

Financial Inclusion in India through SHG-Bank Linkage Programme and other finance Initiatives of NABARD

By

A Ramanathan, Chief General Manager
Micro Finance Innovations Department
NABARD Mumbai

What is Financial Inclusion ?

- "Financial inclusion is delivery of banking services at an affordable cost ('no frills' accounts) to the vast sections of disadvantaged and low income group.
 - Unrestrained access to public goods and services is the sine qua non of an open and efficient society.
 - As banking services are in the nature of public good, it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of the public policy."

Existing Banking System and Financial Inclusion

- ❖ Banking industry has
 - ❖ shown tremendous growth in volume and complexity during the last few decades
 - ❖ Made significant improvements in all the areas relating to financial viability, profitability and competitiveness
 - BUT..... vast segment of the population, especially the underprivileged sections of the society still out of banks' fold

Extent of Financial Inclusion

- **Bank Accounts** : Percentage of Adult population having bank account is only 59 %, means 41% of population is unbanked (Percentage higher in rural areas)

(Assumption : Each Individual has only one bank account) – Not always true)

- **Credit Accounts** : Extent of exclusion from credit markets much more – no. of Loan accounts only 14 % of Adult population
- Coverage is only 9.5 % in rural areas

Extent of Financial Inclusion – contd..

- Farm Households

- Out of 89 m farm HH, 51.4% have no access to formal or informal sources of credit

- 73 % had no access to the formal sources of credit

- After 1991, share of non Institutional sources has increased – especially share of moneylenders increased from 17.5%(1991) to 29.6 % (2002)

Who are excluded ?

- Marginal Farmers
- Landless Labourers
- Oral lessees
- Self employed and unorganized sector enterprises
- Urban slum dwellers
- Migrants / ethnic minorities & socially excluded groups
- Senior Citizens and Women

Financial Inclusion in Indian Context

- **Policy of Reserve Bank of India on 'Financial Inclusion'**
 - RBI places a lot of emphasis on financial inclusion to make banks to give desired attention
 - With proactive role for enhancing the financial inclusion, RBI in its Annual Policy Statement of the year 2005-2006, urged banks to review their existing practices to align them with the objective of financial inclusion.

Financial Inclusion in Indian Context Contd..

- **Why Financial Inclusion ?**
 - Indian Economy growing (8.5 % to 9 %) pa
 - Industry and Services contributing most
 - Agriculture growing at only 2%
 - Limited access to affordable financial services (credit/Insurance/Remittance) behind it.
 - To provide access to safe formal payment system savings / Deposit insurance to all
 - Provides formal Identity
 - Aids social and political stability

NABARD and Financial Inclusion

- National Bank for Agriculture and Rural Development (NABARD) has designed, developed and has been facilitating **SHG- Bank Linkage Program** in India since 1992 with various partner agencies like Banks, NGOs, Government Agencies/ Departments, etc.
- **The SHG – Bank Linkage Program and other microfinance initiatives by NABARD has contributed much towards financial inclusion process in India.**

Genesis and Concept of Self Help Group (SHG)

Poverty Alleviation Programmes

- IRDP :
 - No. of families assisted : 545 lakh (27 crore people)
 - Bank Loans disbursed : Rs.25,377 crore(US \$ 5.4 b)
 - Subsidies disbursed : Rs.14,500 crore(US \$ 3.1 b)

- Programmes of SC / ST/ OBC/ Minorities/ DICs
 - These loans almost equal to those under IRDP

- Annually 400 lakh rural loans are "small loans" of
<= Rs. 25,000 (Us \$ 532) - Average Rs. 5,250 (US \$ 111)

Poverty Alleviation Programmes Contd.

- Due to fixed margins and high transaction costs,
 - Banks cut down on appraisal and monitoring costs
 - High defaults
 - Leakages of subsidised resources
- Tremendous outreach was achieved, but
 - 36% of cash dues of rural HHs still come from informal sources (1992)
 - 33% (27% ?) of population continued to be “poor”
 - the poorer of the poor were still outside the fold of banking system

a common view that very poor are not bankable

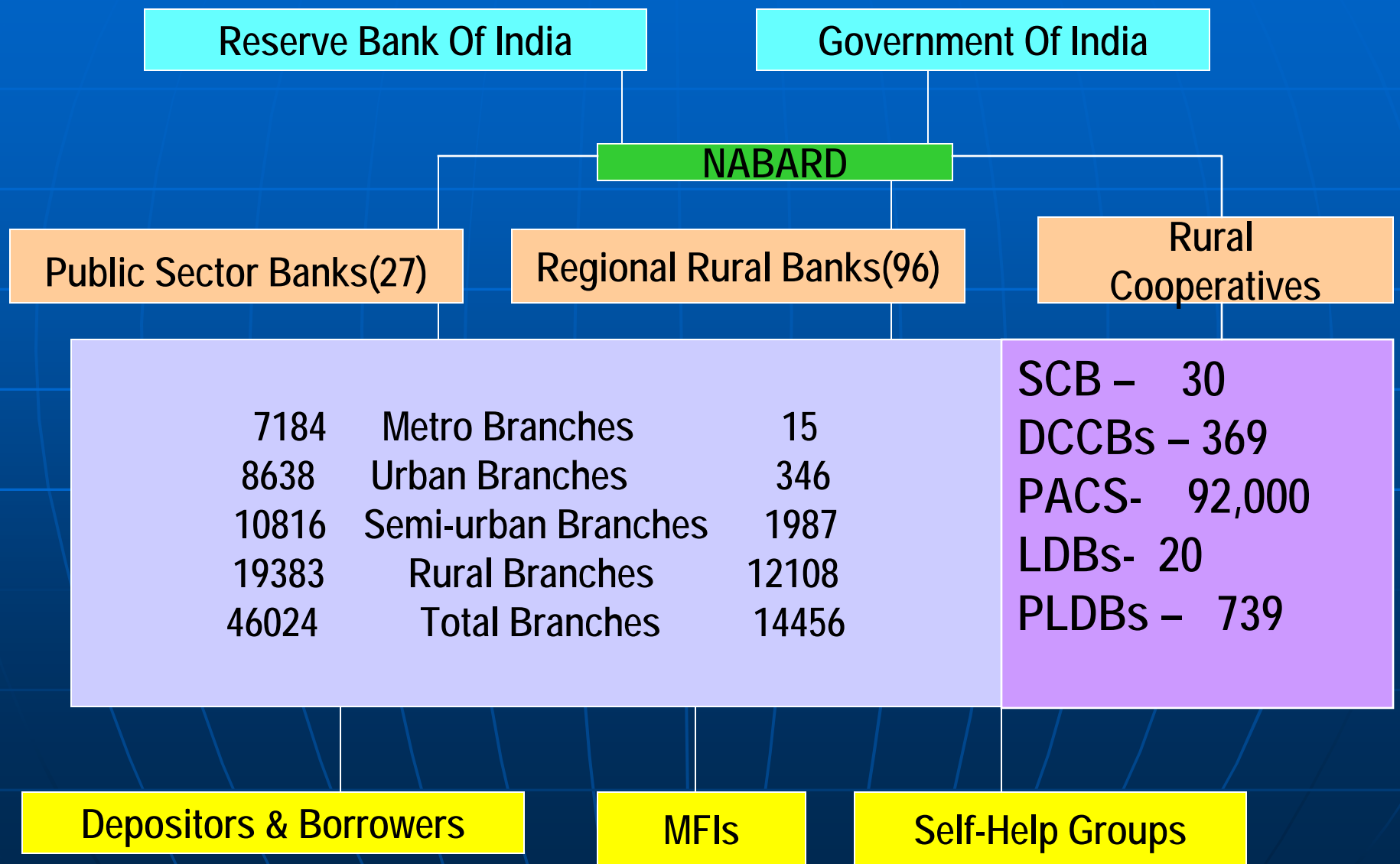
Learnings from Poverty Programmes

- PROJECT BENEFITS DO NOT PERCOLATE TO POOR
- CREDIT DID NOT REACH THE POOR
- POOR NEED CREDIT FOR BOTH PRODUCTION & CONSUMPTION
- POOR DO NOT LOOK FOR CHEAP CREDIT; BUT WANT IT IN RIGHT QUANTITY FOR ALL PURPOSES AT RIGHT TIME WITHOUT HASSLES
- SOFT LOANS LEAD TO MISUTILISATION
- SUBSIDY CORRUPTS

Research and action research in mid '80s

- The Feedback ?
 - Savings and credit products did not suit the needs of the poor
 - Procedures were complicated and cumbersome
 - High transaction costs for the poor
 - System did not provide for anything to fall back on
 - Even special programmes did not recognise savings
 - Resources handled were often larger than the poor's capacity to handle
 - Others decided everything
- The poor need **HASSLE-FREE**
 - Mechanism to keep safe thrift and tiny surpluses
 - Credit to meet emergencies
 - Credit for micro Enterprises

Public Sector Institutional Arrangements for Rural Credit



What do we do ?

- Design
 - savings and credit products, and
 - systems
- to improve the access of the poor to financial services which
 - reduce transaction costs of the poor
 - reduce transaction costs of the financing agencies
 - enhance participation by poor in decision making
- build up handling capacities of the agencies who can provide these services
- Identify new partners
- Work out roles for different partners
- Integrate formal banking system to ensure sustainability
- Dominant Strategy : Self Help Groups - Bank Linkage

WHAT IS A SELF HELP GROUP ?



NABARD's Initiatives in MF

- Pilot Programme in February 1992 for linking 500 SHGs with banks after consultations with Reserve Bank of India, Banks and NGOs
- Introduction of Bulk Lending Scheme in 1993 for encouraging the NGOs
- Developing a conducive policy framework
 - through provision of opening Savings Bank Accounts in the names of SHGs [though they are informal groups],
 - relaxation of collateral norms, simple documentation and delegation of all credit decisions and terms to SHGs
- Training and awareness building among the stakeholders
- Provision of capacity building support of NGOs/SHGs/Banks
- Mainstreaming the SHG Linkage Programme as part of corporate planning and normal business activity of banks in 1996 and internalising training, monitoring and review mechanism

NABARD's Initiatives in MF – Contd..

- Encouraging banks (RRBs and DCCBs) for promotion of SHGs
- Support to NGOs for promotion of SHGs
- Encouraging rural individual volunteers in promotion and nurturing of SHGs
- Close Monitoring
- Dissemination through Seminars, Workshops, Occasional Papers and Print media and
- Constitution of a High Powered Task Force to look into the aspects of Policy and Regulation of microFinance and suggest policy, legal, regulatory measures for smooth, unhindered growth of microFinance sector.
- Setting up a Micro Finance Development & Equity Fund (earlier MFDF) in NABARD for meeting the promotional costs of upscaling the microFinance interventions

Trends and Progress of SHG Bank Linkage Program in India

As at.....	<u>Mar 1993</u>	<u>Mar 1996</u>	<u>Mar 2006</u>	<u>Mar 2007</u>
• SHGs linked	255	4,757	22,38,525	29,24,973
• % women's groups	70	74	90	90
• Families assisted(m)	0.005	0.08	32.98	40.95
• Population covered(m)	0.025	0.40	164.90	204.75
• Banks participating	14	95	501	498
• SHG promoting Partners	32	127	4323	4896
• Districts covered	26	157	572	587
• Cumulative bank loan (INR Rs. million)	2.58	53.32	113974.01	180407
in Us \$ million	0.06	1.24	2532.75	45101.75

Promotional Initiatives by NABARD

1. Support for Training and Capacity Building :

The various training and capacity building programs by NABARD are:

- awareness creation and capacity building program for SHG members
- awareness-cum- refresher programs for CEOs & field staff of NGOs;
- training programs for officers of Commercial Banks, Co-operative Banks and RRBs
- visits to nearby SHGs for Block Level Bankers' Committee members;

Promotional Initiatives by NABARD - Contd..

- programs for the elected members of Panchayati Raj Institutions to create awareness about the MF initiatives;
- training-cum-exposure visits for new district officials and senior Govt. officials

2. Promotional Grant Assistance to Partner Agencies :

- As on 31 March, 2007, cumulative grant assistance of Rs 475 million sanctioned to SHPIs to promote and nurture 310,000 groups.

The Impact



The Impact (various studies)

- 58 % households reported increase in assets
- Average value of assets per household increased by 72 % from Rs.6,843 to Rs.11,793
- Almost all members developed savings habit against 23 % earlier
- Threefold increase in savings per household
- Almost doubling of borrowings per household
- Share of consumption loan down from 50 % to 25 %, 70% of loans in post-SHG period for income generation
- Employment increase by 18 % in post-SHG period
- Participation in group significantly contributed in improving self-confidence
- Members more assertive on social issues

The Future Thought

- **NABARD looks at the future of MF interventions from the perspective of:**
 - [i] strengthening the existing institutional set up of rural financial institutions by marketing efficient banking tools among the poor, thereby expanding their outreach on a major scale, and**
 - [ii] creating a conducive and supportive environment for encouraging and supporting new Micro Finance Institutions (MFIs) or facilitating graduation of existing NGOs into MFIs for bridging the gaps in delivery of rural financial services.**
- **NABARD has set a goal for providing access to micro financial services to:**
 - **about 50 million rural families**
 - **by linking 4 million SHGs with the banking system by March 2012.**
 - **Other promotional support**

Issues and Challenges

□ Issues in SHG – Bank Linkage

- Livelihood promotion among members of SHGs
- System for monitoring of SHGs
- Capacity Building of SHG Members
- Low bank loan per SHG member
- Micro insurance products
- Emergence of Federations
- Technology for financial inclusion

□ Issues in Micro Finance Institutions (MFIs)

- Functioning and
- Sustainability

The Way Ahead

- Banks to design their products so as to cater to the needs of Bottom of Pyramid (BoP) customers.
- Banks to have flexibility in terms of working hours, documentation, mode of interactions and transactions
- Banks to economise on transaction costs and provide better access to the currently under-served
- **The problem of financial exclusion can be tackled** by banks by recognizing that the poor are bankable, credit worthy and good credit risks.
- The focus on financial inclusion has to come from the recognition that this serves the interests of both civil society and the banking system.
- Financial Inclusion a big challenge for the financial system. Besides banking, insurance companies required to target BoP customers thru specially designed products like cheaper micro insurance

The Final Word

- **About Financial Inclusion, in the Annual Policy of the Reserve Bank of India (2004-05), RBI Governor, Dr. Reddy observed -**

“There has been expansion, greater competition and diversification of ownership of banks leading to both enhanced efficiency and systemic resilience in the banking sector. However, there are legitimate concerns in regard to the banking practices that tend to exclude rather than attract vast sections of population, in particular pensioners, self-employed and those employed in unorganised sector. While commercial considerations are no doubt important, the banks have been bestowed with several privileges, especially of seeking public deposits on a highly leveraged basis, and consequently they should be obliged to provide banking services to all segments of the population, on equitable basis.”

Thank you

Visit us at www.nabard.org

Micro Credit Innovations Department
NABARD

Tel: 91 22 653 0084, 653 9272

Fax: 91 22 652 8141

Email: mcid@nabard.org