companies. It also regulates intermediaries such as agents, brokers, third-party administrators, surveyors, and loss assessors.

- *Pension Fund Regulatory and Development Authority (PFRDA):* PFRDA regulates the National Pension System for government employees as well as other citizens of India through its registered intermediaries.

- *Forward Markets Commission (FMC):* The FMC regulates the commodity derivative markets.

Quasi-regulatory agencies: These include the National Bank for Agriculture and Rural Development (NABARD), Small Industries Development Bank of India (SIDBI), and National Housing Bank (NHB). NABARD supervises regional rural banks as well as state and district cooperative banks. NHB regulates housing finance companies, and SIDBI regulates state finance corporations.

Central government ministries: In addition to these regulatory and quasi-regulatory agencies, certain ministries of the government are involved in policy-making in the financial system. The Ministry of Finance (MoF) is most prominently involved, through its representatives on the boards of SEBI, IRDA, and RBI.

State governments: Through the registrar of cooperatives that are typically under the departments of agriculture and cooperation, the state governments regulate the cooperative banking institutions in their respective states. The state governments have also sometimes claimed a regulatory role in certain other cases.

Microfinance regulatory structure in India: The legal status of an MFI is determined through its registration as one of the following types of entities: (a) NGOs engaged in microfinance; (b) cooperatives registered under the state-level cooperative acts, the national-level Multi-State Cooperative Societies Act, or under the new State-level Mutually Aided Cooperative Societies Act (MACS); (c) Section 25 companies (not-for-profit); (d) for-profit NBFCs; and (e) NBFC-MFIs. The NGO MFIs can be registered as a Society under the Societies Registration Act or as a Trust under the Indian Trust Act. Many NGO MFIs achieve a more formal corporate structure by registering under the Companies Act, 1956, as a Section 25 company. Of late, many MFIs are registering as NBFCs to access capital markets. NBFCs account for a majority of the microfinance markets in India with about 50 NBFCs responsible for 80% of microfinance portfolios. The NBFC-MFI category was created by RBI in 2011 to classify for-profit institutions that meet certain requirements and qualify for priority sector lending funds.

The Microfinance Institutions (Development and Regulations) Bill, 2011, is under consideration of parliament.

The Micro-insurance Regulations, 2005: India is one of the first countries in the world to have introduced micro-insurance regulation. It provides for an intermediary called a micro-insurance agent with at least 3 years of experience in working with low-income groups. The responsibility for selection of a micro-insurance agent with a good track record and building their capacity has been given to the insurance company. The micro-insurance agent can be an NGO, MFI, or other community organizations such as SHGs and can distribute only micro-insurance products.

The regulations have capped the commissions between 10% and 20% of premiums per year. The regulations permit bundling of life and non-life elements in a single product provided there is a clear separation of premium and risk at the insurer's level. The regulations also restrict an MI agent to working with only one life and/or one general insurer, respectively.

Internet banking: Around 15% of the total population in the country uses the Internet and this number is growing rapidly, thus offering a huge potential for Internet banking. Banks are actively using the Internet as a means of providing service as it has a fraction of the cost of conventional methods. The RBI has issued detailed guidelines to all banks for Internet banking in India. Only such banks that are licensed and supervised in India and have a physical presence are permitted to offer Internet banking products to residents. The products are restricted to account holders and include only local currency products. In addition to this, banks are required to develop outsourcing guidelines to manage risks arising out of third-party service providers and set up "Inter-Bank Payment Gateways" for settlement of e-commerce transactions using a leased-line network and appropriate data encryption standards.

Remittance markets: The remittance market in India comprises commercial banks, non-bank money transfer operators (MTOs), foreign exchange bureaus, cooperative banks, and post offices. Banks are estimated to have the highest share at 80%, followed by the MTOs. Many banks also offer remittance services as agents of MTOs. Payment systems such as Real-time Gross Settlement (RTGS) and National Electronic Funds Transfer (NEFT) have helped greatly in reducing the processing time for remittances. MTOs such as Western Union and MoneyGram are the other widely used remittance channels in India and they operate through alliances, partnerships, and sub-agencies. In 2000, India Post also started offering remittance services and it tied up with Western Union to support the transfer of funds. India Post has its own remittance products such as money orders and postal orders that are used for remittance services using the network of 160,000 post offices. With increasing adoption of technology, Internet-based provision of remittance services is also becoming popular.

The regulatory environment for remittance services is controlled by the RBI, which mandates entities wishing to offer foreign exchange-related services to obtain licenses under specific licensing categories called authorized dealers (ADs) and full-fledged money changers (FFMCs) to offer remittance services directly. A ceiling of INR 50,000 is set on the amount that can be paid out in cash and any amount exceeding this limit has to be paid by cheque, draft, or credited directly into the account of the beneficiary. The market for remittances is transparent and consumers are well informed. Bank-operated remittance services are covered by general consumer protection measures and the level of complaints has been very low.

4.6 Capacity of the Rural Financial Institutions in India

Supply-Side Indicators

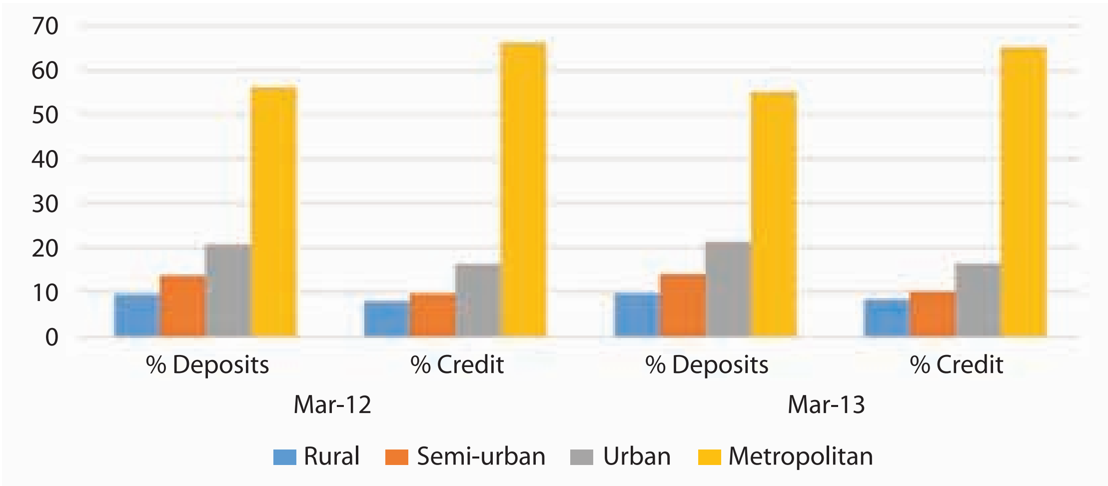
The vast network of financial institutions, including RFIs, NBFCs, MFIs, and post offices, makes India compare favourably with other developing countries with the average population as well as the average area served per bank branch being 12,800. However, despite the improvements in access to rural finance over time, the supply of formal rural finance is skewed in favour of the urban population. The volume of deposits and credit is lower in rural areas than in urban areas, a rural branch serves almost three times the number of people served by an urban branch, and the number of loan accounts in rural areas to the total rural population is only one-third that of urban areas (Figure 2). Further, the choice of products offered by a rural branch is not on a par with those offered by urban branches.

In terms of regional spread, there are large regional differences, with economically less developed regions having much lower financial access. The region-wise distribution of deposits and credit as of March 2013 is given in Figure 3.

Agricultural credit, which was one of the major sources of rural finance during 2013-14, is as shown in Table 4. However, the priority sector advances of commercial banks stood at INR 21,742,000 million as of 31 March 2014.

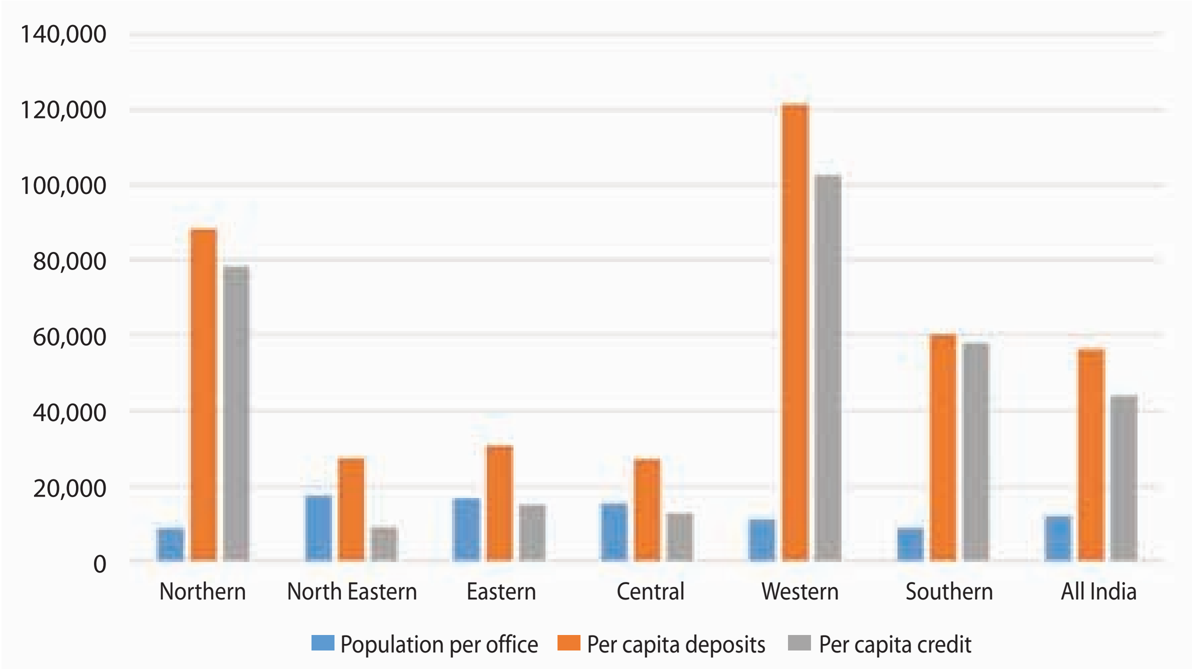
To make the financially excluded rural poor customers, it is important to holistically address the expectations of the poor through the design of appropriate products, increased accessibility by adjusting office timing as per customer needs, simplified procedures, and an improved public interface.

Figure 2. Distribution of Deposits and Advances



(Handbook of Statistics, RBI, 2013)

Figure 3. Region-wise Distribution of Per Capita Deposits and Credit, March 2013



(Handbook of Statistics, RBI, 2013)

Table 4. Agency-wise Agricultural Credit in India

Sl. No.	Agency	Achievement* (INR in million)
1	Commercial banks	5,090,000
2	Cooperative banks	1,199,000
3	Regional rural banks	827,000
	Total	7,116,000

Source: NABARD, Annual Report, 2014
* Provisional

CHAPTER 5

Detailed Study of Rural Finance Best Practices

The financial environment has brought about regular efforts and innovations on the part of the Government of India, state governments, the Reserve Bank of India, IRDA, PFRDA, NABARD, SIDBI, and several NGOs to create different types of suitable rural financial practices and systems in India. Considering the predominance of informal credit, various types of products have emerged for microfinance. Starting from the subsidy-based credit programme IRDP in the 1980s, which could be considered as the largest microfinance programme of its time, the Government of India introduced SHG-based SGSY in the late nineties and now the NRLM since 2011. The early nineties was a watershed regarding the development of microfinance, when NABARD/RBI introduced the SHG-Bank Linkage Programme on the one hand and also supported NGOs to experiment with other microfinance products. Later on, different types of MFIs developed with active support from NABARD and SIDBI. Most of the state governments have also experimented with their own microfinance and financial inclusion products. From 2005-06 onward, serious discussion on financial inclusion led to the development of other financial services such as deposit accounts, micro-insurance, remittance support, and micro-pension. With the help of a conducive regulatory environment and technological advancement, several financial products and practices are emerging.

The plethora of such rural financial practices made the identification of the best rural financial practices in India a difficult task. First, good practices were shortlisted under different themes such as savings, credit, rural credit methodologies, new innovations (remittance, micro-insurance, micro-pension, etc.), operational and outreach structures, and collateral-based lending. Out of the available rural financial products/services under these themes, the most representative ones have been identified based on the inclusion criteria under the dimensions of product, delivery system, business model, outreach, flexibility, adaptability, and enabling environment. Table 5 shows the status of the selected products/services regarding these inclusion criteria.

Obviously, SHG-BLP comes as the first choice. Although SHGs can be considered as grass-roots institutions themselves, the bank linkage of SHGs has emerged as a product having the largest coverage of poor in the country. The product has become the base of most of the inclusion models developed by the GoI and different state governments. Moreover, it is highly flexible and adaptable and has an adequate enabling environment. JLG is another grass-roots institution. The JLG bank linkage product is based on the concept of joint liability and has emerged as an innovative solution for providing social collateral to bankers for their lending to mid-segment clients.

The third unique credit product is the Kisan Credit Card, which has already covered half of the farm-holdings and has the potential to cover all farmers in the country through its adaptable and flexible methodology and with the support of enabling environment. The BC/BF has been recognized as a potent instrument for financial inclusion by RBI and RBI has provided detailed guidelines for the appointment and functioning of BC/BF. The targets to ensure their outreach to all villages with a population >2,000 in their service areas were also achieved by most of the banks. It was observed that the BCs/BFs appointed through corporate service providers and TSPs were facing problems of low transaction, low remuneration, and low confidence of banks and clients. Two new innovations aiming to correct the situation have proved that the BC/BF model can be successful and adaptable. Although these models are in the initial stages, their promise for expansion and a good business model and delivery system have resulted in their selection as best practices. These are (a) an SHG member as a BC, being piloted in two RRBs, and (b) one MFI, SKDRDP, working as a BC with different banks in Karnataka State.

Table 5. Inclusion Criteria

Themes	Inclusion criteria							
	Product	Delivery system	Business Model	Outreach	Flexibility	Replicability	Adaptability	Enabling environment
Savings	SHG Bank Linkage	*Established*	*Established*	*Extensive*	*Highly flexible*	*Highly replicable*	*High*	*Available*
	SHG Member as business correspondent (BC)	*Pilot stage*	*Pilot stage*	*Limited (2–3 states)*	*Flexible*	*Replicable*	*Moderate*	*Available*
	MFI as BC (SKDRDP)	*Established*	*Established*	*Limited (one state)*	*Flexible*	*Replicable*	*Moderate*	*Available*
Credit	Kisan Credit Card (KCC)	*Established*	*Established*	*Extensive*	*Highly flexible*	*Highly replicable*	*High*	*Available*
	NABFINS	*Established*	*Established*	*Moderately extensive (5–6 states)*	*Moderate*	*Replicable*	*High*	*Available*
	MFI (Bandhan)	*Established*	*Established*	*Extensive*	*Moderate*	*Replicable*	*High*	*Partially available (NBFC-MFIs are regulated)*
Rural credit methodologies	SHG Bank Linkage Programme (Hybrid)	*Established*	*Established*	*Extensive*	*Highly flexible*	*Highly replicable*	*High*	*Available*
	Kudumbashree (Hybrid)	*Established*	*Established*	*Limited (one state)*	*Moderate*	*Replicable*	*Moderate*	*Available*
New Innovations	Abhaya Hastham	*Established*	*Established*	*Limited (one state)*	*Moderate*	*Replicable*	*Moderate*	*Available*
Operational & outreach structures	Samruddhi	*Established*	*Established*	*Limited (one state)*	*Moderate*	*Replicable*	*High*	*Available*
Collateral (social collateral)	Joint liability groups (JLG)	*Established*	*Established*	*Extensive*	*Highly flexible*	*Highly replicable*	*High*	*Available*

SHGs and JLGs are also basic institutions along with the center-level solidarity groups through which most of the MFIs are working in the country. Based on the MFIN report and the annual reports of different MFIs, several MFIs such as Asmitha, Bandhan, Equitas, Janalakshami, Share, SKS, Spandana, Ujjivan, etc., have gross loans above INR 5 billion. The Bandhan FSPL, being the largest MFI as of 31 March 2014, was identified for in-depth study.

Out of the MFIs working with the SHGs as the basic institution, SKDRDP was the largest. However, SKDRDP is now working as a BC and was included for in-depth study. Out of the MFIs working with SHGs, NABFINS, because of its adoption and successful implementation of an innovative model of working through Business and development correspondents, was also identified for in-depth study. The model has enabled NABFINS to control its transaction cost and provide loans to customers at one of the lowest rates of interest among the MFIs.

Several good models were developed by different state governments for the delivery of microfinance, livelihood support, and financial inclusion. The most important ones such as BRLPS (JEEVIKA) of Bihar, TRIPTI and Mission Shakti Projects of Odisha, MAVIM of Maharashtra, SERP of Andhra Pradesh, Samruddhi of Madhya Pradesh, Kudumbashree of Kerala, and the State Rural Livelihood model of Karnataka, Tamil Nadu, and Uttar Pradesh were considered. Most of these models are based on the SHG and JLG structure. However, each state model was innovated to suit the state-specific issues. Out of these, Kudumbashree, Samruddhi, and Abhaya Hastham of SERP, based on their innovation content, outreach, and model strength, were identified for in-depth study. Other models, including SHG federations such as GMSS (Grameen Mahila Swamsiddha Sangh) promoted by Chaitanya in Maharashtra, RGMVP (Rajiv Gandhi Mahila Vikas Pariyojna) in Uttar Pradesh, the model adopted by private commercial banks such as SLI (Sustainable Livelihood Initiative) of HDFC Bank, etc., were also studied. However, considering the fact that the essence of these models has already been covered under other discussed products such as SHG-BLP, JLG, and Kudumbashree, they were not taken up for in-depth study. The details of the selected best rural financial practices are given in the succeeding chapters.

5.1 Self-Help Group-Bank Linkage Programme (SHG-BLP)

A. Introduction and description of products/services

Of the various initiatives taken by the Government of India, RBI, and NABARD to address the issue of financial exclusion of the poor from formal credit institutions, the **Self-Help Group (SHG) bank linkage model can be considered as the most important one**.

The SHG-BLP is an innovation in the marriage of flexibility of the informal system with the strength and affordability of the formal system. Three radical innovations were introduced through the RBI/NABARD guidelines on the Self-Help Group-Bank Linkage Programme:

- Acceptance of informal groups as a client of banks – both deposit and credit linkage,
- Introduction of collateral-free lending, and
- Permission to lend to a group without specification of purpose/activity/project.

The basic features of SHGs as per the guidelines are as follows:

- Members 10–20
- Two to three office bearers such as president/secretary/treasurer elected by the members
- By-laws for running the group framed by the members
- Periodical meetings are held – weekly/fortnightly/monthly
- Equal amount of uniform thrift/saving is collected from all members on fixed periodicity
- Savings bank account is opened in the name of the group and jointly operated by the office bearers
- Internal loans are given to needy members out of savings corpus of the group for purposes such as emergent needs, social/consumption needs, productive activities, debt swapping, etc.
- Books of accounts are maintained up-to-date.
- Bank provides credit support in certain multiples of savings corpus ranging from one to four times and even higher based on the maturity of the groups.
- Groups following Panch Sutras (five principles) as regular meeting, regular savings, regular internal lending, timely repayment, and proper bookkeeping are treated as well-functioning groups.
- Groups have flexibility to decide terms and conditions and their by-laws for smooth running.

B. Stakeholders/delivery systems/channels

Important aspects of the SHG-BLP system, as per RBI master guidelines, are as follows:

(a) Lending to SHGs to form part of mainstream credit operations of banks. Banks may include SHG linkage in their corporate strategy/plan, training curriculum of their officers and staff, and implement it as a regular business activity and monitor and review it periodically.

(b) The banks should report their lending to SHGs and/or to NGOs for on-lending to SHGs/ members of SHGs under "Advances to SHGs" irrespective of the purposes for which the members of SHGs have received loans. This forms part of their lending to the weaker sections.

(c) The SHGs registered or unregistered that are engaged in promoting savings habits among their members would be eligible to open savings bank accounts with banks.

(d) KYC (know your customers) verification of all the members of a SHG need not be done while opening the savings bank account of the SHG as KYC verification of all the office bearers would suffice. No separate KYC verification of the members or office bearers is necessary at the time of credit linking of SHGs.

(e) SHGs can be sanctioned **for?** savings-linked loans by banks (varying from a savings to loan ratio of 1:1 to 1:4). However, in the case of matured SHGs, loans may be given beyond the limit of four times the savings as per the discretion of the bank.

(f) Banks should strive to remove all operational irritants and make arrangements to expeditiously sanction and disburse credit by delegating adequate sanctioning powers to branch managers. The loan application forms, procedures, and documents should be made simple to help in providing prompt and hassle-free credit.

(g) The defaults by a few members of SHGs and/or their family members to the financing bank should not ordinarily come in the way of financing SHGs per se by banks provided the SHG is not in default to the bank. However, the bank loan may not be used by the SHG for financing a defaulter member to the bank.

(h) The banks may initiate suitable steps to internalize the SHGs' linkage project.

(i) Monitoring of the SHG-Bank Linkage Programme may be done regularly by the SLBC (State-Level Bankers' Committee) and DCC (District-Level Coordination Committee). It should be reviewed at the highest corporate level on a quarterly basis.

(j) Banks should provide adequate incentives to their branches in financing the SHGs and establishing linkages with them, making the procedures absolutely simple and easy while providing for total flexibility in such procedures to suit local conditions.

(k) The group dynamics of working of the SHGs may be left to themselves and need neither be regulated nor formal structures imposed or insisted upon. The approach to financing of SHGs should be totally hassle-free and may include consumption expenditures.

(l) The interest rate applicable to loans given by banks to SHGs/member beneficiaries would be left to their discretion.

(m) Banks have been advised to meet the entire credit requirements of SHG members, namely, (a) income generation activities, (b) social needs such as housing, education, marriage, etc., and (c) debt swapping.

For a majority of SHG members, membership in the SHG is the first experience of savings. SHGs enable the participation of members in managing finance, making decisions on the use of funds, making investments in livelihoods available in the local area, and becoming empowered due to improved decision-making capacity. SHGs enable the poor in accessing financial services from formal financial institutions without procedural hassle and using these financial services to diversify their livelihood, reduce vulnerability, and take a step towards escaping from poverty. Moreover, skill development and other livelihood support were provided to the members. The most comprehensive support came through NABARD-supported "Micro-Enterprise Development Programme" (MEDP), under which more than 290,900 SHG members had already been benefited as of 31 March 2014.

Banks, as another stakeholder, found the product highly cost-effective. The operating cost is much lower than that of other micro-lending programmes because of the simple documentation and process of the SHG-BLP system and lending and recovery through the empowered group. Moreover, the recovery rate is much higher because of social collateral.

Most of the state governments, over a period, undertook, through departmental initiatives, major programmes of SHG promotion for reaching the goals of poverty alleviation. Notable examples are Andhra Pradesh (AP) with the Podupulakshmi programme, wherein, from 1997 to 1999, 0.2 million SHGs were formed. The Indira Kranthi Patham programme of AP, Jeevika project of Bihar, and TRIPTI and Mission Shakti projects in Odisha were some of the other projects implemented by state governments. Now, many of the state governments have a separate department for SHG promotion and development. As things stand today, state governments have contributed to about 80% of the SHGs formed in the country.

The recognition for self-help groups as a vehicle for purveying microcredit as a tool for poverty alleviation came in April 1999, when the Government of India sponsored the Integrated Rural Development Programme (IRDP), the largest poverty alleviation programme in the world. It was amalgamated with other government programmes such as DWACRA, SITRA, TRYSEM, and GKY to be rechristened as SGSY (Swarna Jayanti Gram Swarojgar Yojana), in which the group mode of financing was recognized. Though there were many dissimilarities with NABARD's concept of SHG-BLP, particularly subsidy as a source of cheap money introduced under the scheme, it laid out the policy framework for the SHG-based poverty alleviation approach.

SGSY was restructured in 2011 to form the National Rural Livelihood Mission (NRLM) to be implemented in a mission mode across the country. NRLM is an entirely group-centric, group-driven poverty alleviation programme. NRLM's components are formation, federation, and financing of women's SHGs; a livelihoods programme for rural women farmers and agricultural labourers; value addition in non-timber forest produce in tribal districts; gender rights issues; and various skill development programmes. It aims to cover all the rural districts in the country intensively, in phases.

The SHG model is also followed by several NGOs/MFIs/SHG federations for their lending operations. These MFIs take a bulk loan from banks for on-lending to SHGs promoted by them (the third model of SHG-BLP as per NABARD guidelines). Examples of such NGOs are MYRADA in Karnataka, SHARE in Andhra Pradesh, RDO (Rural Development Organisation) in Manipur, PREM (People's Rights and Environment Movement) in Odisha and AP, ANARDE (Acil Navsarjan Rural Development Foundation) in Gujarat, PRADAN (Professional Assistance for Development Action) and RUDSOVAT (Rural Development Society for Vocational Training) in Rajasthan, SKDRDP in Karnataka, etc.

Globally, the model has tasted success in more than ten countries. However, success regarding linking of SHGs with the formal financial sector has been limited mainly because of a lack of specific guidelines from the central bank/government and also because of a lack of dedicated efforts for sensitization/ training of bankers. Bankers generally prefer bulk lending to collectives and are more comfortable in financing through MFIs. Comparative models catering to the poorest segments in APRACA countries are the Grameen model and Association for Social Awareness (ASA) model of Bangladesh. Although both these models are being implemented through MFIs and need intensive monitoring by MFI staff, SHG-BLP is ensuring linkage of microfinance with the banking sector with comparatively lower monitoring. As against financing for only income-generating activities by the two other models, SHG-BLP provides for purpose-neutral credit linkage by banks to SHGs, which are free to lend to their members for any purpose, including consumption, productive efforts, and loan swapping. This internal lending system is absent in both the Grameen and ASA models. Although the formation of groups is common in all three models, SHG-BLP has the most empowered group functioning as a financial intermediary. The Grameen methodology also depends on joint liability of a solidarity group while ASA has no group liability concept. Deposits are taken in both the Grameen and ASA models as collateral and kept with the MFI as against forming a corpus of SHG in the case of SHG-BLP. Obviously, holistic empowerment of the poor is a prerequisite as well as a result of SHG-BLP as compared with other models; while the ASA model depends more on the capacity of financial institutions and is expandable in new areas without emphasizing empowerment of the clients.

C. Impact/benefits

The movement that started as a link between the "unbankable" rural poor and the formal banking system to cater to the microcredit needs of the poor now boasts a group savings of a whopping INR 330,000 million (70% of which goes for internal lending and the balance in the SB accounts of the groups) and total bank credit outstanding of INR 429,275 million (besides nearly INR 230,000 million lent to members from groups' own savings). With more than 84% of these being all-women groups, the poor rural women in India now control a financial business with turnover of nearly INR 1,000 billion (deposits + credit) – much more than most of the MNCs in India.

The financial inclusion achieved through SHG-BLP as of 31 March 2014 is astounding, with 7.43 million SHGs having savings linked to banks providing access to regular savings (through SHGs linked to banks) to about 97 million rural households. Some 1.37 million SHGs sanctioned fresh loans of INR 240,174 million during 2013-14. The number of SHGs having outstanding credit with banks was 4.20 million and the amount of loans outstanding stood at INR 429,275 million as of 31 March 2014. The average loan disbursed to SHGs by banks during 2013-14 was INR 175,768. The average loan outstanding of SHGs with banks as of 31 March 2014 was INR 102,273 against INR 88,500 a year earlier. The share of exclusive women's SHGs in the total number of SHGs linked to banks now stands at 84% (up from 81% the year before).

D. SWOC analysis

Strengths

- The SHG-BLP is an innovation in bringing informal groups within the fold of formal financial institutions.
- Unregistered informal groups could open a savings bank account with the bank branch in the name of the SHG and also seek collateral-free purpose-neutral loans from banks.
- The poor who were financially excluded could easily access financial services available from formal institutions.
- The SHG also empowers the members socially and economically.
- SHG-BLP is a cost-effective and viable model for the banking sector for financial inclusion of hitherto unreached poor households, particularly in rural hinterlands.
- Besides reducing the transaction cost of delivering services to hardcore poor through the adoption of a group mode, it also ensured very good recovery through social collateral.

Weaknesses

- A sizeable number of the poor families of the country continue to be beyond the coverage of the programme.
- Four southern states (Andhra Pradesh, Karnataka, Kerala, and Tamil Nadu) account for about 3.6 million SHGs out of 7.4 million total SHGs with savings linked. Against this, the poor and backward states such as Madhya Pradesh, Uttar Pradesh, Bihar, Jharkhand, Chhattisgarh, and Rajasthan account for more than 42% of the poor, but have only 18% of the SHGs formed.

- Large variation in the average amount of loans disbursed per SHG was observed.
- Because of the high illiteracy of SHG members, proper maintenance of books of accounts continues to be a challenge. A majority of the groups depend on outside support for up-to-date record keeping.
- Linkage of SHGs has suffered because of the lack of adequate thrust from the bank management and some banks not perceiving SHGs as a business proposition for the bank.
- Banks also fail to serve the SHGs adequately because of a lack of adequate bank staff, lack of proper attitude, and inability to use the BC/BF outlet properly.
- Information technology is yet to be leveraged to improve the quality of service to the SHGs, and their bookkeeping and monitoring system. Interventions on this front have been sporadic, without any serious efforts for up-scaling.

Opportunities

- Social capital formation through the SHG can be optimally used for livelihood creation with a provision of suitable support.
- The financial capabilities created by the SHG can be optimally used for successful implementation of the financial inclusion programme of the Government of India and RBI such as PMJDY.

Challenges

- The thrust in promoting SHGs for the sake of obtaining various benefits under government schemes such as SGSY and NRLM, interest subvention/waiver, and subsidized finance in certain states may weaken the SHGs by undermining the financial intermediation role and non-adherence to Panch-Sutra of SHG.
- The low literacy level and inadequate environmental factors necessitate longer handholding of SHGs, which is not forthcoming in many cases.
- The availability of bulk customers for microfinance in the form of MFIs, which are on a par with the SHG-BLP with respect to both priority sector status and availability of refinance from NABARD, is making the SHG comparatively less attractive to banks.

E. Sustainability and replicability/upscalability

Sustainability: The SHG-BLP model has proved to be one of the most cost-effective models of financial inclusion. The sustainability of the model is, however, affected by the following issues:

(a) Because of the low level of literacy/financial literacy and very little financial capability of poor SHG members, longer-term hand-holding of the groups is necessary.

(b) In some areas, government-sponsored development programmes such as SGSY/NRLM/MNREGA, which require a specific proportion of BPL families in the SHGs, have forced disintegration of SHGs to form new ones complying with the guidelines.

To ensure the sustainability of SHGs post-exit of the GOs, NGOs, and other SHG-promoting agencies; federations of the SHGs have been formed by several agencies. However, most of the original proponents of SHG-BLP are afraid that the shift towards formalization of the process from a non-formal and flexible system to a rigid rule-based one may bring political interference and the like in other developmental processes, and may provide a breeding ground for corrupt practices.

Replicability/upscalability

The exponential growth of the SHG-BLP programme in India is self-proving of the replicability of the model. However, replicability efforts in other countries would require suitable guidelines from the central bank/government for savings and credit linkage of such informal groups. Further, there needs to be an institution like the NABARD in India to support, train, and sensitize different stakeholders. A replication model is given in Appendix I, which explains the different steps required and tentative cost involved in the process.

India needs a very large number of institutions to promote and nurture SHGs for upscaling the programme to cover all the poor under the programme. These institutions can take up the task of promoting SHGs if they are paid a good sum for promoting SHGs and they appreciate their worth for themselves after promoting them. In the priority states having high potential but low coverage of SHGs, adequate support is required from various stakeholders for upscaling. The road map for upscaling may include the following:

i. More focus on resource-poor states having lower financial inclusion.
ii. The focus may shift from the state as a whole to "districts in a state" and "blocks in a district" as a unit to ensure that the outreach of the programme is balanced and complete.
iii. Efforts in close coordination with NRLM to form and nurture groups by involving NGOs, CBOs, CRPs, secondary-level institutions, state government departments, etc.
iv. E-bookkeeping at the SHG level and integration of information technology at different levels can be ensured. While using technology, efforts can be made to keep it simple and user-friendly so as to enhance client comfort and accuracy and ease the work process at the branch level.

F. Conclusions

The SHG-BLP model has emerged as the most successful model of reaching the unreached. The success of the programme can be assessed from the fact that a population of around 400 million belonging to 97 million households benefited through 7.4 million SHGs formed so far. **The weaknesses/shortcomings listed are not in the model, but in the environmental factors, which need to be tackled with urgency**. The goal of universal coverage of poor households for creating livelihood through the mechanism of SHG-BLP requires several innovations. Some of these can be attained through leveraging technology and some others would require innovations in designing the products.

5.2 SHG members as BCs

A. Introduction and description of product/services

In 2006, India's Central Bank (Reserve Bank of India) permitted banks to use business correspondents (BCs) to organize networks of Customer Service Points (CSPs). The BC faces issues such as low remuneration, late payment to TSPs/BCs, and consequently poor performance by the CSP, in the prevalent system of the BC being professionally appointed through a corporate entity. Thus, there is a need to evolve replicable and financially sustainable business models for BCs.

In 2012, the Rural Financial Institutions Programme (RFIP), a joint NABARD-GIZ programme, decided to pilot projects for improving the integration of bank agents into the community by appointing SHG members as agents. The RFIP engaged in two pilot projects to test the potential of SHG members functioning as bank agents to offer banking services at the doorstep of villagers, particularly for women and poor households.

The first pilot project was rolled out in May 2013, with the Gramin Bank of Aryavarta (GBA) in Unnao District of Uttar Pradesh (UP). The second pilot project started in Indore District of Madhya Pradesh (MP) in May 2014 with Narmada Jhabua Gramin Bank (NJGB). In both projects, the banks have partnered with a local federation, corporate BC, and a technology service provider. Overall, the pilot projects are testing the feasibility of integration of the SHG and BC ecosystem.

Banks appoint locally available women SHG members as BC agents, known as Bank Sakhis (Friends of the Bank), who will conduct group transactions leveraging low-cost technology. The selection of Bank Sakhis involves partnership with local community institutions such as SHPIs, federations, and Gram Panchayat members. Bank Sakhis offer convenient transactions to SHG members in non-/underbanked areas, and provide access to the individual credit history of members for the bank. This is in addition to the services offered to all other villagers (non-SHG members) as done conventionally under the BC model, by the Bank Sakhi.

B. Stakeholders/delivery systems/channels

The following are the important stakeholders in the project:

- **Banks:** Gramin Bank of Aryavarta (GBA) and Narmada Jhabua Gramin Bank in two pilots in Uttar Pradesh and Madhya Pradesh, respectively.
- **Corporate business correspondent (BC) and technology service provider (TSP):** Bartronics is playing the dual role of corporate BC and TSP in UP. TCS (Tata Consultancy Services) is a TSP and NICT (Network for information and Computer Technology) is a BC in MP.
- **Self-Help Promoting Institution (SHPI):** Rajiv Gandhi Mahila Vikas Pariyojana (RGMVP) in the pilot area of UP. Priya Sakhi Mahila Sangh (PSMS) is the district-level federation, which is working as an SHPI in MP.
- **Bank Sakhi:** As official agents, they have entered into a formal agreement with the corporate BC to deliver financial services on behalf of the bank. The Bank Sakhis have been trained on ICT-based financial inclusion using classroom training modules and continuous handholding support provided by the GIZ project team and community volunteers appointed by SHG Federation.

The delivery system/channels are as per **Annexure 1**. The operation and usage of ICT-based banking services can be seen graphically in Figure 4. The service delivery process and cash management stakeholders are presented in Figures 5 and 6 respectively.

C. Impact/benefits

- **Customers:** The banking facilities through Bank *Sakhis* provide flexibility, convergence, trust, security, etc. The members withdraw money as and when needed at the doorstep and beyond banking hours.
- **Bank *Sakhis*:** Bank *Sakhis*, with an average of 500 transactions in a Gram Panchayat, can earn up to INR 5,000 per month, which is adequate for them as they normally reside in the village. Bank *Sakhis* also gain in terms of social recognition and self-esteem.
- **The bankers:** The SHG member as a BC project has led to access to financial services on the doorstep with very limited cost. Having observed the benefit of doorstep banking, the effectiveness, and convenience, many villagers are keen to open basic accounts through the Bank *Sakhis*. The bank is able to reduce its transaction cost substantially. It has created a space for the branch staff to improve services for other sectors and tap high-value business. The bank has succeeded in instituting safe and secure savings behaviour among the villagers.

Figure 4. Service Delivery System Using an ICT Platform

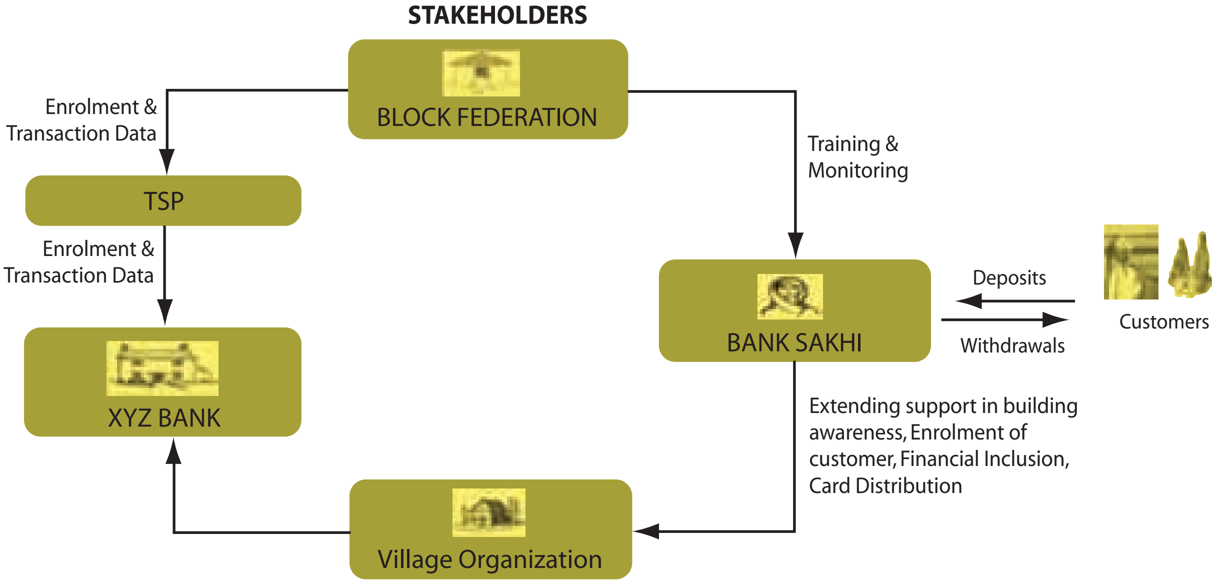


Figure 5. Process of Delivery of Services

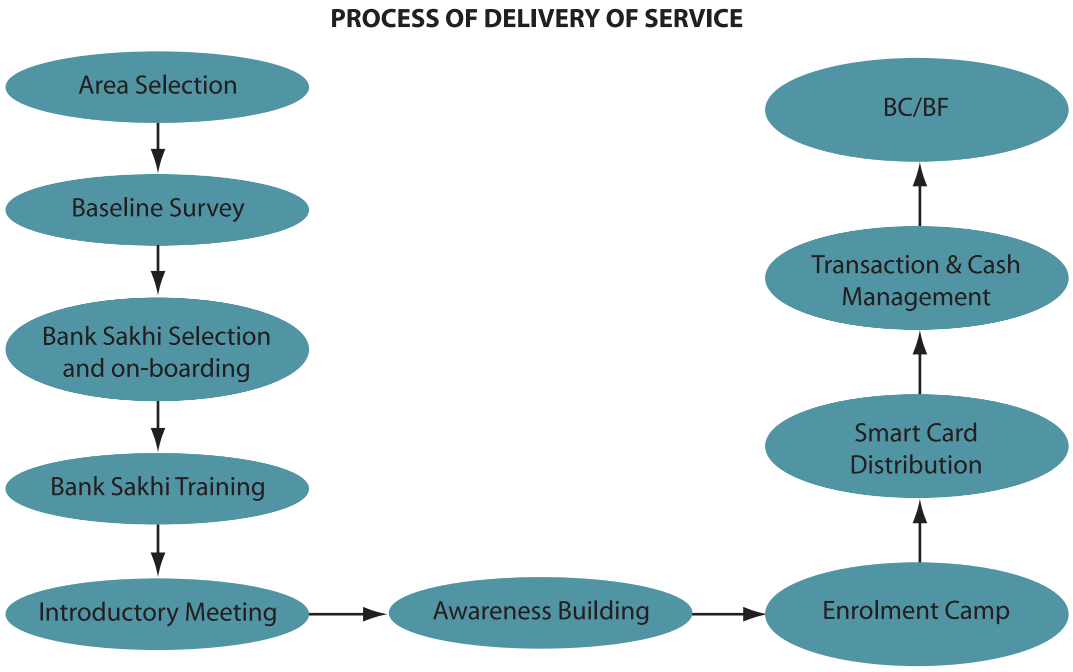
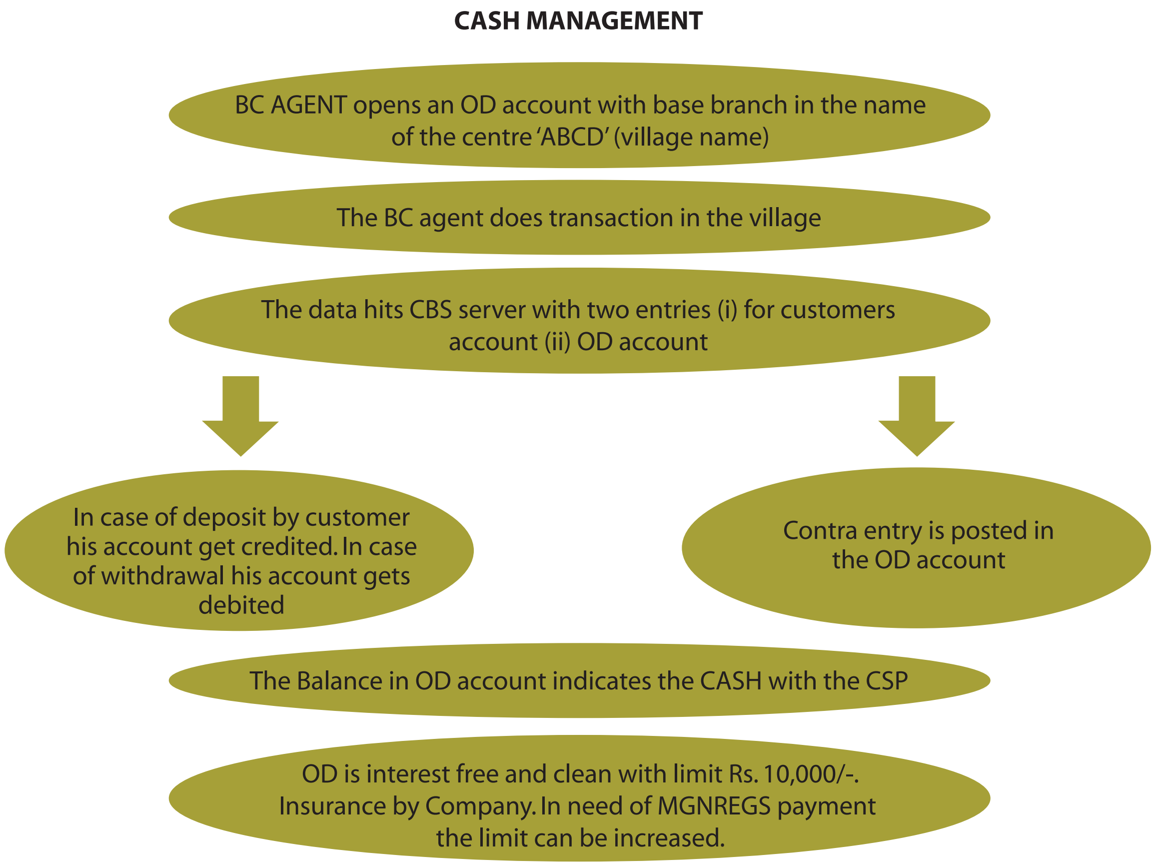


Figure 6. Role of Stakeholders in Cash Management



- **Outreach**

  The Bank *Sakhis* have taken ICT-based banking services to the doorstep of more than 18,500 households spread over 286 villages. The ICT-led financial services extended by the bank are basic savings bank accounts and other banking services. The bank is now offering fund transfer facilities on a real-time basis, real-time updating of transactions and overdraft facilities. The number of transactions in the accounts was also improving gradually.

The progress made as of 30 November 2014 is shown in Table 6.

Table 6. Progress of the Bank Sakhi Scheme as of 30 November 2014

Particular	Uttar Pradesh	Madhya Pradesh	Total
No. of Bank Sakhis appointed	50	18	68
No. of Bank Sakhis active for more than 3 months	41	6	47
No. of villages served	169	117	286
No. of clients with a bank account opened through Bank Sakhis	16,712	1,861	18,573
Total no. of transactions in these accounts	116,363	1,295	
Total value of transactions in these accounts (INR million)	13.17	0.49	

(Source: NABARD-GIZ RFIP Report, 2014)

The transaction behaviour indicates that the number of deposits is more than the number of withdrawals. The very fact that more than 65% of the transactions have been deposits implies that the clients trust the ICT-based services offered by the Bank Sakhis.

D. SWOC analysis

Strengths

- SHG members are integrated into the community (through their own group and village-level organizations) and are known and trusted by the other community members.
- They also stay within the community and will not migrate in search of job opportunities.
- SHG members have basic financial literacy and are used to dealing with money (their own and the group's money).
- They also have experience in working with banks and other financial institutions.
- Bank Sakhis are women and are able to tap the part of the population that is mostly financially excluded, but provide the highest potential, i.e., women.
- Bakers as well as clients have more confidence in such Bank Sakhis than in other CSP.

Weaknesses

- The threshold level of viability is 500 transactions per month. The number of accounts, while varying from GP to GP, is low and inadequate in the initial months.
- The Bank Sakhis are required to maintain a fixed deposit with the bank against which the bank allows cash transactions at the Sakhis' level.
- The low remuneration is aggravated by delayed payments of commissions by TSPs/BCs, resulting in hampering the spirit of CSPs. Progress is also affected due to incomplete savings application forms and KYC documents, delay in approval of application forms, and printing of customer smart cards, etc.

Opportunities

- Bank Sakhis may be used to mobilize different types of savings of members and non-members and also in the implementation of PMJDY.
- There is scope to use Bank Sakhis as business facilitators for loan disbursement and recovery and also for the DBT system of social benefits by government departments.

Challenges

- Data connectivity in the villages covered is a serious issue.
- The field team of TSP, at times, is not in a position to extend timely support to Bank Sakhis in enrolment and technology-related matters.
- The Bank Sakhis are not skilled in the use of laptops, which has affected the speed of enrolment. It has also been affected by the limited number of enrolment kits with TSPs.

E. Sustainability and replicability

Bank Sakhis, with an average of 500 transactions in a Gram Panchayat, may earn up to INR 5,000 per month from both BC and BF activities. The number of accounts varies from GP to GP. In the first few months, remuneration is very low. Over a period of time, the number of accounts may go up and earning becomes viable.

Replicability/upscalability

The bank should modify its compensation strategy in the initial stage to make the work more attractive for the Bank Sakhis. The following additional steps are also recommended for replication/upscaling:

- Opening of accounts by all of the individual SHG members
- Conversion of off-line transactions into online transactions
- A financial awareness camp in pilot villages
- Reverse migration of social security. Routing DBT through such accounts.
- Integration of SHG-based transactions with the ICT-based FI system.
- Remittance/fund transfer facility through CSPs.
- The Bank Sakhis could be trained to extend bank facilitator services. They will facilitate promotion and loan processing of loan products.

F. Conclusions

The pilot projects have shown the way to other banks in how to use the CSP model for business development through a number of community-level organizations. Some banks have already started implementation of the model on a large scale. The issues and success of the pilot may be taken into consideration to construct a win-win model for all stakeholders. The following suggestions are made to make the model successful for any bank:

- Develop in-house IT capability to decrease its dependency on external TSPs.
- Expand banking services beyond the current savings services, credit insurance, FD, RD, and fund transfer.
- Integrate DBT with the ICT-based FI model.
- Scale up SHGs and their member-led CSP model all across its operational geography.
- BC as BF: solar lamps, mobile recharge, and DTH to be sold through them.
- Banks may extend the facilities to Sakhis as being extended to other BCs.

5.3 Non-Banking Financial Company – Microfinancial Institution (NBFC-MFI) Model: Bandhan Financial Services Private Limited

A. Introduction and description of products/services

The microfinance sector has been around for over three decades now. Needless to say, it has been recognized as an effective tool for poverty alleviation and women's empowerment. MFIs are serving as important financial intermediaries in bringing about financial inclusion. However, the microfinance industry had passed through a tumultuous phase spawning questions from all corners. The crisis had its roots in the centrality of Andhra Pradesh but it had left the entire microfinance space shaken a couple of years back. In India, the microfinance sector constitutes institutions under different regulatory frameworks, such as under the Trust Act, under cooperative acts, and under the Companies Act. The mode of reaching clients is also different. While some use the SHG route, and some the JLG route, most agencies are forming a community center-level informal group for individual microcredit dispensations. The larger microfinance institutions are registered as NBFC-ND with the Reserve Bank of India.

Bandhan Financial Services Private Limited (BFSPL) is the largest microfinance institution in India measured in terms of loans outstanding, and it has been carrying out microfinance and other development activities since its inception in 2001 as a Capacity-Building Institution (CBI). It started microfinance activities in July 2002. The model followed is "individual lending through group methodology."

Bandhan is operating through two distinct entities. All microfinance activities are carried out by Bandhan Financial Services Private Limited (BFSPL), incorporated under the Companies Act, 1956, and also registered as a Non-Banking Financial Company (NBFC) with the Reserve Bank of India, whereas all development work is happening through Bandhan-Konnagar, the "not-for-profit entity." The two entities of the Bandhan Group share a symbiotic relationship. Bandhan's inclination toward its triple bottom-line values is being clearly fulfilled through these two entities.

B. Stakeholders/delivery systems/channels

Headquartered in Kolkata, BFSPL's operations have been centered on poverty alleviation and capacity building of the poor, mainly in the eastern and northeastern regions of the country. BFSPL had a loan book of more than INR 61 billion and a customer base of about INR 54 million as of 31 March 2014. BFSPL operates through a doorstep delivery model, serving customers through more than 2,000 branches across 22 states and union territories of India. BFSPL follows the ASA model of microfinance.

Loaning system

Bandhan has designed different loan products that cater to the growing financial needs of borrowers as they graduate from one loan type to another. Bandhan caters to the financial needs of different income levels, which reduces the risk due to a diversified loan portfolio. The delivery model of BFSPL is detailed in succeeding paragraphs. The loan products of Bandhan are given in Table 7.

Table 7. Loan Products of Bandhan

Name of product	Amount (INR)	Period
Suchana	Up to 15,000	12 months
Surakhsha	Up to 10,000	12 months
Susikhsha	Up to 10,000	12 months
Sristhi	>15,000 to 50,000	24 months
Samridhi	>50,000 to 500,000	24 months
Fisheries	>15,000 to 100,000	24 months

(Source: Discussion/presentation by Bandhan)

A loan provided to members is fully insured. Borrowers and their spouse are covered under insurance. Upon the death of the insured person, the balance after repayment of the MFI loan is paid to the nominee. A onetime processing fee of 1% of the loan amount is charged from members at the time of disbursement.

The repayment of the loan is in 52 equated weekly EMIs. For any of the weekly meeting dates falling on a holiday, the EMI of that week will be paid on the preceding week's meeting date. Repayment of advance EMIs is allowed under the system without any prepayment charges.

Before the repayment of one loan in full, a second dose of credit is not provided to members. After 40 weeks, if the entire loan is repaid, then a second loan can be given to the member.

A penalty is not charged in case of default. Prepayment is allowed without penalty. A loan is without collateral or a security deposit. The MFI shares credit information with the Equifax Credit Information Bureau, and ensures that the maximum borrowing of an individual does not exceed INR 50,000 and not more than two loans in the case of all loans other than Samridhi.

Rating

CRISIL has rated the MFI as mfR 1, the highest rating, for 2013-14. The grades awarded for an MFI grading exercise conducted over the last few years are highlighted in Table 8.

Table 8. Credit Rating Awarded to Bandhan

Name of the credit rating institution	Financial year	Grade awarded
CRISIL	2013-14	mfR 1
CARE	2012-13	MFI 1
CARE	2011-12	MFI 1
CARE	2010-11	MFI 2+
CARE	2009-10	MFI 2+
CRISIL	2008-09	mfR 3

(Source: Compilation from different rating reports)

Sources of funds

The MFI has obtained funding support from NABARD, SIDBI, and other public-sector and private-sector banks. It has been able to diversify its sources of borrowing and was able to borrow from 32 institutions as of 31 March 2014 to the tune of INR 56 billion. There was no instance of delay in repayment to the ending institution.

Highlights of BFSPL operations:

Annexure 2 details the growth of BFSPL during the last three years under different parameters. The highlights are as follows:

- CRAR at 20.47% as of 31 March 2014 as against the prescribed 15%.
- Complied with other prudential norms.
- Has recorded net profit during the last several years, with profit after tax of INR 2,834.6 million during 2013-14.
- Declared dividend at 8% during the last two years.
- Rated under the highest grading by both CARE and CRISIL rating agencies.
- Net NPA below 1% with a declining trend.
- Equity support from SIDBI (9.63%) and IFC (10.93%).

Steady in adverse industry scenario

BFSPL remained untouched by Andhra controversies because of its nil exposure in Andhra and, because of its core strength and low cost model, it did not attract negative attention. It has steady and consistent growth. It is recognized as an institution committed to its mission, vision, and values, and therefore it enjoys a favourable reputation among all and sundry.

Quality of business

The best indicator of asset quality of an MFI is NPA (non-performing assets). As of 31 March 2014, the gross NPA of assets of BFSPL was 0.07% and net NPA was 0.01%, which denote high-quality assets. A CRAR (capital to risk-assets ratio) at 20.47% endorses the core strength of BFSPL. Its on-time repayment rate is 99.92%.

Low operating cost and strong equity base:

BFSPL follows a low operating cost model and passes the benefits to its borrowers. Low operating cost helps borrowers obtain loans at a cheaper rate. BFSPL had a very strong net owned fund of INR 11,739.1 million as of 31 March 2014.

C. Impact/benefits

Benefits to lending banks/financial institutions:

- Good business with no issue in repayment
- Achievement of priority-sector targets with good returns

Benefit to BFSPL

i. BFSPL enjoyed a captive customer base.
ii. BFSPL had a very good recovery rate with adequate margin to grow its business.
iii. BFSPL had no problem in raising funds from the market.
iv. Because of the loanee members and their spouse becoming insured, the NPA level declined further.

Benefits to members

- The procedures involved are simple; loans are timely and delivered at a nearby branch, and recovery is brought about in their meetings.
- BFSPL also strengthens the capacities of members in areas such as group dynamics, conduct of meetings, rules, regulations, and goal setting, documentation/bookkeeping, conflict resolution and leadership qualities, gender equity, linkage and credit management, etc.
- Availability of different types of loan products catering to the different types of needs.
- Most members did not face any difficulty in making repayment since the due date was known in advance.
- Details such as rate of interest, repayment period, processing charges, repayment installment, etc., were read out to the members on the disbursement date. Members also had a passbook. This ensured transparency.
- The rate of interest was also gradually lowered by BFSPL.
- The members also benefited from the insurance product.

D. SWOC analysis

Strengths

- The operating model forges a strong grass-roots connection.
- Branch operations are standardized.
- The staff members are from the same social strata, having adequate empathy towards the customers. They reside near the branch itself and share food, resulting in high camaraderie among each other and easy availability to customers.
- The monitoring structure is very strong. Each credit officer monitors about four community centers daily. Each branch manager monitors the work of five field officers and each regional manager covers five to six branches.
- BFSPL has a decentralized internal audit (IA) function, with every branch assessed quarterly by a separate IA team. They follow a risk-based audit system.

- Each branch is computerized with an in-house-developed loan monitoring system.
- **Tie-up with Credit Information Bureaus (CIBs):** BFSPL has tied up with two CIBs and is using CIB data to check each loan application it receives.
- **Developed vigilance system:** BFSPL has a separate vigilance department to prevent fraud and mitigate operational risks.
- BFSPL has developed a strong cash management system to ensure that each branch holds zero overnight cash and maintains optimal bank balances.
- BFSPL prefers to promote people internally to fill higher-level vacancies.
- BFSPL has developed an in-house training department with 32 trainers. Regular training programme are conducted for capacity building of the staff.
- The insurance linked with loan products ensures recovery even after some casualties.
- BFSPL donates 5% of its profit to its development wing Bandhan-Konnagar. The social activities it undertakes ensure a good reputation and relationship with society.
- The BFSPL board comprises senior professionals with extensive experience in microfinance and development banking. Top management has been considerably strengthened to include professional and experienced ex-bank staff having significant experience in fund raising, planning, development, internal audit, training, etc.
- Adequate capital level and healthy internal accruals.
- Proper management of liabilities, maintenance of a good credit rating, and compliance with RBI guidance ensure that BFSPL is never devoid of borrowing support.
- Bankers prefer to lend to good MFIs for meeting their priority-sector obligations.

Weaknesses

- Despite having such a huge outreach in terms of number and amount of MFI loans, BFSPL has yet to make any significant change in the livelihood of its clients. Efforts for skill training and linkage with markets are lacking.
- The MFI model is comparatively costlier in terms of delivery of financial services. Although the cost of supervision of credit is high, loan volumes and loan sizes are low. MFIs pass on the higher cost of borrowing to their clients, who are not interest-sensitive for small loans and may not be so as the loan size increases.
- Raising of funds through the equity or debt route is still difficult for new and small MFIs. Social orientation has taken a back-seat against profitability and high growth targets, leading to unethical practices.

Opportunities

- The "role of MFIs" and the potential to increase their outreach are never in doubt owing to the sheer number of poor in India not having access to the formal sector.
- Categorization of loans by banks to MFIs for micro-lending under the priority sector makes lending to good-working MFIs are essential.
- RBI has provided guidelines governing the functioning of NBFC-MFI, which has given clarity over the regulation.
- The microfinance bill is likely to be approved in the near future.

Challenges

- With increasing efforts at financial inclusion by banks culminating in Pradhan Mantri Jan Dhan Yojana, banks are likely to cover a wider population-high competition for MFIs.

- BFSPL was lucky to be not affected by the Andhra crisis as it did not have any exposure in the state. But, the fate and viability of MFIs depends much on the dictate of state governments. The lack of a uniform legislation covering development and regulatory aspects of different types and sizes of MFIs across the states is the biggest threat.

E. Sustainability and replicability/upscalability

The model is sustainable despite the NBFC-MFIs in India not having permission to have public deposits unlike in other regions, such as East and Southern Africa. No government subsidy or support from international or national donors is involved. Still, BFSPL and other MFIs are in profit and growing. The model depends on the duality of touch and technology. MFIs should develop technology applications as routine means of interacting with clients. MFIs should also develop technology for good HRD, risk management, fund raising, and accounting.

Regarding replicability and upscalability of the model, a new MFI needs to keep the above model and social target paramount from inception. The replication of the model may be attempted by maintaining the basic qualities as discussed in the strength of BFSPL. Important ones are human resource management, governance, close contact with clients and staff, internal audit and vigilance, and diversified fund raising.

F. Conclusions

The MFI sector has good potential to reach the unreached rural populace in a big way. It has replaced the moneylenders in several areas of the country. However, greed and the profiteering motives of some MFIs have resulted in giving the sector a bad name and also attracted penal actions from some state governments. There is a need to develop a clear regulatory framework and supervision mechanism for the sector to ensure its further growth.

5.4 Business Correspondent (BC) Suvidha Model: MFI (SKDRDP) as a BC – with SHG/JLG as a customer

A. Introduction and description of products/services

SKDRDP (Shree Kshetra Dharmasthala Rural Development Project) has adopted a distinctive self-help group-business correspondent (SHG-BC) model to provide financial services to the rural poor to maximize efficiency and scale. As a BC, SKDRDP promotes SHGs, helps SHGs to open accounts with the partner bank, processes loan documents, disburses loan cash (and savings withdrawals), collects repayments (and deposits), and monitors SHG performance.

B. Stakeholders/delivery systems/channels

SKDRDP as an MFI: SKDRDP started out as a charitable trust in 1982 with an aim to undertake rural development projects in various parts of Karnataka. SKDRDP promotes a network of SHGs under its *Suvidha* programme and works towards the development of rural communities through financial and non-financial interventions. SKDRDP provides microcredit through a group lending model. SKDRDP also offers various schemes such as pensions, health insurance, accident insurance, and life insurance. In addition, SKDRDP conducts several social and economic programmes. SKDRDP is one of the pioneers in the JLG models. As of 31 March 2014, around 295,000 SHGs and 65,000 JLGs have been promoted by the trust and the loan portfolio of the trust, as a BC and as an MFI, is around INR 35,500 million in Karnataka.

From 2002 to 2009, with SKDRDP spreading very fast and no finance available directly from the banks to SHGs, it moved into a direct lending module (became an MFI), took loans from banks, and lent to

SHGs. SKDRDP developed a hybrid model of SHGs and MFIs, in which the close supervision and monitoring of groups under MFIs had been adopted into a standard SHG and JLG model. In this model, monitoring and transactions are weekly. Another innovation is digitization of SHGs, with member-level complete tracking done of the 0.3 million SHGs with every week's collection and transactions tracked digitally. However, as MFIs are not permitted for deposit mobilization, it was difficult to attain a minimum CRAR for SKDRDP because of its constitution as a trust. Therefore, SKDRDP had to further innovate to scale up financing to SHG/JLG members.

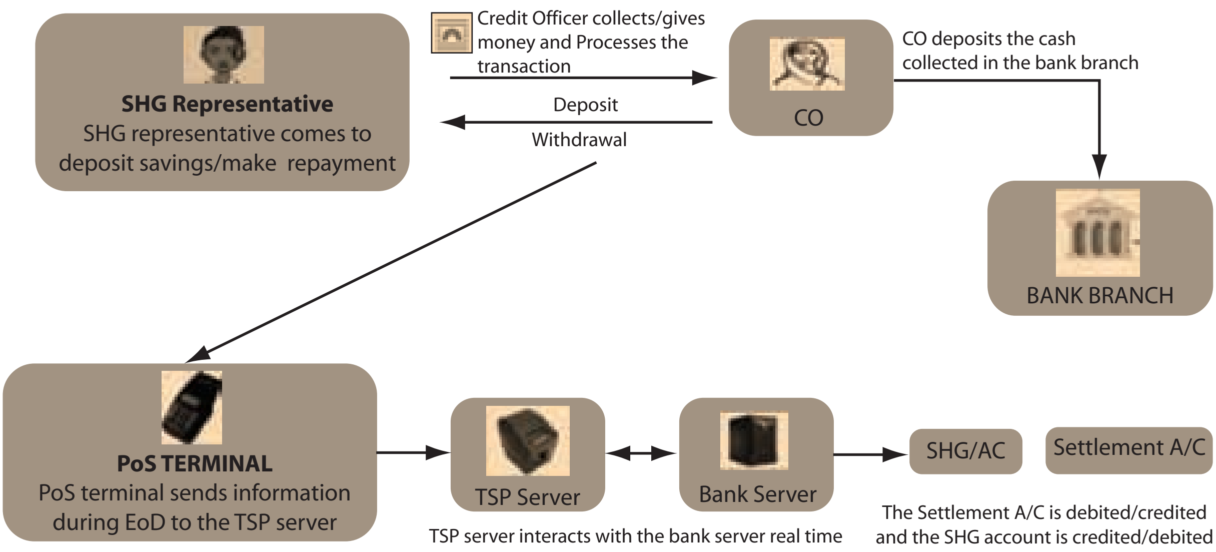
BC-Suvidha Model: In 2009, when RBI liberalized the BC norms so that expenses could be charged to the customer, SKDRDP adopted the BC Suvidha model in three districts with SBI. The organization acts as a business correspondent network manager (BCNM) for banks in order to provide access to formal financial services to the poor and non-banked. Other banks gradually became interested in the model. Presently, the organization is implementing the programme in 20 districts of Karnataka, partnering with seven banks, and plans to implement the programme in the entire state by 2015 so that it has no linkage through its MFI model. As a BCNM, SKDRDP offers banking products (in this case, savings accounts and credit) to SHGs, on behalf of partner banks, through a network of field sub-agents. The interest rates charged by banks is around 12%, to which a 5% fee of SKDRDP is added to make loans available to the SHG and its members at around 17%, making the model completely sustainable. The State Bank of India, Corporation Bank, Union Bank of India, Canara Bank, Ratnakar Bank, Pragathi Krishna Gramin Bank, and IDBI Bank had partnered as of 31 March 2014. Syndicate Bank, Vijaya Bank, and State Bank of Mysore are likely to become partners soon.

The operating model

SKDRDP acts as an institutional agent to the bank. The credit officer (CO), as a sub-agent, conducts field-level transactions for SHGs using a handheld PoS machine supplied by the technology service provider (TSP). Integra and FINO are TSPs. The TSP also provides the backend technology that links field-level transactions to the bank through a link server.

SKDRDP, as a principal agent to the bank, is responsible for managing liquidity. It maintains adequate cash to honour withdrawal transactions and e-float in a settlement account to honour deposit transactions. The details of the model and the role of various staff are given in **Annexure 4**. Figure 7 shows the role of stakeholders in the model:

Figure 7. Role of Stakeholders in BC with SHG/JLG Model



(Source: Discussions with officials of SKDRDP)

Coordination among stakeholders

A continuous strong coordination and communication system among the stakeholders has been developed. SKDRDP allots machines to the cash officers to conduct daily transactions and to deposit net cash in the bank branch. Bank officials allow the cash officers to deposit cash directly without standing in long queues. The TSP on its part has a robust server and switch system that ensures smooth integration of data into the bank's main server without technical glitches. The TSP sends a daily transaction report to both the BC and the bank to validate and reconcile transactions for the day. More critically, the TSP has appointed field staff in each district to address technical issues.

The bank has set up an exclusive Financial Inclusion Centre (FIC) in each of the districts, which processes savings account application forms for financial inclusion in the district. The bank FIC staff members verify the enrollment information sent by the TSP with the physical forms and activate the accounts. Since the FIC focuses exclusively on FI activities, the turnaround time for account verification and activation is much quicker than in other areas or for other banks. The bank branch officials are relieved of the responsibility to verify so many FI accounts and can focus on regular banking activity.

C. Impact/benefits

SKDRDP

SKDRDP was facing several constraints in scaling up its Suvidha model, which were addressed by adopting the BC-*Suvidha* model:

i. SKDRDP's legal status as a charitable trust restricted its ability to raise capital, thus making it difficult to maintain the minimum CRAR as per the prudential norms of the RBI.
ii. SHGs need support for savings services. MFIs are not permitted for the same. As microfinance operations grew, SKDRDP ran into a regulatory gray area with the RBI for collecting savings from the public. SKDRDP can ensure financial inclusion of its SHG members through direct linkage with banks.
iii. Being free from MFI work, SKDRDP can scale up SHG formation and linkage rapidly. SKDRDP can also focus on its other socioeconomic development activities.
iv. SKDRDP can now earn a regular income from its bank partners as BC commissions.

Benefits to the banks

i. More customers: The BC-Suvidha channel opens up a significantly untapped rural market without a drain on branch resources and costs.
ii. SKDRDP offers banks pre-existing customers and established systems and procedures.
iii. Banks do not incur any capital costs in expanding their outreach.
iv. The SHGs provide compulsory weekly savings to the bank, which are long term. Banks also earn income from the loans that they extend to the SHGs at very low risk.
v. Happy regulators: Priority-sector obligations are easily met.

Benefits to the clients

- As against most BC deployments offering basic vanilla savings products that do not meet the needs of customers, the BC-Suvidha model provides a high-value proposition to its clients by offering various credit and savings products at their doorstep.
- The model enables SHG members to have savings and credit linkages with the bank and at the same time curtails the need to go to the bank. SHGs can save and repay the loan at collection centers in their neighbourhood.
- Customers trust the bank and SKDRDP highly, thus avoiding unscrupulous agents who have cheated them in the past.

TSP: Both the TSPs (FINO and Integra) are obtaining good business from the model.

D. SWOC analysis

Strengths

- SKDRDP specializes in the promotion of SHGs and maintaining grass-roots connections. The bank specializes in financing and the technology service provider specializes in providing appropriate technology for conducting branchless banking operations. As each of the stakeholders focuses on its respective areas of specialization, the implementation of the programme becomes streamlined, and has the opportunity to gather a critical mass within a short duration of time, at a lower cost.
- The model is beneficial to all the stakeholders in the value chain. It has a compelling value proposition for all important stakeholders, including clients and banks, as discussed in paragraph 3 above. As such, the model provides a win-win relationship for all stakeholders and is highly sustainable.
- The model provides a very practical solution for financial inclusion.

Weaknesses

- Even with the dedicated FIC staff, the bank continues to verify hard copies of the application forms and KYC documents and match them with the soft copies that the TSP sends, which results in a time lag of 15 to 30 days and negates the advantage.
- Because of slow bank procedures, SKDRDP has often self-financed loans to meet the interim needs of SHG members from its own capital. Banks take a minimum of 20 days to sanction and disburse a loan to an SHG (compared with 7 days typically for an MFI group) – even with the introduction of the new model and technology.
- The BC-Suvidha model is limited to accessing SHG savings and loan services.
- In certain bank partnerships, SKDRDP faces inordinate delays in receiving commissions mainly because of the lack of coordination between the regional office bank staff, who process the payment advice, and head office bank staff, who make the payment.

Opportunities

- The model can be extended to include other banking services forcustomers.
- Other SHPIs and banks could follow the model for mutual benefit.
- The BC-Suvidha model can be used for opening individual accounts of both SHG and non-SHG members to enable access to formal financial services by the poor and non-banked.
- Additional services such as insurance payments, agriculture finance, consumer finance, education loans, and housing finance, etc., could also be undertaken.
- With wide outreach, a strong reputation, and an existing BC channel, SKDRDP can also consider offering other value-added services such as government benefit payments, social security payments, farm input payments, and money transfer services, which could be beneficial to SHG members and other community members alike.
- The cost of technology could be further reduced by using mobile technology in place of costly PoS handheld devices.

Challenges

- Inordinate delays in receiving commissions freeze a very important source of working capital to the organization. SKDRDP often digs into its own resources (receivables from other non-credit operations) to meet its day-to-day fund requirements.

- The extent of cooperation from the bank manager depends on his/her awareness about the SHG credit linkage and the BC model. Posting of managers with no prior knowledge about the model tends to delay making decisions, leading to a delay in programme implementation, especially credit disbursement.

E. Sustainability and replicability/upscalability

Sustainability of the model

SKDRDP's SHG-BC model demonstrates that there can be a strong business case for entities that offer value-added services through the BC channel. A study by Micro Save regarding profitability and costs for the period June 2012 to August 2012 clearly shows that the activity is sustainable and viable.

However, the issues of delay in opening of an account and credit linkage of SHG and also in payment of commissions are affecting the model. Delay should be cut by deploying additional staff or through higher automation of the processes through scanning technology and authentication. The bank could centralize some of the loan processing and approval at FICs, define the required turnaround time for approval/rejection of loans, and monitor appraisal and disbursement performance.

Replicability

SKDRDP's success offers an attractive proposition for banks and SHPIs to replicate its model. SHPIs can increase the chances of success by following the lead properly. Emulating SKDRDP's success would require

- Field-level coordination with stakeholders, and
- Providing a compelling value proposition to the stakeholders (especially customers and banks).

Other SHPIs or independent institutions can aim to emulate the success factors of the model relevant to their geographical and cultural contexts for replication of the model.

Replication/upscaling of the model will also need proper product design so as to use the full potential of the model. BCs should also work with the banks to offer value-added products/services such as remittance services, recurring/fixed deposits, insurance premium payments, and utility bill payments. This will enable repeated use and higher account activity levels. Very careful partner selection – especially the bank partner and TSP – is essential as active participation from bank officials is a key to success. Delay in commission payment is resulting in high working capital cost to SKDRDP. Although SKDRDP is able to sustain the cost, other SHPIs may be hit hard. As such, the issues of delay in account opening, linkage, and commission payments need to be tackled at the highest level for replication and upscalability of the model.

F. Conclusions

Though SKDRDP has shown considerable success in its BC-Suvidha model, it could further consolidate and improve the model to expand the product portfolio, integrate other services such as insurance payments, agriculture finance, government benefit payments, social security payments, money transfers, etc., and explore options of using a mobile technology platform because of the ubiquitous presence of mobile phones.

Not-for-profit MFIs and SHG federations could emulate SKDRDP's model to reduce their dependence on borrowing and to provide different aspects of financial inclusion to the members of SHGs promoted by them.

5.5 Joint Liability Groups

A. Introduction and description of products/services

1.1 Whereas SHGs provide a platform for financial inclusion providing savings as well as credit services and sometimes micro-insurance and micro-pension services also, JLG (joint liability groups) is another group-based lending method usually adopted by MFIs. NABARD further innovated to introduce the method of JLG-bank linkage to ensure the provision of credit by banks to the mid-sector rural poor normally deprived of formal credit because of a lack of collateral. **Annexure 5.5.1** lists the basic differences between the SHG and JLG.

1.2 A JLG is a small group of four to ten poor persons and is formed by the members with assistance, guidance, and supervision of the NGO/bank. The members support each other socially and financially by guaranteeing the repayment of each of their loans. Peer pressure and close social ties ensure the timely repayment of loans. The members jointly stand liable for the repayment of a loan disbursed to any of them.

B. Stakeholders/delivery systems/channels

Based on the success and learning from some pilots, NABARD outlined, in 2006, broad guidelines for augmenting the flow of credit to landless tenant farmers cultivating land either as oral lessees or sharecroppers and small/marginal farmers who do not have a proper title of their landholding through the formation and financing of JLGs. Subsequently, the scheme was extended in 2009 to similarly deprived microentrepreneurs/artisans in the non-farm sector. Further, the Reserve Bank of India/ NABARD issued revised circulars to all scheduled commercial banks/RRBs and cooperative banks in November/December 2014.

Important stakeholders include

(a) All scheduled commercial banks in the public and private sector, cooperative banks, and regional rural banks.

(b) Persons hitherto unable to access the formal sector of credit due to a lack of collateral such as
   - (i) Landless tenant farmers cultivating land either as oral lessees or sharecroppers and small/ marginal farmers who do not have a proper title of their landholding;
   - (ii) Microentrepreneurs/artisans in the non-farm sector.

(c) NGOs/developmental agencies.

The members would offer a joint undertaking to the bank to enable them to avail of loans. JLG members are expected to provide support to each other in carrying out occupational and social activities.

Unlike in SHGs, regular savings by the JLG are purely voluntary. But, if the members want to save through the group, banks can open a savings account in the name of the JLG to be operated by two members of the group as decided through a resolution by the JLG.

Apart from extending 100% refinance support to banks, NABARD also extends financial support for awareness creation and capacity building of various stakeholders of this programme. In addition, NABARD extends grant support for the formation and nurturing of JLGs to banks and other JLG-promoting agencies.

Upon the formation of JLGs, the bank officials need to discuss with the JLG members the bank's regulations, lending procedures, services, etc. The principles of self-help and group strength need to be emphasized. Group cohesion has to be ensured. Adequate emphasis should be placed on the roles, expectations, and functions of the group/members and the benefits of group dynamics.

The success of the JLG concept depends mainly on

(i) Mutual trust within the group and peer pressure for the repayment of loans.
(ii) The quality of group leadership is critically important for the sustainability of the group.

Banks can finance JLGs by adopting either of the two models.

(i) Model A – Financing individuals in the group: The group would be eligible for accessing separate individual loans from the financing bank. All members would jointly execute one inter-se document (making each one jointly and severally liable for repayment of all loans taken out by all individuals in the group). The financing bank could assess the credit requirement of the individual as per the norm. However, there has to be mutual agreement and consensus among all members about the amount of individual debt liability that will be created.
(ii) Model B **–** Financing the group: The JLG would be eligible for accessing one loan, which could be a combined credit requirement of all its members. All members would jointly execute the document and own the debt liability jointly and severally.

Although the mode of JLG-bank financing is basically to provide a system of collateral-free lending to the JLG, the loan needs to be appraised based on the strength of the activity undertaken. Banks are required to conduct a thorough credit appraisal to avoid under- or over-financing. Suitable assessment tools can be applied for the purpose of rating the JLGs. All other norms of financing, including rate of interest, margin on security, documentation, coverage under a crop insurance scheme, and personal accident insurance, etc., can be followed by the bank as per its regular norms.

Additional features of the revised strategy for increasing JLG financing are as follows:

- **Enabling JLGs within and outside SHGs**

a) A few members of SHGs may graduate faster to start or expand economic activities requiring much higher amounts of loans than other SHG members. In such cases, other members may not like to stand a mutual guarantee for large-sized loans for these members.
b) In such cases, a JLG could be created consisting of such members of one or more SHGs. The members of the JLG will continue to remain members of the SHG and continue to participate in SHG activities as earlier.
c) Banks could encourage the creation of such enterprise-/livelihood-based JLGs within SHGs. Banks could finance these JLGs in addition to the loan/credit limit extended to the SHGs.
d) There may be certain deserving small farmers (SF)/marginal farmers (MF)/tenant farmers/oral lessees/sharecroppers/micro-entrepreneurs/artisans who have not yet been covered by SHGs. They may also need a bank loan for taking up livelihood/farming activities. The JLG formed of such members may also be provided with adequate credit support by banks.

- **Cluster approach in JLG promotion**

Banks could undertake efforts to promote and finance JLGs on a cluster basis for agriculture as well as activities allied to agriculture and non-farm activities. This would not only help in training and improved monitoring of these groups, but would also enable these groups to aggregate into producers' groups at a later stage. Such an approach could help the JLGs to contribute positively to the agricultural value chain and enhance agricultural production and productivity by leveraging on economies of scale. This approach would be particularly effective in command areas of developed watersheds, tribal area schemes, and product-based clusters.

Joint liability groups are a very popular mechanism of credit dispensation of several MFIs in India as well as in many other countries. The methodology of JLG financing is comparable to the JLG financing system of BAAC (Bank for Agriculture and Agricultural Cooperatives), Thailand. However, JLG bank lending products are innovative in linking the formal banking sector of India with the JLGs. As against a group size of 12 to 15 persons in BAAC, in India a lower size of JLGs was favoured for effective social collateral and so JLG size was fixed as 4 to 10 only. Moreover, as against a JLG used for agricultural financing only in BAAC, it is for both the agricultural and SME sector in the Indian model. The Agricultural Development Bank, Nepal, has also used the JLG model for agricultural financing. However, it has formalized the JLG system, providing for registration of JLGs as an SFCL (Small Farmers Cooperative Limited).

C. Impact/benefits

The JLG scheme of financing has been accepted by banks and policymakers as one of the most viable approaches for financing the hitherto excluded small/marginal farmers, oral lessees, tenant farmers, sharecroppers, etc. JLGs promoted during 2013-14 were 0.21 million, making the cumulative number of JLGs promoted and financed by banks 0.67 million at the end of March 2014. Fresh loans to the extent of INR 22,201.6 million were disbursed to these groups during the year (INR 18,376.4 million during the previous year, an increase of 21%), taking the cumulative loan disbursed to JLGs to INR 67,757.2 million. **Annexure 5.5.2** shows the state-wise position as of 31 March 2014. After abolition of the ceiling interest rate for loans to weaker sections by the Reserve Bank of India in 2010, several private-sector banks initiated their programmes for reaching out to individuals in the BoP. HDFC Bank, under its SLI (Sustainable Livelihood Initiative) launched in 2010, had financed JLGs to the tune of INR 17.22 billion up to 31 July 2014. Other important private banks such as ICICI Bank, Axis Bank, and YES Bank are also now including JLG financing in their business goal.

3.2 Acknowledging the initiatives of NABARD for financing of joint farming groups through JLGs, the Hon. Finance Minister announced financing of 500,000 joint farming groups of Bhoomi Heen Kisan (landless farmers) during the year when presenting the Union Budget for 2014-15.

D. SWOC analysis

Strengths

- The members support each other socially and financially by guaranteeing the repayment of each of their loans.
- Peer pressure and close social ties ensure the timely repayment of loans.
- The JLG-bank linkage ensures a better relationship among JLG members and members with the bank.
- The members of JLGs are saved from the extortionately high interest rates charged by moneylenders and they do their best to remain good borrowers.

Weaknesses

- Lack of awareness among the stakeholders.
- Lack of financial literacy and inadequate capacity building of JLG members.
- Lack of cohesiveness in the group in some cases.
- Lack of involvement of JLG-promoting institutions in the promotion of JLGs.
- Lack of focused attention at banks' and government level.
- Lack of proper capacity building – skill development and marketing, etc.

Opportunities

- There is huge potential for the promotion of JLGs through matured SHGs, which have already learned the basics of savings and credit management.
- The formation of JLGs in clusters would support the creation of producer organizations in the long run, which would support livelihood efforts immensely.

Challenges

- Ignoring the basic principles of credit in JLG financing could result in an NPA problem.
- Grounding of riskier projects by some members could be possible since the group guarantee was available.
- Branch managers are reluctant to provide credit to JLGs because of experience with rising NPAs under SGSY lending at some of the places.
- Lack of entrepreneurship among the group members.
- No specific targets for JLGs being fixed by the banks.

E. Sustainability and replicability/upscalability

The literature[1] indicates that the JLG-BLP was to succeed since (a) social capital replaced physical capital, (b) peer selection was to address the issue of adverse client selection, and (c) peer pressure was to help in recovery. In addition, JLGs were to integrate the financial and real sectors.

The sustainability and replicability of the JLG-bank linkage programme depend essentially on the quality of relationship built and nurtured between the target population and the bank. Basically, intensive support is necessary in the initial stages of sensitization and introduction of the concept to the target group to ensure good quality of the JLG and, while financing, adequate care to ensure the credit worthiness of borrowers and the project as well as an assessment of the required loan amount like any other loan proposal. The JLG mode of financing provides relaxation in collateral only. The bank has to ensure end-use verification like any other loan. Further, there is a need to monitor the loan regularly in the initial stage. The group needs to meet at regular intervals to discuss issues of mutual interest, including the management of product from the loan. It is presumed that, after proper functioning for two years, the JLGs would need less monitoring and handholding. Peer pressure as well as mutual support among the members would develop to the desired level and the JLG would become a regular borrower of the bank.

The success of the product now has innumerable examples and replication of the model, based on the successful instances, is quite smooth.

Regarding upscaling of the product, the following roadmap has been suggested:

JLGs out of SHGs: Over the years, several SHGs have become stabilized in their savings and credit operations. It is necessary that members of such SHGs be encouraged to undertake Income-generating activities (IGAs)/microenterprises **(MEs)**[2] on an individual or group basis. The constraining factors in undertaking IGAs/MEs are limited skills, especially with regard to marketing. The problem is compounded through the absence of risk appetite and entrepreneurship to undertake MEs.

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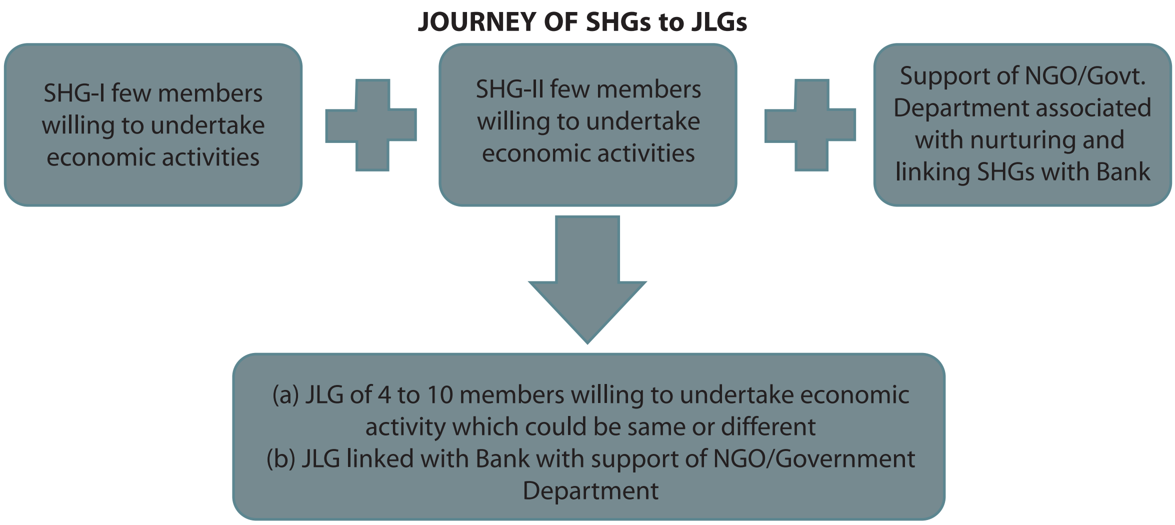
[1] Centre for Microfinance Research, Bankers' Institute of Rural Development and Chandragupt Institute of Management, Patna (2011), "Study on Joint Liability Groups – Problems a nd Prospects."

[2] Yadav, S. and Kumbhare, S.L. (2008). "Economics of Micro Enterprises: A Case of Cashew Processing Units," in a book titled Entrepreneurship, Growth and Economic Integration – A Linkage, edited by Angadi et al, Himalaya Publishing House, Mumbai.

The members may focus initially on known IGAs rather than standalone enterprises/new **activities**.[3] Some of the members of the SHG may graduate faster to start or expand economic activities, requiring much higher levels of **credit**[4] than needed by others. None of these households have bankable collateral. As such, the option of individual finance for such members may not be adopted by banks. Such members of matured SHGs may be financed through the promotion of small-sized JLGs from matured SHGs. Members of JLGs will continue to remain members of the SHGs and participate in SHG activities. Banks may encourage the creation of such livelihood based on JLGs as a separate entity. JLGs may be created and financed by the banks in addition to a credit limit for the SHGs (Figure 8). The JLGs could be a transaction aggregation and cost-reducing mechanism for both the banks and the borrowers. The Committee on "Financial Inclusion" also recommended the JLG-BLP as an effective approach for serving mid-segment clients.

Credit + approach through cluster of JLGs: For JLG clients, credit is necessary but not a sufficient condition and it needs to be empowered through research and dissemination of knowledge (for improved livelihood opportunities). The cluster of JLGs approach helps in obtaining quality agricultural and livestock services with fees, if needed. Even a marketing tie-up can be facilitated through the group. These interventions help in cost and risk reduction and enhancements of **yield**.[5]

Figure 8. Transforming SHGs to the JLG Model



F. Conclusions

The JLG-Bank Linkage Programme has proved to be a very successful conduit for linking the mid-segment poor populace with the formal sector. Considering the huge gap to overcome, the following steps are being intensified for the purpose:

- As suggested by the Committee on Financial **Inclusion**,[6] the model of business facilitators could be used to organize vulnerable segments into JLGs and link them with banks.
- Awareness creation could be attempted through documentation of "successful JLGs." In addition, regular training/refresher programmes could be organized for the stakeholders.

[3] Badatya, K.C. (2008). "Microenterprises by Women – A case of SHGs in Andhra Pradesh," in a book titled Entrepreneurship, Growth and Economic Integration – A Linkage, edited by Angadi et al, Himalaya Publishing House, Mumbai.

[4] Studies on matured SHGs indicate that only 29% of the members undertook MEs. See Annual Reports of NABARD 2006-07 and 2008-09.

[5] Mahajan, V. (2010). "Credit is necessary but not Ample Condition for Livelihood Promotion," Microfinance World, April-June 2010.

[6] Government of India (2008). " Report of the Committee on Financial Inclusion."

NABARD has published a collection of success stories: "JLGs: Sharing Liabilities... Creating Assets" (can be seen at https://www.nabard.org/english/ShowPage.aspx?file=MTcx), disseminated among all stakeholders in November 2014.

- Members of matured SHGs can be encouraged to promote JLGs for themselves or for their family members to ensure adequate and timely credit for their existing or new enterprises. The problem of over-financing can be addressed by the SHGs themselves as these groups are matured and financial discipline can be promoted with ease. Promotion of JLGs from SHGs is prudent, since social capital is already created and the group has learned financial discipline.
- A review of JLGs could be on the regular agenda in meetings of bankers. Suitable instructions need to be issued for ensuring adequate monitoring.
- Resource NGOs could be identified and assigned the task of sharing their experiences with smaller NGOs that are keen to promote JLGs.
- Visits of prospective JLG members could be arranged to successful JLGs to impress upon them the need for a quality group.

5.6 NABARD Financial Services Private Limited (NABFINS)

A. Introduction and description of products/services

NABARD Financial Services Limited is a subsidiary of the National Bank for Agriculture and Rural Development (NABARD) with equity participation from NABARD, Government of Karnataka, Canara Bank, Union Bank of India, Bank of Baroda, Dhanalakshmi Bank, and Federal Bank. It was originally registered with the name Karnataka Agri Development Finance Company Limited as a public limited company on 25 February 1997 with NABARD as a major shareholder. The Board of Directors of NABARD decided to rename the company NABARD Financial Services Limited (NABFINS) with an objective of developing the company as a model NBFC. NABFINS was registered with the Reserve Bank of India as NBFC-ND in effect from 18 November 2008. The organizational structure and equity participation (over the years) is as per **Annexure 7**.

NABFINS, for undertaking microfinance activities, has adopted a business & development correspondent (B&DC) model, which has attracted more than 205 B&DCs throughout the country. NABFINS lends directly to SHGs, continuing the SHG-bank linkage model with the support of these B&DCs. The benefit of the lower transaction cost of the model is passed on to the client and lending costs resulting are some of the lowest in the industry. The adoption of the SHG linkage model also results in a very low NPA. The three principles followed by NABFINS are (i) need-based financing, (ii) adequate financing, and (iii) doorstep delivery with transparency.

B. Stakeholders/delivery systems/channels

Important stakeholders in the model are **NABFINS**, more than 205 B&DCs, **technology providers** (Apparent Technology, Chennai), and the **clients**: self-help groups and their members

The Board of NABARD had envisaged the following benchmark principles for the company:

- Set standards of governance among the MFIs.
- Operate with exemplary levels of transparency.
- Operate at reasonable/moderate rates of interest.
- Provide a "bundle of retail" financial services at the doorstep/near the doorstep.

The Memorandum of Association of NABFINS provides for two broad business verticalsexplicitly:

- Credit to enterprises engaged in agricultural and allied activities
- Microcredit to individuals, groups, microfinance entities, or federations

The company in its more than four years of operation has focused on the development of two broad types of loan portfolios under each of the credit verticals:

- Lending directly to groups under the business correspondent and business facilitator model
- Lending to second-level institutions of different legal status engaged in production, aggregation, trading, and/or marketing in the agricultural and allied activities sectors, such as commodities, handloom and handicraft sectors, or such other activities

The clientele of NABFINS is predominantly SHGs; it also lends to JLGs, producer collectives, SHG federations, farmers' clubs, etc. Table 9 shows the status of business as of September 2014.

Table 9. Status of Business of NABFINS

Sl. No.	Particulars	2014-15 (as of Sept.) (amount in INR million)
1	Loans disbursed in B&DC model	3,406.09
2	Cumulative loans disbursed in B&DC model	16,452.2
3	No. of SHGs frinanced	9,152
4	Cumulative number of SHGs financed	47,208
5	No. of B&DCs engaged	205
6	Amount disbursed to SLIs during 2014-15	56.7
7	Cumulative amount disbursed to secondary-level institutions (federations, etc.)	173.4
8	Refinance obtained from NABARD	1,671.98
9	Refinance outstanding from NABARD	5,672.7
10	Loans outstanding (unaudited)	6,831.28
11	Percentage of recovery	99.5%
12	Total assets	8,096.57
13	Operational districts – cumulative (number)	73
14	Staff	213

(Source: Statement from NABFINS)

Area of operation

NABFINS strategically expanded its operations in the southern states such as Karnataka, Tamil Nadu, and Andhra, where the microfinance movement was strong because it wanted to pilot a unique business model, that is, the B&DC model, which required a mature microfinance environment, which could provide a stable and sustainable ecosystem for the company's growth. NABFINS decided to expand to newer areas such as Maharashtra in 2012 and Madhya Pradesh in 2014.

NABFINS has its operations in five states through its first-level vertical and has its presence in Kerala through its second-level vertical. Details on the five operational states are given in Table 10.

Table 10. State-wise Business Status of NABFINS as of September 2014

Sl. No.	State	Districts	No. of groups	Amt. disb. (INR million)	No. of B&DCs
1	Karnataka	29	22,716	7,803.2	82
2	Tamil Nadu	27	21,785	7,954.1	87
3	Maharashtra	12	1,705	354.3	27
4	Andhra Pradesh	1	982	333.8	5
5	Madhya Pradesh	4	20	6.8	4
	Total	**73**	**47,208**	**16,452.2**	**205**

(Source: Statement from NABFINS)

Corporate governance

NABFINS has recognized the importance and the need for good corporate governance and adopted the best possible practices to protect the interests of the stakeholders. The company has a commitment to run its business in a legal, ethical, and transparent manner and has promoted a high-quality corporate governance and reporting system. The corporate governance of the company essentially involves balancing the interests of the various stakeholders: shareholders, management, customers, suppliers, financiers, government, and the community.

The business & development correspondent (B&DC) model

NABFINS, for undertaking microfinance activities, has adopted a B&DC model, which has attracted more than 205 B&DCs throughout the country. Since NABFINS is a non-deposit-taking NBFC, the B&DCs here are not involved in deposit mobilization or remittance activities. The B&DCs are involved mainly in lending activity of NABFINS. In the model adopted by banks, the BCs are like an extension of their branches. However, the NABFINS B&DCs are not an extension of its system but a partnership with independent institutions, besides the major activity of lending.

B&DCs are basically self-help group-promoting institutions (NGOs) and are working with such groups on a regular basis. B&DCs are required to perform the following functions:

- Aggregation of loan proposals for SHGs to be linked to NABFINS, documentation, disbursement of the loan to SHG members, and ensuring appropriate end use of the loan;
- Collection of interest and principal payable by SHGs to NABFINS as per the loan repayment schedule and at an annual rate mutually agreeable from time to time;
- Handling cash flows between NABFINS and SHGs in the form of disbursements and from SHGs to NABFINS in the form of recoveries;
- The B&DC will not collect a service charge in any form from SHGs towards meeting the expenses incurred in discharging its duties; and
- While B&DCs render their service to NABFINS, they will not render similar services as a B&DC to any other person, bank, NBFC, or similar institution in the areas mutually agreed upon by the parties.

SHG & JLG loan under the B&DC model

As and when the eligible group requires a loan, it approaches the B&DC. The B&DC staff fill the individual household survey sheets either by the members themselves or in their presence. Thereafter, the group representatives and members' identities and address proofs are collected and verified and the B&DC sends the list of these groups, along with the recommendation letter for credit linkage, to the concerned district office of NABFINS.

Groups nurtured and monitored by the B&DC for at least six months are included in the loyalty list of the B&DC. Additions/deletions to the loyalty list by the B&DC are permitted. However, the new SHGs added to the list will be visited by NABFINS staff. After the initial verification of details by the district team, the groups are visited by the financial service officer (FSO) of NABFINS on a mutually agreed upon date and time. Both the FSO and the concerned B&DC staff meet all the group members (including the non-borrowing members) at their usual meeting place and perform four distinct functions: know your customer (KYC) phase, survey sheet verification phase, record verification phase, and grading phase.

NABFINS grades the groups and, based on the gradation, a decision on financing the group or otherwise is made. For a loan requirement up to INR 0.5 million, gradation is done by the FSO and, for loans beyond INR 0.5 million, it is done by the FSO and district manager of NABFINS jointly. The groups are ineligible if they had not resorted to internal lending or a member had defaulted for more than three months for depositing a savings amount or repayment of an internal loan. Each group has to score a minimum of 70% to become eligible for a NABFINS loan.

Thereafter, the loan proposal, along with the mutually agreed upon repayment schedule, is prepared in the district office. In the repayment schedule, the processing fee and service tax are mentioned for collection along with the initial installments. A soft copy of the loan proposal of five to seven groups of one B&DC, which is scheduled to be disbursed on a single date, is forwarded to the approvers in the head office. Once the loan is approved in the head office, a fund transfer to the district disbursement account is made as per the plan.

Cash disbursement process

A day prior to the disbursement, the district team informs the local bank branch about the cash requirement and, through the B&DC, the group members about the date and time of disbursement. On the scheduled date and time, the DM, along with the concerned FSO and the B&DC staff, carries the cash in a GPS-enabled four-wheeler to the group's meeting place. During the meeting, all group members must be present.

Interest structure

NABFINS charges interest at 15% (for loans up to INR 0.3 million), 16% (for loans above INR 0.3 million and up to INR 0.5 million), and 16.75% (for loans beyond INR 0.5 million). A processing fee of 1% on the total amount disbursed and a service tax at 12.36% on the processing fee are recovered from the SHGs along with the first installment. NABFINS offers a commission of 1% on the disbursement of loans and 1% on the amount recovered to the B&DCs.

Technology

NABFINS had supplied point of sale (PoS) machines to all B&DCs for issuing receipts on the spot to SHGs making repayment to ensure transparency in dealing. Apparent Technologies, Chennai, is the technology service provider for supply and maintenance of PoS machines. Details such as group ID, loan account number, amount of recovery, etc., are entered into the machines. B&DCs are also required to upload the data available on the PoS machine to the NABFINS server at the end of the day so that the daily transactions of recovery from SHGs and remittance of recovery amount to the NABFINS account would be reflected in NABFINS records. A receipt from the PoS machine is issued in addition to the hand-written receipt.

Repayment process

Repayment of loans is done on a monthly basis by adopting an equal installment method. The repayment period is a minimum of 12 months and maximum of 36 months. Generally, repayment is effected on the date of the meeting of the groups. NABFINS generates a monthly demand sheet and forwards it to the respective B&DC in advance for each day's collection. Representatives of the B&DC collect the amount and issue a receipt generated by the PoS machine to the group. The repayment amount is deposited in NABFINS accounts in one of the designated banks on the same day or at most on the next day in case the banking hours are over.

C. Impact/benefits

Benefits to the B&DC

B&DCs as SHG-promoting institutions had promoted and nurtured the groups over a period of time. Originally, some of these groups were credit-linked to banks. The B&DCs are able to earn a commission of 2% on the loan/recovery amount in this model, which they would not have obtained otherwise.

Benefit to groups

i. The groups are obtaining both disbursement and recovery services at their doorstep. They save on travel expenses besides not sacrificing their daily wages.
ii. Since the loan size is not linked to the savings of the groups, they receive a need-based higher quantum of loan than with bank linkage.
iii. The waiting period is very low, only 7–10 days as compared to bank linkage.
iv. The SHGs do not face any hassles in either the first or subsequent credit linkages.
v. Monthly recovery compared with weekly recovery by other MFIs. Also a higher quantum of loan.
vi. The documentation and loan processes were shorter and more convenient than with banks.

Benefit to NABFINS

- The B&DC submits a loyalty list of groups that it would bring into the NABFINS fold. As a result, NABFINS enjoyed a captive customer base.
- The B&DC identifies the groups eligible for credit linkage.
- NABFINS outsources collection, cash handling, and remittance to the B&DC.
- The SHGs have first-hand knowledge of the strengths and weaknesses of each member as well as of their reputation in the community. This reduces the need for NABFINS to incur costs of collecting detailed data from individual clients.

Benefits to SHG members:

- The B&DCs were building up the capacities of SHGs in areas such as group dynamics, conduct of meetings, rules, regulations and goal setting, documentation/bookkeeping, conflict resolution and leadership qualities, gender equity, linkage and credit management, etc.
- The members were able to use the loan amount for any purpose they deemed fit, for which loans will not be normally available from banks/MFIs.
- No difficulty in making repayment since the due date was known in advance.
- As per the NABFINS norms, all members should be present on the date of gradation as well as on the date of disbursement. Details such as rate of interest, repayment period, processing charges, repayment installment, etc., were read out to the members on the disbursement date. This ensured transparency and members were satisfied with this.

The growth of business of NABFINS over the years is given in Table 11.

Table 11. Growth in Business of NABFINS (2009 to 2014)

Sl. No.	Particulars	March financials (INR in million)					Sept. unaudited
		2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
1	Share capital	63.10	160.10	420.78	1,045.16	1,121.1	1,262.16
2	Total assets	122.56	717.55	2,749.83	5,406.70	7,097.4	7,835.70
3	Revenue from operations	0.57	22.08	171.79	431.59	832.5	490.86
4	Total revenue	8.95	30.03	218.35	571.04	896.2	523.34
5	Total expenses	3.02	28.20	183.13	440.29	658.1	386.03
6	Profit before tax	5.93	1.83	35.22	130.75	238.1	137.31
7	Profit after tax	4.10	0.86	21.01	84.27	140.8	137.31

(Source: Tabulation from different annual/half-yearly reports of NABFINS)

D. SWOC analysis

Strengths

- B&DCs are mostly leveraging on their existing infrastructure. No additional cost is involved, while they were receiving a 2% commission.
- For NABFINS, the model provided a fast growth trajectory.
- The model resulted in lower transactions costs and hence lower NABFINS interest rates as compared to other MFIs, thus benefiting the SHGs and their members.
- NABFINS lends directly to SHGs continuing the SHG-bank linkage model. The SHG takes over several functions of NBFC-MFI staff; thus, NABFINS needs a lower number of staff.
- B&DCs take over the repayment function (and the formation of new SHGs). This enables a unit of NABFINS to cover a radius of 5–10 km.
- Salaries/incentives and other emoluments. Overall NABFINS packages for senior staff are lower than what the CEOs of the major NBFC-MFIs enjoy. The MD of NABFINS (who is on deputation from NABARD) is paid by NABFINS as per NABARD's package. This staff remuneration pattern lowers costs, especially when the CEOs of NBFC-MFIs were awarding themselves from INR 30 million to INR 60 million packages every year together with other benefits such as sweat equity and even taking loans from their institutions to invest either in the same institution or in new ones created as independent spinoffs.
- The cost of funds for NABFINS is also low as it depends more on NABARD refinance. Although NABARD refinance is provided at the commercial rate (the same rate at which NABARD provides refinance to other banks), it is cheaper than the average cost of borrowing for other MFIs.
- The loan disbursement process is transparent.

Weaknesses

- MIS at the B&DC level is not up to mark. Some of the B&DCs do not have readily available data separately on income and expenditure due to the NABFINS project in their final accounts.
- The staff attrition rate in B&DCs is quite high.
- Dependence on B&DCs is very high.
- MIS at the NABFINS level needs improvement. The Apparent Microfinance Manager, a web-based application adopted by NABFINS, is yet to stabilize.
- There was no system of structured review meetings of district managers and other field functionaries.

- A risk management system and fund management system are required to be developed to match the growing need of the institution.
- NABFINS does not have access to the data maintained by credit bureaus.
- No system of early-warning signals for SHGs/B&DCs on the basis of repayments has been developed.
- The progress in promotion of SHGs by some of the B&DCs was not satisfactory. Scaling up business operations with such B&DCs may suffer once the existing stock of SHGs is covered.
- Some of the MFIs are now working as BCs to banks and may pose serious competition taking the help of incentives under NRLM. As per the selection process, such MFIs cannot be enrolled as B&DCs of NABFINS.

Opportunities

- New loan products catering to different needs of SHG members such as education, housing, health, etc., may be developed over and above vanilla linkage loan products.
- There is scope for linking with different service providers to provide other types of financial services such as remittance, micro-insurance (health, life, and asset), micro-pension, etc.
- Several SHPIs are good in promotion and nurturing of SHGs, but may not want to be involved financially with the work of recovery of loan and remittance. NABFINS could develop an alternate model of compensation and financing to link with SHGs promoted by such SHPIs to expand in areas covered by them.

Challenges

- The affairs of the company are managed by people on deputation and staff engaged on a contract basis. As a result, people in the organization may lack the feeling of corporate citizenship.
- Due to the very nature of hiring staff on a contract basis, there is a threat of staff attrition.
- The growth of the organization to be sustained needs improved human resource management regarding recruitment, training, and compensation management.
- State-driven models are competing with NABFINS for the same set of clients. Expansion of NRLM with interest subvention benefits may make the model unattractive in the long run when banks will be lending at an effective rate of 7% to SHGs.
- The threat of B&DCs leaving NABFINS and migrating to another agency in the event of obtaining a higher commission was there.

E. Sustainability and replicability/upscalability

The model provides regular profit to NABFINS though the margins are relatively lower than those of most of the other NBFC-MFIs. NABFINS actually does not try to profiteer.

Regarding the sustainability of B&DC partners, the commission available to B&DCs at 2% (1% on lending and 1% on recovery) is adequate considering support from the internal strength of the SHG model as they need not make very strong efforts in recovery and monitoring like in other MFI lending models. Most of the B&DCs are mostly leveraging on their existing infrastructure for implementing the NABFINS project. A study of the viability of B&DC by BIRD shows that most of the B&DCs had viable business from NABFINS in their first year of partnership itself. In some cases, they became viable in the second year.

The promotion of the SHGs and their capacity building is supported by separate grant assistance and so the B&DCs have to deal with a very functionally financially literate customers group. Moreover, the grading is intensively supported by NABFINS staff. This results in most of the B&DCs not needing additional staff for the NABFINS work.

Regarding replicability/upscalability of the model to new areas, the availability of good B&DC partners and the formation of an adequate number of good SHGs will be an important prerequisite. The threats listed above will have to be tackled for both sustainability and replicability. The most important requirement will be the development of a proper HRD system, risk management system, improved MIS, and fund management system. Upscaling would also require an alternate support system and new loan products commensurate with the availability/strength of the SHPI partner and level of maturity of the SHGs in a particular area.

F. Conclusions

The NABFINS model is the model example of an MFI working on both the SHG model and business correspondent model. It has proved that an MFI can provide quality credit at a very affordable rate of interest and ensure almost 100% recovery without resorting to coercive methods. This gives a good direction for the MFI sector. It is necessary that the SHG linkage with MFI be accepted for support from NRLM and other government-sponsored schemes such as the SHG-bank linkage to make the model further replicable throughout the country.

5.7 Kisan Credit Card (KCC) – Farmers' Credit Card

A. Introduction and description of products/services

Subsequent to the announcement in the Union Budget (1998-99), the Kisan Credit Card (KCC) Scheme was introduced in 1998-99. A model Kisan (farmers') Credit Card Scheme was formulated by NABARD and was circulated among the banks in August 1998 for adoption. Since then, there has been good progress in the scheme. The scheme has been facilitating growth in agricultural and allied activities GDP and GDP of India. The Kisan Credit Card has emerged as an innovative credit delivery mechanism to meet the production credit requirements of farmers in a timely and hassle-free manner. The scheme is under implementation in the entire country by the vast institutional credit framework involving commercial banks, regional rural banks, and cooperative banks and has received wide acceptability among bankers and farmers.

Based on the report and the recommendations of the working group set up by the Department of Financial Services, Ministry of Finance, Government of India, the KCC Scheme was further modified in 2012.

The KCC Scheme aims at providing adequate and timely credit support from the banking system under a single window to farmers for their cultivation and other needs as indicated below:

a. To meet short-term credit requirements for cultivation of crops
b. Postharvest expenses
c. Produce marketing loan
d. Consumption requirements of farmer households
e. Working capital for maintenance of farm assets and activities allied to agriculture, such as dairy, inland fishery, poultry, etc.
f. Investment credit requirement for agriculture and allied activities such as pump sets, sprayers, dairy animals, etc.

B. Stakeholders/delivery systems/channels

The KCC is available to all farmers – individuals/joint borrowers who are

i. Owner cultivators or
ii. Tenant farmers, oral lessees, and sharecroppers, or
iii. SHGs or JLGs of farmers, including tenant farmers, sharecroppers, etc.

The salient features of the KCC Scheme include the following:

- Assessment of the crop loan component based on the scale of finance for the crop plus insurance premium × extent of area cultivated + 10% of the limit towards postharvest/household/consumption requirements + 20% of the limit towards maintenance expenses of farm assets.
- Flexi KCC with simple assessment prescribed for marginal farmers from INR 10,000 to INR 50,000.
- Interest subvention/incentive for prompt repayment to be available as per the Government of India and state government norms.
- One-time documentation at the time of first availment and thereafter simple declaration (about crops raised/proposed) by the farmer every year for the validity of the KCC.
- KCC-cum-SB (savings bank) account, instead of farmers having two separate accounts. The credit balance in the KCC-cum-SB account to be allowed to earn interest at the savings bank rate.
- Disbursement through various delivery channels, including ICT-driven channels such as ATM/PoS/mobile handsets.
- The short-term component of the KCC limit is in the nature of a revolving cash credit facility. There should be no restriction on the number of debits and credits for this component.
- The long-term loan for investment purposes can be as per the unit cost and can be repaid as per the installment fixed.

Technological innovations in system/delivery channels

Issuance of cards

The KCC account is a savings-cum-credit account and the beneficiaries under the scheme are to be issued a smart card/debit card (compatible for use in ATMs/handheld swipe machines and capable of storing adequate information on the farmer's identity, assets, landholdings, credit profile, etc.).

Delivery channels

The following delivery channels are to be put in place so that the Kisan Credit Card can be used by farmers to effectively transact their operations in their KCC account.

1. Withdrawal through ATMs/micro ATMs
2. Withdrawal through business correspondents using smart cards.
3. Through a point of sale machine with input dealers
4. Mobile banking with immediate payment service (IMPS) capability/interactive voice response (IVR).
5. *Aadhar*-enabled payment system (AEPS).

Based on the existing infrastructure available with banks, all KCC holders are to be provided with any one or a combination of the following **types of cards**:

- Debit cards (magnetic stripe card with PIN) enabling farmers to operate the limit through all bank ATMs/micro ATMs
- Debit cards with magnetic stripe and biometric authentication
- Smart cards for doing transactions through PoS machines held by business correspondents, input dealers, traders, and Mandies
- RuPay Kisan Cards

In addition, the banks having a call center/IVR may provide SMS-based mobile banking with a call-back facility from the bank for mobile PIN (MPIN) verification through IVR, thus making a secured SMS-based mobile banking facility available to card holders.

C. Impacts/benefits

The Kisan Credit Card is a pioneering credit delivery social innovation for providing adequate and timely credit to farmers under a single window, with a flexible and simplified procedure, adopting the whole-farm approach, including the short-term, medium-term, and long-term credit needs of borrowers for agricultural and allied activities and a reasonable component for consumption needs.

The progress of the Kisan Credit Card in India has been spectacular since its launch as can be observed in Table 12. The annual compound growth rate of 22.20% for the number of cards issued and 33.08% for the amount sanctioned as credit under the scheme from 1998-99 to 2012-13 is commendable and shows the level of adoption of the scheme by both bankers and farmers (Table 12).

Table 12. Progress in the Kisan Credit Card from 1998-99 to 2012-13

Financial year	Cards issued (no. in million)	Amount sanctioned (INR in million)	% Change in no. of cards issued	% Change in amount sanctioned
1998-99	0.78	23,100	–	–
1999-2000	5.13	75,480	554.85	226.75
2000-01	8.65	164,270	68.52	117.63
2001-02	9.34	258,580	7.96	57.41
2002-03	8.24	262,770	-11.75	1.62
2003-04	9.25	217,850	12.18	-17.09
2004-05	9.68	341,860	4.68	56.92
2005-06	8.01	476,010	-17.23	39.24
2006-07	8.51	467,290	6.23	-1.83
2007-08	8.47	499,870	-0.48	6.97
2008-09	8.59	466,690	1.44	-6.64
2009-10	9.05	576,780	4.81	23.59
2010-11	10.17	726,250	12.93	25.91
2011-12	11.76	916,800	15.65	26.24
2012-13	12.98	1,262,800	10.39	37.74
		Compounded growth rate	**22.20**	**33.80**

(Source: Author's calculation from NABARD/Reserve Bank of India statistical data)

Regarding agency-wise progress, the share of cooperative banks in number of cards issued decreased continuously from 70% in 1999-2000 to 16% in 2008-09, and then started rising, reaching 21% in 2012-13. Similarly, for the amount sanctioned, the share of the cooperative sector fell from 62% in 2001-02 to 9% in 2012-13.

Further, the share of Regional Rural Banks in the number of cards issued increased gradually from 1% in 1998-99 to 18% in 2004-05, and then fluctuated to 16% in 2012-13. The share in amount sanctioned by RRBs increased from 0.1% in 1998-99 to 18% in 2005-06, and then fluctuated to 11% in 2012-13.

The share of commercial banks has increased substantially. For the number of card issued, their share increased from 27% in 1999-2000 to 63% in 2012-13 and their share in amount sanctioned also increased from 47% in 1999-2000 to 80% in 2012-13 (Table 13).

Table 13. Agency-wise Number of Cards Issued and Amount Sanctioned

(No. in million, amount in INR billion)

Financial year	Cooperative banks				Regional Rural Banks				Commercial banks			
	Cards issued	% share	Amount sanc-tioned	% share	Cards issued	% share	Amount sanc-tioned	% share	Cards issued	% share	Amount sanc-tioned	% share
1998-99	0.16	20	8.26	36	0.01	1	0.11	0.0	0.62	79	14.73	64
1999-2000	3.60	70	36.06	48	0.17	3	4.05	5	1.37	27	35.37	47
2000-01	5.61	65	94.12	57	0.65	7	14.00	9	2.39	28	56.15	34
2001-02	5.44	58	159.52	62	0.83	9	23.82	9	3.07	33	75.24	29
2002-03	4.58	56	158.41	60	0.96	12	29.55	11	2.72	33	74.81	28
2003-04	4.88	53	98.55	45	1.27	14	25.99	12	3.09	33	93.31	43
2004-05	3.56	37	155.97	46	1.73	18	38.33	11	4.40	45	147.56	43
2005-06	2.60	32	203.39	43	1.25	16	84.83	18	4.17	52	187.79	39
2006-07	2.30	27	131.41	28	1.41	17	73.73	16	4.81	56	262.15	56
2007-08	2.09	25	204.92	41	1.77	21	90.74	18	4.61	54	204.21	41
2008-09	1.34	16	131.72	28	1.41	16	76.32	16	5.83	68	258.65	56
2009-10	1.74	19	76.06	13	1.95	22	101.32	18	5.31	59	399.40	69
2010-11	2.81	28	107.19	15	1.77	17	114.68	16	5.58	55	504.38	69
2011-12	2.96	25	106.43	12	2.00	17	115.23	13	6.80	58	695.14	75
2012-13	2.69	21	119.20	9	2.05	16	132.60	11	8.24	63	1,010.90	80

(Source: Author's calculation from NABARD/Reserve Bank of India statistical data)

It can be observed that the rate of increase in disbursement through the Kisan Credit Card Scheme by the banks far surpassed the rate of growth in total agricultural credit as well as total bank credit during 2008-09 to 2012-13 continuously.

D. SWOC analysis

Strengths

- The KCC can cater to all types of credit requirements of farmers, including consumption needs.
- Farmers have flexibility to draw out cash and buy inputs as per their need.
- Access to adequate and timely credit to farmers.
- Minimum paperwork and simplification of documentation for withdrawal of funds from banks.
- Assured availability of credit any time, enabling reduced interest burden for farmers.
- Reduction in workload of bankers due to simplified appraisal, supervision, and monitoring of loans.

- Improvement in recycling of funds through better recovery of loans.
- Increase in loan business of banks.
- Reduction in transaction cost of bank as well as of farmers.

Weaknesses

- Some banks have not enabled KCC as a cash credit/debit card. It is still used as a one-time ST loan.
- Rupay cards have not yet been issued to all KCC holders. As per the RBI Annual Report 2013-14, around 4.9 million smart cards only were issued by public-sector banks as of 30 September 2013. The issuing of cards is lower in the case of cooperative banks and RRBs.
- Very few banks have made arrangements for the use of a KCC in merchant points for input purchase.
- In many KCC accounts, withdrawals are not accepted in other branches of the same bank let alone ATMs/merchant points/other banks, thus forcing farmers to visit the branch of issue and withdraw the amount by cash/banker's cheque or demand draft.
- Village- and district-level input shops are cash oriented and at best accept a banker's cheque or DD. Alternatively, they sell on credit. As of now, even for a KCC issued as a Rupay card/smart card, acceptance by input shops remains very low.
- Though it was originally envisaged in the KCC that farmers would withdraw a loan amount as per their requirement in smaller chunks, which will result in reduced interest burden, studies have revealed that in many of the KCCs there was only one lump sum disbursement, thereby precluding the possibility of a benefit of reduced interest expenditure/amount for the KCC borrower (farmer).

Opportunities

- Facility of withdrawals from other branches/ATM/PoSmerchant points, when fully implemented, would reduce transaction cost further as farmers would not need to go each time to the issuing branch for withdrawal purposes.
- The coverage of the ST component under crop insurance and the introduction of a personal accident policy have made the KCC more attractive to both farmers and bankers alike.
- A better banker-client relationship emerging from the scheme may lead to improved provision for other financial services as well.

Challenges

- As the long-term loan system is yet to be simplified, the popularity of the KCC in recent years has meant relatively lower investment for capital formation in agriculture.
- Although the KCC is envisaged to include investment needs of farmers, it is basically used for short-term crop-raising purposes only.

E. Sustainability and replicability/upscalability

Every year, a certain percentage of new farmers is being brought into the KCC fold as per the target prescribed by the controlling/head office of the banks. Quite a good number of new borrowers had been demanding a KCC every year because of its flexibility in usage and other utilities such as flexible withdrawal, flexible repayment patterns, coverage under the National Agricultural Insurance Scheme (NAIS) and Personal Accident Insurance Scheme (PAIS), minimum margin/security norms, etc. Further, it is almost hassle-free in issue as well as in operation. Additional benefits such as the introduction of a weather-based crop insurance scheme with cyclical credit may go a long way in providing more relief to distressed farmers.

Keeping in view the prompt acceptability of the KCC, a host of benefits to farmers, bankers, and development agencies, the KCC has further upscalability potential. It can be issued to all eligible farmers/tenant farmers, oral lessees, sharecroppers, etc. As against 138.30 million operational holdings in India, there were about 40 million active KCCs issued by scheduled commercial banks (including RRBs) as of 31 March 2014 as per the RBI Annual Report 2013-14. In addition, the cumulative number of operative KCCs issued by the cooperative sector is 35.76 million as per the NABARD Annual Report 2013-14. Now, with the introduction of electronic KCCs, deployment of BCs, simplification of procedure, financing through the JLG mode, the number of cards issued and active under the KCC Scheme may further grow to meet the credit needs of all eligible farmers.

F. Conclusions

There is no doubt that the KCC has emerged as the best financial gift to farmers in the country and has been accepted by all stakeholders whole-heartedly. However, several issues in its proper use by farmers stem from a lack of financial literacy and also reach of technology. The revised KCC system is yet to be fully implemented. The KCC is yet to meet the needs of all farmers for their entire credit requirements. Coverage of small and marginal farmers, sharecroppers, and landless farmers farming on a lease basis is still inadequate. At this juncture, there is a need for more proactive initiatives by the commercial banks and state governments in the promotion of JLGs, SHGs, farmers' club, innovative insurance products, etc., and the adoption of a "mission mode" approach to make the KCC a farmer-friendly efficient instrument for the credit delivery system accompanied by an appropriate institutional mechanism.

Efforts at financial literacy and awareness creation among the farmers to make optimum use of cards with all the features of the scheme may also lead to further expansion of the programme. Further development of technology reach to villages and adoption by villagers, PoS, and bankers will ensure that the delivery channel envisaged in the revised guidelines is adequately in place.

5.8 Producers' Organization: Development and Credit Linkage

A. Introduction and description of products/services

A Producers' Organization (PO) is formed and owned by a group of producers for farm/non-farm activities. The PO is a registered body and a legal entity having producers as shareholders. It deals with business activities related to primary produce/products and works for the benefit of the member producers. A portion of profit is shared among the producers and the balance goes to the share capital or reserves.

The main objective of the formation of a PO is collectivization of external inputs, production system, and marketing so as to ensure better access to quality inputs, technology, finance, and market for enhanced income to small producers. It ensures the holistic development of small producers and their long-term sustainability.

The Producers' Organization can be one of the following types:

- Producer Company *(registered u/s IXA of Companies Act, 1956)*
- Producer cooperatives, SHG federations
- Registered farmers' federations
- MACS (Mutually Aided Cooperative Society)
- Primary Agriculture Credit Society (PACS)
- Public/private limited company set up by producers
- Any other registered federation

The Companies Act, 1956, was amended in 2002 to enable primary producers to register themselves as a Producer Company. Under Section 581A in Part IXA of the Companies Act, 1956, a Producer Company is defined as "a body corporate having objects/activities specified in Section 581B and registered as a Producer Company under this Act."

In this light, a Producer Company is a limited holding that is created by individuals, producer institutions, or a combination of both. Producer Companies, in addition to being owned by producers, must operate consistently with the Principles of Mutual Assistance.

Producer Companies are meant to be developed for primary producers, that is, persons engaged in an activity connected with, or related to, primary produce. Primary produce, in terms of the Act, is the produce of farmers arising from agriculture, including animal husbandry; horticulture; floriculture; viticulture; forestry and forest products; re-vegetation; bee keeping and farming plantation products; produce of persons engaged in handloom, handicraft, and other cottage industries; by-products of such products; and products arising out of ancillary industries.

Producer Companies (PCs) can be formed by a minimum of 10 producers. PCs should have 5–15 members of the Board of Directors (Section IXA of the Companies Act) elected by members (direct voting or through representation of groups). The Board of Directors appoints a CEO for day-to-day management, who is assisted by other staff.

Registration under the Cooperative Society Act is another popular mode of formation of a PO.

B. Stakeholders/delivery systems/channels

The major stakeholders of the PO are primary producers in agriculture and allied sectors or in small and cottage industries. India has more than 138 million farm holdings as per the Agricultural Census, 2011. Of these, about 92.8 million were marginal farm holdings (having individual operational landholding of less than 1 hectare) while another 24.8 million were small farm holdings with individual operational landholding size of less than 2 hectares. Therefore, the marginal and small farm holdings together accounted for a whopping 85.0% of the total farm holdings in India (2010-11). However, their share in the country's total operated area was only 44.6%. As a national average, the size of operational landholding of each farm varied from 0.39 hectare formarginal farm holdings to 1.42 hectares for small farm holdings to 17.38 hectares for large farm holdings, which worked out to 1.15 hectares for all farm holding groups taken together. Such is the predominance of small farms in Indian agriculture. Indian agriculture, therefore, is a small farm activity. Similarly, the production capacity of cottage and village industries is also very small. Such small producers have a natural disadvantage in achieving scale to justify high investment.

The limited investment capacity of these small producers is also an area of great concern. The lack of access to critical inputs such as quality seeds, fertilizers, irrigation, power, new technology, designs, and credit has created a hugely disabling ecosystem for small producers. They do not have access to a consumer market and therefore are forced to sell their produce to the numerous intermediaries operating in the market. This reduces their profit margin, making their occupation, in most cases, a non-viable one.

Producers' Organizations of these small producers give them a level playing field to face the challenges. Several positive initiatives have been taken in recent years in this direction by the government, the Apex financial institutions such as NABARD, private donor organizations, other financial institutions, and many other institutions to support the growth of POs and facilitate their emergence as successful business enterprises.

Loans up to INR 50 million to a PC set up by SF/MF for agricultural/allied activities are included under the priority sector.

NABARD created a Producers' Organization Development Fund (PODF) in 2011 with a corpus of INR 500 million to support POs through capacity building, financing, and market linkage support. Prior to the setting up of the PODF, NABARD was funding producer collectives under the Umbrella Programme for Natural Resources Management (UPNRM), bilaterally funded by KfW/GIZ and NABARD.

The Union Budget 2014-15 proposed to support NABARD's efforts for Producers' Organizations with the provision of a sum of INR 2 billion to be used for building 2,000 farmers' POs (FPOs) across the country over the next two years. NABARD launched the Producers' Organization Development and Upliftment Corpus (PRODUCE) Fund, which will not only support incubation and formation of 2,000 FPOs through a network of POPI (Producers' Organization Promoting Institutions), but will also support their development through equity, revolving fund support, support for credit guarantee fee, rating, administrative cost, etc.

NABARD launched another INR 20 billion Food Processing Fund in November 2014, in which FPOs will be one of the recipients of support. The Small Farmers' Agri-business Consortium (SFAC) was mandated by the GoI to support the formation of FPOs. SFAC's initiative, started in 2011-12 under two Central Government Schemes, the National Vegetable Initiative for Urban Clusters (NVIUC) and the integrated development of 600,000 pulse villages in rainfed areas, has since expanded its scope, and now includes special FPO projects being taken up by some state governments under Rashtriya Krishi Vikas Yojana (RKVY) funds and the National Demonstration Projects under the National Food Security Mission (NFSM).

SFAC is also implementing the "Equity Grant and Credit Guarantee Fund Scheme" for FPOs launched in January 2014, enabling FPOs to access a grant of up to INR 1.00 million to double members' equity and seek a collateral-free loan of up to INR 10 million from banks, which in turn can seek 85% coverage from the Credit Guarantee Fund. The membership requirements for equity grant support and credit guarantee support are 50 and 500, respectively.

The GoI issued the National Policy and Process Guidelines for FPOs in March 2013. All major centrally sponsored schemes of the Department of Agriculture and Cooperation (DAC) have incorporated special provisions for the promotion and development of FPOs.

SFAC has been designated as a central procurement agency to undertake price support operations under the Minimum Support Price (MSP) programmes for pulses and oilseeds and it will operate only through FPOs at the farm gate. In line with these initiatives, the DAC announced 2014 as the "Year of the Farmer Producer Organizations."

Financing and other support required by a PO depend on its different stages of growth, which can broadly be categorized into three phases:

- Incubation and early stage
- Emerging and growing stage
- Mature stage (business expansion)

In the incubation and early stage, financial need of the POs revolves around the cost of mobilizing farmers, registration cost, cost of operations and management, training, exposure visits, etc. Mostly, the need is met through grant support. Later, in the emerging and growing stage, POs need working capital to run their businesses. As the POs move towards expanding their businesses, term loans are needed to set up processing units, processing/grading/sorting yards, storage godowns, cold storage, transport facilities, etc.

C. Impact/benefits

Although serious efforts started recently in 2011 only for the formation of POs and their financing, the progress made is substantial. SFAC had already formed 413 FPOs as of 31 January 2015. In addition, a total of 125 POs in various states had also been assisted up to 31 January 2015 under the PODF by NABARD.

D. SWOC analysis

Strengths

- Creating an efficient delivery system to supply external inputs
- Directly selling surplus produce for optimum returns
- Improved marketability of produce through aggregation and value addition
- Sustainable market linkage and members' empowerment
- Holistic development of members/small producers and long-term sustainability

Weaknesses

- Financial: low capital base, lack of access to credit, and existing loan product does not fully suit POs' requirement.
- Skills: lack of awareness, technical skill, and business acumen for planning. Lack of professional management of the group and ability to study markets.
- Market linkages: limited linkage to market and tie-up with related agencies, lack of marketing infrastructure, and lack of commercial attitude.

Opportunities

- SFAC support for equity and credit guarantee can be leveraged for FPOs.
- PRODUCE fund use will develop a good number of FPOs.

Challenges

- Not possible in many cases to provide direct support to POs because of low equity base, lack of collateral, etc.
- Role of external implementing agency in financial/non-financial linkages is critical for sustainable development of POs.
- Governance and management capabilities need to be developed.
- Scope, scale, and market landscape.
- Leveraging external resources and convergence with other programmes.
- Issues relating to ownership of physical assets/infrastructure.
- Appropriate exit mechanism for facilitating/promoting agency.

E. Sustainability and replicability/upscalability

The PO model is the need of the hour and it provides sustainable support to small producers.

Regarding replicability/upscalability of the model, it is important to note that the model depends on several stakeholders and each one has a crucial role to play in the success of the model. Banks need to come forward for financing POs not only for working capital needs but also for their expansion through term loans/capital formation. Providing technological and marketing support will also be crucial for success.

F. Conclusions

Convergence of different government programmes with the model can be attempted. POs developing from CBOs such as farmers' clubs, SHGs, and JLGs will be stronger in the long run. POPIs' capacity-building efforts should be supported adequately.

5.9 Kudumbashree Model: Holistic State Poverty Elimination Mission

A. Introduction and description of products/services

The *Kudumbashree* of Kerala, launched in May 1998 but effectively implemented in early 2000, is patterned on the SHG-based microfinance system. Its organizational set up is based on the three-tier community development system (CDS) that evolved in Alappuzha Municipality in 1993 as part of the implementation of the Community-Based Nutrition Programme (CBNP) and the Urban Basic Service Programme (UBSP) with the assistance of UNICEF. The project has been envisaged as a mission for eradication of poverty, which has been christened as "*Kudumbashree*" ("Prosperity of the Family") and becomes the *Magna Carta* of the poor.

Kudumbashree was conceived as a joint programme of the Government of Kerala and NABARD implemented through Community Development Societies (CDS) of poor women. Kudumbashree is formally registered as the "State Poverty Eradication Mission" (SPEM), a society registered under the Travancore Kochi Literary, Scientific and Charitable Societies Act, 1955. It has a governing body chaired by the state minister of Local Self-Government (LSG). There is a state mission with field officers in each district. This official structure supports and facilitates the activities of the community network across the state.

Kudumbashree complements the decentralization of the governance and development plan in Kerala. Identified poor women are collectivized under NHGs (neighbourhood groups) patterned in the way of and functioning as an SHG. Further, these NHGs are federated into ADS (Area Development Societies) and ADS to CDS (Community Development Societies). CDS are closely connected with the LSG. Kudumbashree further creates JLGs for both the farm sector and MSME out of members from one or more NHGs and provides training and other support to these groups for effective livelihood generation. Convergence with different government schemes is another important quality of the programme.

B. Stakeholders/delivery systems/channels

(a) Management and administration of the mission Governing body: The governing body of Kudumbashree Mission is constituted under the chairmanship of the Honorable Minister for Panchayats and social welfare.

(b) Executive Committee.

The Executive Committee consists of the following members: principal secretary, LSGD – chairman; executive director, Kudumbashree – convener; director of Panchayats – member; director of Urban Affairs – member; commissioner for Rural Development – member; representative from Finance Department – member; Adv. N. A. Khalid – member.

Executive directions for scheme formulation and execution are established in the Executive Committee.

Identification of the poor

Contrary to the extant income-based poverty approach of the Government of India, Kudumbashree has developed a more comprehensive approach for identifying the poor. As per this methodology, the poor are those who meet four or more of the nine criteria given below:

Kutcha house (earthen mud house), no access to safe drinking water, no access to sanitary latrine, illiterate adult in the family, family having not more than one earning member, family having barely two meals a day or fewer, presence of children below 5 years in the family, alcoholic or drug addict in the family, and scheduled caste or scheduled tribe family.

The 4/9-point index of Kudumbashree is not a measure of poverty, but is primarily to be seen as a tool for identification of the poor based on the presence or absence of some basic capabilities. It is not used or meant to be used as an aggregate measure for evaluative judgments about the level of poverty in a society or jurisdiction.

C. Structure of Kudumbashree

Community-based organization (CBO)

Kudumbashree is a community-based organization of poor women identified on the basis of a 9-point index. Such identified poor are organized under a well-networked CBO. For effective convergence of the programme, a three-tier CBO is in action, as detailed below.

Neighbourhood Groups (NHGs)

The lowest tier constitutes the neighbourhood groups (NHGs) comprising 10 to 20 families of the poor at the bottom level with five functional volunteers elected by themselves: community health volunteer, income generation volunteer, infrastructure volunteer, secretary, and president.

The community health volunteer is responsible for all the health-related activities of the NHG such as immunization, maternal care, child care, nutrition, and propagation of ideas such as cleanliness, hygiene, etc. The community income generation activity volunteer looks after the income-generating activities of the NHG. She has to identify all potential agencies, departments, and organizations to be engaged in the promotion of self-employment activities. She also liaises with NABARD and commercial banks on behalf of the NHG. The community infrastructure volunteer is in charge of the basic infrastructure needs of the NHG such as housing, sanitation, drinking water, drainage, etc. Proper training and orientation are given to these volunteers in their respective areas.

The NHGs are Thrift and Credit Societies (TCS), which function as intermediaries for mobilizing the small savings of the poor. The savings mobilized at the weekly meetings of the NHGs are deposited in a commercial/cooperative bank and are used for lending among members. The poor women act as savers, borrowers, account keepers, and finance managers. Each NHG prepares an action plan on the basis of the needs of the member households of the NHG and such plans are called the Micro Plan of the NHG.

Area Development Societies (ADS)

The second tier is the Area Development Societies, which is formed at the ward level by federating all the NHGs (10–15 NHGs) in the ward. The activities of the ADS are decided by the representatives of the women elected from various NHGs. The ADS integrates the Micro Plans of the NHGs and after discussion and scrutiny a consolidated action plan is prepared, which is known as the Mini Plan. The Area Development Society consists of a general body consisting of all presidents, secretaries, and three sectoral volunteers of the federated NHGs, and the Executive Committee consisting of seven members elected by the ADS general body, which includes a chairperson, vice chairperson, and secretary.

Community Development Societies (CDS)

At the Panchayat/municipal level, Community Development Society, is a registered body under the Travancore-Cochin Literacy Scientific and Charitable Societies Act, 1955, is formed by federating all ADSs in the Panchayats.

The CDS consists of a general body, which consists of all ADS governing body members, and an Executive Committee, consisting of representatives of each ADS general body corresponding to the total number of ADSs and a chairperson and a vice chairperson elected by the CDS Executive Committee.

The CDS works in close liaison with the LSG (Local Self-Government) and serves as both a dissemination organ for government programmes and as an enunciator of community needs in governance issues.

LSG and the community structure

The community structure is embedded in the LSG, but has an autonomous functional character of its own. The CDS Evaluation Committee is the formal mechanism that brings together the LSG and the community structure. It is chaired by the president of the Gram Panchayat. It approves the CDS action plan, and ensures that the activities proposed in the action plan find a place in the allocation plans of the LSG and line departments and credit plans of financial institutions.

D. Microfinance (MF) is the most grass-roots level activity of Kudumbashree, the binding force of the NHG. Each NHG has operational flexibility with respect to its MF operations, within a broad framework. The various activities taken up by Kudumbashree under MF are thrift and credit operations, linkage banking, matching grant, interest subsidy for linkage loans, KAASS, digitization of MIS, and a repayment info system.

The CDS can also take up need-based MF products, on its own (such as loans for cooking gas).

Thrift and credit: Though NHGs/CDSs can borrow from banks (and they encourage it), the most interesting feature of Kudumbashree microfinance is the dominance of credit from its own pooled savings deposits.

The Bank Linkage Programme: The Bank Linkage Programme has helped NHGs to augment their existing resources collected through thrift. NABARD has developed a 15-point index for rating NHGs on the basis of which they will be allowed to link with various banks under the Linkage Banking Scheme. Linkage loans can be raised directly by the NHG or as a bulk loan through the CDS.

Matching grant and interest subsidy: The matching grant is an incentive provided to NHGs. This grant is linked to the amount of thrift mobilized, performance of the NHG in the grading, and the loan obtained from the bank. An amount of 10% of the savings of the NHG subject to a maximum of INR 5,000/- is provided as a matching grant to each NHG. In order to obtain a matching grant, the NHG must have passed the grading and obtained a loan from the bank. For SC/ST NHGs, obtaining a bank loan is not compulsory. As per the revamped interest subsidy scheme of the Government of Kerala, the NHGs can obtain bank loans at 7% and the remaining interest amount will be treated as interest subsidy. Kudumbashree is also implementing an interest subvention scheme under NRLM.

KAASS, the Kudumbashree Accounts & Audit Service Society, is a home-grown enterprise to ensure proper account keeping in the community network. It functions as a concurrent audit mechanism as well, giving inputs to the mission teams about capacity-building requirements for financial management. There are more than 350 members in 43 KAASS groups across the state. Internal auditors are to be identified from within the community network. KAASS capacitates these internal auditors.

Financial literacy campaign/training: Kudumbashree has mapped out a comprehensive financial literacy campaign in order to provide a platform for NHGs to be aware of and benefit from formal banking services. Training for resource persons, bank managers/officers, and CDS representatives/officers, and for NHGs is being conducted.

In addition to NHG-level orientation and training, district-level and Panchayat-/block-level banking parliaments are organized. NHGs and CDSs clarify specific issues/queries raised by the panel (bank officers) members. District missions also arrange exposure visits by NHGs to bank branches to understand banking services.

E. Microenterprises

Kudumbashree also provides livelihood support through the development of micro livelihood activities through activity groups in the mode of the JLG. These JLGs are formed of 4–10 members, which may be members of one or different NHGs. Further, several activity clusters have been developed. Several microenterprise activities are NHG based as seasonal enterprises (festival focus), and NHG thrift or linkage loan based.

Some special livelihood programmes are IT units, Amrutham Nutrimix, canteen and catering groups, Santwanam – paramedic services, EKSAAT – training groups, KAASS – audit and account support groups, and MECs – microenterprise consultants. **Annexure 8** provides details on some of the important microenterprises developed.

Kudumbashree Sthree Suraksha Bima Yojana – is the insurance scheme for Kudumbashree NHG members. Poor women face multiple risks and also multiple crises in various stages of life. Keeping this in view, Kudumbashree has been implementing a life insurance programme called Kudumbashree Sthree Suraksha Bima Yojana for NHG members since 26 November 2013. The objective of the scheme is to provide financial assistance to family members in the case of premature death of the NHG member through natural death/accidental death and also provide benefits in case of a permanent or partial disability. Members of Kudumbashree NHGs in the age group between 18 years (completed) and 75 years at the nearest birthday are eligible. Details on insurance coverage are given in Table 14.

Table 14. Insurance Coverage of SHG Customers up to 59 years of age

Premium: INR 250*	Insurance coverage (age group 18-59) (amount in INR)				
Insurer	**Natural death**	**Accidental death**	**Permanent disability**	**Partial disability**	**Scholarship**
LIC	50,000	95,000	75,000	37,500	1,200**

***** *Out of* INR *250 premium, the Central Government will pay* INR *100 towards the premium per member.*

** The sons and daughters of the members insured under the scheme and studying in 9th to 12th standards (including ITI) are eligible for INR 1,200 per annum payable half yearly. This is not a merit scholarship and the only requirement is that the child will be given a scholarship only once in a particular class, say, 9th and so on. Two children per member are eligible for the scholarship.

For the age group above 59 years, benefits are available only for natural death (Table 15).

Table 15. Insurance Coverage of SHG Customers above 59 years of age

(Amount in INR)

Premium amount	60–65 years	66–70 years	71–75 years
150	9,000	6,000	4,000

Implementation of **various programmes through convergence** with other government departments: The Kudumbashree network is being successfully used in the implementation of several types of income generation and social benefit schemes by different departments. In several cases, Kudumbashree has become the de facto implementing agency.

F. Impact/benefits

Built around three critical components (microcredit, entrepreneurship, and empowerment), the Kudumbashree initiative has succeeded in addressing the basic needs of less privileged women, thus providing them with a more dignified life and a better future.

Today, the community network of Kudumbashree covers every grama Panchayat and more than 90% (17,486) of the Panchayat wards of the state. There are 0.25 million NHGs, in which women from about 4 million families participate. Nearly one in every two households of Kerala has a representative in Kudumbashree. Coverage of the poor is nearly universal. The only families remaining to be covered are outliers in remote tribal hamlets, migrant women, and sections of the coastal population.

As of 30 September 2014, the cumulative thrift mobilized by all NHGs was to the tune of INR 24,811.7 million and cumulative internal loans disbursed to members were to the tune of INR 100,412.6 million. It is estimated that, during 2014-15 (up to 30 September 2014), the total thrift collected by all NHGs was INR 2,606.9 million and the internal loans disbursed reached INR 16,473.7 million.

The Bank Linkage Programme has helped the NHGs to augment their existing resources mobilized through thrift. The cumulative loan amount disbursed under bank linkage up to March 2014 was INR 29,528.3 million. The cumulative number of NHGs obtaining bank linkage was 136,177. During 2013-14, the total amount of loans disbursed through bank linkage was INR 7,420 million to 39,181 NHGs. In 2014-15 (up to 30 September 2014), the total loan amount disbursed through linkage banking was INR 3,300 million.

Matching grant and interest subsidy: For 2013-14, INR 39.9 million had been disbursed to 9,828 NHGs as matching grants. For 2014-15, INR 24.16 million had been disbursed to 7,166 NHGs as matching grants. In the financial year 2013-14, INR 13.54 million had been disbursed as interest subsidy to NHGs and JLGs.

Under the insurance scheme (started in January 2014), 0.8 million NHG members had joined the scheme as of March 2014. The outreach of the programme as of 31 March 2014 appears in Table 16.

Table 16. Performance of the Outreach Programme

Sl. No.	Details	Urban	Rural	Total
1	No. of LSGs	65	978	1,043
2	No. of CDS	94	978	1,072
3	No. of ADS	3,042	16,747	19,789
4	No. of NHGs	30,308	223,050	253,358
5	Families covered (million)	0.54	3.42	3.96

(Source: Presentation/statement from Kudumbashree)

G. SWOC analysis

Strengths

- Kudumbashree perceives poverty not just as the deprivation of money, but also as the deprivation of basic rights.
- The poverty elimination programme is based on CBOs and is highly participative.
- Kudumbashree is a holistic Poverty Elimination Programme. It is not only microfinance through SHGs such as thrift and credit neighbourhood groups, but it is also involved in the planning process.

- The community structure is embedded in the Local Self-Government, but also has an autonomous functional character of its own.
- Despite a complete support structure provided by the mission staff, the community-based organization is able to make most of its decisions on its own.
- Kudumbashree plays a vital role in enhancing the financial status of the less privileged women in the state through its thrift and credit societies.
- The Community Development Societies facilitate bank linkages for farming, micro-housing, and micro-insurance. They also serve as the delivery point for skill upgrading and market development support to microenterprises.

Weaknesses

- The chief defect of Kudumbashree, like any other microcredit institution, is that it does not envisage any systemic or structural change in favour of the poor. The poor have to rise by their own bootstraps.
- It is a state-created CBO and not part of the tribe of adversarial CBOs or NGOs keeping a critical distance from the state and the struggle for alternate paradigms of development.
- The criteria for the identification of the poor and the non-poor must be revisited.
- The strategy to escort the non-poor to sustainable occupations and trade needs further refinement.
- Microenterprises are concentrated in a few districts and are mostly based on traditional occupations.

Opportunities

- The CDS action plan goes beyond the financial plan and is linked with the LSG plan. Thus, empowerment goes beyond economic empowerment.
- As an important programme linked, besides a centrally sponsored urban development programme, NRLM and MKSP are (a) under social empowerment: Asraya, Balasabha, BUDS School, and tribal special project; (b) under economic empowerment: microfinance and livelihood intervention; and (c) under women's empowerment: a gender self-learning programme, and Nirbhaya.
- The social capacity built can be channelled to attack poverty in better ways.

Challenges

- The issue of dual or even multiple membership, with a mushrooming of SHGs organized by communal outfits, NGOs, and individuals, resulting in high indebtedness.
- Perception of Kudumbashree as a source of public benefits and bounties, which can work towards weakening of Kudumbashree as a tool of sustainable empowerment.
- There is a tendency to overload the Kudumbashree functionaries for other government programmes, which can turn out to be counterproductive.

H. Sustainability and replicability/upscalability

The Kudumbashree model is beautifully integrated with the Local Self-Government and decentralized development planning system of the state, which makes the programme highly sustainable. Moreover, the NHGs are based on the SHG concept and provide strong backbone to the model. The CDSs provide sustainable support to the model. The CDSs are financially self-sustainable and no more dependent on the GP for their financial needs.

Regarding replicability/upscalability of the model, it is important to note that the model depends on several stakeholders and each one has a crucial role to play in the success of the model. The strong network of the LSG and the linkage of the LSG with the CBO of the poor is a difficult pre-condition to be fulfilled in many states/countries. Moreover, there is a tendency of thrift and credit community groups to maintain their independence and maintain distance from the government system. However, the replication can be attempted with suitable changes adjusting for different existing variants of government/non-government support structure and SHGs.

Convergence with different government programmes achieved by the model can be replicated with active support from the promoting agency. The most important part of the model is the development of the Joint Liability Group as a microenterprise group from among the members of the SHGs and the development of the cluster of these JLGs for particular produce, which can be replicable with proper support.

I. Conclusions

The State Poverty Eradication Mission (Kudumbashree), is a massive poverty eradication programme in contemporary history. It has proved without any doubt that women's empowerment is the best strategy for poverty eradication. Kudumbashree presents a unique model of participatory development, which can very well be emulated by others. The strategy of participation and empowerment adopted in the Kudumbashree mission ensures sustainable livelihoods for a large number of poor women, a positive outcome, which policy planners can always be enthused about.

5.10 "Abhaya Hastham": Micro-insurance and pension scheme implemented by SERP, Hyderabad

A. Introduction and description of products/services

Micro-insurance and micro-pension are essential aspects of financial inclusion. Generally, in old age, physical strength deteriorates, mental stability diminishes, and purchasing power becomes bleak, coupled with negligence from the younger generation. These problems are of greater magnitude for women because they tend to spend disposable income on their children rather than saving for their old age. Both micro-insurance schemes and micro-pension schemes are being supported by the Government of India. But, their penetration is very low mainly because of low incentives to the agents and the complex delivery mechanism.

The "**Abhaya Hastham**" IKP co-contributory insurance and pension scheme for eligible poor is being implemented through the "**Andhra Pradesh Self-Help Group (SHG) Women's Co-contributory Pension Act, 2009**" enacted on 2 March 2009. Under the scheme, all Indira Kranthi Patham (IKP) recognized currently active SHG women, from rural and urban areas, between the ages of 18 years and 50 years are eligible provided they are also holders of a white ration card (BPL). Such women can make a minimum contribution of INR 1 per day and the government will co-contribute INR 1 per day. An annual contribution is to be made at the beginning of each year. A subscriber who reaches 60 years of age and has fulfilled the prescribed conditions is entitled to receive a monthly pension. Enrollment of new members takes place in February and March every year. Each member will make a nomination along with the application. The nominee details can be changed in the member's request at the time of annual payment.

B. Benefits

- **Minimum monthly pension of INR 500** or above, on reaching 60 years of age, depending on the quantum of contribution made by the member.

- The JBY (Janashri Bima Yojana) of LIC: All women during the contributory phase (less than 60 years) would be eligible for **life insurance coverage** up to a sum of INR 30,000 and INR 75,000 in the case of natural and accidental death, respectively, and INR 75,000 and INR 37,500 for permanent and partial disability, respectively. In addition, a scholarship of INR 1,200 per annum is payable for their children, studying 9^{th} and 10^{th} classes, in an Intermediate and Industrial Technical Institute (ITI), provided a similar scholarship is not available from other insurance schemes.
- On death, the available contributions of the subscriber and the government's co-contribution along with accrued earnings on such contributions will be transferred to the nominee of the subscriber.

C. Stakeholders/delivery systems/channels

Enrollment: The Village Organization (VO) takes the responsibility of enrolling the members. Enrollment teams (a team of two) are selected having a mix of SHG members and office bearers. Two teams are formed for up to 30 groups and above that one team for every 10 groups. All enrollment teams are trained at their respective Mandal Samakhyas (MS). The schedule of the enrollment process is finalized and monitored by the VO. Members are made aware of the required process and procedures of the scheme. All the doubts of the members and their family members are resolved before enrollment of the members.

Photocopies of the white ration card for validation for Below Poverty Line (BPL), school certificate/ration card/EPIC card (voter card) for age validation, and documents for validating the "currently active member for at least a year" are verified by the SHG to ensure that the members fulfill all eligibility requirements. After the verification, the SHG passes a resolution, stating the individual contribution, member's name, and joining date and forwards the documents and resolution to the VO. The VO verifies the above details again, certifies the details of every member, and prepares a consolidated list. Next, verification is carried out by a verifying authority (third party appointed by the PD). A consolidated verified list along with all the papers is then sent to the MS (Mandal Samakhya).

The MS verifies the received enrollment forms. The data are entered into the computer. A printout stating the SHG-wise member-wise entered details is generated and sent to the VO for verification. Once the data are validated by the VO/SHG, the MS generates the SHG-wise member-wise codes and communicates them to the VO. The VO then informs the SHGs to start the contribution process.

Contribution process

The SHG issues instructions to the bank (by pre-printed advice and SHG resolution) for crediting the pension account (at least INR 365) and MS account (INR 35 per member in the first year towards membership fee, insurance service charge, and pension service charge and INR 10 per member from the second year onward towards insurance service charges only). The SHG submits the counterfoil of the payment and member-wise individual contribution statement to the MS. The first data operator (maker) feeds the amount paid by each individual member SHG-wise. The second data operator (checker) verifies the data. A bank statement is generated from each of the Mandal pension bank accounts and is reconciled with the data entered at the MS. After the reconciliation, the MS gives instructions to each Mandal pension account to transfer the amount that needs to be transferred to the SERP pension account and to the Mandal Samakhyas savings account (other charges). The MS sends the data to the ZS (Zila Samakhya) and coordinates with the ZS for data reconciliation. The ZS sends the data to SERP and coordinates with SERP for data reconciliation.

Pensions and other benefit payment processes

Community-owned and -managed call centers: The call center at the district headquarters is established by the Zilla Samakhya. It is the hub of all Insurance activities. There are four to six operators in each call center, which works 365 days from 8:00 AM to 8:00 PM. There is a web-based call center application and maintenance portal for enrollment, which facilitates e-claim processing. Real-time monitoring and effective implementation are ensured. Registration of a claim is done at the call center within 1 day. Claim papers are collected and uploaded to the web server and quick processing of the claim at the LIC level is ensured. The claim amount is transferred to the bereaved family through RTGS/ NEFT.

Bima Mitras

- SHG women are trained and designated as a Bima Mitra at one per Mandal. It is a strong and sensitive social capital for claim servicing. Bima Mitras are provided with an ID card, claims kit, and SB account with ATM card. The ZS ensures a minimum balance of INR 10,000/- in the Bima Mitra account.
- The role of the Bima Mitra includes investigation of claims, payment of solatium from the ZS, helping the nominee to file a claim application, and training for SHGs.
- The incentive system is performance based. Bima Mitras are given INR 500, INR 350, INR 250, and INR 100 per claim for submission of claim documents within 7 days, 10 days, 15 days, and 16–30 days, respectively.

For regular pension process: The MS generates a report for all the eligible new pensioners in the next year and communicates to the VOs accordingly. The VO verifies the list and ensures that they open or have an individual bank account. The bank account details are communicated to the MS and subsequently to the LIC through the ZS. The LIC transfers the amount to the individual account monthly. The VO monitors the pension payments to the pensioners by reconciliation of bank statements every month (2^{nd} day of the month).

On death/accident: Immediately after a death/accident, a family member or VO informs the call center of the ZS. The call centre sends a Bima Mitra to visit the bereaved family. The Bima Mitra ascertains the eligibility and pays INR 5,000 to the nominee/member as immediate help. She fills out the claim-cumdischarge forms, obtains the signature of the nominee/member, and informs that person to submit the required certificates within 5 to 6 days. One MS member accompanies the Bima Mitra and follows up for early submission of the documents (6 days). After collecting the certificates, the Bima Mitra sends the claim form with all the required certificates to the call center by post or courier service (3 days). The ZS subcommittee with the support of an anchor person verifies the documents and hands them over to the call center operator (1 day). The call center operator scans the documents and uploads them in the web-portal online (1 day). The LIC verifies the claim and credits the eligible amount to the ZS account (4 days). The ZS prepares a DD and sends it to the MS (2 days). Finally, the MS goes to the bereaved family and hands over the DD (2 days).

Student scholarships

Members submit study certificates to the VO, which in turn sends the documents to the MS. The MS, after data entry, sends them to the ZS. The ZS coordinates with the LIC and sends the payments to the eligible members through the MS and VO.

Monitoring process

District Rural Development Authority (DRDA)

Thye DRDA is entrusted with record keeping. It monitors the enrollment process, reviews the issues, and communicates the information and notification to all the persons in the chain.

Nodal Implementing Agencies (NIA): Society for Elimination of Rural Poverty (SERP)

The SERP monitors the implementation process. It coordinates with the respective Mandal person in charge of awareness, updating of data, transfer of money, and communicating and resolving issues to ensure smooth implementation of the scheme.

D. Impact/benefits

Although SERP is able to fulfill the immediate needs of its client group, the mechanism of Abhaya Hastham is to a large extent self-funded.

As of 31 March 2014, 0.31 million women were sanctioned with a pension scheme. The number of policies taken out, claims settled, and scholarships sanctioned during the last five years appear in Table 17.

Table 17. Progress of the Scheme

Sl. No.	Year	No. of policies	No. of claims settled	Amount (INR million)	Scholarships sanctioned		
					Total	Boys	Girls
1	2009-10	4,310,488	16,251	520.0	531,315	277,985	253,330
2	2010-11	4,398,730	15,353	491.3	462,245	249,002	213,243
3	2011-12	4,529,711	15,714	502.8	599,694	371,253	228,441
4	2012-13	4,880,718	20,386	652.4	603,503	373,611	229,892
5	2013-14	5,627,900	5,884	188.3	N.A.	N.A.	N.A.

(Source: Statement/Report of SERP)

LIC now has a good business in its JBY and pension schemes.

E. SWOC analysis

Strengths

- SERP is able to fulfill the immediate needs of members through the product.
- The mechanism of Abhaya Hastham is, to a large extent, self-funded.
- Registration of claims is done at the call center within 1 day.
- Payment of solatium of INR 5,000 for funeral expenses is made by the Zilla Samakhya on the same day. Quick processing of claims at the LIC level is ensured. The claim amount is transferred to the bereaved family through RTGS/NEFT.
- SHG women are trained and designated as Bima Mitras at one per Mandal.
- The incentive system for Bima Mitras is performance based, which ensures very timely insurance payments.
- Involvement of community-based organizations is very high and this gives them a sense of ownership.

Weaknesses

- The amount of a pension (the minimum pension is INR 500) may not be adequate to meet the basic needs of poor people.
- Dependence on government budget allocation: The budget contribution from the government during 2009-10 to 2011-12 was on the level of INR 8,774 million.

Opportunities

- The system developed for the product can be used for other micro-insurance products, including health (such as RSBY) and asset insurance efficiently.
- The National Pension Scheme-Lite can be implemented on the same platform, which provides a higher co-contribution.

Challenges

- The corpus of the pension fund may not be maintained very professionally as there is a provision of gap-funding for the pension payment from budgetary sources.
- The requirement of budget support was likely to be higher with coverage of more members in the scheme and more members reaching the pension age.
- Inflation might reduce the actual value of pension receipts to members in their old age.

F. Sustainability and replicability/upscalability

Although the scheme will require government support for a longer period, it can become viable in the long term through the mechanism of group savings accumulation with an increasingly higher level of livelihood and income of the members. As can be seen from the "Age Group-wise Expected Corpus and Monthly Pension", as per Table 18, support from the government is not required at all for the entry age 35. As required budgetary support was higher for members having entry age above 50, the joining age was fixed as up to 50 only.

Table 18. Age Group-wise Corpus and Monthly Pension

Member joining age	Corpus at the age of 60 years (assumed RoI at 9% PA)	Sources of funds for payment of minimum pension of INR 500 per month		
		Monthly annuity from corpus (in INR) (assumed annuity rate at 7%)	Old age pension (SSP) in INR	Top-UP required from Govt. (in INR)
50	9,951	58	200	242
45	19,231	112	200	188
40	33,509	195	200	105
35	55,479	324	200	0
30	89,281	521	0	0
25	141,290	824	0	0
20	221,313	1,291	0	0

(Source: Presentation by SERP)

This type of scheme can be replicated/upscaled in rural areas having an extensive network of SHGs. There has to be a committed/dedicated organization with an extensive network in rural areas such as SERP to successfully implement such schemes. The insurance scheme is the standard scheme of LIC of India. Of course, high governmental support is required in the initial years to make the pension scheme viable, which may not be forthcoming in other states. The delivery system of the scheme is, however, recommended to design a micro-insurance scheme and micro-pension – at a commercially viable contribution rate " because of its cost-effective reach.

G. Conclusions

The Abhaya Hastham initiative by SERP shows a good method for introducing micro-insurance and micro-pension through involvement and contribution from the community. The Government of India has introduced the NPS (National Pension Scheme)–Lite and Swawalamban (a social benefit) scheme, which provides for a matching contribution of INR 1,000 per year to the pension fund when the micro-insuree saves at least INR 1,000 in the pension fund. NPS-Lite can be made popular mainly through the involvement of such a community structure. The methodology can be replicated to provide benefit to a larger population.

5.11 SAMRUDDHI: Madhya Pradesh Model of Financial Inclusion

A. Introduction and description of products/services

The Madhya Pradesh Model of Financial Inclusion (SAMRUDDHI) has three segments:

- Financial inclusion and inclusive development.
- Madhya Pradesh Samagra Samajik Suraksha Mission for a common citizen database (Integrated Social Security Mission) for social security e-payments.
- Implementation of e-FMS and direct transfers of funds in the beneficiary's accounts.

Financial inclusion and inclusive development: A financial point of dispensation in the form of USBs (ultra small branches) has been created for every 5-km area so that people living in and around that area can be provided with banking services and thus payments under beneficiary-oriented schemes can be smoothly effected.

Madhya Pradesh Samagra Samajik Suraksha Mission (Integrated Social Security Mission) for social security e-payments: The Government of Madhya Pradesh has initiated Samagra Samajik Suraksha Mission, an integrated approach towards creating a dynamic database encompassing all the social security schemes under one umbrella. Under the integrated social security mission, dynamic data can be viewed online and benefits transferred directly into bank accounts.

Implementation of Electronic Fund Management System (e-FMS) and direct transfers of funds in beneficiaries' accounts: Funds are transferred directly from the District Nodal Account and electronically credited into the beneficiary's account/supplier's account. Several agencies are engaged in the payment of wages such as nationalized banks, regional rural banks, cooperative banks, post offices, and private banks. These agencies effect payments through e-FMS by FTO. Under the system, delays in wage disbursement have declined drastically from 85 days to 15–20 days.

B. Stakeholders/delivery systems/channels

The Government of Madhya Pradesh, banks, post offices, and people of the state are important stakeholders.

Out of 52,000 inhabited villages in the state, 14,767 villages did not have any financial dispensation point. The areas that did not fall under a 5-km radius were further identified as "shadow areas." The Government of Madhya Pradesh stressed the need to have a brick and mortar structure of financial dispensation points in the form of ultra small branches to cover the shadow areas. Out of 3,000 such identified locations, 1,837 USBs have already been opened in a government-provided room in the Panchayat Bhavan Building. The USBs operate 4 to 5 hours a day and are staffed by a local resident of a nearby village. The parent branch manager visits the USB once a week and informs the local population about various bank products and services. Besides small savings, other services such as loans and GCC/KCC are available through USBs. Although the USB is established on state government-provided premises, the operating cost is borne by the banks concerned. As such, the banks are making all efforts to increase transactions to a viable and gradually profitable level.

Under the Integrated Social Security Mission, a door-to-door survey was carried out in rural and urban areas. Household details such as head of the family, members living in the household, children being born in the family and their name, age, sex, education, and bank account number were collected online by the existing district machinery. Thus, databases of more than 70 million people have been prepared. The mission provides support under the following:

A. Social justice: pension, insurance, marriage, death assistance.
B. Health: Janani Surksha (mother security) and other health schemes
C. School education: scholarships

The database enabled verification and payment of social security entitlement transparently without the intervention of multiple agencies. The data have also been used by the Food Department of the Government of MP to work out entitlements under the Food Security Mission.

Under the provisions of MGNREGA, 100 days of wage employment are to be provided on demand to wage seekers. The challenges involved such as registration of workers, organizing them into groups, identification of work, execution and valuation, superintendence, and wage disbursement have been dealt with through "NREGAsoft" software since 1 April 2013.

Employment Week has been specified for each Panchayat. On a specified day of the week, the Rozgar Sahayak (employment assistant) goes to the Janpad Panchayat and prints out the muster and hands it over to the mate for the start of the work. After the week is completed, the work is valued by the sub-engineer and after valuation of the work the Sarpanch (the village head) approves the wage payment. At the end of the week, the Rozgar Sahayak hands over the muster and measurement book to the assistant account officer (AAO) and assistant engineer (AE). The AAO and CEO, Janpad Panchayat, after their checking, authorize payment through their digital signatures by issuing a Fund Transfer Order (FTO) under the e-FMS. All the CEOs of 313 Janpad Panchayat and AAOs have been provided with digital signatures registered on NREGAsoft in the e-FMS. The funds are transferred directly from the District Nodal Account and electronically credited into the beneficiary's account/supplier's account.

The existing postal network has been linked with the CBS platforms of various banks with the help of SANCHAYA POST 7.0 software of the postal department. Under the system, delays in wage disbursement have declined drastically from 85 days to 15–20 days. At present, the NREGAsoft and SANCHAYA POST hybrid solutions are available from the State Bank of India.

C. Impact/benefits

The financial inclusion drive received a boost in the state, especially in the interior and inaccessible areas, and the state is moving fast towards inclusive growth. This step of the Government of Madhya Pradesh is proving to be a milestone in providing benefits of growth and development to the last person at the last mile, bringing the disadvantaged and excluded groups into the developmental fold through financial inclusion.

Before the introduction of e-FMS and payment through FTOs, the funds under MGNREGS were held in more than 33,000 different accounts and nearly INR 500 to 600 million were always in the pipeline, which could not be used productively. Now, funds are readily available with the district with the help of e-FMS. At present, 6.7 million families have been networked with the MGNREGS in the state.

D. SWOC analysis

Strengths

- Ensures access of excluded population to banks through USBs available within 5 km.
- Ensures services to clients in their own vicinity and mostly using their own people.
- The villagers obtain their entitlements through a transparent system as the money is directly transferred into their biometric-enabled bank account in the USBs.
- Banks have sufficient transactions to make the USB viable.
- Timely wage payments to workers have brought back labourers towards MGNREGS.

Weaknesses

- Opening of joint accounts by family members as well as opening of group accounts as in SHGs are not allowed by the system. This inhibits the possible SHG-bank linkage mechanism.
- Lack of inter-USB/CSP and branch portability.
- Lack of passbook and passbook printing facilities at USB.
- There was no information dissemination regarding rights and duties on customer protection under the Samruddhi model, which may result in less than the potential benefit to the target community.

Opportunities

- The USB might enable the provision of other financial products by banks.
- The integrated social security data could be used by different departments to work out entitlements under different schemes.
- This conduit could be successfully used for DBT for other schemes as well.

Challenges

- Lack of seamless Internet connectivity.

E. Sustainability and replicability/upscalability

The model can be upscaled and replicated in other states provided some of the issues indicated above are addressed and resolved. Further, there is a need to include other financial products such as remittances, credit, insurance, co-contributory pension, etc., to improve the viability of USBs/CSP. As more and more USBs are being opened in the state, benefits under various schemes can be integrated into the e-FMS system.

F. Conclusions

The Samruddhi model of the Government of Madhya Pradesh is really a step towards bringing transparency and good governance into the development process, thus bringing excluded, disadvantaged, and rural poor into the mainstream of inclusive growth.

CHAPTER 6
Pilot Testing the Best Practices

I. Out of the best financial practices discussed in Chapter 5, we can select a few for replication purposes. For this purpose, a system of assessment has been developed to arrive at the best products, which can be replicable in other areas of India and in other APRACA countries.

II. An assessment of different practices based on seven dimensions of robustness has been attempted. These dimensions reflect a particular independent strength of the practice besides minor correlations among a few dimensions. These dimensions are defined as below:

   (a) Number of persons covered under the practice (NOP): The higher the number of persons covered, the higher the ranking to be given to the financial practice.
   (b) Diversified geographies covered by the practice (DGC): The ranking is higher if the practice is successful in more states. For example, only one plus for a single state coverage and five if almost all states are covered.
   (c) Degree of community driven-ness (DCD): This depends on the success of the model without or with reduced support from the government/other institutions and the ranking is higher if the practice is more community owned, community managed, and community driven.
   (d) Cost effectivity (CEF): The ranking will be higher if the cost of implementation, particularly the operational cost, of the practice is lower than the alternate mechanism for a similar service provision.
   (e) Access to financial services (AFS): The ranking will depend on the type and size of the microfinance services accessed and the number of persons benefited under different services such as deposit, credit, insurance, etc. The higher the access, the higher the rating.
   (f) Scalability (SCA): Scalability of the practice relates to efforts/expenses required for expanding the services from a small number of beneficiaries to a larger number of beneficiaries. The lower the level of efforts/expenses required, the higher the rating.
   (g) Sustainability (SUS): Sustainability of the practice refers to the capacity of the practice to sustain itself in the face of reduced/withdrawn support and also under adverse conditions. The higher the capacity, the higher the rating.

III. A rating under each of the dimensions has been provided on a scale of 1 to 5. The highest and lowest ratings are shown by five pluses (+++++) and one plus (+), respectively. Consequently, the best practices are selected based on the highest ratings (Table 19).

IV. Thus, we arrive at the following three practices as highly suitable to be piloted in new uncovered areas/countries: (a) SHG-BLP, (b) JLG-BLP, and (c) KCC.

V. The draft proposal for pilot testing of these identified practices has been accordingly prepared as in Appendices 6.1 to 6.3.

Table 19. Ratings of Rural Finance Best Practices

Sl. No.	Best practices	NOP	DGS	DCD	CEF	AFS	SCA	SUS	Total no. of pluses
1	SHG-BLP	+++++	+++++	+++++	+++++	+++++	+++++	++++	34
2	SHG as BC	+	++	+++	+++	+++	++++	+++	19
3	MFI model	+++++	++++	+	++	++	+++	++++	21
4	MFI as BC	+++	+	++	+++	+++	++++	++++	20
5	Kudumbashree	+++	+	++++	+++	++++	+++	+++	21
6	JLG bank finance	+++++	+++++	++++	+++++	+++	++++	++++	30
7	Farmers' credit card	+++++	+++++	+++	+++++	+++	+++++	+++++	31
8	Producers' organizations	++++	++++	++++	++++	++++	+++++	++++	29
9	NABFINS	+++	++++	++++	+++++	++++	++++	++++	28
10	Abhaya Hastham	+++	+	+++	++++	+++	++++	++	20
11	Samruddhi	++	+	+++	++++	+++	+++	+++	19

CHAPTER 7

Conclusions, Policy Recommendations and the Way Forward

A. Introduction

The best practices of rural finance discussed in the preceding chapters cover the major aspects of rural finance: (a) microfinance (SHG-BLP, MFI, SHG member as BC, MFI as BC, the Kudumbashree model, the NABFINS model, Abhaya Hastham, Samruddhi model), (b) collateral-free lending for livelihood (JLG, Kudumbashree, NABFINS), (c) agricultural lending (electronic farmers' credit card) and micro-insurance and micro-pension (Kudumbashree, Abhaya Hastham). The status and issues of rural finance possess three dimensions, which are discussed in the succeeding paragraphs along with suggested policy recommendations and the way forward to ensure that the best solutions for rural finance are able to cover the excluded population optimally.

B. Financial practices leading to inclusion

Financial exclusion has three specific dimensions. The first dimension relates to not having proximate physical access to a banking outlet: the supply side is not able to service the demand for financial service effectively. The second gap is psychological and may occur even if the banking outlet is in proximity. The formal system might look too daunting and un-inviting for a poor person to access it. The system might be targeting a certain segment of the population such as higher net worth individuals, and its product ranges and attitude might be inappropriate for the poor. The third gap is of a person who not only has a proximate physical access and also has a relationship with the formal outlet, but that relationship is not deep enough to be meaningful. This is what we may call the exclusion of the included. Best practices related to microfinance attempt to bridge these three types of gaps.

There has been an increasing policy thrust on financial inclusion by both the Government of India and the RBI. The banking system has penetrated deeper with more branches being opened in rural and semi-urban areas. Further, RBI has liberalized the business correspondent framework, and involved mobile phone companies in certain types of transactions, particularly remittance, in order to encourage the banks to look at the excluded customers and services.

The next big change is in the technology platform. All the commercial banks, including RRBs and even cooperative banks, are on a CBS (Core Banking Solution) Platform, providing seamless connectivity. The evolution of telecom infrastructure is playing a significant role in making the accounts of individuals "branchless" and "inter-operable through multiple channels," and the pressure on banking at the "counter" has declined significantly. Most of the technological interventions (except CBS) are not being developed exclusively for banking. Therefore, the banking channel need not bear the full cost of the evolving technology. .

The recent impetus in financial inclusion has focused on strategies targeting the individual. Government policies that have pushed disbursal of benefits through bank accounts have further shifted the focus to the bank account of the individual. The outreach programmes of the banks under a board-approved financial inclusion plan as well as the recent announcement of the Pradhan Mantri Jan Dhan Yojana (PMJDY) reinforce this trend.

These efforts at financial inclusion are addressing first and second dimensions of financial exclusion by opening branches in the vicinity and opening accounts and providing access in a mission mode.

However, the third dimension of exclusion needs much greater support and the use of different financial products.

There is a need for innovation, adoption, and expansion of existing best practices to ensure meaningful and complete financial inclusion. Although access to a bank account for transaction banking is extremely important for all households, including poor households, on the lending side, the Indian experience shows that providing collateral-free loans works better through using social capital and group guarantees. In fact, such a model supported by non-financial services for linkages to livelihoods and markets from NGOs/government departments can have a meaningful impact on poverty.

The growth of microfinance institutions in the past 15 years also shows the scope available to fill in the un-met credit needs of the poor, not only in areas that do not have deep banking infrastructure and are backward, but also in well-banked regions, including urban areas. Regarding MFIs, Bandhan FSPL shows how following the best practices can ensure that an MFI has wide outreach and can grow profitably without depending on any subsidy or external support. SKDRDP, working as a BC, is an innovative way for a not-for-profit NGO MFI to achieve its prime goal of reaching the poor and serving its clients without worrying about funding arrangements for its capital adequacy or on-lending to SHG members. NABFINS is adopting another innovative model of working through B&DCs and SHGs, which reduces its transaction cost sharply compared with other MFIs. However, the MFI cannot provide any support for savings accounts.

C. SHG-BLP

Among the group models of providing financial services to the poor or low-income families that have emerged in India, the best and most successful practice is the SHG bank linkage model, in which the SHGs are directly linked to the bank branch. The membership of the SHG and proper running of the SHG itself provide a large financial inclusion on the savings side through the habit and opportunity of thrift and on the credit side through internal lending. Moreover, the members, through management of group corpus, learn a lot about financial discipline and the system. Linkage with the bank strengthens financial inclusion further. As such, the most important bank-led credit solution is provided by the SHG-BLP model.

The SHG experience shows us that, where the formal system tried to link with the poor, the role of a linking agency – in many cases, non-government/community-based organizations – has been very important in transforming a nominal relationship between the poor and banks into a substantive one. This has been the singular experience in India, where local NGOs/CBOs built trusted relationships with poor communities, in rural and urban areas, and facilitated forging links with the banking system.

It is useful to recall that, in the first phase of the programme, NABARD used credible local NGOs only for the purpose of SHG promotion. For scaling up, however, the state provided the push and the seed capital for capacity building along with several national and international donors. Where the intermediary has taken on the task of enhancing the SHG's credit absorption capacity (through skill up-gradation, livelihood expansion, etc.) and strengthening the decision-making and financial management capacity of SHGs, the poor have moved from being nominally included in the formal financial sector to being substantively included.

However, as already discussed in Chapter 5, SHG-BLP requires further impetus to

- Expand to areas still uncovered/inadequately covered. SHGs cover less than 60% of the BPL population in large states such as Bihar, Uttar Pradesh, Maharashtra, Rajasthan, Madhya Pradesh, etc.
- Ensure substantive credit support: Banks need to be more proactive in credit linkage of the SHGs.

While on the one hand there is a need to promote more SHGs and properly nurture them, on the other hand there is a need to create a proper ecosystem to sensitize and motivate bankers for adequate credit linkage and/or to develop some alternate solution to meet the credit need of the groups.

Banks always prefer wholesale financing/big-ticket financing to small-size loans. The recent preference to increase finance to the microfinance sector shows the future way to attract/compel banks to enhance linkage in these areas. The convergence emerging between the demand-side mobilization into groups that provides social capital, peer pressure for recovery, and transaction aggregation and the supply-side wholesale financing has been most evident in the private microfinance sector. In the case of SHGs, this has worked in the southern states where the groups are backed up by strong state government missions and support from SHG federations and NGOs. It has also worked in areas where there are strong intermediary organizations and where transaction aggregation is happening on a larger scale. The examples of such intermediation are available in the intermediation of CBOs, SERP, Kudumbashree, the BC-Suvidha model of SKDRDP, Sanghamithra, NABFINS, and Kalanjiam Development and Financial Services.

Government machinery has come along in a big way forming NRLM and SRLMs to support the promotion, nurturing, and livelihood linkage of SHGs. There is a need to ensure that the efforts give optimal results through convergence with the existing supporting ecosystem. Regarding further improvement of the ecosystem for SHG-BLP, the recent announcement by NABARD of the digitization of SHGs aiming at ensuring e-bookkeeping at the SHG level, their e-linkage with financing banks, and creating credit information data at the individual member level finally ensuring individual financial inclusion is expected to go a long way in furthering the cause of financial inclusion through SHG-BLP.

D. Joint liability groups

As discussed, banks financing JLGs is an instrument to target the mid-income group of people in both the farm and non-farm sector, who already have some form of livelihood but cannot access bank finance because of the lack of physical collateral. JLGs need to emerge as an instrument of credit provision for both the farm and allied sector and to the MSME sector in rural areas.

As per the Agriculture Census 2010-11, about 24.16 million small farm holdings and 90.43 million marginal farm holdings in India are wholly owned and cultivated by the farmers. In addition, 0.92 million farm lands are wholly leased/otherwise operated holdings and another 1.91 million holdings partly owned and partly leased/otherwise operated. Besides the officially recorded leased holdings, a large number of farms are being cultivated by landless farmers as oral lessees, sharecroppers, etc. Thus, the estimated number of landless farmers may be around 5.0 million. This means a need to form 1.0 million JLGs with such farmers, which could be supported through KCC and term loans. Moreover, a high proportion of small/marginal farmers are unable to access farm loans individually from banks because of a lack of land title in their name and also because of their low scale. These could also be financed through the JLG mode.

With the maturity of SHGs, several members may graduate to improved livelihood opportunities. As explained in Chapter 5, such members may be best served by the banking sector through the JLG mode. Further, as per the 2011 census, 11.95 million households in rural areas are employed in household industries as entrepreneurs or workers. JLG formation of such persons provides a great banking opportunity.

With the setting of a target of financing 0.5 million joint farming groups during 2014-15, the Government of India has provided good policy support to JLG bank linkage in the country. RBI and NABARD have also issued policy guidelines on JLG to banks. E-governance has developed in several states to provide an electronic record of the land holding and also in some cases a certificate of farming leasehold land. These steps are, however, only a good beginning and further support from the GoI and RBI is needed to give higher acceptance to the instrument.

E. Farmers' credit cards

Kisan Credit Cards have proved to be a very successful credit solution for farmers in India. With about 40 million active credit cards issued by scheduled commercial banks (including RRBs) and 37 million by cooperative banks, there is coverage for more than half of the farm holdings in the country. The number of KCCs issued includes those issued to landless farmers forming a JLG as well.

Obviously, while the glass is half-full, this becomes an issue as a half-empty glass. There is still huge potential available for the issue of KCCs. Another issue is still a large number of KCCs being under a manual system. The e-KCC has not yet covered even 20% of the KCCs issued and very few input suppliers provide for e-transactions. The third issue relates to non-coverage of term loans by several banks despite clear guidelines to this effect. One more shortcoming is mainly from the side of KCC holders, most of whom still use the KCC as a short-term loan without benefiting from the credit card facilities.

Further monitoring by RBI and IBA is required to achieve the above goals of the KCC. Innovative technical solutions to provide cost-effective e-KCC cards and payment solutions may help. Financial literacy and training of farmers are also required.

The three products (SHG-BLP, JLG bank lending, and KCC) are the important financial products having the potential to credit-link the excluded through the banking sector. These have also been shortlisted for replication in APRACA countries based on their viability and sustainability as proved in the Indian context.

The replication would require a serious push in the initial years – first by the central bank coming with appropriate guidelines and then some institution such as NABARD to train and sensitize the stakeholders, especially the bankers. This had been a huge task in India as well for the poor people who are not considered creditworthy by bankers. With the present status of ICT development, the task may be easier in several countries than what it was in India in the late nineties and early years of the current century.

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Annexure 1. Role of different stakeholders in the Bank-Sakhi model

BANK

- Introduce BC and Bank Sakhi to villagers as representatives of the bank for providing doorstep basic banking services
- Support BC in the promotion of banking services to villages
- Support BC in organizing and conducting financial awareness and literacy campaign in villages
- Participate in the pre-enrollment meeting being organized by the BC in the villages
- Provide training support to the Bank Sakhi as a BANK SAKHI-CSP and SHG institutions regarding the process and procedure for the delivery of banking services, sales, and promotion techniques
- Provide account opening form and cash book to the BANK SAKHI-CSP as and when required
- Verify KYC documents and account opening forms for their completeness and correctness
- Approve applications for opening of a Basic Savings Bank Deposit Account (BSBDA, earlier knows as a no-frills account)
- Monitor and audit operations related to savings and other banking transactions through the BANK SAKHI-CSP

Corporate BC

- Provide enrollment kit (laptop, webcam, fingerprint machine, stamp pad, account opening form, etc.), training, and ongoing technical support to the BANK SAKHI-CSP for smooth implementation of enrollment activities
- Provide training to the BANK SAKHI-CSP regarding handling of technology kits and troubleshooting basic technical problems faced by the BANK SAKHI-CSP
- Process data gathered by the BANK SAKHI-CSP for opening of BSBDA
- Provide transaction kit (PoS device, cash book, stamp pad, etc.), training, and ongoing technical support to the BANK SAKHI-CSP for smooth implementation of transaction activities
- Provide training to the BANK SAKHI-CSP on bookkeeping (how to maintain cash book), cash management (minimum cash balance, maximum transaction limit, etc.), and other transaction-related matters such as beginning of day, end of day, etc.

TSP

- Address technology (both hardware and software) issues in the field
- Coordinate with bank for opening of BSBDA
- Provide training and ongoing technical support to the BANK SAKHI-CSP for smooth implementation of transaction activities in coordination with corporate BC

Block Federation (UP)/PSMS (MP)

- Manage FI awareness-building campaign and financial literacy workshop in its geography
- Coordinate with corporate BC for installing enrollment kit, issues related to hardware, and processing of enrollment data (in electronic form)
- Coordinate with bank for approval of account opening application
- Coordinate with bank/corporate BC regarding payment of commission

- Ensure completion of enrollment activities and smart card distribution to be done by BANK SAKHI-CSP as per the given timeline
- Formation and coordination of Financial Inclusion Committee (in MP)
- Monitor quality of banking services at Bank Sakhi level through VO/FIC

Village organization (UP)/Financial Inclusion Committee (MP)

- Manage FI awareness-building campaign and financial literacy workshop in its geography
- Coordinate with bank for approval of account opening application
- Ensure completion of enrollment activities and smart card distribution to be done by the BANK SAKHI-CSP as per the given timeline
- Promote banking services with the help of SHG members in its village
- Introduce Bank Sakhi to the village as a representative of VO being assigned the role of conducting enrollment of villagers for account opening and providing transaction facilities at the doorstep of villagers
- Coordinate with corporate BC for installing enrollment kit, issues related to hardware, and processing of enrollment data (in electronic form)
- Coordinate with bank/corporate BC regarding payment of commission
- Monitor quality of banking services at Bank Sakhi level through VO

Bank Sakhi-CSP

Promotional activities

- Promote savings product and service in villages
- Set up camps at a common place of the village for savings promotion

Account opening

- Explain customers' savings product features, benefits of savings, and other BC-led banking services
- Open savings account of villagers, particularly of women and poor households
- Assist applicant in filling out savings accounts opening form (AOF)
- Operate technology kits for opening savings account – the kit comprises laptop, fingerprint sensor, and webcam. Ensure proper upkeep and handling of technology kit
- Maintain enrollment register
- Prepare a lot or packet of AOFs for submitting to the link bank branch. Maintain AOF movement register
- Take data backup from PoS device for dispatch to the BC
- Submit AOFs to link bank branch employee for their verification and obtain the staff signature in the ***AOF movement register*** on the receipt of the AOFs

Card distribution

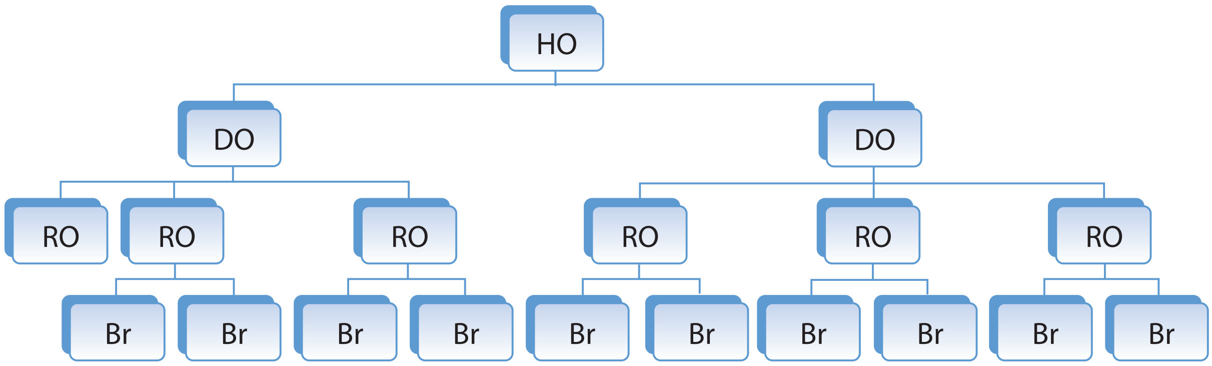
- Distribute customer smart cards and maintain card distribution register
- Record queries/complaints of beneficiaries/applicants related to customer smart cards

Cash transactions

- Operate PoS device for savings deposit or withdrawals
- Maintain cash transaction details (deposit and withdrawal) in the cash book
- Hand over the bank copy of the cash book to the branch manager of the base bank branch
- Record the queries and complaints of savings account holders in the ***customer register***

Annexure 2. Organizational structure and functioning of BFSPL

1. The organizational structure of the BFSPL is as under:



HO = head office, DO = divisional office, RO = regional office, Br = branch

The branch is managed by a branch manager (BM) supported by five to six Credit Officers (COs). The COs are responsible for formation and counseling of groups, attending weekly meetings of village centers, and disbursement and recovery of loans. Five to seven branches are controlled by one regional office headed by a regional manager (RM). Similarly, five to six regional offices are supervised by a divisional office, which is headed by a dvisional manager (DM). One branch can maximum cater to 3,500 borrowers. Once the number of borrowers exceeds this limit, a new branch is opened in the area.

2. Each group/community center consists of up to 30 members. Each CO has to attend four meetings with the groups daily at different community centers, where he also collects installments of loans. Every village center meets on a weekly basis. In the meeting, besides repayment of loan installments and other discussions, decisions regarding recommendations for new loans are also made. Loan disbursement is done at the branch level. The member is required to visit the branch to collect the loan. The loanee member has to carry the group register with her at the time of disbursement of the loan.

3. The group register is maintained at the group level and details regarding loans and repayment installments are recorded there. The books and records of the group are maintained and updated by the credit officials. The members are provided with an individual passbook with details on the loan amount, the weekly EMI schedule, and repayment schedule.

4. The branch manager and other staff are rotated on a yearly basis. The arrangement of stay for the credit officer and branch manager is made by the MFI at its office-cum-residence premises leased on a rent basis.

5. The branches maintain a cash book on a daily basis and a product-wise loan book on a weekly basis. Both manual and online forms of data are maintained. All the branches of the MFI are linked to an online server. The online data are uploaded by the branches through the server of BFSPL and are consolidated at the head office level.

Annexure 3. Bandhan Financial Services Private Limited – A snapshot

Name	**Bandhan Financial Services Private Limited (BFSPL)**		
Legal status	**Private Limited Company Registered with RBI as NBFC-non-deposit-taking (2007) Converted to NBFC-MFI on 5 September 2013**		
History	2001: Established as Society Bandhan-Konnagar 2002: Started microfinance activities 2006: Acquired an NBFC Ganga Niryat Pvt. Ltd. (incorporated in 1995) Renamed Bandhan Financial Services Pvt. Ltd.		
Office address	DN-32, Sector-5, Salt Lake City, Kolkata – 700091		
Chief executive	Mr. Chandra Shekhar Ghose, CMD		
MFI grading	CRISIL mfR I (2013-14), CARE MFI 1 (2012-13)		
Financials			Amount in INR million
Profit & loss	**2011-12**	**2012-13**	**2013-14**
Income	7,886.8	9,372.8	12,128.4
Finance cost	2,786.0	4,254.9	5,195.7
Employee cost	924.2	1,270.0	1,607.4
Other costs	1,287.3	757.6	1,313.6
Total expenses	4,997.5	6,282.5	8,116.7
Profit before tax	2,889.3	3,090.3	4,011.7
Tax expenses	1,008.2	1,004.9	1,177.1
PAT	1,881.2	2,085.4	2,834.6
Assets/liabilities			
Share capital	969.3	969.3	969.3
Reserve and surplus	6,031.7	8,026.5	10,770.4
Own fund	7,001.0	8,995.8	11,739.7
Current liabilities	15,947.0	20,515.7	28,259.6
Non-current liabilities	19,809.2	24,278.4	27,962.6
Total	**42,757.2**	**53,789.9**	**67,961.8**
Cash & bank balance	11,018.7	12,033.0	8,796.0
Loans and advances	31,030.6	40,965.5	58,005.7
Other assets	527.9	791.4	1,160.1
Gross NPA	0.15%	0.14%	0.07%
Net NPA	0.04%	0.02%	0.01%

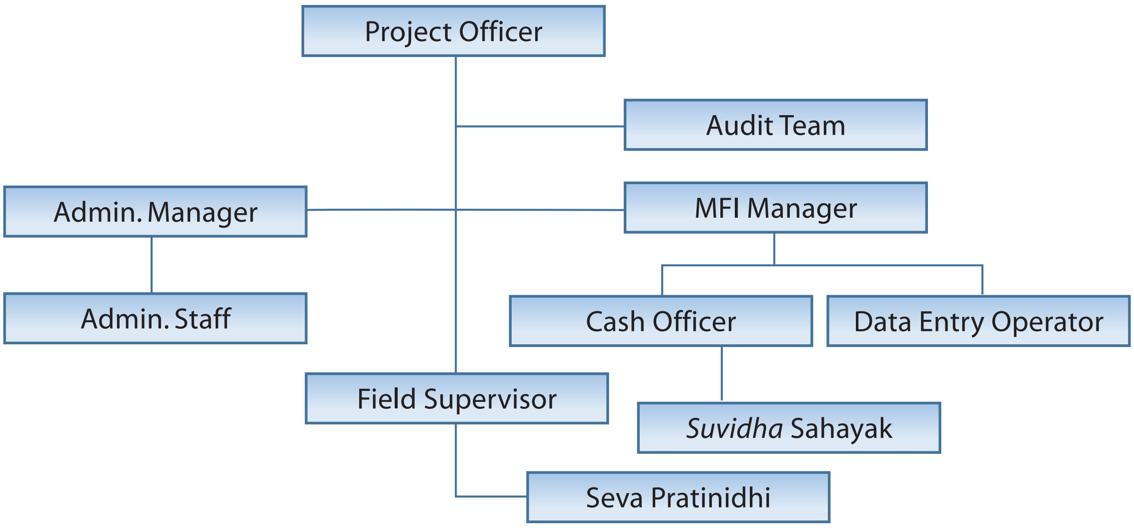
(Source: Annual Reports of Bandhan FSPL)

Annexure 4. BC Suvidha model – human resources, cash management

1. Human Resources: the BC Operations Team

SKDRDP has implemented decentralized field operations, with offices located in key local blocks. The figure below shows the block-level organogram of the BC *Suvidha* model. SKDRDP uses a mix of its own staff and engaged agents to deliver BC operations. SKDRDP engages individuals called Suvidha Sahayaks and Seva Pratinidhisas subagents and pays them commissions based on field operation levels. The field supervisors and above in the organogram, who play supervisory and managerial roles, are formal staff of SKDRDP.

Model Organogram



2. The project officer drives the BC initiative at the block level. She or he coordinates with the head office for liquidity-related issues. This person monitors and evaluates field-level BC operations. The MFI manager monitors transactions and manages liquidity. She or he supervises a team of cash officers who conduct field operations. The admin manager is responsible for branch operations and salary payments. At the field level, the field supervisor manages a team of five to six Seva Pratinidhis. She or he oversees capacity-building activities and is responsible for credit evaluation and processing. As community volunteers, Seva Pratinidhis actively engage with the members of the community. They are involved in the formation and smooth functioning of SHGs. The field supervisor and Seva Pratinidhi play a key role in delinquency management as well, thus ensuring prompt repayment and follow-up with delinquent SHGs for loan recovery.

3. Recruitment: SKDRDP recruits local SHG members to serve as volunteer Seva Pratinidhis and also recruits local community members for field staff positions, as they have a better understanding about the culture and social fabric of the geography. This helps in targeted, effective, and impactful financial and non-financial intervention.

4. Training: SKDRDP provides training to Seva Pratinidhis on group formation, loan processing, loan recovery, bookkeeping, and monitoring of the SHGs. Cash officers are trained on handling the PoS devices, cash collection and payments, recording transactions, and verification of fake notes at the project office. The TSP's local staff members also visit the local project offices to train the cash officers on operating the PoS machine, uploading transaction data, and other technical issues.

5. Technology

SKDRDP's TSP provides a technology architecture that ensures secure front-end transactions and robust back-end MIS. On the front end, the TSP provides smart cards to customers that can be used with handheld point of sale (PoS) devices. The smart cards are embedded with a chip that stores KYC and biometric information of the customer. The PoS machine, through an integrated card reader, authenticates the transaction when the card is swiped by identifying the customer through his/her fingerprints and account details and generates a receipt as a proof of transaction for the customer. In the back end, the transactions are routed to a switch that integrates the transaction data into the bank's core banking system (CBS).

6. Marketing/communications

Field supervisors (FS) visit new villages and explain the SHG-BC initiative and its benefits to prospective members. The FS identifies a Seva Prathinidhi (active SHG member) who, as a community-level volunteer, works towards group promotion in the village. There is a small placard with the logo of the bank and SKDRDP placed at the cash collection centers. The cash movement vehicle also prominently displays the logo of the bank. As many BC Suvidha customers are already existing customers of SKDRDP, limited marketing initiatives seem to suffice. Finally, the whole initiative has higher acceptability because of its association with "Dharmasthala" and "Lord Manjunatha." The local populace considers any association with the deity to be pious and readily comes forward to become members of the initiative.

7. Monitoring

The monitoring and supervision systems play a critical role in any digital financial services deployment, especially in the context of rapid geographical expansion. Their main role is to check fraud and ensure operational uniformity and regulatory compliance. SKDRDP has a two-pronged approach to monitor its BC model deployment: an MIS monitoring system and a field-based monitoring system. The MIS captures field-level transaction data and highlights any discrepancy in reconciliation. The field-based monitoring is conducted by various levels of SKDRDP staff at regular and pre-defined (and some ad hoc) intervals to ensure compliance with defined processes and reporting standards. The audit team conducts intermediate and yearly audits of the SHGs to ensure proper maintenance of SHG books of records.

8. Liquidity and cash management

SKDRDP maintains float in the form of a settlement account to honour field-level transactions. The liquidity rebalancing is done on a daily basis through this settlement account. SHGs visit cash collection centers once a week to deposit their savings and make loan repayments. A cash van transports cash officers to cash collection centers to honour SHG withdrawals. The net amount is deposited in the SKDRDP project office account at the nearest bank branch. The TSP provides SKDRDP and the partner bank with daily transaction data. Based on these data, the bank calculates balances of SKDRDP's settlement accounts.

Annexure 5. Basic Features of SHG-BLP and JLG-BLP[7]

Particulars	SHG-BLP	JLG-BLP
Number of members	Up to 20	4–10
Clients	Largely belonging to weaker sections, especially women. Clients are poor and have no assets/low productive assets (such as un-irrigated land).	Clients have some assets but no title documents to obtain credit. Clients include landless tenants and marginal farmers.
Purpose	Savings-led, transaction aggregation, and cost-reducing mechanism for banks as well as for borrowers. Ensures access to savings and loan products.	Basically a loan product but savings are optional. Facilitates transaction aggregation and cost reduction.
Capacity building	Institutional capacity building: (a) acquire confidence; (b) skills to decide, negotiate, and establish linkages with other institutions; (c) lobby for change at home or in society. Management of savings and credit helps to build organizational and financial management skills.	Build second-level institutions that can add value and provide marketing support and risk coverage. Training on savings and implications of joint liability. Relatively lesser training needed.
Members' perception	Poor consider SHG as an institution of their identity and strength. Programme helps in capacity building and financial education.	Instant credit as it is the group for loans.
Policy support	Loans to unregistered group; bank loan without asking for the purpose and without collateral. Loan reckoned for priority-sector advances.	Loans reckoned for agricultural direct advances under priority sector.
Use of loans	Initially for consumption smoothening and then for livelihood.	For economic activities and reducing dependence on informal credit. Members need production and investment credit, besides credit for storage facility.
Appraisal, supervision/ recovery	Banks outsource functions to SHGs.	Banks undertake the functions.
Mechanism of financing	Loan to the group in bulk and group decides the purpose for which it could be given.	Loan to group/individuals. Banks prefer group approach. Peer pressure helps in recovery. Size and purpose of loan are decided in advance by the banks.
Group promoting agency	Banks, NGOs, government departments, socially committed individuals.	Banks are expected to promote groups and NGO support as add-on activity.
Support	More patronage was expected from the banks but it came from the government.	Adequate support from banks and government is awaited.
Who bears the cost of group promotion?	Government/NABARD/banks	Banks and NABARD in the initial phase of JLG-BLP.

[7] Kumbhare, S.L. 2011. "Self-Help Groups, Joint Liability Groups and their Linkage with Banks: Some Issues." Lala Lajpatrai Institute of Management Journal of Research 3(2); 1-10.

Annexure 6. Bank loans disbursed and outstanding – joint liability groups

(Amount in INR million)

Sl. No.	Name of the regional office	Cumulative no. of JLGs promoted as of 31 March 2013	Cumulative loans disbursed as of 31 March 2013	No. of JLGs promoted during 2013-14	Loans disbursed during 2013-14	Cumulative no. of JLGs promoted as of 31 March 2014	Cumulative loans disbursed as of 31 March 2014
1	2	3	4	5	6	7	8
	NORTHERN REGION						
1	Haryana	3,282	569.20	414	45.50	3,696	614.70
2	Himachal Pradesh	1,126	176.85	9	1.34	1,135	178.19
3	Jammu & Kashmir	0	0.00	0	0.00	0	0.00
4	New Delhi	55	8.82	1,096	80.64	1,151	89.46
5	Punjab	1,811	158.09	5,251	568.07	7,062	726.16
6	Rajasthan	9,148	952.64	9,298	975.10	18,446	1,927.74
	Subtotal	**15,422**	**1,865.60**	**16,068**	**1,670.65**	**31,490**	**3,536.25**
	NORTHEASTERN REGION						
1	Arunachal Pradesh	4	0.23	0	0.00	4	0.23
2	Assam	30,252	1,919.76	5,518	730.29	35,770	2,650.05
3	Manipur	120	9.83	202	10.10	322	19.93
4	Meghalaya	251	37.12	80	9.62	331	46.75
5	Mizoram	193	22.68	1,330	144.06	1,523	166.74
6	Nagaland	518	5.63	48	9.94	566	15.57
7	Sikkim	112	14.74	0	0.00	112	14.74
8	Tripura	11	0.48			11	0.48
	Subtotal	**31,461**	**2,010.46**	**7,178**	**904.01**	**38,639**	**2,914.47**
	EASTERN REGION						
1	Andaman & Nicobar	230	39.89	176	19.14	406	59.03
2	Bihar	33,698	2,390.82	42,400	4,240.00	76,098	6,630.82
3	Jharkhand	397	31.04	36	0.36	433	31.40
4	Odisha	63,403	3,009.45	13,088	1,086.80	76,491	4,096.25
5	West Bengal	19,159	1,476.01	7,902	485.75	27,061	1,961.76
	Subtotal	**116,887**	**6,947.20**	**63,602**	**5,832.05**	**180,489**	**12,779.25**
	CENTRAL REGION						
1	Chhattisgarh	3,642	290.36	5,097	275.00	8,739	565.36
2	Madhya Pradesh	15,752	479.57	10,931	1,891.85	26,683	2,371.43
3	Uttar Pradesh	50,988	2,590.35	31,178	737.04	82,166	3,327.39
4	Uttaranchal	3,778	580.16	1,847	247.32	5,625	827.48
	Subtotal	**74,160**	**3,940.44**	**49,053**	**3,151.21**	**123,213**	**7,091.65**
	WESTERN REGION						
1	Goa	717	81.62	426	29.40	1,143	111.02
2	Gujarat	6,467	722.70	5,691	570.50	12,158	1,293.20
3	Maharashtra	14,861	1,612.16	20,750	1,247.69	35,611	2,859.85
	Subtotal	**22,045**	**2,416.48**	**26,867**	**1,847.59**	**48,912**	**4,264.07**

Sl. No.	Name of the regional office	Cumulative no. of JLGs promoted as of 31 March 2013	Cumulative loans disbursed as of 31 March 2013	No. of JLGs promoted during 2013-14	Loans disbursed during 2013-14	Cumulative no. of JLGs promoted as of 31 March 2014	Cumulative loans disbursed as of 31 March 2014
1	2	3	4	5	6	7	8
	SOUTHERN REGION						
1	Andhra Pradesh	45,635	6,188.71	3,974	556.39	49,609	6,745.10
2	Karnataka	43,405	4,316.25	14,732	2,207.11	58,137	6,523.36
3	Kerala	22,208	3,004.06	2,832	1,236.36	25,040	4,240.42
4	Tamil Nadu	93,130	14,866.42	23,565	4,796.21	116,695	19,662.63
	Subtotal	**204,378**	**28,375.44**	**45,103**	**8,796.08**	**249,481**	**37,171.52**
	GRAND TOTAL	**464,353**	**45,555.61**	**207,871**	**22,201.60**	**672,224**	**67,757.21**

(Source: Status of microfinance in India: 2013-14, NABARD)

Annexure 7. Organizational hierarchy of NABFINS

The organizational hierarchy of NABFINS is as follows:

- Chairperson
- Managing director
- General manager
- Deputy general manager
- Asst. general manager
- Sr. manager
- Manager
- Asst. manager
- Support services officer/financial services officer

Equity structure (paid-up capital) of the company

Sl. No.	Institution	Share capital (INR in million)			% of the total paid-up capital		
		As of 31 March					
		2014	2013	2012	2014	2013	2012
1	NABARD	760.06	760.06	259.68	67.79	72.72	61.71
2	Govt. of Karnataka	203.60	203.60	103.60	18.16	19.48	24.62
3	Canara Bank	19.00	19.00	19.00	1.69	1.82	4.52
4	Union Bank of India	85.00	59.00	35.00	7.58	5.65	8.32
5	Federal Bank	2.50	2.50	2.50	0.22	0.24	0.59
6	Dhanalakshmi Bank Ltd.	1.00	1.00	1.00	0.09	0.10	0.24
7	Bank of Baroda	50.00	–	–	4.46	–	–
8	Individuals	Negligible			Negligible		
	Total	**1,121.16**	**1,045.16**	**420.78**			

(Source: Calculation from Annual Reports of NABFINS)

Annexure 8. Microenterprise units developed by Kudumbashree

1. **Kudumbashree IT units:** These units were formed during 1998 to empower women through IT-enabled services. These are independent IT units run by women with support from the State Mission. A consortium of 62 IT units has been formed by name the "Unnathi IT Consortium."

These units do data entry work for government departments, supply HR for data entry work on daily wage, conduct surveys and data entry, do hardware work, Malayalam typing training, election ID work, etc.

2. **Amrutham Nutrimix** units were launched in 2006. There are 398 groups across the state, which are supplying weaning food to 31,000 Aanganwadis. They have formed a consortium and are planning to convert the consortium into a producer company.

3. **Canteen and catering groups:** These groups produce and supply homemade food, stressing ethnic food. They have been provided with infrastructure support from LSG and are functioning around institutions, offices, hospitals, etc. Training for these groups has been provided by the special Kudumbashree training group AIFRHM (Adebha Institute for Food Research and Hospitality Management) in catering and hospitality management, preparation of different recipes, customer management, the concept of service, etc.

4. **Training Groups** such as

   (a) EKSAAT (Education Knowledge Skill Aptitude and Training) formed by 20 master trainers.

   (b) MECs (Micro-Enterprise Consultants): 31 specially trained groups to capacitate entrepreneurs on business management and counseling.

   (c) KAASS (Kudumbashree Accounts and Audit Service Society): 43 audit teams of Kudumbashree Mission guided by chartered accountants, who are auditing accounts of Kudumbashree CBOs.

   (d) AIFRHM (Adebha Institute for Food Research and Hospitality Management), which provides training in catering and hospitality management, preparation of different recipes, customer management, the concept of service, etc.

5. **Kudumbashree Travels:** A group of eight women drivers were linked with banks during November 2013 to constitute a travel company owned and maintained by these women. They all bought "nano" taxies and are catering to women passengers.

6. **Samagra Projects**

Important Samagra Projects developed/being developed are as follows:

   (a) **Madhuram Project** – Pathanamthitta – 2,100 members of 210 groups in 26 Panchayats are undertaking bee-keeping under the project. Standardization of value-added products (jam, honey cola, honey-gooseberry, etc.). Establishing a brand for Kudumbashree honey.

   (b) **Ornamental fish** – 256 women are engaged in Samagra organic fish farming in Vaikom Block of Kottayam. The members have formed a producer collective named Gramasree Ornamental Fish Producers Society.

   (c) **Thirumadhuram** – Pineapple cultivation through collective farming efforts and value addition operational in 41 Panchayats, covering 3,115 women farmers in an area of 500 ha in the first phase in Ernakulam.

   (d) **Ksheerasagram** – The Ksheerasagram Project is implemented in Idukki District (hilly area), where about 1,200 beneficiaries have been provided with two cows, a biogas plant, a cow shed, etc., by finance through convergence with banks and the district Panchayat. They are currently supplying milk to cooperative societies (INR 29/liter). Formation of a producer company in Idukki is planned.

(e) **Nivedyam** – In Thrissur District, with "Cultivation of Kadali Banana for the Guruvayoor Temple," 100 women's groups are cultivating Kadali on 50 acres of land and supplying 4,000 fingers to the temple on a daily basis. Value addition efforts go into making use of the rejected fingers for jam/rasayanam, etc.

(f) **Goat village** – Implemented in Kannur District of Kerala. In 959 groups, 4,795 beneficiaries have been supported. One group consists of five women NHG members rearing 19 + 1 goats (19 doe and 1 buck). During 2013-14, the beneficiaries sold 9,027 goats and sales income was INR 40.9 million. A producer company named Kannur Goat Farmers Producer Company was formed on 4 January 2015. The Board of Directors consists of 10 women goat farmers. The company will initially concentrate on sourcing feed, conducting a goat market, insurance facilitation, fodder cultivation, para vet and management services, manure marketing, etc.

(g) Saphalam – Kasargode – Cashew nut project. This Kudumbashree Project helped in increasing the price of the cashew. Cashew nut processing took place in 11 Panchayats. A cashew grading and packing center was established.

Annexure 9. Pilot testing of Self-Help Group (SHG)-Bank Lending Programme in new countries for 100,000 households

1. Start with regulatory guidelines

From the central bank of the country, just like RBI did in India in the pilot phase, permitting banks to open accounts of informal groups, lending to them without collateral security.

2. A Development Financial Institution (DFI), like NABARD in India, to take the lead

This DFI will provide extensive support to the movement through sensitization and training of bankers for providing linkage support, training, capacity building, and financial support to self-help promoting agencies for the promotion of good SHGs and through other support to other stakeholders. Some developmental banks/microfinance bodies/NGOs may be identified and supported to lead the pilot.

3. The most important factor to pilot the programme in new countries/areas will be the identification, development, and motivation of **SHPI (self-help promoting institutions)**. No institution will take up the task of promoting and nurturing SHGs unless it appreciates its usefulness for itself first. One type of motivation can be that they are paid a good sum for promoting SHGs. However, sustainable motivation will result if they appreciate its worth for themselves after promoting it, that SHGs would provide more opportunities and facilitate the delivery of a host of activities being undertaken by them. The institution needs to be convinced that it will always be more cost effective to work with groups of poor rather than dealing with individuals. Such SHPIs will be provided with training regarding the SHG concept and also exposure to some good SHGs.

4. Next, intensive efforts will be required to **sensitize bank officers** regarding SHG bank linkage and to train them in SHG linkage procedures.

5. **Identification of the target group:** The target group to be covered under SHG-BLP will obviously be the persons deprived of financial services individually and thus depending on the informal sector. Criteria for identification can be fixed in different countries based on suitable socioeconomic parameters and situations causing financial exclusion.

6. **Formation of the SHG** is the next step. Further capacity building of SHPI workers and SHG members on the basics of SHGs and group dynamics will be important in this stage. Members need to understand the importance of the Panch Sutras (five principles) of regular meetings, regular thrift, regular internal lending, timely repayment, and proper bookkeeping. Specific training on maintenance of books such as a meeting book and books of accounts will also be necessary. It would be better to arrange for digitization of bookkeeping of the groups and their e-linkage with the financing bank/ institution so that all stakeholders can have real-time access to know the functioning and grading of SHGs and initiate suitable actions for their bank linkage/further nurturing.

7. Adequate support to provide **livelihood opportunities** to the SHG members in a calibrated manner through skill building, production optimization, value chain facilitation, and market linkage could give more acceptability for replication of the SHG-BLP in new/less covered areas.

8. **Staff requirement at the SHPI level:** For every 20 SHGs, one animator/field staff is required to handhold and regularly guide the SHGs. One supervisor can be kept for every 10 such animators. At the next level, the SHPI should have trainers for training of animators and livelihood training of the SHG members.

9. **Financial requirements** to cover 100,000 households under SHG-BLP pilots, during a period of 3 years, can be as given below:

9.1 One SHG is formed out of 10–20 households (one member from each household). On average, 14 to 15 households can be covered by each SHG. As such, about 7,000 SHGs will be formed. For these SHGs, about 350 animators and 35 supervisors will be required for about 3 years. The role of these SHPI staff will comprise both formation and handholding of the groups. About 10 trainers/functionaries will also be required at the SHPI level.

9.2 Assuming monthly salary and other expenditures per animator (INR 8,000), per supervisor (INR 12,000), and per trainer/executive (INR 15,000), a per month salary is arrived at: INR 3,370 thousand. So, the total salary cost for staff for SHG formation and maintenance in 3 years is arrived at: INR 121,320 thousand.

9.3 Office maintenance/other operating cost could be on the level of INR 100,000 per month; thus, the total operating cost of the project other than salary comes to about INR 3,600 thousand for 3 years.

9.4 Master trainers and senior executives of the SHPI could receiveintensive training on SHG-BLP, which might include the cost of an international trainer and/or exposure visits also. The cost of such training could be about INR 2,000 thousand.

9.5 Training of SHPI supervisors and animators will be in the domestic training institutions by the master trainers. About 15 training programmes each costing INR 100,000 will be required. The total cost of such training could be INR 1,500 thousand.

9.6 Training of SHGs – basic training will be done by animators themselves and will cost about INR 2,000 per group, whereas livelihood training will be through specific trainers/agencies and cost on average perhaps INR 10,000 per group. The total cost of training for 7,000 SHGs will be INR 84,000 thousand.

9.7 Sensitization/training of bankers will also be required for the senior executives as well as branch staff. The tentative cost of five such programmes will be INR 20,000 per programme, totaling 100,000.

9.8 Management cost of these interventions could be INR 1,000 thousand.

10. The total financial cost is, accordingly, as follows:

Sl. No.	Particular	INR in thousand
1	Salary expenses of SHPI (3 years)	121,320
2	Other operating expenses of SHPI (3 years)	3,600
3	Training of master trainers	2,000
4	Training of other SHPI staff	1,500
5	Training of SHGs	84,000
6	Sensitization/training of bankers	100
7	Management cost	1,000
	Total	**213,520**

(Source: Author's calculation, 2014-15)

The cost of the pilot is thus INR 213.5 million required in a 3-year period.

11. The financial cost indicated above is only an assessment. It could change according to the field situation and design of the programme, depending on the area of the project, socioeconomic conditions, and requirements for financial services by the community to be served. In addition, 100% of the members of SHGs may not graduate to the level of taking up livelihood activities with financial support from the programme within a period of 3 years.

12. The amount of thrift/savings to be mobilized by SHGs to be used for internal lending and keeping deposits with banks and the amount of credit support required from banks will depend on the socioeconomic conditions of the community covered and itscapability to graduate to higher levels.

Annexure 10. Pilot testing of the Joint Liability Group-Bank Linkage Programme (JLG-BLP) in new countries for 50,000 households

1. **Start with regulatory guidelines:** From the central bank of the country, specific guidelines for implementing banks should be issued.

2. **A Development Financial Institution (DFI), like NABARD** in India, is to take the lead. Besides policy formulation, sensitization and training of bankers for providing linkage support, training, capacity building, and financial support to JLG promoting agencies for promotion and linkage of the JLG can be done by such a DFI. Some developmental bank/microfinance body/NGO can be identified and supported to lead the pilot.

3. The most important factor to pilot the programme in new countries/areas will be the identification, development, and motivation of **JLGPIs (joint liability group promoting institutions)**. Banks may also work as a JLGPI. Such JLGPIs will be provided with training regarding the JLG concept and also exposure to some good JLGs.

4. In the next stage, intensive efforts will be required to **sensitize bank officers** regarding JLG bank linkage and to train them in JLG linkage procedures.

5. **Identification of the target group:** The target group to be covered under JLG-BLP will obviously be the needy poor persons deprived of bank credit. They need not be destitute/very poor, but may intend to take up/upscale livelihood activities. They depend on the informal sector for credit on exploitative terms as bank credit is denied to them because of the lack of collateral.

6. **Formation of the JLG:** Capacity building of JLGPI workers and JLG members on the basics of JLGs, group dynamics, and credit ethics will be important in this stage. They need to grasp the basic principles of development through credit.

7. Adequate support to provide **livelihood opportunities** to JLG members in a calibrated manner through skill building, production optimization, value chain facilitation, and market linkage.

8. **Staff requirement at the JLGPI level:** For every 50 JLGs, one animator/field staff is required to handhold and regularly guide the JLGs. One supervisor could oversee 20 such animators. At the next level, the JLGPI should have trainers for training of animators and livelihood training of JLG members.

9. **Financial requirements** to cover 50,000 households under JLG-BLP during the period of a 2-year pilot appear below:

    9.1 One JLG is formed out of 4–10 households (one member from each household). On average, seven to eight households can be covered by each JLG. As such, about 7,000 JLGs could be formed. For these JLGs, about 140 animators and 7 supervisors will be required for about 2 years. About 10 trainers/functionaries will also be required at the JLPI level.

    9.2 Assuming monthly salary and other expenditures per animator (INR 8,000), per supervisor (INR 12,000), and per trainer/executive (INR 15,000), per month salary reaches INR 1,354 thousand. As such, the total salary cost for staff for JLG formation and maintenance in 2 years could be INR 32,496 thousand.

    9.3 Office maintenance/other operating cost could be of the level of INR 100,000 per month and total operating cost of the project other than salary could be INR 2,400 thousand for 2 years.

    9.4 Master trainers and senior executives of the JLPI can be provided with intensive training on JLG-BLP, which might include the cost of international trainer and/or exposure visits also. The cost of such training could reach about INR 2,000 thousand.

9.5 Training of SHPI supervisors and animators will take place in the domestic training institution by the master trainers. About eight training sessions each costing INR 100,000 will be required. The total cost of such training could be INR 800,000.

9.6 Basic training of JLGs will be done by the animators themselves and livelihood training will be through specific trainers/agencies. The average cost per JLG could be INR 5,000. The total cost of training for 7,000 JLGs will be INR 35,000 thousand.

9.7 Sensitization/training of bankers will also be required for the senior executives as well as branch staff. The tentative cost of five such programmes could be INR 20,000 per programme, totaling INR 100,000.

9.8 Management cost of these interventions could be INR 1,000 thousand.

10. The total financial cost is, accordingly, as follows:

Sl. No.	Particular	INR in thousand
1	Salary expenses of SHPI (3 years)	32,496
2	Other operating expenses of SHPI (3 years)	2,400
3	Training of master trainers	2,000
4	Training of other SHPI staff	800
5	Training of SHGs	35,000
6	Sensitization/training of bankers	100
7	Management cost	1,000
	Total	**73,796**

(Source: Author's calculation, 2014-15)

The cost of the pilot is thus INR 73.8 million required in a 2-year period

11. The financial cost indicated above is only an assessment. It could change according to the field situation and design of the programme, depending on the area of the project, socioeconomic conditions, and requirements of financial services by the community to be served.

12. The amount of credit required from banks will depend on the socioeconomic conditions of the community and its credit absorption capacity.

Annexure 11. Pilot testing of electronic Farmers' Credit Card in new countries for 100,000 farmers

1. Start with **regulatory guidelines** to be issued by the central bank of the country to the implementing banks.

2. A **Development Financial Institution (DFI), like NABARD** in India, to take the lead.

3. The most important factor to pilot the programme in new countries/areas will be **sensitization of stakeholders**, including bankers and the farmers.

4. **Provision of credit/debit card** to the FCC holders to be ensured.

5. **Arrangement for payment/withdrawal** from the card at an ATM and PoS of merchants/input suppliers to be ensured. In case PoS instruments are not present, provision for the same has to be made.

6. The **financial requirements** to cover 100,000 farmers under e-FCC during a period of a 3-year pilot appear below:

   6.1 Master trainers and senior executives of the implementing agencies/banks can receive intensive training on e-FCC, which might include the cost of an international trainer and/or exposure visits also. The cost of such training could be about INR 2,000 thousand.

   6.2 Training of bank officers will take place in the domestic training institutions by the master trainers. About 15 training programmes, each costing INR 100,000, could be required. The total cost of such training could reach INR 1,500 thousand.

   6.3 The cost of awareness creation for farmers (1,000 programmes each costing INR 10,000) could be INR 10,000 thousand.

   6.4 Expenditure on the issuing of cards at INR 25 per card could be INR 2,500 thousand.

   6.5 About 100 microATMs/PoS machines may be required, costing INR 25,000 each. The total cost could be INR 2,500 thousand

   6.6 Management cost of these interventions could be INR 1,000 thousand.

7. The total financial cost is, accordingly, as follows:

Sl. No.	Particular	INR in thousand
1	Training of master trainer	2,000
2	Training of bank officers	1,500
3	Awareness creation	10,000
4	Card cost	2,500
5	Cost of PoS/microATM	2,500
6	Management cost	1,000
	Total	**19,500**

(Source: Author's calculation, 2014-15)

The cost of the pilot is thus INR 19.5 million required in a 3-year period

8. The financial cost indicated above is only an assessment. It could change according to the field situation and design of the programme, depending on the area of the project, socioeconomic conditions, and requirements for financial services by the community to be served.

9. The amount of credit required from banks will depend on the socioeconomic conditions of the community and its credit absorption capacity.

ASIA-PACIFIC RURAL AND AGRICULTURAL CREDIT ASSOCIATION (APRACA)
Room A303, Bank for Agriculture and Agricultural Cooperatives (BAAC)
469 Nakhonsawan Road, Dusit, Bangkok 10300, Thailand
Tel: (+662) 280-0195, 282-1365
Fax: (+662) 280-1524
E-mail: apraca@apraca.org
Website: www.apraca.org

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