Status of Financial Inclusion and Way Forward: Uttar Pradesh

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Status of Final Inclusion & Way Forward - Uttar Pradesh

2012-17

Poorest States Inclusive Growth Program

Disclaimer

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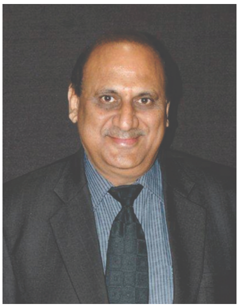
Table of Contents

List of Figures

List of Tables

Foreword



Access to comprehensive financial services is a critical enabler and an effective tool for enhancing economic opportunities and reducing risks and vulnerability for the low income and poor. While India has an extensive formal financial system with a wide banking network, the infrastructure has not responded to the financial needs of the poor to the desired extent. Over the last two decades, alternative models for reaching out to the rural poor (and more recently also the urban poor), mostly women, have been promoted and have succeeded in channelising credit to the underserved population on a bigger scale. However, given the overwhelming nature of this challenge, harmonized efforts need to be made by different channels and models.

The Poorest States Inclusive Growth (PSIG) programme supported by DFID, Govt. of U.K. and being implemented by Small Industries Development Bank of India (SIDBI) has the potential for making catalytic investments for supporting various initiatives and channels for financial inclusion . The program aims to enhance the income and employment opportunities of poor households in four low-income States viz., Bihar, Odisha, Madhya Pradesh and Uttar Pradesh, and enable them to participate and benefit from the economic growth in India.

The core rationale for putting together the Status of Financial Inclusion and Way Forward Report for Uttar Pradesh is to take stock of the current status and future projections in terms of demand and supply of financial services, identify gaps, helping greater clarity in roles and responsibilities of different stakeholders and enable resource planning, pooling and optimization. The team has held extensive consultations with various stakeholders in the State, and the document reflects their views and perspectives on the vision and way forward, in addition to reporting the data on the status.

I would like to thank the teams of PSIG at SIDBI and ACCESS ASSIST for their work in bringing together this document, as also to the Private Sector team at DFID India for their support and guidance. I hope that each of these stakeholders will take forward the vision and the way forward which they have helped to outline in this document.

N. K. Maini
DMD, SIDBI

Abbreviations

A2F - Access to Finance
AGM - Assistant General Manager
ALW - A Little World
APMAS - Andhra Pradesh Mahila Abhivrudhhi Society
AAOIFI - Accounting and Auditing Organisation for Islamic Financial Institutions
BCAs - Business Correspondent Agents
BCs - Business Correspondent
BIRD - Bankers Institute of Rural Development
BPL - Below Poverty line
C- DAC - Centre for Development of Advanced Computing
C/C - Cash Credit
CASHPOR - Cashpor Micro Credit Ltd
CBS - Core Banking Solutions
CD - Credit Deposit
CEO - Chief Executive Officer
CRD - Centre for Rural Development
CRI - Critical Rating Index
CRISIL - A company providing ratings, research, and policy advisory services
CRP - Community Resource Person
DBTs - Direct Benefit Transfers
DFID - Department for International Development
ECS - Electronic Clearance Service
EKO - Eko India Financial Services Private Limited,
FFIs - Formal Financial institutions
FI - Financial Inclusion
FINO - Financial Information Network and Operations Limited
GDS - Grameen Development Services
GIZ - Deutsche Gesellschaft für Internationale Zusammenarbeit
GO I - Government of India
HDFC - Housing Development Finance Corporation Limited
ICICI - Industrial Credit and Investment Corporation of India
ICT - Information and Communication Technology
IFMR - Institute for Financial Management and Research
IIMB - Indian Institute of Management, Bangalore
IIMPS - Invest India Micro Pension Services
IKEA - IKEA Foundation
IMO - Instant Money Order
IMT - International Money Transfer
IRDA - Insurance Regulatory and Development Authority
ISMW - Indian School of Microfinance for Women
JLGs - Joint Liability Groups
KCC - Kisan Credit Card
KYC - Know Your Customer
LBS - Lead Bank Scheme
LIC - Life Insurance Corporation

M-CRIL - Micro-Credit Rating International Ltd
MACS - Mutually Aided Cooperative Society
MFIN - Micro Finance institutions Network
MFIs - Microfinance Institutions
MNREGA - Mahatma Gandhi National Rural Employment Guarantee Act
MO - Money Order
MoU - Memorandum of Understanding
MPAT - The Multidimensional Poverty Assessment
NRLM - National Rural Livelihood Mission
NABARD - National Bank for Agriculture and Rural Development
NBCFDC - National Backward Classes Finance & Development Corporation
NBFCs - Non Banking Finance Company
NEED - Networking of Entrepreneurship & Economic Development
NFAs - No Frills Accounts
NHFDC - National Handicapped Finance and Development Corporation
NGOs - Non-Governmental Organizations
NPA - Non Performing Assets
NREGA - National Rural Employment Guarantee Act
NRLM - National Rural Livelihood
NSI - National Savings Institute
PACS - Primary Agriculture Cooperative Societies
PLPs - Potential Linked Credit Plans
PMF - Participatory Micro Finance
PORD - Post Office Recurring Deposit
PSIG - Poorest States Inclusive Growth
PWD - People with Disabilities
RBI - Reserve Bank of India
RGMVP - Rajiv Gandhi Mahila Vikas Parishad
RMK - Rashtriya Mahila Kosh
RRBs - Regional Rural Banks
RSRY - Rashtriya Swasthya Bima Yojna
SBLP - SHG bank Linkage Program
SC - Scheduled Caste
SFABC - Small Farmers Agri Business Consortium
SGSY - Swarnajayanti Gram Swarozgar Yojana
SHGs - Self Help Groups
SHPIs - Self Help Promoting Institutions
SIDBI - Small Industries Development Bank of India
SLBC - State level Banker's Committees
ST - Scheduled Tribes
UIDAL - Unique Identification Authority of India
UNDP - United Nations Development Program
UP - Uttar Pradesh
USA - United States of America
USBs - Ultra Small Branches
WSHG - Women's Self Help Group
ZMF - Zero Mass Foundation

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We thank all the representatives of different organisations, from government, banks, NGOs, MFIs, BCs, SHPIs, insurance providers, apex agencies, DFID and ACCESS-ASSIST, who participated and contributed to the stakeholder workshops held in Varanasi on March 5, 2013, and in Lucknow on April 18, 2013[1].

We would like to thank the CEO, senior officers and other project team members from the lead bank (Bank of Baroda), local banks (Baroda Grameen Bank), apex level financial institutions (SLBC, NABARD, SIDBI, RBI, Directorate of Institutional Finance), government organisations (UPSRLM, Block Development Office) local NGOs (GDS), MFIs (Margadarshak, Cashpor, Utkarsh), India Post, Insurance agencies (Birla Sun Life), training and research institutions (BIRD, MicroSave), and donor organization (GIZ,DFID, Lamp Fund) for openly sharing their rich experiences during our visits to their organizations which helped the team to understand the current positions of the financial services offered to people, key constraints faced by them and valuable suggestions for improving the situation in UP.

We would also like to express our thanks to all the NGOs and MFIs (Disha India Micro Credit, VinobaSeva Ashram, NEED, and RGMVP) who provided invaluable support in arranging for us to meet women and other stakeholders in their project region during our field visits. We would like to acknowledge the women, the household members and project staff who gave their valuable time, often with pleasure and with a positive frame of mind.

The team would like to thank Mr. Navin Anand, Microfinance Community of UN Solution Exchange, for floating the query about Access to Financial Services for low income households in UP, and inviting contribution from members. We acknowledge

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[1] The list of representatives participated in the workshops is attached as annexure 1.

Mr. B S Suran, Mr. Thomas Mehwald, Ms. Nidhi Dubey,Mr. Resham Singh, Mr. Jaipal Singh Kaushik, Ms. Rani Sahay, Mr. Pradip Kumar Sarmah, Ms. Aanchal Singhal and Dr. Naveen Anand for their valuable suggestions regarding access to finance in Uttar Pradesh. The production of the written report has been done internally at Sampark, and we acknowledge support of Ms. Jaya Rawat and Mr. Hemant Shiv in the final editing of the report.

Smita Premchander, M. Chidambaranathan, Raj M

Executive Summary

Purpose and Scope of the Vision document

Chronic poverty continues to be a sticky problem in many parts of India. Several parts of UP State have people living in extremely vulnerable situations. Access to financial services is expected to offer a way out of poverty, first through access to official support, direct transfers, and then through savings and credit for income generation. Access to social protection measures, such as insurance and pensions, is also facilitated by financial inclusion, as it enables more cost efficient remittances, which is a necessity for those whose livelihoods involve migration outside their villages.

The Census 2011 showed that out of the total of 247 million households in India as many as 100 million (40%) did not have bank account. The Indian government has been concerned with access to benign finance for several decades, with measures such as nationalization of banks, prioritizing low cost credit to priority areas such as agriculture, and to the disadvantaged populations, such as households below the poverty line. In addition to refining these measures from time to time, the V Year Plans have committed to financial inclusion of all households in India. In February 2011, the Government of India (GoI) and the Reserve Bank of India, along with the Indian Banks' Association launched Swabhiman, a nationwide program on financial inclusion, to ensure banking facilities in habitations with a population in excess of 2000 by March 2012. In August 2012, the Prime Minister reaffirmed the commitment to financial inclusion, and the Indian banking system has prioritized outreach to the unbanked villages in the Country.

Financial inclusion data in India typically do not tally, as they are taken in different years, by different agencies, and on different parameters. The Rangarajan Committee (2008) considered rural households and found that 36% of these are financially included. Later, the 2011 Census considered all households, and found that the access to banking services by the households in UP was 72%. Our research focused on low income households and shows that SHGs, JLGs and bank accounts all taken together reach about 52% low income households, signifying a level of financial inclusion in U.P.[2]

The PSIG program is being implemented by the Small Industrial Development Bank of India, supported by UK Aid through the Department for International Development (DFID), UK. It aims to *enhance poor and vulnerable people's income, especially women, in four low income states, so that they benefit from economic growth through enhanced private investment and better access to financial services* in India. In the above context, this program has a significant potential to support the existing models and service providers in scaling up, invest in development of new products and delivery mechanisms where required and support policy influencing and convergence at sectoral level for a conducive enabling environment for holistic financial inclusion. While some of these strategies are relevant at national level, the program has focus on the four poor states of M. P., Odisha, Bihar and U. P. An initial step towards stock taking and facilitating convergent strategies in financial inclusion at state level, the program has supported development of

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[2] The detailed explanations of our calculations are explained later in the report.

Access to Finance state vision documents for the focus states, including U.P. This Vision document for U.P therefore intends to provide details on the status of access to different financial services to the poor and low income through various channels estimate the current demand and supply and propose projections for the next five years based on certain assumptions and strategies.

The Process and Methodology

The methodology involved a participatory process by consulting all the relevant stakeholders to design and develop the vision document with secondary research. These groups of stakeholders included SHGs/SHPIs, banks, NGOs, BCs, MFIs, insurance providers, and apex organizations such as NABARD and SIDBI, and relevant departments and prorgams of the government. Along with field based individual interactions with various institutions, the team has conducted multi-stakeholder consultations at State level to seek inputs on the approach, information collected, and strategies for scaling up so as to maximize the outreach of financial services in U.P. State. A wider audience was reached through the Microfinance Community of Solution Exchange, a knowledge sharing initiative of the United Nations Country Team in India, where a query on the subject brought forth responses and inputs for preparing the Vision document for U.P[3]. The interviews, field visits and two stakeholder consultation workshops have helped to develop the A2F Vision document presented in this report. The document has been constrained by lack of availability of data, and even when available, the reliability of the data, for which correction factors has been applied.

The Broader Context

Uttar Pradesh comprises 75 districts that house 820 blocks, which in turn comprise 1,07,452 villages, i.e. around one-sixth of the total number of villages in the country. The state has a total population of about 200 million persons, of which 27%, belong to the Scheduled Castes and Tribes. The State ranks low on both income and human development indicators such asinfant mortality rates and life expectancy. The State of U.P. has high diversity in economic and cultural context, high demographic diversity, and lags behind other States in terms of micro financing and coverage of SHGs. This calls for specific strategies for access to finance, to underserved regions and people in the State.

Status of Financial Inclusion in Uttar Pradesh

Banks are the primary formal financial institutions (FFIs) through which the government hopes to reach those that are currently financially excluded. This involves access to savings accounts and services as well as access to credit and other financial services. The current outreach of banks is through a total of 13,952 branches, and this network has been growing, with the appointment of Business Correspondent Agents (BCAs) and establishment of Ultra Small Branches (USBs). Yet, while about 80% of the villages with a population of over 2,000 persons are covered, 77,340 villages have a population of less than 2,000, and 99% of them are not yet covered[4]. Even of the villages that are covered

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[3] Responses were received from Mr. Resham Singh, Mr. Jaipal Singh Kaushik, Ms. Rani Sahay, Mr. Pradip Kumar Sarmah, Ms. Aanchal Singhal and Dr. Naveen Anand, which are gratefully acknowledged.

through BCAs, only 40% of these agents undertake the weekly visit they are mandated to take up, and many of them remain under-resourced and under-remunerated as well.

Banks have opened more than one crore accounts across public, private, and Regional Rural Banks. However, while 92% of the accounts in RRBs were operated only 51% of the accounts in public sector banks showed transactions, and the SLBC report shows that none of the accounts opened in private banks were transacted.

The total credit supply to agriculture, small enterprise and other priority sector was Rs. 37,250 crores in the year ended March 2012, and was 58% of the target set. It was expected to cross Rs. 60,000 crores in 2012-2013. However, credit supply is skewed across regions, with Western UP getting the maximum credit (78%), Eastern UP getting 61% and Central and the Bundelkhand regions receiving only about half of the targets allotted to them. A total of 78% of the famers in UP possess KCCs- however, these are likely to be the landed and middle high income households.

The estimate for the total number of SHGs in UP varies from 4 to 5.75 lakhs. The SLBC report shows that 3.4 lakh groups have received an average credit of Rs.68,067 per group, amounting to cumulative loans to SHGs of Rs. 2,357 crores. Over time, the percentage of Non-Performing Assets (NPAs) have been growing, being 11 to 13% of loans extended to SHGs by banks, and over half of those extended by cooperative banks.

SHG promotion in U.P. is done by Self Help Promoting Institutions (SHPIs), banks, RRBs and cooperative banks. Joint Liability Groups (JLGs) are promoted by the banking sector, and significantly, by MFIs, who offer credit through JLGs. In 2012, SHPIs have promoted about 74,000 SHGs and 7100 JLGs, thus a total of about 81,000groups have been promoted during the year. The cumulative total for U.P. is 4.71 lakh SHGs and about 0.20 lakh JLGs. After adjusting for overlaps between different agencies and allowing for defunct groups, the total number of SHGs and JLGs in UP stands at 2.5 lakhs in 2012.

Based on the data of 13 MFIs reported through MFIN as on March 2013[5], the total clients covered are 14.2 lakhs in the state. However, the percentage of household access microfinance services is only 3.4%. The key challenges and constraints faced by the MFIs include lack of capital for on-lending to their clients. Although the Andhra crisis has shown bulk lenders the need to look elsewhere for good NBFCs, and RBI has set guidelines which have set the floor for NBFC processes, yet accessing loans from banks is not easy. Banks require rating by reputed institutions like CRISIL, and m-CRIL and have tightened their procedures. With new guidelines, lack of capital, and the resulting inability to expand outreach, MFIs feel the pressure of sustainability. In order to sustain themselves, they have diversified/changed their work portfolio and many of the MFIs have taken on the role of BCs. This business too, demands high investments in staff and technology, and has low returns, therefore while it has been a means of survival, the BC business has also brought a new set of challenges.

An important aspect of financial inclusion and extending financial services is imparting financial literacy to the rural populace, as they have remained hitherto disconnected

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[4] These figures stated by SLBC report.

[5] Based on MFIN micrometer March 2013

from such guidance. Altogether, in Uttar Pradesh, 75 financial literacy and credit counseling centers (FLCC) have been established. It is estimated that a total of 72,774 persons have benefited from the advice of the same. More centers can be established so that a large proportion of the rural population can gain timely and valuable advice from the FLCCs. Clearly, tremendous scope still exists for outreach in UP.

Projections for Outreach and Demand and Supply of Credit

Low income households: In order to project the "Access to Finance" scenario in UP for the next five years, the first projections needed are the number of low income households. The NSSO 66th round data presented by Tendulkar estimates rural poverty in UP to be 34.1% and that in urban areas at 23%. However, stakeholders in UP cautioned that the poverty on the ground was much higher than these estimates. A better set of estimates is available from the Progress out of Poverty report, whereby households are classified by income categories. The lowest income category is those households that earn less than $1.35 per person per day (pppd). The next higher category is those households that earn between $1.36 and $2.16 pppd.

As per the Progress out of Poverty estimates, 83% of rural households, and 52.8% of the urban population, earn less than $2.16 per person per day (pppd), on and are considered poor. These are the percentages of households are that was taken for projecting the low income households in UP, in this document. There are a total of 251 lakh (25.1 million) low income households in UP, of which 136 lakhs (13.6 million) are in the category who earn less than $1.35 pppd, and another 115 lakhs (11.5 million) are in the income category of $1.36 to $2. 16 pppd. Poverty levels are expected to reduce by 1% per year from 2013, both in urban and rural areas. Projecting according to these assumptions, the number of rural and urban households with low incomes in 2017 is estimated to be a total of 245 lakhs (2.45 million).

Coverage of Low Income Households, Credit Demands, Credit Supply: Estimation of coverage in low income households that gain access to finance, their credit demands and supply are worked out in two scenarios which are again differentiated by the demand projections:

1. Optimistic Scenario: wherein the constraints currently faced in both demand creation and supply of finance are expected to be overcome, through a change in attitudes, and pressure from the government for inclusion

2. Conservative Scenario: worked out on the premise that ground reality in 2013 is quite grim, with neither SHG II nor UP State Rural Livelihoods Mission (UP-SRLM) having acquired a good pace of work yet, and banks still facing attitudinal, human resource, and credit constraints

The demand projections in each of the above scenario are differentiated by estimating first for latent demand, by projecting demand for *all low income households,* assuming that they have a demand for credit, even though they have not been organized into groups, or financial included. The second estimation is made for only from those who have been reached, and organized into SHGs or JLGs, and therefore likely to get access.

a) **Coverage of Low Income Households**: The more optimistic calculation of outreach shows that by 2017, 61% of the households will have access to formal financial services, a three-fold increase from the current inclusion of 22% in 2012. The less optimistic Scenario 2 shows a situation where 45% households are reached, showing that as many as 55% of households will remain unreached over the next five years.

b) **Estimation of Credit Demand**: The more optimistic projection showed credit demand level of Rs.12, 687crores in 2013 by 115.08 lakhs low income households (45% of the households). This demand is likely to increase to Rs. 30,093crores, by 158.55 households (65%) in 2017. The conservative projection of latent credit demand from all the low income households showed Rs. 6,344crores by 54.57 lakhs households (22% of the households) in 2013 and increased to Rs. 20,802crores, by 109.40 lakhs households (45%) in 2017.

   However, the credit demand estimated for the low income households that are organized through SHGs and JLGs show an optimistic demand of Rs. 2510crores in 2013 and increased to Rs. 14,691crores, by 2017. The conservative estimation with these households showed a demand of Rs. 2119crores in 2013, which increases to Rs. 10,119crores, by 2017.Comparatively, the demands of the households when organized into groups, is half of the total latent demand, which shows the differences that will arise from lack of outreach.

c) **Credit Supply/Gap:** As per the optimistic projection, credit offered by banks to SHGs, and JLGs, and by MFIs to 68.53 lakhs low income households (43% of the total households demanded loans), totals to Rs. 2,289crores in 2013, rising to Rs. 13,859crores (Rs. 13.8 billion) in 2017.This leaves a credit gap of 54% by 2017. The less optimistic projection shows that credit offered by banks to SHGs, and JLGs, and by MFIs to clients, totals to Rs. 1,753crores in 2013, rising to Rs. 7,117crores in 2017.If outreach remains limited, 66% of the credit demands will remain unmet by 2017.

   However, the credit demand projected from the households that are organized into SHGs and JLGs, the credit supply gap comparatively low by 2017; 6% and 30% as per the optimistic and conservative projections respectively.

These projections are summarized in the Table below:

Table 1: Summary of Projections based on Different Scenarios

(Number of Households in lakhs and amount of credit demand and supply in Rs. Crores)

Projections/ Scenario			2013	2014	2015	2016	2017
No. of Low Income Households			258.22	255.51	252.53	249.28	245.76
Coverage of Low Income Households	Optimistic	Projected from all low income HHs	60.66	70.46	86.24	111.08	150.54
		% of coverage	23	28	34	45	61
	Conserva-tive	Projected from all low income HHs	57.96	64.33	73.05	88.45	111.44
		% of coverage	22	25	29	35	45
Credit Demand	Optimistic	Projected from all low income HHs	12,687	16,474	20,659	25,211	30,093
		Projected from HHs organised through groups	2510	3963	6082	9723	14691
	Conserva-tive	Projected from all low income HHs	6344	9877	13130	16782	20802
		Projected from HHs organised through groups	2199	3555	4805	6999	10119
Credit Supply	Optimistic	Projected from all low income HHs	2298	3630	5500	8859	13859
		Projected from HHs organised through groups	2298	3630	5500	8859	13859
	Conserva-tive	Projected from all low income HHs	1753	2213	3164	4790	7117
		Projected from HHs organised through groups	1753	2213	3164	4790	7117
Demand-Supply Gap	Optimistic	Projected from all low income HHs	10399	12844	15160	16352	16234
		% of supply gap	82	78	73	65	54
		Projected from HHs organised through groups	212	333	583	864	832
		% of supply gap	8	8	10	9	6
	Conserva-tive	Projected from all low income HHs	4591	7664	9966	11992	13685
		% of supply gap	72	78	76	71	66
		Projected from HHs organised through groups	455	1342	1642	2208	3003
		% of supply gap	20	38	34	32	30

The authors could make sophisticated projections for credit, as basic data was available for making key assumptions, and projecting different scenarios. For other financial services such as savings, remittances, insurance and pensions, information in the public domain is restricted to national level. Despite significant efforts, data segregated at the State level could not be accessed; hence it was not possible to estimates demand or supply of savings, insurance, pensions and remittance services for Uttar Pradesh. It is possible that the government's recent efforts to spread safety nets through social protection schemes, will create a push for financial inclusion that will enable access to savings and credit services as well. Remittances can be made much cheaper especially as use of advanced technology, particularly mobile phones, has speeded up remittances.

Conclusion

Effective access to finance is mediated by the spread of SHGs, and JLGs, which calls for human and financial resources for financial awareness and literacy, and for group formation. This resources need to flow through to the government and NABARD to SHPIs in a bigger way than is currently the case. Further, the role of banks in reaching SHGs and JLGs, in opening basic savings accounts, and extending credit through them, remains paramount.

Access to formal financial institutions will require the official financial inclusion drive through banks to be successful. It is only if banks open accounts for individuals and SHGs/JLGs, and offer both savings and credit services, that access to financial services will be available to the poor at reasonable cost, as the route of bank credit reaching the poor through MFIs may enable access, but at a significantly higher cost. Banks have to step forward with extending credit not only through SHGs and JLGs, but also through individual accounts, if the needs of low income households have to be met at a reasonable cost.

There is a need to look beyond the existing financial infrastructure and see how much investment is needed to create strong network of new generation financial institutions. Some of the existing institutions that are non-functional might have to be closed/ liquidated to pave path for new and vibrant institutions. There is a need to understand better the potential: efficiencies and effectiveness of enrolling different Business Correspondent channels – individual, institutions including community based organizations and MFIs, and see which channels can be used to reach a large number of people in UP.

The study shows that there is high prevalence of poverty, and tremendous latent demand for financial services in Uttar Pradesh. Creating outreach and access will demand an all-out effort, for outreach to low income households, to organize them, and to create inclusion. It will also need significant effort to enable financial institutions, banks, MFIs, post offices and cooperatives, to increase their reach, for which policy changes, human and financial resources will need to be augmented in an unprecedented drive, which involves the bureaucracy, financial and civil society organisations.

Chapter 1: Introduction

Poverty in India is structurally rooted, and indebtedness has been recognized as a result, as well as a factor perpetuating debilitating effects of having low incomes. The Indian government has been concerned with access to benign finance for several decades. Pre-independence efforts related to curbing exploitative money lending and promoting cooperatives have been in place. The 1960's witnessed the nationalization of banks and efforts to reach bank credit to priority sectors. Later, with the self-help group movement taking shape, there has been policy recognition of the buildup of a microfinance market, resulting in several landmark decisions in India, which have resulted in access to finance for low income families through several channels. Recent emphasis on financial inclusion by the Indian Government and the drive by Reserve Bank of India to ensure one account per household has created an enabling environment in India that is much more positive and variegated than anywhere else in the world.

The Census 2011 showed that out of the total of 247 million households in India as many as 100 million (40%) did not have bank account. Between 2004 and 2012, the population per bank branch declined from 16000 to 13000, indicating greater reach of the banking system. However, while bank branches grew at 94% in metropolitan areas and 69-72% in urban and semi-urban areas, opening of rural bank branches grew only by 12%.

For the past 8 years, the Indian policy makers, i.e., the Central Government and the Reserve Bank of India have both put in significant efforts towards ensuring financial inclusion. In keeping with the official commitment, the Government of India (GoI), along with the Indian Banks' Association, introduced a scheme called Swabhiman–a financial security program - to ensure banking facilities in habitations with a population in excess of 2000 by March 2012. This nationwide program on financial inclusion was launched in February 2011 with focus on bringing the deprived sections of the society in the banking network to ensure that the benefits of economic growth reach everyone at all levels. On Independence Day in August 2012, the Prime Minister of India re-affirmed: *"It will be our endeavor to ensure that all households benefit from bank accounts in the next 2 years"*. The PM's speech set more ambitious targets than the Twelfth Five Year Plan: to achieve financial inclusion by August 2014.

This official drive has resulted in banks being given targets, to reach out to villages with a population of over 2,000 persons – through branches or a network of agents. Ultra Small Branches and Business Correspondents were devised as means of last mile connectivity to those difficult to reach. The agent model, however, has not yet been successful in reaching the poor. Banks have been allowed to open No-Frills Accounts (NFA) for low income and excluded households till such time as they can fulfill Know Your Customer (KYC) norms. However, it is also seen that most NFA accounts are opened due to such pressure, with customers themselves being either unaware that such an account exists in their names, or not knowing how to use these. As a result, many of the NFAs remain unused. This is in stark contrast to the official intention, which is to provide facilities for savings bank, recurring deposits, fixed deposits, remittances, overdraft facilities, Kisan Credit Cards (KCCs), General Credit Cards (GCC), collection of cheques besides facilitating transfer of government subsidies and other payments to the poor.

The Banks are also working together with the Unique Identification Authority of India (UIDAI, or Aadhar) for enrolment and opening bank accounts. The Aadhar initiative has the potential to realize the identification constraint, but is not yet fully aligned with banking procedures and requirements. The national flagship program for unskilled employment, the Mahatma Gandhi National Rural Employment Guarantee Act (NREGA) has mandated that payments be made through bank accounts, a move that has significantly aided financial inclusion. However, implementation problems plague this scheme as well, with job cards being controlled in many places by powerful rural elite. The State of Uttar Pradesh, with high poverty levels and significant regional differences in poverty, houses a large number of extreme poor households - largely unaware of official initiatives - living in areas difficult to reach. This highlights the importance of special efforts to enable effective access to financial services for low income households in UP.

This vision document was initiated as part of the PSIGPSIG Project, which aims to *enhance poor and vulnerable people, especially women, in four low income states (Uttar Pradesh, Bihar, Madhya Pradesh and Orissa) to benefit from economic growth through enhanced private investment and better access to financial services* in India. The PSIG project is supported by UKAid through the Department for International Development (DFID), UK and implemented by the Small Industrial Development Bank of India. . The development of the vision document is to guide the development of a statewide strategy, involving all the key stakeholders and ensuring the access of low-income families, to the full range of financial services they need, to improve their livelihoods. The process of developing the vision for access to finance involved a wide range of stakeholders in UP. The next section outlines the methodology followed to develop the vision and the report structure. The current status of access to financial services is outlined in Part II of the document, which considers the outreach of the different categories of financial service providers. Part III details the projections for the next five years, using assumptions based on official documents, tempered with feedback from a wide range of stakeholders. Part IV summarizes the main conclusions and the way forward if the vision of effective access to finance for the poor households in UP has to be realized.

Figure 1: Women from SHGs share their experiences with bank linkages, Sultanpur village, Saharanpur District

The Approach and Methodology

In order to develop the articulation of a shared vision, the team has conducted extensive secondary research, and engaged in a participatory process by involving different stakeholders, to design and develop the vision document. Discussions were held with suppliers of financial services as well as people who need to be reached at the ground level, to understand their feedback, demand and constraints. Along with field based individual interactions with different institutions, multi-stakeholder consultations have been conducted at state level to share perspectives emerging from the discussions. This helped develop a consensus on the approach, and seek inputs on strategies for scaling up, in order to maximize the outreach of financial services within the State. A list of all the participants of the stakeholder consultations, and organisations to whom field visits were undertaken, is given at Annexure 3.

Figure 2: A Consultative Methodology

1. Secondary research
2. Field visits with interviews and group discussions
3. Vision planning workshop with stakeholders
4. Draft vision document and sharing with key project partners
5. Stakeholder workshop on draft vision document
6. Circulation of draft and soliciting comments
7. Finalisation of the document

Figure 3 : Study team interacting with SHGs and Federations promoted by RGVMP in Nimi village, UP

A wider audience was reached through the Microfinance Community of the United Nations Country Team in India, which has over 3500 members spread all over India and some members in other countries. A query on the subject was floated, and inputs were sought from experts in the field about issues and experiences in access to financial services and UP. The query brought forth responses and inputs for preparing the Vision document for UP. These are considered in the document and detailed at Annexure 1.

The preparation of this document has suffered from a few limitations, however. The availability and inconsistency of data was a constraint, and the net was cast very wide for information collection. Secondly, stakeholders cautioned that the data obtained needs to be checked and adjusted as per field realities. A team of three persons made extensive field visits, and the stakeholders also suggested correction factors to be applied, to better reflect ground realities.

The following section outlines the number of districts and throws light on the geographical extent and the districts that currently are under financial inclusion.

Figure 4: Various stakeholders participating in the first Consultation Workshop held in Varanasi

Chapter 2: Profile of the Uttar Pradesh

The State of Uttar Pradesh lies in Northern India, with its capital at Lucknow. The State also shares boundaries with Nepal, a neighboring country. UP is one of the larger States in India. In terms of population and geographic area, it is the fifth largest Indian State. Figure 5 gives a map of the State and describes the districts.

Figure 5: Districts of Uttar Pradesh (UP)

Uttar Pradesh shares a large proportion of the area among the States in India. Table 2 gives further details about the geographic profile of Uttar Pradesh.

Table 2: Geographic Profile of UP[6]

Indicators	Uttar Pradesh	India
Total Sq. Km.	2,40,928	32,87,263
Total Districts	75	640
Total Blocks	820	5767
Total Villages	1,07,452	640,867

Uttar Pradesh comprises 75 districts that house 820 blocks, which in turn comprise 1,07,452 villages, i.e. around one-sixth of the total number of villages in the country. Of which 97,942 are inhabited villages.

The total population of India is around 1.2 billion. Several States in India share a large proportion of the huge population of the country. Uttar Pradesh has a total population of about 200 million persons contributes 16% of the total population of the country, of which 104 million, i.e. 52% are male and 48% are female.

The population dis-aggregated by sex, is given in Table 3 below. The sex ratio of the State is an important indicator for the analysis of the Human Development Index in these areas. A comparison with national average also puts the performance of the State in perspective with the larger country.

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[6] Census of India, 2011

Table 3: Population and Sex Ratio in Uttar Pradesh[7]

Indicators	Uttar Pradesh	India
Total Population (in million)	199.58	1210.19
Male (in million)	104.60	623.72
Female (in million)	94.99	586.47
No. Of Persons/ Sq.km	828	382
Sex ratio - females per 1,000 males (2011)	908	940
% of SC/ST population (2007-08)	26.6	18.2

Uttar Pradesh is a densely populated state with 828 and 1102 persons per sq. km respectively. Uttar Pradesh has a low sex ratio of 908, much lower than the national average of 940.

The State also has higher percentage of SC/ST population with respect to the other States.

Literacy rates are also an important indicator of the human development in a region. The literacy rate in the State of Uttar Pradesh is given in Table 4.

Table 4: Literacy Rates in Uttar Pradesh, 2011[8]

Indicators	Uttar Pradesh	India
Total Literacy rate (in %)	69.72	74
Male (in%)	79.7	82
Female (in%)	59.26	65

The State of Uttar Pradesh has low literacy rates, i.e. 69.72% lesser than that of the national average of 74%. On a closer note, the levels of literacy are skewed with literacy rates among men being above the national average in the State vis-à-vis those of women.

One of the other primary indicators of Human Development, the socio-economic status of people living in UP is given in Table 5. The socio economic status refers to the general social standing of the people in Uttar Pradesh with that of the national average.

Table 5: Socio-Economic Status in Uttar Pradesh, 2012*[9]

Indicators	Uttar Pradesh	India
Per Capita income (FY 2011-12 in Rs)	30,052	60,603
Poverty (%)	37.7	29.8
Rural (in %)	39.4	33.8
Urban (in %)	31.7	20.9
Rural: SC/ ST (in %)	44.8/ 32.4	36.8/47.3
Urban: SC/ST (in %)	44.9/37.4	39.9/33.3

*Similar figures for 2013 could not be obtained

Uttar Pradesh's per capita income was Rs.30,052 in the year 2011, which is about half of the national average. According to the poverty figures, Uttar Pradesh has 37.7% of people below the poverty line.[10]

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[7] Census of India, 2011; NSS 64th Round

[8] Census of India,2011

[9] "Per Capita Income", Unstarred Question#156, LokSabha, Ministry of Planning, answered on 22 November 2012

[10] "Press Note on Poverty Estimates 2009-10", Planning Commission, Government of India, March 2012

Table 6 details the human development and health indicators for Uttar Pradesh. These indices mark the levels of overall development and progress in the State.

Table 6: Health and HDI Status in Uttar Pradesh, 2012*

Indicators	Uttar Pradesh	India
Infant Mortality Rate(per 1000 live births)	57	50
Life expectancy	60	63
Birth rate (%)	28.3	22.1
Death rate (%)	8.6	7.2
HDI Rank	18	119

*Similar figures for 2013 could not be obtained

The State of Uttar Pradesh registers a high proportion of infant mortality rate: 57%[11]. The life expectancy in the State also falls short of the national average, being 60 years compared to the national average of 63[12]. The death rates in Uttar Pradesh is 8.6% which is higher than the national average. Such factors contribute to the rank of 18 in the UN-compiled Human Development Index[13].

Thus access to finance (A2F) is particularly relevant in UP, as

- Uttar Pradesh has a high level of diversity and disparity in economic and cultural context;
- The state is far behind many other states in terms of micro financing and coverage of SHGs; and
- In terms of demography, there is high level of heterogeneity that demands for specific strategies

> The State of UP has high diversity in economic and cultural context, high demographic diversity, but, it lags behind other States in in terms of micro financing and coverage of SHGs. This calls for specific strategies for access to finance, to underserved regions and people in the State.

These demand careful development of strategies for reaching underserved areas and people in the State.

Figure 6: Scene of Nimi village, UP

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[11] "Infant/ Child Mortality Rate", Unstarred Question# 370, Ministry of Health and Family Welfare, 23 November 2012

[12] "CBR (Crude birth rate) by residence, India and bigger States, 2010", Sample Registration System Statistical Report 2010, 2012

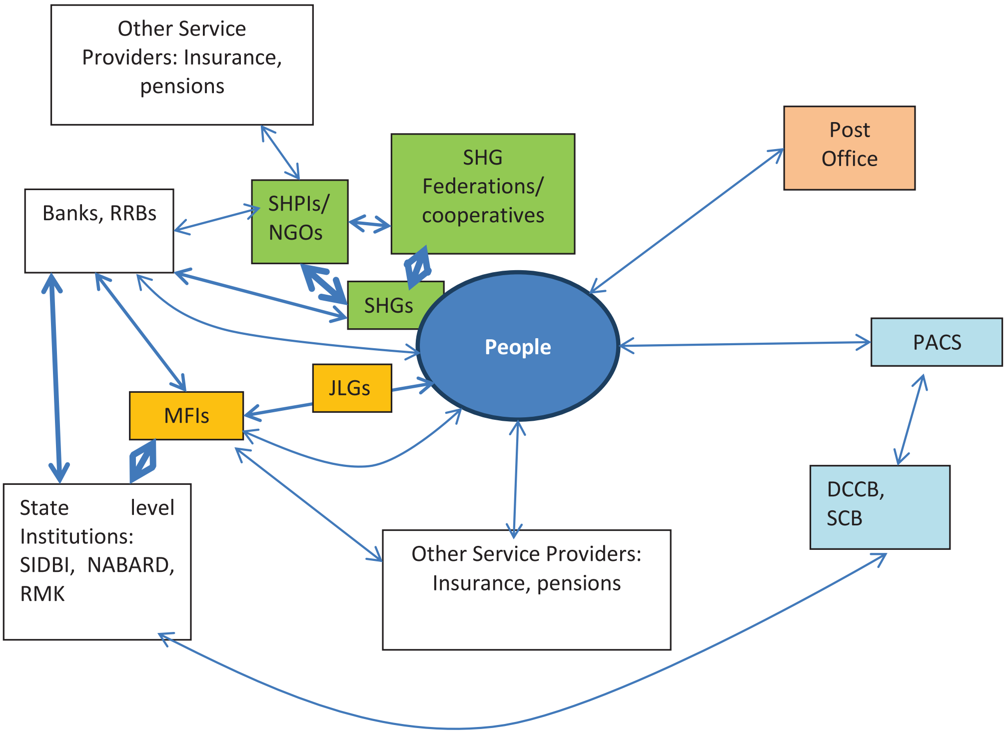
[13] SRS Bulletin, India Human Development Report 2011, January 2011

Chapter 3: Baseline: Current Status of Banking and Financial Services

This section maps the current status of supply of financial services, from different categories of suppliers

Figure 7 represents the primary channel of savings and credit services to SHGs, which may be formed by Self Help Promoting Institutions (or by banks themselves). Banks have also been extending loans to Joint Liability Groups, either directly or through Microfinance Institutions (MFIs).

Figure 7: Different Channels engaged in providing Financial Services to People in UP



Similarly Primary Agricultural Credit Cooperative Societies (PACS) extend loans to their members, which are refinanced by the District/ State cooperative banks (and eventually, NABARD). Post offices extend savings services. Insurance companies offer their products through SHPIs or MFIs who also function as aggregators for pension. MFIs provide loans through JLGs and SHGs.

The extent of outreach through different channels in 2012, is now considered in detail.

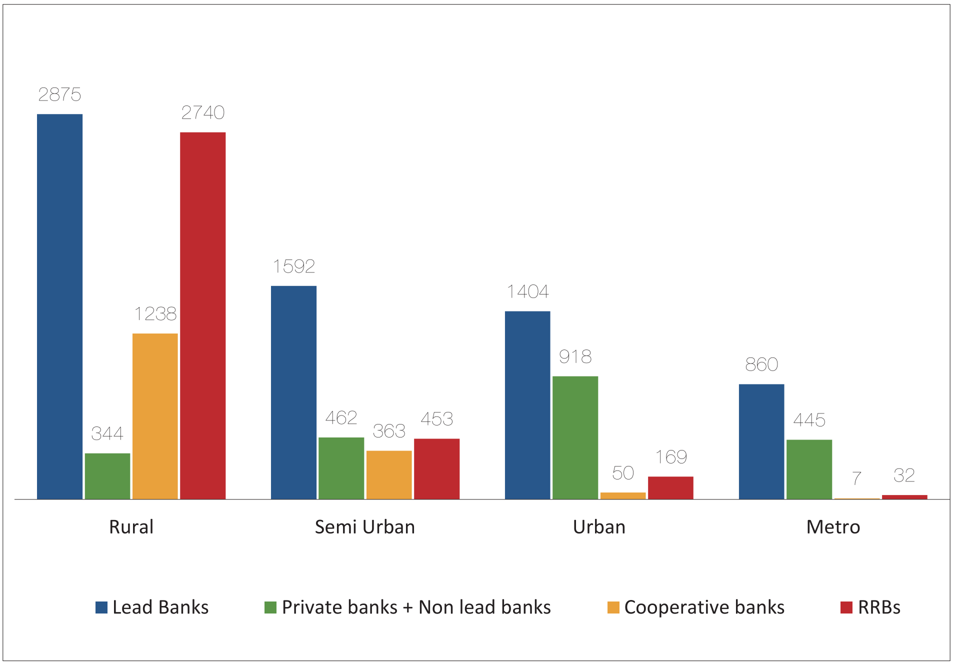
3.1 The Banking Channel

Banks are the primary formal financial institutions (FFIs) through which the government hopes to reach those currently financially excluded. This involves access to savings accounts and services as well as access to credit and other financial services.

3.1.1 Outreach of banking facilities to poor houses

In line with the PM's statement and the Twelfth Five Year Plan that called for financial inclusion to be widespread, banks have been directed and have subsequently established branches across Uttar Pradesh, as depicted in Figure 8.

Figure 8: No. of Banks according to Geographical Spread in Uttar Pradesh (December 2012)[14]



The lead banks, most populous among the others, are uniformly distributed across the State, more or less even across semi-urban, urban, and metro level areas like Lucknow, Kanpur. Lead Banks, Cooperative banks, and Regional Rural Banks (RRB) are predominant in rural areas in Uttar Pradesh. Private Banks, however, are more concentrated in the urban areas of the State. Bearing in mind the principle of financial inclusion; Figure 8 highlights that rural areas are serviced by the most number of banks. In all, a total of 13,952 banks service the various areas in Uttar Pradesh.

The RRBs and the Cooperative banks have established most of the banks, i.e. 80% and 74% of their bank branches in rural areas, ensuring wide coverage in these regions. Private Banks have merely 15% of their branches in rural areas and 42% of their branches in urban areas, thus concentrating their businesses in the metros and other large and small cities. The lead banks are evenly established in semi urban and urban areas and have maximum branches in rural areas.

RBI has allowed banks to open Ultra Small Branches (USBs) in rural areas from where BCs can conduct operations on behalf of banks. USBs may be set up between the base branch and BC locations to provide support to 8-10 BC agents at a distance of 3-4 kms.

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[14] SLBC report of UP, December 2012

Table 7 shows the range of coverage of villages having population over 2000 persons by different banks. The State Level Banker's Committee (SLBC) has allotted villages to different banks to cover by December 2012: public, private sector, and regional banks. Banks subsequently adopt different models such as brick and mortar or BCA models to ensure coverage of financial inclusion in these villages.

Table 7: Target and Coverage of Villages by 30.09.2013[15]

Name	**No. of Villages (having population ≥ 2000) allotted by SLBC to the bank by September 2013**	**No. of villages covered through different approaches end of December 2013**					**No. of villages yet to be covered**
		Through Brick & Mortar Branches Opened	Through BCA Appointed	Through Mobile van	Through others	Total No. of villages covered by bank	
Total Public Sector Banks	10,039	331	9,608	5	2	9,999	0
Total Regional Rural Banks	6,226	344	6,024	0	16	6,384	0
Total Private Banks	5	0	5	0	0	5	0
Grand Total	**16,270**	**675**	**15,637**	**55**	**18**	**16,388**	**0**

Growth of Ultra Small Branches and Business Correspondents

As of September 30th, 2013, 13,989 BC agents were recruited, covering 16,270 villages. Public Sector Banks dominate the landscape of Uttar Pradesh with coverage of 9,999 villages against a target of 10,039. The higher targets to Public Sector Banks also indicate the government's drive to ensure financial access to a larger population. Private sector banks are few and constitute a very negligible portion of coverage with merely five villages. Regional banks register a prominent coverage of 6,384 villages under its ambit, exceeding its targets set by the SLBC. The banks have adopted different models to help provide financial inclusion; although, the chief model adopted by both public sector and regional banks tend to be the Business Correspondent Agent (BCA) model, where there is an intermediary appointed to act on behalf of the bank. The BCA model covers 15,637 out of 16,388 villages in the State. Public Sector banks cover almost 62% of the villages. Private sector banks are concentrated in urban sectors.

The Swabhimaan campaign has led to several initiatives by various institutions. The significant initiatives relate to provisions for having Ultra Small Branches (USBs), business correspondents for opening accounts, and the feature of opening No Frills Accounts (NFAs), have all helped banks to extend their outreach. However, these measures are not devoid of problems, as seen from the following analysis.

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[15] SLBC report of UP, September 2013

Figure 9: Group discussion at the Stakeholder Consultation Workshop in Varanasi

Spread of Bank Branches

Under the plan for financial inclusion for Uttar Pradesh, Table 8 draws attention to the targeted number of bank branches in villages with population more than 5000 by September 2013 and the actual number of bank branches established as on September 2013. The table chiefly points to the setup of bank branches in four zones across Uttar Pradesh: Eastern, Central, Western UP and the Bundelkhand region. The table reports that 95% of the target has been achieved against the plan for opening branches as on September 2013.

Table 8: No. of Bank Branches Planned (in villages with population over 5000)under FI and No. of Branches Opened (till 30-09-2013)[16]

Banks	Total branches planned(in villages with population over 5000) to cover by 30-09-2013	Actually Opened as on 30-09-2013	% of coverage
Total Public sector Banks	94	94	100
Total Regional Rural Banks	104	96	92.3
Sub Total	198	190	95.96

Table 8 shows that public sector banks achieved 100% and RRBs 92**.37**% of their targets. Figure 10. Below shows that public sector banks fell short of their targets by 7.7% in the state of Uttar Pradesh.

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[16] SLBC report of UP, December 2012

Figure 10: No. of Bank Branches Planned (in villages with population over 5000) and Opened under FI, Region-wise

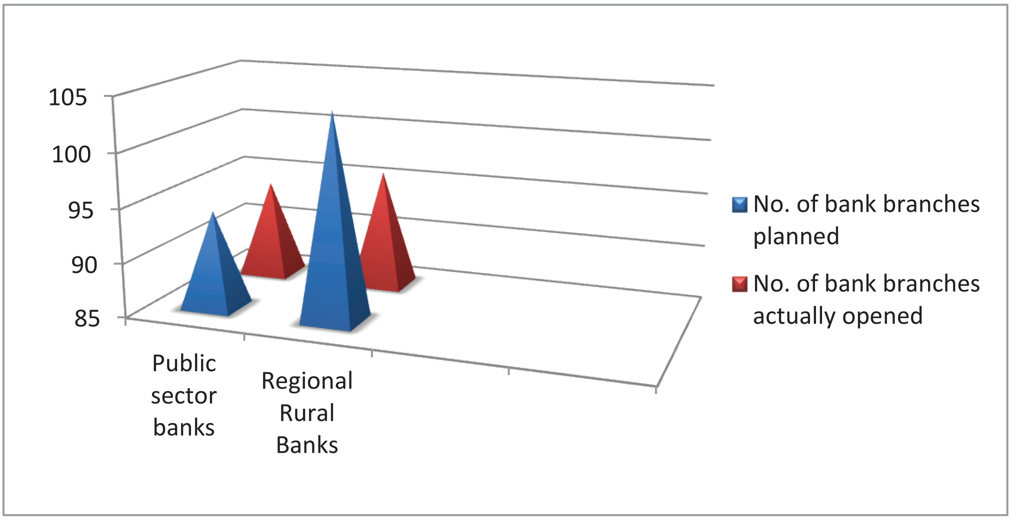

Figure 11: Household in Nimi village that could not join an SHG due to low household income

A preeminent framework adopted by several banks towards providing financial inclusion to rural areas is the Business Correspondent Agent (BCA) model. In this, a business intermediary handles the banking and financial services on behalf of the banks. Table 9 indicates the number of villages with a population over 2000 that have been covered by the BCA model.

Table 9: No. of Villages with Population above 2000 covered with BCAs and its Operations (30-09-2013)[17]

Banks	No. of villages (population above 2000) allotted to cover by BCA	No. of BCA appointed in the allotted villages	% of villages covered with BCA	No. of BCA location officers designated for weekly visits	% of BCAs/ villages officers designated for weekly visits	No. of BCA locations that have space for USB identified	% of USBs have space	No. of BCA locations laptop procured	% of BCA locations procured laptops
Total Public sector Banks	9619	8566	89.05	2897	34	8627	100	3046	32
Total Regional Rural Banks	6081	5241	86.18	2324	44	4230	81	585	10
Total Private Banks	5	4	80		100		100	0	0
Grand Total	**15705**	**13811**	**87.94**	**5226**	**38**	**12861**	**93**	**3631**	**2**

Public Sector banks secure an adequate coverage of villages with 89% of allotted villages under the BCA. On an average, between various banks, 87% of villages that have been allotted to different banks are covered under the BCA.A crucial aspect of providing financial services is to ensure coverage; secondly, BCAs also need to be equipped with facilities to conduct transactions or open accounts or facilitate financial services. On an average 38% of BCA locations have officers designated to undertake weekly visits. Lesser supervision by the bank officers to the BCA have resulted in limited usage of the USBs for accessing financial services. Private Banks have managed to ensure that all their BCAs undertake weekly visits to villages. In 12,648 BCA locations (93%) space has been identified for establishing USB but equipping the BCAs with facilities like laptops, data cards for conducting transactions and other financial activities are not taken care by the banks. Private Banks have not provided laptops to their BCA locations, whereas Public sector banks have procured laptops for 32% of such locations and Regional Rural Banks could do so for only 10% of their USBs. The banks fail to provide the necessary facilities to all the BCAs in time, which is another weak area that has not been addressed by the banks. The direct response from the BCAs was that the instruments particularly the net connectivity is really poor, and more often they are not able to use them when people ask for services like withdrawal of money. BCAs need to be made more effective to accelerate the financial inclusion agenda.

In Uttar Pradesh, many villages with population of less than 2000 are unbanked. The progress on their coverage is given in Table 10.

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[17] SLBC report of UP, December 2012

Table 10: No. of Unbanked Villages with Population less than 2000 (December 2012)[18]

Regions*		Eastern Zone	Central Zone	Western Zone	Bundelkhand Region	Total
No. of villages with <2000 populations		40531	15416	18250	3143	77340
No. of villages with <2000 population already having banking facilities	Branches	194	151	121	19	485
	BC	0	0	0		0
	Other modes	0	0	0	0	0
	Total	194	151	121	19	485
No. of Unbanked villages planned to cover	Branches	511	210	263	61	1045
	BC locations (USBs)	39617	15054	17860	3063	75594
	Other modes	209	1	6		216
	Total	40337	15265	18129	3124	76855
Progress - No. of unbanked villages covered (till Dec 2012) Y6	Branches	47	20	0	0	67
	BC location (USB)	260	328	111	63	762
	BC visits	507	52	111	0	670
	Other modes	0	0	0	0	0
	Total	814	400	222	63	1499
Still total unbanked villages to be covered	Branches	464	190	263	61	978
	BC locations (USBs)	39357	14726	17749	3000	74832
	Other modes	209	1	6	0	216
	Total	40030	14917	18018	3061	76026
% of unbanked villages to be covered		99.2	97.7	99.4	98.0	98.9

*Regional data for the same parameters for 2012-'13 could not be obtained

There are 77,340 villages in Uttar Pradesh that have a population of less than 2000. As of December 2012, 1499 villages have been provided with banking coverage. It should be noted that this represents a small proportion, as 98.9% of villages are yet to be covered. Only 485 villages, i.e. a negligible 0.6% of the villages across the Eastern, Western, Central and Bundelkhand regions have some manner of access to banking facilities. Including the remaining villages remains a major challenge. Banks are planning to make up for such an absence by appointing BCA models to 75,594 (97%) of such hitherto unbanked villages.

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[18] SLBC Report of UP, December 2012

3.1.2 Status of No-Frills / Savings Accounts

Among the villages/areas where some banking facility has been provided, villagers have begun to utilize the account facilities on offer **Table** 11 represents the number of savings accounts opened by villagers under the Financial Inclusion (FI) drive.

Table 11: No. of Accounts opened under FI and its Operations (as on 30.09.2013)[19]

Banks	No. of FI accounts opened (#lakhs)	Total No. of Transactions by the FI accounts (#lakhs)	Average No. of transactions by the FI accounts[20]	Total amount of transactions by the FI accounts (Rs. Crores)	Average amount of transaction by the FI account (Rs.)
Total Public sector Banks	112.30	156.65	1.39	915.15	814.92
Total Regional Rural Banks	18.54	23.99	1.29	46.9	25.30
Total Private Banks	0.01	0	0.00		0
Grand Total	**297.74**	**180.55**	**0.61**	**902.05**	**302.97**

In all, more than one crore accounts have been opened across public, private, and Regional Rural Banks. These accounts subsequently registered more than 180 lakh transactions. This shows that 51% of the accounts in public sector banks showed transactions, while 92% of the accounts in RRBs were operated. There were no transactions in any accounts opened by private banks under FI. The main reason for not using the accounts properly by people is that the accounts created by them are mainly for accessing government payments like NREGA, social security schemes such as pension, scholarships, etc. These transactions are not regular and usage of accounts for other purposes like savings, transfer or credit is limited. As stated earlier, banks have been slow to equip the BCAs/ USBs with better facilities. However when private agencies like FINO and MFIs such as CASHPOR Micro Credit have played a lead role in providing BC services have shown better usage of accounts by people.

FINO PayTech Ltd one of the largest BC service providers in Uttar Pradesh has received mandate from Union Bank of India to open and service NFAs in close to 20, 000 gram panchayat in 50 districts of UP. As of December 2012, the company has opened nearly 50 lakh bank accounts, of which 80% are used for savings and withdrawal, while the rest are used to get NREGA and pension. CASHPOR Micro Credit is another BC working with ICICI and technical agencies to open bank accounts in remote villages.

A wide range of organisations and individuals currently play the role of a BC. As individuals have not yet found it viable to be exclusively BCs, the model still needs refinement to expand inclusion through individuals. NBFCs, on the other hand, are turning to being Correspondents at a time when the overall loan business is slow, and the BC business offers a line of work on which to sustain their organisations. Therefore, many NBFCs have opened not for profit companies that undertake the BC business, and have the potential to do it at a larger scale than individual BCs, as they have work force avail-

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[19] SLBC Report of UP, December 2013

[20] The SLBC reports for a year, hence it is presumed that these are number of transactions reported in the account in the year 2011-12.

able. However, comparative efficiency and effectiveness of the channels has not been well researched. While, NBFCs can be considered useful channels for financial inclusion, more information is needed before they can be declared better compared to other competing channels.

3.1.3 Status of Credit Supply by Banks

Credit disbursement by banks to different sectors such as agriculture, small enterprise and other priority sectors is highlighted in Table 12.

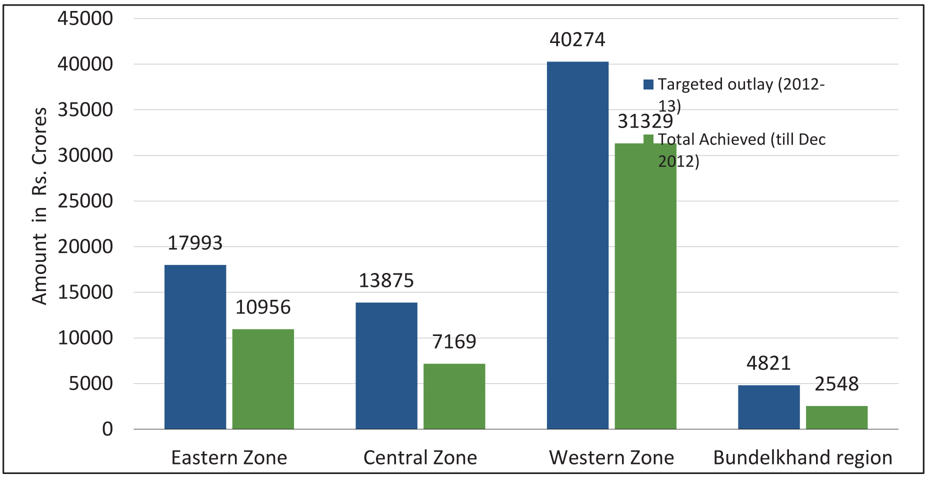
Table 12: Quantum of Credit Disbursed (Amount in Crores)[21]

Sector	April - December, 2012			April-September, 2013		
	Target	Achieved	% of target achieved	Target	Achieved	% of target achieved
Agriculture	54,475	31,944	58.64	69,558	26,323	37.75
Small enterprise	10,931	8,256	75.53	13,133	8,544	65.06
Other Priority Sector	12,682	5,231	41.25	14,032	4,665	33.25
Total	**78,089**	**45,431**	58.18	96,723	39,532	40.83

When taken over a 9-month period, the figures show that credit supply to agriculture, small enterprises and other priority sectors has either remained stagnant or increased marginally. Figure 12 gives the outlay of credit supply to different zones within Uttar Pradesh, i.e. Eastern, Western, Central, and Bundelkhand regions.

When credit to different zones of UP is analysed, the overall achievement against targets set for coverage is 68% for the State. Among the various regions, the western zone has a good coverage of 78% whereas actual credit supply to the remaining regions fell considerably short of targets. While the Eastern zone managed to receive 61% of its allotted credit, the Central and the Bundelkhand regions could only receive slightly more than half of the credit targets allotted to them, with 52% and 53% respectively.

Figure 12: Annual Outlay and Targets Achieved, Region-wise)*[22]



*Regional data for year 2013 could not be obtained hence the bar chart is based on 2012

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[21] SLBC Report of UP, September 2013

[22] SLBC Report of UP, December 2012

Status of Credit Supply through Kisan Credit Cards (KCC)

The Kisan Credit card is a facility accorded by the Government to farmers who can avail credit under a single window system. This includes short-term, long-term, and medium term credit. Farmers are issued a credit card and a passbook under this scheme. In Uttar Pradesh, the scheme has ensured coverage of 78% across the span of the State. The region-wise spread of CCs are given in

Table 13: Farmers covered under Kisan Credit Card (KCC) (December 2012)[23]

	Total No. of farmers (#lakhs)	No. of KCC issued (April to Dec 2012)	No. of farmers covered under KCC (cumulative)	% of coverage
Eastern Zone	80.29	7.93	64.92	81
Central Zone	8.70	1.38	7.14	82
Western Zone	5.85	0.10	2.17	37
Bundelkhand region[24]	0	0	0	0
Total	**94.85**	**9.43**	**74.24**	**78**

*Zonal data for 2013 could not be obtained

The table shows that while over 80% of the farmers in Eastern and central zone had KCC's, only 37% farmers in the Western Zone has these. No KCC cards are reported to have been issued in the Bundelkhand region. Overall, 70% of the 95 lakh farmers in UP had access to KCCs.

The advantages of the Kisan Credit Card (KCC) scheme are manifold. Not only does it extend credit to farmers, it also helps insure the farmers under the Rashtriya Krishi Bima Yojana. Table 14 gives the loans and pensions extended through KCCs.

Table 14: Loans and Insurance services through KCCs (as on Sept. 2013)[25]

	Cumulative No. of crop loans (lakhs)	Cumulative amount of crop loans (Rs. Lakhs)	Farmers covered under Personal Accident Insurance Scheme					
			Cumulative no. of farmers (#Lakhs)	No. of claims lodged	Amount of lodged claims (Rs. Lakhs)	No. of Claim settled	Amount of claims settled (Rs. Lakhs)	% of claim amount settled
Commercial Banks	66.64	58.12	71.42	421	62.74	42	21.00	33.47
Cooperative banks	79.92	2.51	73.37	0	0		0	0
Regional Rural Banks	45.63	23.77	47.25	117	58.50	64	32	54.70
Grand Total	**192.20**	**84.40**	**192.06**	**538**	**121.24**	**106**	**53**	**43.71**

The data shows that only 43.7% of the claims made are settled under the scheme.

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[23] SLBC Report of UP, December 2012

[24] The reasons for why no coverage in these region will gathered from organizations working in these regions and included in the final version

[25] SLBC Report of UP, December 2013

An analysis of the outreach of banks shows that bank network still has to reach many of the remote areas and villages with less than 2000 population across all regions in UP. A total of 78% of the famers in UP possess KCCs- however, these are likely to be the landed and middle high income households. The reach out of KCCs in the poorer region of Bundelkhand is almost nil and even the achievement of credit supply is lagging behind in this region.

3.1.4 SHG – Bank Linkages

Many SHGs in Uttar Pradesh have been linked with banks to ensure credit supply. SHGs have several members who apply jointly to subscribe for loans. The number of SHGs and loans disbursements to them is given in Table 15.

Table 15: As per SLBC Report the No. of SHGs and loans disbursement by different banks (as on 30. September. 2013)

Institutions	Groups Formed (#lakhs)	Cumulative No. of groups linked for loan (#Lakhs)	% of groups linked for loans*	Cumulative loan amount (Rs. Crores)	Average loan amount accessed per SHG (Rs)*
Comm.Banks	1.94	1.85	95.36	1,647.50	89,054
Coop Banks	0.21	0.13	57.14	75.60	58,154
RRBs	2.16	1.75	81	626.14	35,779
Total	4.31	3.73	86.54	2,349.24	63.493

*There may be same overlap if same groups have been funded by more than one bank

Among the various banks in the State, Regional Rural Banks ensure the maximum number of groups formed. This is closely followed by Commercial Banks as they cater to loan requirements of 95.36% of the SHGS formed. Regional banks give credit to only 81% of the groups that bank with them. The above table indicates that commercial banks have disbursed the maximum credit to SHGs.[26] The average loan by RRBs to SHGs is Rs. 35,779, cooperative banks have an average higher than RRBs; their average credit amount stands at Rs. 35,779.

Figure 13: Study team interacting with households engaged in livelihood activity through SHG-Bank Linkage in Nimi Village in UP

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[26] SLBC, UP, December 2013

The smaller percentage of groups linked for loan with RRBs and Cooperatives, and low repayment rates by SHGs with all the banks shown in Table 14 and 15 were due to the inherent problems surfacing between the SHPIs and banks. During one of the stakeholder workshops held on SHG bank linkages in Lucknow in February, 2013, participants highlighted the lack of bank staff particularly in the RRBs, poor attitudes by the bank staff towards to SHG account opening and loan application processing, and insistence on rigid KYC norms contributed to the poor results in SHG bank linkages. Similarly, inadequate role played by SHPIs in loan recovery and in developing quality groups due to constrains faced by the promoting agencies with funds, or irregular release of sanctioned budgets by the donor/supporting agencies has caused hindrance to the process.

The Bank Linkages program is used to provide credit to the various SHGs that are operating in Uttar Pradesh. As per the NABARD data, table 16 points to the quantum of loan disbursement and provides details of recovery of the SHGs under the program. The details are listed for the years 2011-12[27].

Table 16: Savings, Loan disbursement and loan outstanding of SHGs under Bank linkages Program as on 31st Mach 2013

Banks	Savings of SHGs with Banks as on 31st Mach 2013			Loan disbursed during 2012-2013		Loan outstanding as on 31st March 2013		NPAs against bank loans to SHGs as on 31st March 2013	
	No. of SHGs (# Lakhs)	No. of members (# Lakhs)	Savings Amount (Crores)	No. of SHGs (#Lakhs)	Amount (Crores)	No. of SHGs	Amount (Crores)	Amount of gross NPAs against SHGs (Crores)	NPA as % to loan outstanding
Commercial banks	1.53	16.69	239	0.16	193.13	1.08	1022.21	196.36	19.68
Cooperative Banks	0.09	1.01	5.99	0.01	9.74	0.04	24.88	9.62	538.65
RRBs	2.42	26.67	146.72	0.16	248.12	1.15	910.20	150.55	16.54
Total UP	**4.04**	**44.38**	**391.71**	**0.33**	**450.99**	**2.27**	**1957.29**	**357.53**	**18.21**

Among the total number of SHGs (around 4.04 lakhs) linked to banks, more than 2.42 lakh SHGs are linked to RRBs. Cooperative banks, on the other hand, are only linked to a mere 9,195 SHGs. The savings per member was Rs.1,432 in case of SHGs linked with commercial banks, while the average is significantly lower for those linked with cooperatives and RRBs, at Rs.593 and Rs.550 respectively. Given that RRBs reach out to rural remote areas, it is understandable that their customers have a lower capacity to save. The average loan disbursed per SHG was the highest for RRBs, Rs. 1.6 lakhs per group. It was Rs. 1.21 lakhs per group for commercial banks and the lowest for SHGs financed by cooperative bank, Rs. 0.17 lakh. Average loan outstanding was highest for Commercial banks, Rs.1.28 lakhs followed by RRBs, Rs.64,000 per group and the lowest for Cooperative banks, Rs.34,000 per group. The number of outstanding loans is highest with Commercial banks. Cooperative banks, in spite of being linked with fewer SHGs register an NPA of more than 56%, thereby underlining problems with methods and modes of

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[27] NABARD Microfinance status report 2011-2013

recovery. This has implications for the type of organisations which can be banked upon for inclusion, and the NPA percentages show that greater reliance can be placed on commercial banks as compared to cooperative banks.

3.1.5 Credit Deposit Ratio

Table 17 highlights the Credit Deposit ratio of different banks in Uttar Pradesh.

Table 17: Credit Deposit Ratio according to different banks[28]

	Banks	CD ratio December 2012	CD ratio September 2013	Variations
Deposits and advances	Commercial banks	54.39	53.94	-0.45
	RRBs	53.69	56.19	2.5
	Cooperative banks	60.46	59.19	-1.27
	CD of advances	54.54	54.26	-0.28
Advances and investments	Commercial banks	58.44	58.20	-0.24
	RRBs	106.76	106.70	-0.06
	Cooperative banks	107.31	105.29	-2.02
	CD of Deposits and investment	63.86	63.28	-0.58

Commercial banks and Cooperative banks both show a slight decrease in the CD ratio over the year while RRBs show an increase. Total advances and investments in the State have again show a decrease in the CD ratio across the board. Overall there seems to be a decrease in credit flow from the banking sector in U.P for the period of December 2012 to September 2013.

Non-Performing Assets (NPA)of a bank underline the financial health of the banks and its institutions.

Table 18 shows the NPA of commercial banks, RRBs and cooperative banks.

Table 18: Non-Performing Assets (NPA[29]) in Rs. Crores[30](as on 30.09.2013)

Institution	Loan outstanding as on 30.09.13	NPA level as on 30.09.13	NPA Level: % against O/S Level
Comm. Banks	275,855.68	15,747.64	5.71
RRBs	24,774.81	2,573.21	10.38
Cooperative banks	9,672.29	1,599.49	16.54
Total	**3,10,302.78**	**19,920.19**	**6.42**

The NPA of commercial banks is at 5.71% of loan outstanding and is below the State average of 6%. RRBs registered an NPA performance of 10.38%. The highest NPAs lie

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[28] SLBC, UP, December 2013

[29] The SLBC does not indicate whether the NPA figures relate only to priority sector lending or to the banks total lending portfolio.

[30] SLBC, UP, December 2013

with the cooperative bank with 16.54%. This indicates that for financial inclusion, it would be better to accord higher priority to scaling up through commercial banks, and RRB's and it would be necessary to support cooperative banks to improve their recovery performance before scaling up through them.

3.2 Promotion of SHGs and JLGs by SHPIs

SHG Bank linkage is possible only if Self Help Promoting Institutions (SHPIs) form groups and link them with banks, enabling them to open savings accounts and take loans. This section provides some information about the prominent SHPI's of Uttar Pradesh, their growth aspects, and their constraints.

Table 19 gives the number of different types of SHPIs supported by NABARD to promote SHGs in Uttar Pradesh, the number of SHGs promoted by them, and those linked to banks for savings and credit.

Table 19: No. of SHPIs and their Promotion of SHGs in Uttar Pradesh (31st March 2013)[31]

Type of SHPIS	No. of SHPIs	Grant Sanctioned (Rs. Lakhs)	Grant released (Rs. Lakhs)	No. of SHGs to be promoted	No. of SHGs promoted	No. of SHGs savings linked	No. of SHGs credit linked
NGOs	574	6564.37	2224	124141	112933	72203	30885
RRBs	10	248.12	27.10	11720	4929	N.A[32].	3544
Cooperatives	7	34.00	11.68	2800	2133	N.A.	923
Individual Rural Volunteers (IRVs)	850	151.75	7.33	8500	1922	N.A.	1,293
Farmers' Clubs	102	11.3	10.83	0	2,535	0	1,680
Total	**778**	**7009.54**	**2280.94**	**147161**	**124452**	**72203**	**38325**

The number of SHGs targeted to be promoted is 1.47 lakhs of which 1.24 lakh SHGs were promoted. Of these 1.12 lakh were promoted by NGOs, and fewer by RRBs, cooperatives and by Individual Volunteers and Farmers' Clubs. Of the SHGs promoted, about 72,2030 (64%)were linked to banks for savings and about 38,325 groups (30.8%) received credit. The field discussions revealed that a major reason for low achievement of targets is the lack of release of grants sanctioned by NABARD. This is evident from the above data, which shows that of the Rs.70 crores that was sanctioned for promotion of SHGs only Rs. 22.8 crores (32.6%) was released. From the consultation meet on SHG-bank linkages in Lucknow where NGOs claimed that despite good work by the NGOs, money was not released in time by NABARD. But the response from NABARD was that money might have not released till all the commitments met by the NGOs as per the agreement.

The growth of SHGs is constrained by the lack of funding for SHG promotion. There are few sources that NGOs can access, and NABARD, one of the major sources has not been able to release over three fourth of the amounts sanctioned.

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[31] NABARD Microfinance status report 2012-13

[32] These data are not reported by the SLBC. Presumably, if the SHGs have opened accounts in RRBs and Cooperative Banks, they would also have done some savings in these accounts. However, these data are not reported.

NABARD has, however, "appointed a Women's Self Help Group (WSHG) anchor NGO in few districts which has just started. The biggest program that NABARD supports is through the Rajiv Gandhi Mahila Vikas Parishad (RGMVP) in 40 districts. It has formed 50,000 SHGs of good quality. It uses the Community Resource Person (CRP) model for promotion, which means that a community member who benefits and gets transformed through SHG is groomed to promote further groups"[33].UNDP's Swayam ('self-reliance') project integrating the key social, economic, political and legal dimensions of empowerment was initiated three years ago (2009) in a pilot program funded by the IKEA Foundation in 500 villages in Jaunpur, SantRavidas Nagar and Mirzapur districts with a grant of €5.5 million (US$ 7.5 million).This project reached over 43,000 women through3,124 SHGs. Through their savings and bank loan linkages, over 36,000 women have become entrepreneurs in five trades – dairy, incense, *papadum* (Indian snacks), carpet weaving and handicrafts[34].

In addition to promoting SHGs, recently NABARD has also extended assistance to promote Joint Liability Groups (JLGs), and the numbers as on March 2012 is depicted in table 20.

Table 20: Details of JLGs promoted and credit linked as on 31stMarch, 2013[35]

State	No. of JLGs promoted as on 31/03/2012	Loans Disbursed as on 31/03/2012 (Crores)	No. of JLGs promoted during 2012-'13	Loans Disbursed during 2012-'13 (Crores)	Cumulative No. of JLGs promoted as on 31/03/2013	Cumulative loans disbursed as on 31/03/2013 (Crores)
UP	20,313	105	30,675	155	50,988	259
All India	**332707**	**2846**	**196539**	**1838**	**529246**	**4683**

Table 20 indicates the number of JLGs promoted in Uttar Pradesh over the period 2012-'13. The quantum of loan disbursed has increased by 48% in 2013, from Rs.105 crores to Rs. 155 crore in 2012-'13. The average cumulative loan accessed by JLG across India is 0.88 lakhs. Uttar Pradesh has an average cumulative loan access of 0.51 lakhs.

The support provided for JLG promotion is given in Table 21.

Table 21: Support for Promotion of JLG (31.March.2013)[36]

State	Grant Sanctioned (Rs. Lakhs)	Grant released (Rs. lakhs)	No. of JLGs to be promoted/credit linked	No. of JLGs credit linked (Rs. Lakhs)
UP	257.22	68.77	12861	6875
All India	**5824.35**	**1030.72**	**301625**	**105566**

Table 21 indicates that a total of 12861 JLGs were to be promoted in UP for which NABARD had sanctioned grants of Rs.257.22lakhs. However, only Rs. 68.77 lakhs was released. It is not surprising that only 6875 JLGs are credit linked in UP.

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[33] Mr. B. S. Suran, NABARD Head Office, in a response to the SE query.

[34] Source: Project Factsheet, downloaded from http://www.undp.org/content/india/en/home/operations/projects/poverty_reduction/strengthening-women-s-social—economic-and-political-empowerment/

[35] NABARD Microfinance status report 2012-2013

[36] NABARD Microfinance status report 2012-2013

In 2012, SHPIs have promoted about 1.24 lakh SHGs and 7100 JLGs, thus a total of about 81,000groups have been promoted during the year. The cumulative total for UP is 4.71 lakh SHGs and about 0.42 lakh JLGs. These official figures when adjusted for overlaps and defunct groups show 80% are active groups in UP.

No. of Federations/ COMFIs: As per NABARD Focus paper 2013, RGMVP have promoted 932 Cluster level associations and 26 block level associations. Other than RGMVP promoted ones, no data is available on SHG federations in the state of UP. Through the UNDP-IKEA project the first woman's dairy producer company with 9,000 women producers was started with the signing of the MoU with Cooperative Dairy Federation in the state, which helps the women contribute income to their households[37].

Support by the Rashtriya Mahila Kosh (RMK)

The Rashtriya Mahila Kosh (RMK), an organisation set up by the Ministry of Women and Child Development, provides loan funds for on-lending to women's groups. Figures of the state wise lending by Rastriya Mahila Kosh show that in Uttar Pradesh, by March 2013, 2,657 SHGs were provided loan support through 139 NGOs. The sanctioned amount was Rs. 917.85 lakh and the amount disbursed was Rs. 600.42 lakh. Overall 26,569 women were benefited by RMK. In Andhra Pradesh 23031 SHGs were supported by RMK covering 2,30,313 women. The coverage in UP was low compared to southern states and also some of the northern states[38].

SHG promotions and credit services under NRLM and SGSY

The Rural Development Department of Uttar Pradesh now houses the State Rural Livelihoods Mission which monitors the SGSY programme and is also currently engaged with NRLM. **Table** 22 shows the number of SHGs supported under NRLM in UP.

Table 22: SHG and credit provisions under NRLM, 2012[39]

States	No. of Groups supported (# lakhs)	Credit Provided (Rs. million)
UP	5.75	99998.8
All India	52.18	1,37,269

As per State Sector of Microfinance – 2012 the table shows that NRLM has planned to support 5.75 lakhs groups in UP which include 3.69 groups formed under SGSY programme (Table 23). However, SLBC figure shows that UP currently has about 4 lakhs groups in the State.

The Swarna Jayanti Gram Swarozgar Yojana (SGSY) is an initiative of the government to provide sustainable income to poor people living in rural areas. In Uttar Pradesh, there have been more than 25 lakh beneficiaries of the scheme. Commercial banks and RRBs cover the largest proportion of the beneficiaries. The amount of loans disbursed by these banks is also higher.

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[37] http://www.undp.org/content/india/en/home/ourwork/povertyreduction/successstories/Transforming_Poor_Rural_Women_into_Successful_Business_Managers/

[38] Aanchal Singhal, in UN Solution Exchange

[39] Puhazhendi, 2013

Table 23: Cumulative No. of Groups under SGSY and its Bank Linkages, 30.09.2013[40]

	No. of groups formed	No. groups got sanctioned CCL	No. of groups disbursed loan	Disbursed loan amount (Rs. Crores)	No. of beneficiaries assisted
Commercial banks	4037	2502	2816	53.12	30571
RRBs	3682	2383	2062	48.24	21968
Cooperative banks	291	291	291	2.56	3492
Grand Total	**8010**	**5176**	**5169**	**103.92**	**56031**

Table 23 shows that 64.6% of these groups were sanctioned cash/credit limits, with Rs.103.92 crores disbursed as loans, reaching just 56 thousand lakhs members.

Table 24 gives the details of loans to SGSY and individuals in UP.

Table 24: SGSY Coverage of Individuals and Loans Supplied to them (as on Sept, 2013)[41]

	No. of Application received	Loan Sanctioned		Loan Disbursed	
		No. of Individuals	Amount (in Rs. Lakhs)	No. of Individuals	Amount (in Rs. Lakhs)
Commercial banks	8320	5820	3763.87	5522	3233.73
Cooperative banks	957	546	213.62	353	111.18
RRBs	3919	3847	2203.53	3830	2071.55
Total	**13196**	**10213**	**6181.02**	**9705**	**5416.46**

The recovery of SGSY loans is given in **Table** 25.

Table 25: Recovery Position of SGSY loans as on September, 2013[42]

	Demand raised(Rs. Lakhs)	Amount recovered (Rs. Lakhs)	Amount Overdue (Rs. Lakhs)	Recovery rate (%)
Commercial banks	44427.16	17881.22	26545.94	40
RRBs	44672.86	22004.39	22668.47	49
Total	**89100.02**	**39885.61**	**49214.41**	**45**

*Figures for 2013 could not be obtained

Table 25 depicts that the recovery rate is similar for both these types of banks and is low at 45%.

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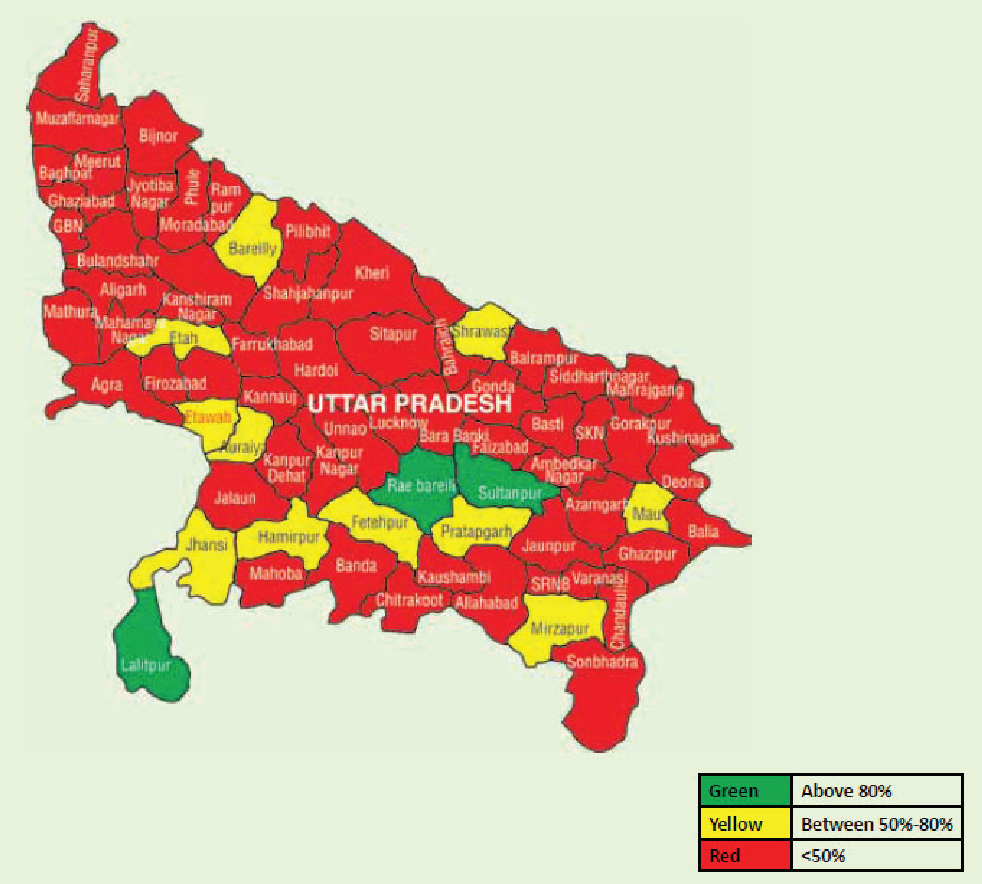
[40] SLBC Report of UP, December, 2013

[41] SLBC Report of UP, December, 2013

[42] SLBC Report of UP, December, 2013

Figure 14: Coverage of SHGs in Uttar Pradesh[43]



Though various interventions of promoting SHG in U.P. is active, the overall number of SHGs consolidated by the NABARD microfinance status report shows the cumulative total of 4.71 lakh SHGs and about 0.42 lakh JLGs.in terms of geographical spread of these SHGs, only three districts (Rae barelli, Sultanpur and Lalitpur) are having more than 80 per cent of SHG coverage in the state, and about 70 districts have low coverage of SHGs (Figure 14). These official figures when adjusted for overlaps and defunct groups show 80% are active groups in UP.

3.3 Cooperative Channel

Table 26 indicates that the total number of SHGs reached by cooperative banks decreased from 9195 in 2011 to 8971 in 2012 registering a decline of 2.4%. The number of members of the SHGs showed a decline of 1.52% between 2012 and 2013. The proportion of savings corresponding to these SHGs increased from Rs.232 crores to 599.22 crores, registering an increase of 158%.

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[43] NABARD Status of Microfinance in India – 2011-2012

Table 26: Outreach by Cooperative Banks (2012-13)[44]

Indicators		March 2012	March 2013	Growth %
Savings of SHGs with Banks	No. of SHGs	9195	8971	-2.43
	No. of members	102420	100863	-1.52
	Average members	11	11.24	2.18
	Savings Amount (Rs. lakhs)	232	599.22	158.28
Loan disbursed	No. of SHGs	3528	1088	-69.16
	No. of borrowers	39297	N.A	
	% of groups covered	38	N.A	
	Amount in Rs. lakhs	587	974.14	66
	Av. Loan per group	0.17	0.90	429
Loan outstanding	No. of SHGs	4649	4605	-0.94
	Amount in Lakhs	1586	2488.31	56.87
	Average loan outstanding per group	0.34	0.54	58.82
NPA against bank loans to SHGs	Loan amount outstanding against SHGS (Rs. lakhs)	1586	2488.31	56.87
	Amount of gross NPAs against to SHGs (Rs. lakhs)	895	961.76	7.46
	NPA as % to loan outstanding	56	38.65	-30.98

Loans disbursed by cooperative banks show a decrease in the membership by 69 from 3528 groups in 2011 to 1088 groups in 2012.

While savings linked groups declined to 8971, loans were disbursed to 1088 groups in 2012 (12.13 %). The average loan disbursed per group improved from Rs.17000 in 2012 to Rs.90, 000 in 2013. The cumulative number of groups which had outstanding loans from cooperative banks was 4605, slightly lesser that that in the previous year, with average loan outstanding per group being Rs.54,000. The NPAs have fallen from 56% to 38.65% There was an overall increase in average loans outstanding per group, which increased from Rs.34,000 in 2011 to Rs. 54,000 in 2012.

The quantum of Non-Performing Assets (NPAs) has shown an increase of 7.46% from 2011 to 2012. The percentage of NPA to loan outstanding is 56% and 38.65% over the two years. This shows that groups financed by Cooperative banks are weaker than those financed by banks and MFIs, and that Cooperative banks are deficient in follow up.

3.4 MFI Channel

The number of MFIs in UP has been growing, extending loans to groups which mostly use the JLG model. The number of MFIs is given in Table 27.[45]

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[44] NABARD Microfinance status report 2010-2011, and 2011-2013

[45] MCID, NABARD, Access-Assist, Websites of MFIs

Table 27: No. of MFIs and their Legal Form, 2013

Legal form	No. of MFIs
NBFC	15
Section 25 Company	9
NGO/Society/Trust	2
Others/ Not known	6
Total MFIs in 2012	**32**
Total MFIs in 2008	**5**

The Table 27 shows that about half of the MFIs in UP are registered as NBFCs, with a profit motive. The other half are registered as Not-For-Profit organisations, with nine registered as Section 25 companies, and two registered as NGOs. The form of registration for six MFIs was not known. As some promoters have floated NBFCs alongside Section 25 companies, or NGOs, the actual number of promoters is fewer than 32.

Most MFIs located in UP work in more than one State, including those which are headquartered in UP, such as CASHPOR, Disha, Utkarsh, Sonata, Margdarshakand NEED and their data is not segregated by states.

Based on the data of 13 MFIs reported through MFIN as on March 2013[46], the total clients covered are 14.2 lakhs in the state. However, the percentage of household accessing microfinance services is only 3.4%.

Table 28: Overview of MFIs in Uttar Pradesh, 2013

Indicators	Data as on March 2013
No. of MFIs	13
No. of Branches	564
Clients (Million)	1.42
% of households availing microfinance services	3.4
Gross Loan Portfolio (Rs. Million)	12,054
No. of loans disbursed in FY 2012-13	9,40,860
Loan amount disbursed in FY 2012-13 (Rs. Million)	13,587

The gross loan portfolio of these 13 MFIs is Rs. 12,054 million which is about Rs.927 million per MFI. The amount of loans disbursed during the financial year 2012-13 is Rs. 13, 587 million through 940,860 loans, which means the average loan size is Rs.14,400.

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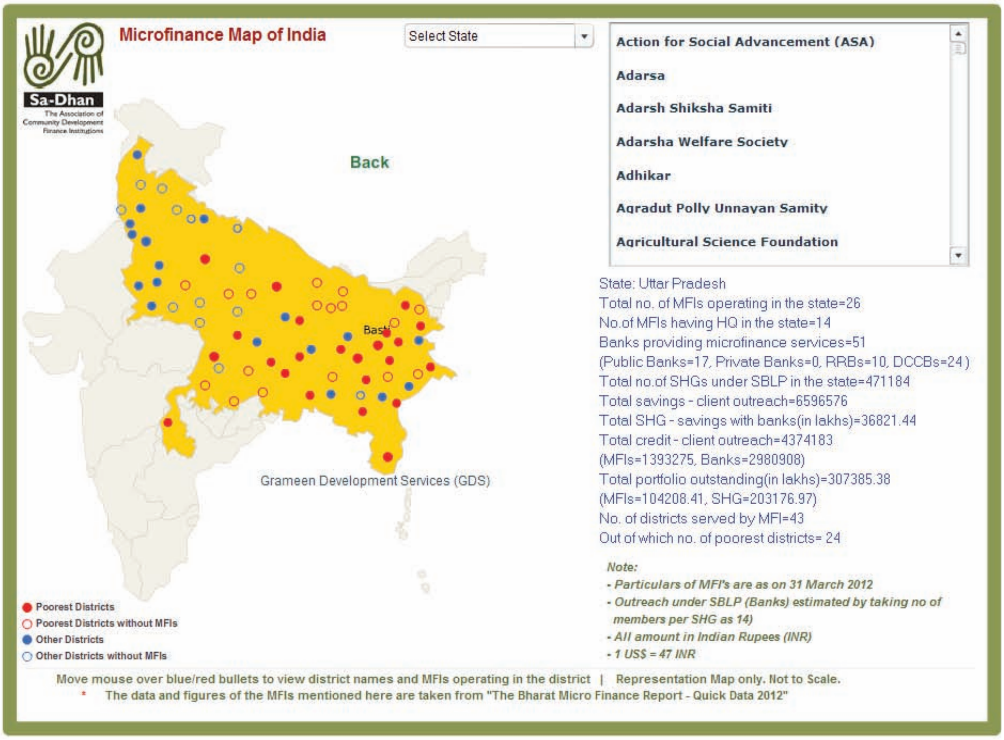
[46] Based on MFIN micrometer March 2013

Figure 15: Spread of MFIs in Uttar Pradesh as on 2012[47]



State: Uttar Pradesh
Total no. of MFIs operating in the state=26
No.of MFIs having HQ in the state=14
Banks providing microfinance services=51
(Public Banks=17, Private Banks=0, RRBs=10, DCCBs=24)
Total no.of SHGs under SBLP in the state=471184
Total savings - client outreach=6596576
Total SHG - savings with banks(in lakhs)=36821.44
Total credit - client outreach=4374183
(MFIs=1393275, Banks=2980908)
Total portfolio outstanding(in lakhs)=307385.38
(MFIs=104208.41, SHG=203176.97)
No. of districts served by MFI=43
Out of which no. of poorest districts= 24

Note:
- *Particulars of MFI's are as on 31 March 2012*
- *Outreach under SBLP (Banks) estimated by taking no of members per SHG as 14)*
- *All amount in Indian Rupees (INR)*
- *1 US$ = 47 INR*

Move mouse over blue/red bullets to view district names and MFIs operating in the district | Representation Map only. Not to Scale.
* The data and figures of the MFIs mentioned here are taken from "The Bharat Micro Finance Report - Quick Data 2012"

The map shows that of the 75 districts in UP, MFIs operate in 43 districts. Out of the 43 districts only 24 are among the poorest districts which show that MFI outreach to the poorer regions is low in UP.

Based on the field visits to the five MFIs (CASHPOR, Disha, Utkarsh, Margdarshak and NEED), the financial products offered to their clients are loans in the form of common service directly from their company. These organizations provide its services to clients in the following geographical areas: CASHPOR work in areas like Mirzapur, Chandauli, Ghazipur, Jaunpur, Varanasi; Utkarsh works in 13 districts of UP - Allahabad, Azamgarh, Chandauli, Deoria, Ghazipur,Gorakhpur, Jaunpur, Kaushambi, Kushinagar, Mirzapur, SantRavidas Nagar (Bhadohi), Sultanpur& Varanasi)); Disha works in Saharnpur district; Margadarshak works in Lucknow and on the border of Bihar. There few MFIs like CASHPOR, Disha and NEED which work in the underserved poor regions and also Grameen banks and some big NGOs like RGVMP, GDS as well work in poorer regions including Bundelkhand. Within loan, there are few special products offered by MFI like CASHPOR in order to meet specific needs of the rural households. CASHPOR has designed 'energy loan' for the members to buy smokeless stove, solar lamps and other devices, health loan for members to invest in toilets and safety loans to meet emergency situations like flood, fire, earthquake, epidemic, serious accident, etc.

In addition to this, these organizations have taken BC/aggregators role for banks and

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[47] Source: http://sa-dhan.net/files/Sa-Dhan_Map.swf

private agencies to offer services like savings, insurance, national pension and remittance facilities.

MFIs face several challenges, however. The first is a shortage of funds for expanding their lending operations. While many reported sufficient funds for maintaining current operations and a modest growth rate, others indicated that they have offers for investments and will be able to raise equity for attaining good growth; yet others felt a credit crunch due to banks adopting a conservative attitude after the Andhra Pradesh crisis. Another challenge mentioned was the lack of clarity in regulations, and a third, important constraint for growth is the lack of human resources. This was mentioned as a critical area where investment would be needed in the coming years.

The key challenges and constraints faced by the MFIs include lack of capital for on-lending to their clients. Although the Andhra crisis has shown bulk lenders the need to look elsewhere for good NBFCs, and RBI has set guidelines which have set the floor for NBFC processes, yet accessing loans from banks is not easy. Banks require rating by reputed institutions like CRISIL, and m-CRIL and tightened their procedures. With new guidelines, lack of capital, and the resulting inability to expand outreach, MFIs feel the pressure of sustainability. In order to sustain themselves, they have diversified/changed their work portfolio and many of the MFIs have taken on the role of BCs. This business too, demands high investments in staff and technology, and has low returns, therefore while it has been a means of survival, the BC business has also brought a new set of challenges.

3.5 Post Office Channel

The Department of Post and Telegraph Services of India (henceforth referred to India Post) has offered savings and other financial services, e.g. remittance, for many years.

India Post has 1,54,000 post offices spread all over the country, with 90% of these located in rural areas which offers many financial services. The recent article by Times of India stated that India has over five lakh villages which do not have post offices and Uttar Pradesh tops the list of states having more villages without post offices. In UP, there are 86,435 villages without post offices out of the total village of 1, 07,452 in the state, which constitutes 80% of the villages, Thus a huge number of villages lack postal services in the state[48]. In addition, 8,000 branches of the nationalised banks also collect savings for India Post. Over 2 lakh agents canvass for NSCs and other products, and about 1.00 lakhs agents canvass for 5-year Post Office Recurring Deposit (PORD) accounts. Despite its phenomenal outreach, in the remotest parts of the country, the postal system remains the most unrecognized, as a mainstream channel of financial services.

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[48] Isha Jain, Villages without post offices: Uttar Pradesh tops the list. Published on Jan 6, 2013, 07.40PM IST published athttp://articles.timesofindia.indiatimes.com/2013-01-06/lucknow/36173499_1_post-offices-villages-uttar-pradesh-tops

Figure 16: Financial Services Offered by India Post

- Post Office Savings Schemes
- Postal Life Insurance (PLI)
- Money Remittance Service
  - o Money Order (MO)
  - o Instant Money Order (IMO)
  - o International Money Transfer (IMT)
  - o Money Gram-Money Transfer
  - o MO Videsh
  - o Electronic Clearance Service (ECS)
- Mutual Funds
- e-International Money Order(IMO)
- Forex Services

Savings have long been a financial service provided by India Post. **Table** 29 gives the data relating to number of people saving (or savings accounts), and the amount of savings mobilized in UP by the department.

Financial Services offered

The **Table** 29 shows an uneven annual growth with annual increases from 2008-09 to 2010-11 being 12%, 26% and 8.8% respectively. The gross savings collection decreased in 2011-12 by 13%. The Postal Department collected Rs. 20,681 crores in 2011-12.

Table 29: Gross Savings Collections in UP, 2012[49]

Year	Gross Savings Collections Rs. Crores	Annual growth %
2007-08	14,269	0
2008-09	16,149	12%
2009-10	21,771	26%
2010-11	23,687	9%
2011-12	20,681	-13%

The Table shows that while gross savings collection has increased every year, there is a decrease in the last year. The reason for this is not clear, it may be that as some portion of post office savings are due to mandatory National Savings Certificates, and as the pressure to buy these has reduced, the mandatory savings have seen a reduction.

India Post has initiated putting into place Core Banking Solutions (CBS), to increase efficiency. Other initiatives for increased efficiency include use of hand-held devices and

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[49] National Savings Institute

bio-metric identification for savings collection, which help to increase efficiency and improve monitoring. Recently, the Department has been associated with piloting the payment of wages on the NREGA scheme. Looking forward, India Post will most likely expand its services for Direct Benefit Transfers (DBTs), and NREGA wage payments. The government is the customer for these services, and covers the cost of these money transfers.

The Postal Department is currently assessing the feasibility and may launch a bank, in which case the outreach to remote rural areas will multiply significantly, through use of the post-office network.

3.6 Insurance, Pension, Remittances

Information on insurance, pension and remittance services is not available state-wise as it is rare to find information about their outreach to the poor. In this section the available information is scanned for some insights.

Insurance

India has a total of 24 life insurance companies; all of these have pan-India operations. According to IRDA's annual report for fiscal 2011, 'bancassurance' accounted for about 30% of the new business collection for private insurers. Banks are, therefore, important channels for the spread of insurance.

The **Table** 30 shows that the total number of insurance offices in UP increased from 784 in 2008 to 1096 in 2010, a growth of 40%. Of these 347 (32%) were offices of LIC and 749 (68%) offices were established by private insurance agencies. At the national level the percentage of public and private insurance agencies is 27% and 63%, showing a higher presence of public sector agencies in UP when compared to the rest of the nation.

Table 30: No. of Insurance Offices, 2011[50]

States	PRIVATE agencies			LIC			TOTAL		
	2010	2009	2008	**2010**	2009	2008	**2010**	2009	2008
UP	749	723	518	347	329	266	1096	1052	784
MP	325	329	248	199	187	152	524	516	400
BIHAR	222	206	161	119	109	77	341	315	238
ODISHA	230	221	157	103	94	69	333	315	226
ALL INDIA	8768	8785	6391	3250	3030	2522	12018	11815	8913

Figures 17 and 18 show the number of policies and premiums collected over the past four years.

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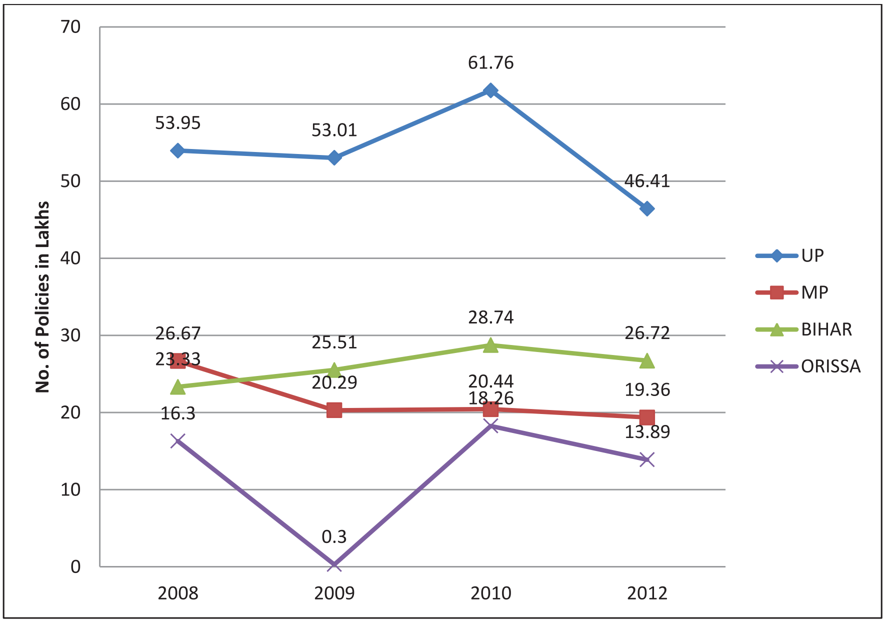
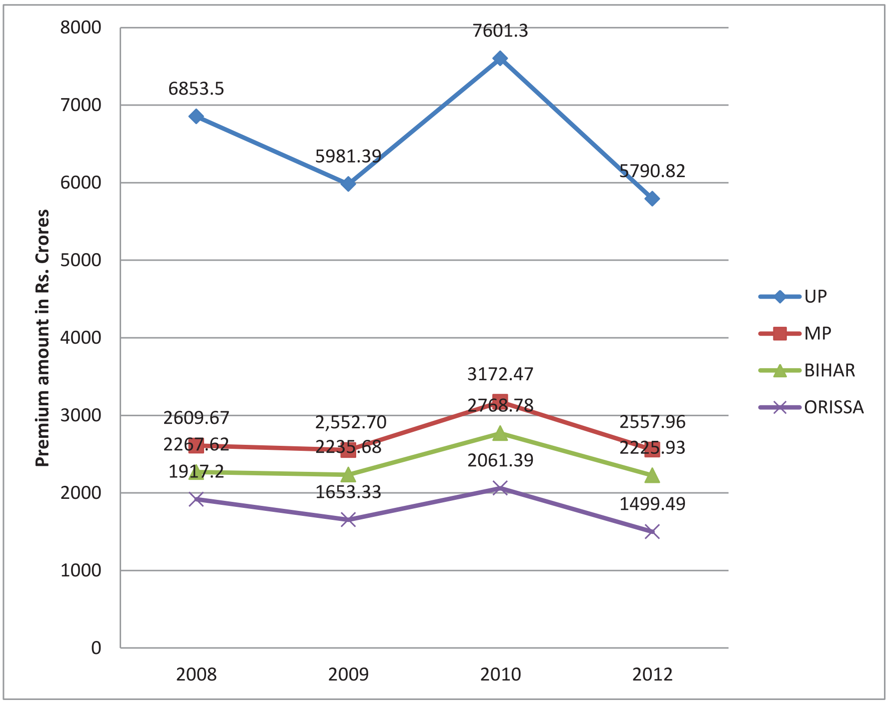
[50] IRDA's annual report for fiscal 2011

Figure 17: No. of Life Insurance Policies Sold 2008 - 2012[51]



The Figure shows that number of life insurance policies sold in UP increased from 2008 to 2012, but then declined to a level less than 2008. The numbers of policies sold in 2008 were about 54 lakhs, which increased to about 62 lakhs in 2010, and fell to 46 lakhs in 2012, i.e. by 26%.

Figure 18: Premium paid by Policyholders From 2008 - 2012[52]



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[51] IRDA's annual report for fiscal 2012

[52] IRDA's annual report for fiscal 2012

Figures 17 and 18 show that the premium amount, declined similarly too, from Rs.7,601 crores in 2012 to Rs.5,791 crores in 2012, which shows that the average premium per policy has remained the same at Rs. 123-124.

This information relates to all insurance policies in UP, of which it is difficult to estimate the outreach to low income households. The specific data from project or individual organization outreach are presented below[53]:

Through UNDP-IKEA'S Swaayam project in Jaunpur, Sant Ravidas Nagar and Mirzapur districts, more than 5, 000 women have opened savings bank accounts, and half of them are now linked to insurance plans. Greater enrollment of women in the National Health Insurance Scheme enabled through training of 4,000 women on the provisions of the Scheme has been achieved.

Through the UNDP and Indian School of Microfinance for women (ISMW)) partnerships, around 5141 no frills accounts were opened, and over 3701 women have been covered under social security insurance schemes with LIC with premium of over Rs 3.95 lakhs collected[54].

In addition to opening No Frills savings account, FINO PayTech offers micro insurance policy in UP. Accidental Insurance policy is made available in association with HDFC Ergo. Under this scheme, a rural poor individual is insured for an accidental death cover of Rs. 1 lakh for a nominal annual premium of Rs. 100. Through technology usage FINO enables people with no hassles of medical test to immediately activate the policy and get timely settlements in case of accidental deaths[55].

Pensions

Pensions may be seen in two different categories: those given by the government as direct transfers- such as for old persons, widows and people with disabilities (PWD), and those bought by individuals/ households from banks and other authorized agencies. The National Pension Scheme is the major pension product currently being marketed through MFIs and NGOs to their clients[56].

In 2008-09, the UP government covered 42 lakh persons through old age pensions of Rs. 300 per month while the intention was to increase this coverage marginally in the next year the figures are not available for subsequent years. The pensions for PWD were given to 7.27 lakh persons in 2011-2012. The numbers of people in UP reached through widow pension is not known.

For individually purchased pensions, NBFCs such as CASHPOR and Margdarshak have registered as aggregators, and their current outreach is estimated at 20,000 accounts. As on June 2013 a total of 3 NPS aggregators (Allahabad U.P. Grameen Bank, CASH-

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[53] Some more information from LIC, Birla sunlife and TATA AIA will be accessed through participants who participated in vision consultations and updated in the final version of the report

[54] Source: http://www.ismw.org.in/project_details.php?id=0D33B7FC96AA102E84666668D5F44990

[55] Source: http://www.finopaytech.com/media-lounge/press-releases/news/6

[56] No state wise data available on http://swavalambannps.blogspot.in/2013_03_01_archive.html. data on NPS account active in the state will accessed from LIC and included in the final report.

POR Micro Credit and Margdarshak Financial Services Limited), are listed with PFRDA to provide pension services in Uttar Pradesh. Resource institutions such as IIMP and IFMR are working to increase pension outreach in UP although they acknowledge that the target households are those above the poverty line – those who can afford to buy pensions.

Remittances

Remittance services in India are regulated and offered mostly by banks, post offices and authorized private agents. Aas per the data estimated in 2007-08, Uttar Pradesh is the top domestic remittance receiving States in India, which was about 20% with the total remitted amount of Rs. 6931 crores, of which 5,468 crores (79%) remitted to rural households and 923crores(21%) to urban households. The majority of transfers were Inter-State in nature which points to substantial out-migration from the State[57]. Some MFIs and NGOs in UP have found ways to offer this service to their members. For instance, Grameen Development Services works with private agencies (eg. Western Union) and remits money through them to the accounts of an SHG, from where the members access it. CASHPOR transfers money through private agencies to their center, from where the loan officers disburse it to the members. These are informal innovations, with formal remittance services still being available at a high cost to low income households. Some banks have introduced money transfer using mobiles, but information on this is not available for UP.

Through the initiatives of UNDP and ISMW people opened no-frills accounts and many have used for remittance of money also. However, no actual data was available on this usage.

FINO works extensively in UP for providing money transfer services to nearly 50 lakh NFA holders. Through the FINO NFA account, card holders can transfer money to any bank account in India through intra or NEFT mode. FINO card holder in urban can transfer money to FINO card holder in the rural area, and also any person without accounts can pay cash to FINO account holder through agent network.

FINO also provides support to EBT scheme by offering technology right from enrollment of membership, issue of smart card to disbursement of wages under the government security schemes like NREGA[58].

EKO is another agency in UP providing technical support services to banks and MFIs for enabling them offer cash collection, cash disbursal and remittance services to their clients. EKO uses its network of EKO counters, SimpliBank platform, mobile user-interface, mechanism to enable these services. CASHPOR is one of the MFI that is associated with EKO to providing mobile banking services on behalf of ICICI.

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[57] Tumbe, Chinmay (2011). Remittances in India: facts & issues, Working paper, 331. Bangalore: Indian Institute of Management, Bangalore(IIMB)

[58] Source: Company profile of FINO Paytech Ltd. However, no data available on the outreach of the service will be accessed from FINO and included in the final version.

3.7 Financial Awareness and Education

An important aspect of financial inclusion and extending financial services is imparting financial literacy to the rural populace, as they have remained hitherto disconnected from such guidance. The economic crisis in 2008 emphasized the necessity of sound financial literacy. The official financial literacy effort is summarized in **Table** 31 below:

Table 31: No. of FLCCs established and No. of Beneficiaries, 2012[59]

	Total number of FLCCs established	Total No. of persons benefited from FLCC counselling since inception	Average persons benefitted per FLCC
Eastern Zone	26	71,643	2756
Central Zone	18	822	46
Western Zone	25	309	12
Bundelkhand region	6	0	0
Total	**75**	**72,774**	**970**

*Data for 2013 could not be obtained

Altogether, in Uttar Pradesh, 75 financial literacy and credit counseling centers (FLCC) have been established. It is estimated that a total of 72,774 persons have benefited from the advice of the same. More centers can be established so that a large proportion of the rural population can gain timely and valuable advice from the FLCCs.

Tremendous scope still exists for outreach in UP. Some of the ways in which people can be reached are:

- Community radio and local cable networks, with small skits and videos being aired in between popular shows;
- SMS could be sent on their mobile providing information on types of products, interest rates etc.;
- Street plays can be organized and pamphlets could be distributed during community events/ functions; and
- Short talks and discussions could be organized at schools and educational institutions on topics like savings and judicious utilization of pocket money etc. This will enable the youth to understand the significance of microfinance and engage with it as means to come out of poverty.

ISMW in collaboration with UNDP is involved in providing financial literacy for financial inclusion to 10,000 women in Jaunpur, SantRavidas Nagar and Mirzapur districts of Uttar Pradesh where the UNDP-IKEA project operated. The efforts were put to develop customized, locally relevant toolkits, and they trained over 94 local trainers through residential training on the financial literacy skills. A series of consultation meetings with

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[59] Source: SLBC report, 2012

community facilitation organizations (CFOs) and mass awareness campaigns, village awareness and household level training were adopted to reach the targeted women in these districts.

The campaign covered over 11028 women in 975 SHGs spread over 500 villages through 52 mass awareness campaigns, and over 400 household trainings were conducted. The efforts included establishing linkages with banks and financial institutions through handholding support and coordination[60].

In addition, FINO Pay Tech's agent network is creating awareness among the people on saving and financial planning through regular customer interactions. They have also created awareness through painting images and messages on the walls of houses in villages about the various services offered. This encouraged people in UP to save a few hundred rupees every month[61].

3.8 Potential and Challenges for Financial Services Providers

In addition to understanding the current coverage of financial services through various channels, the team has collected the views and concerns of various stakeholders through consultation workshop on bank linkages, in Lucknow in February 2013. First stakeholder consultation workshop for vision document preparation was conducted in Varanasi in March 2013 and second level stakeholder workshop in April 2013. The team also gathered the various issues faced by the service providers and people through direct field visit to various organisations. These challenges and constraints could be classified as follows:

Balancing the services of credit and other financial services

The big challenge is about how to balance the services four pillars: credit, savings, insurances and remittances. Currently only credit service to the low income households is focused and not much effort on the other three products. Achieving financial inclusion is bigger challenge and it needs holistic or umbrella approach- bringing various channels together to deliver all the financial products under one roof, then it's cost effective.

The Attitudinal Challenge

The major allegations against banks were that they are not responsive enough, and do not see opening accounts of the poor as a business opportunity. It was also felt that the branch manager at a particular time and place determines whether the bank branch is responsive to the needs of the local poor households. The attitudinal challenge levied against NGOs is that they are confrontational and do not see opportunities for positive collaboration. The allegation against MFIs was that they have only a profit orientation, earn extractive margins, and have no concern for the poor.

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[60] Source: http://www.ismw.org.in/project_details.php?id=0D33B7FC96AA102E84666668D5F44990

[61] Source: http://www.finopaytech.com/what-we-do/services/business-correspondents-services

The Human Resources Constraint

All channels have HR constraints, with heavy work-loads, accompanied by lack of staff or staff time. This was held as the reason why banks are not able to meet the growing demands on staff time for opening new accounts, NGOs are not able to help form and capacitate as many groups as are needed, and MFIs are not able to scale up operations at a faster pace.

Operational Challenges

Banks feel the pressure from above for achieving financial inclusion in villages more than a population of 2,000 persons, which was the target allotted for 2012. However, they have by and large been able to cope with the targets, at least in terms of opening USBs, or appointing Business Correspondent Agents (BCAs).

Lack of Coordination

The various stakeholders participated in the consultation felt that lack of coordination among the organizations engaged in providing financial services to the low income households. Also the NGO/MFIs should involve in the district level lead bank meetings along with banks to understand better and work in coordination.

The key issues raised here were that each channel has some benefits and drawbacks, as depicted in Table 32.

Table 32: Strengths and Weakness of Different Pathways for A2F

Channels	Strengths	Weaknesses	Suggestions
MFI	+ High outreach + Prompt service + Monitoring of loans through utilisation check + Women's empowerment + Disciplined approach + Providing other financial services: financial inclusion, Pension, insurance	– Higher rate of interest than SHG-Bank lending – Low ticket size; average loan from Rs.5000 to Rs.6000 – Lack of technology – Staff strength is low – Lack of funds – Lack of product diversification as per the needs of the clients, – transactional relationship with clients – pressure on sustainability due to new guidelines	• Maintain the RBI guidelines on: Lower the interest rate, Ethical recovery of loan practices[62] • product diversification, deeper engagement with clients and diversified services

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[62] RBI has issued guidelines for ethical conduct of NBFCs

SHPIs	+ Enabling the community to access to different financial services + Reach and relation with community is good + Play multiple role with people + Community attachment + Direct access to the beneficiaries + Direct financial schemes	– Resource / fund crisis – Appropriate manpower – Lack of coordination with stakeholders – Non-cooperation with bank, MFIs	• CSP should be banking and financial service centre
Banks	+ Availability of funds to lend at lower rate + Trust of people with bank + Good MIS system + Having vast experiences in providing credit facilities + Established systems and procedures of financing + Playing financial inclusion role + Outreach and sustainability of the operations	– unable to lend the available funds to SHGs – KYC constraints – Non-cooperation from bank personal due to insufficient staff – Inability to provide door to door banking facilities due to staff constraints – Recovery constraints – Loan waving affected adversely on repaying habits of common people – Amounting of NPA – Lack of awareness among people	• Hire adequate staff in the bank • NGO/MFIs should involve in DLRC/DCC along with banks
Post office	+ Easily reachable + People have trust + Have database + Outreach and sustainability of the operations	– No products – Lethargic service – Lack of quality manpower – No lending activity	• provide technical support to post office to transform into responsive financial services delivery channel, • Training to staff, to customers etc., on risk mgmt. systems

The SHG-BL model retains financial benefits for women, but is totally dependent for quality on the self-help promoting institution (SHPI). The cooperative channel has benefits of ownership, leadership, transparency, governance and financial profits for women; however the State of Uttar Pradesh still operates with the old law, and cooperatives also suffer from political control.

Operationalising BCs

The whole financial inclusion is now moving through BC model. But the big challenge is how to make it more operational and provide effective financial services to them. Currently it faces the following challenges:

- BCs model is not financially viable.
- BC models follow different approach by banks, it should be standardised, and all should follow the same approach.
- The BCAs are not effective; incentive systems are not encouraging to the BCAs
- Technology facilities are not working fine and
- Follow up of the BCAs by designated banking officers are not adequate.

Customers' Challenges

When rural poor households wish to open individual accounts, or SHG accounts with banks, they face several constraints. To begin with, many are unaware of the various financial services by banks and other organisations. Many are asked to comply with KYC norms and are not able to do so because they do not have the requisite documents. They are sometimes asked to bring back more documents, and in sequence (a list of documents needed is not given at one time), and this means that they lose three to four working days in getting a bank account opened. Other challenges faced by low income households include:

- Access to banks itself a challenge in terms of proximity, and women's restrictions on their mobility due to social norms as well as dual household responsibilities often limits access.
- Poor rural households are often engaged in informal employment characteristic of seasonal variations in income – banks may not be attuned to the specific requirements of the poor.
- High levels of illiteracy – overall for UP 30.3% and as high as 57% for women.
- Rural poor often have tenuous titles to land/household making it difficult to furnish proof of residence often required by banks.
- Multiple trips to the bank to fulfil formalities in opening an account is a major deterrent.

Operationalising No-Frill Accounts (NFAs)

Typically, NFAs are not used by the account holders. Currently, they are used for NREGA payments, or DBTs, or small savings, but not for credit, and even when cash credit (C/C) limits are sanctioned, the clients either do not know or do not use them. In addition to credit, NFA accounts can be used for making payments like electricity bills, salary, insurance, receiving NREGA payment, etc. For example, CASHPOR has engaged closely with people and credit linked with the accounts, resulting in the clients using the NFA accounts well.

The financial service most needed is savings, and for that it is important that banks respond to the FI drive and open accounts. Banks also offer a lower rate for credit than MFIs do. Thus, from a people's point of view, banks would be the preferred suppliers. However, banks have found that extending microfinance through NBFCs reduces both costs and risks for them, therefore their loans to MFIs have been increasing. Thus, while banks are responding to the FI drive by opening USBs and appointing BCs, they are turning to MFIs for credit, as well as for opening new accounts, by appointing companies floated by them as BCs. However, financial flows are relatively easier for the large MFIs compared to medium sized and start up MFIs.

These discussions also brought out the concern that each channel had for achieving inclusion objectives, by providing effective access to financial services to the poor in UP. The banks re-iterated their commitment to inclusion, and MFIs too felt that they could increase their outreach using a two pronged strategy: as credit suppliers and as BCs. They are also channels/ agents for insurance products, and aggregators for pension products. Some big MFIs in UP are poised for growth.

The growth of SHGs, on the other hand, is constrained by the fact that NGOs do not have sufficient funds for promotion of groups, and NABARD support, though sanctioned, has not been released as per the commitments. Further, NRLM has had a slow start in the State. After 2013, it is likely to look up, but is likely to take another year to set systems in place and scale up. Over the past three years, a UNDP project had promoted many SHGs; this has closed down, and there are few current projects for SHG promotion and linkages. The largest NGO in the State, RGMVP, has ambitious growth plans, to reach half the districts in the State, but one agency cannot be expected to take on the task for outreach for the whole State, and few other NGOs have the scale and systems that are needed for significant increase in outreach. The projections made in the next section take into account the potentials and constraints outlined in this section.

Figure 19: Children of SHG member in Sultanpur village, Saharanpur District

Understanding Client Perspectives

The major focus of all initiatives for financial inclusion has been to address the supply constraints, which is a valid concern in a context where supply is inadequate to meet demand. However, no supply initiatives can be well designed without taking on board the perspectives of the people they wish to reach. The demand has definitely to be well understood, for supply to find its right targets[63]. The following sub-sections highlight client perspectives, and also discuss some especially excluded groups, who need attention in any plan for provision of financial services.

4.1 People's Perspectives

The visioning exercise included several discussions with women clients of banks and MFIs, and members of SHGs promoted by NGOs. Some key stakeholders at the village level were also included, including the bank business correspondence agents (BCAs), gram panchayat members and staff working at the block development office on NREGA and SGSY schemes. Therefore, the projections made in this report are reflective of the stakeholders who participated in the meetings and field visits made to get client perspectives.

It is also important to take on board women's perspectives, as women are primary borrowers of the microfinance system. Client focused research brings out the need for finance to smoothen consumption, and product innovation, which is currently lacking in the sector. These issues emerged from the field discussions as well.

Figure 20: SHG in Sultanpur village, Saharanpur district discussing loan requirements

Women from SHGs need a bigger sixe loan (about Rs.25,000) than what MFIs offer for investing in expanding businesses, for education of children and social expenditures. When women need bigger loans they are frequently unable to access them from banks,

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[63] A focus on people's perspectives was also endorsed by Nidhi Dubey, and Jaipal Singh Kaushik in Solution Exchange query.

sometimes even obstructed by corrupt bank officers in some of the districts, e.g. Saharanpur. Women say that they are tired of running from one bank to another with the bank officials being reluctant to give them loans till bribes have been offered. In Shahjahanpur district, many women took a first loan which was repaid but were then unable to access a second loan from the bank. In contrast in other regions of the same district SHG women were not keen on taking loans from the bank. Many are dependent on their income from daily wage labour or work with landlords and willing to risk taking loans from them. Women lack business awareness and motivation, and these aspects are not addressed by the promoting agencies. Some take loans from landlords, become bonded labour or pay higher interest rates but would not prefer to take loans from banks. This is due to their earlier track records with the banks: many older groups have not repaid the bank loan expecting bank will waive off the loan and ultimately members fought among themselves, and broke the groups. These "bitter experience" narratives have influenced the new groups, who hesitate to take loan from bank. Generally the men get loans for crops from banks and PACS, and look for loan waivers from the banks.

The relationship between the banks and women has not been good in most of the places visited, and the promoting agencies have acknowledged the same. Due to long distances, women hesitate to go to the bank and also not many MFIs provide coverage in all the regions. The presence of BCAs in the villages is not helping much in terms of enabling the women to save or take loans, as the women feel that as the bank does not offer loan facilities through the agent and most of the time the device does not work. In general the demand for credit exists but suppliers to provide the services have not yet developed.

The capacity of the groups is not increased by promoting agencies. Promoting agencies do not have a lot of support to work with women's groups to strengthen the quality of the groups and ensure better repayment of the loans. This is because many groups do not get bank loans in the first place.

Promotion of federation structure is not strongly emphasized by agencies. This would improve the quality of the SHGs and facilitate convenient loan products to offer to them. There is a lack of financial support for such initiatives and no bank will provide loan capital to the federations of SHGs. NGOs find no provisions for promoting the cooperative structure in UP, particularly the one similar to MACS in AP.

There have been recent studies to understand ground realities, using the *financial capability approach,* to assess demand for financial services[64]. One approach highlighted is GIZ's initiative of developing and testing the 'financial capability approach' in India which builds on perspectives of the people themselves asking what people associate with good use and management of money in their own community[65].

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[64] "Financial capability can be defined as the freedom to use and manage money in a beneficial way.Data collected in such a way will be the basis to outline relevant concepts which relate to use and management of money, to identify constraints or non-conducive environments in which people manage their money. Using the financial capability approach ensures that people themselves articulate what is beneficial to them. The financial capability idea is thus open to context specific meanings of money use and management. The approach outlines meanings of various financial services for the people and also provides insights of how these services could be designed in order to fit into the local contexts." Response from Thomas Mehwald to the query in Solution Exchange.

[65] A report by GIZ is forthcoming on people's conceptualisation of their own financial capabilities at individual and household level.

There is a need to adopt a sensitive approach while designing financial infrastructure for disadvantaged and excluded segments of the population in Uttar Pradesh. The focus must not be only on 'access to finance' but also on 'use of finance'.

The approach builds on perspectives of the people themselves asking what people associate with good use and management of money in their own community. By understanding factors affecting use and management of money, activities of financial service providers and stakeholders in the rural finance space will be more targeted and focused on the people and their financial needs.

While the current exercise is limited due to time and cost constraints, a more comprehensive exercise could include cash flow studies of sample HH in different regions. For instance, Western UP needs different services (like higher credit for agriculture, savings) than eastern UP (remittances and small credit), in Bundelkhand, there might be priority of NREGA payments and so on.

4.2 Focusing on the most vulnerable[66]

In the last few years, various service providers and banks have applied a standardized strategy to cover persistently excluded people and yet a large percentage of people are still excluded. In SGSY, Persons with disability (PwDs) were also to be covered under the scheme and government simplified the criteria by allowing formation of 5 persons groups but unfortunately it again failed as getting five PWDs in a village was difficult. Hence, the first point to consider here is that different segments of people will need specific strategies in context of microfinance services. Keeping in view the diversity of households in Uttar Pradesh, the classification of people into different segments can be done on the basis of –

- **Occupation** – (Small and marginal farmers, rickshaw pullers, domestic workers, handloom weavers/artisans, migrant laborers/workers etc.)
- **Vulnerability** – (People with Disability (PwDs), Older Persons, Disaster affected people)
- **Category –** (Scheduled Tribes/PVTGs, Scheduled Caste, Minorities etc.)
- **Geography –** (People living in Mountain areas/remote areas/naxalite areas)

In Uttar Pradesh, one obstacle highlighted in implementation of poverty reduction programs is, untouchability. To enable the poor and landless to overcome caste discrimination, and exploitation from land-owners in rural areas, they will require high degree of self-sufficiency, for which special efforts are needed for these groups[67].

Figures from the famous Rajendra Sachar Committee Report on Socio Economic Status of Muslims in India reveals the fact that access of Muslims to Financial services and bank credit is abysmally low and inadequate. This has far-reaching implications for their socio-economic and educational upliftment. The report also highlights that the attempts to direct credit to minorities in line with the objectives of the Prime Minister's 15 Point

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[66] Contribution by Navin Anand, in Solution Exchange query.

[67] Contribution by Mr.Resham Singh to Solution Exchange query.

Program. This assumes greater significance in a state like UP with its 30 million plus Muslim population, who have been shown to be relatively more financially excluded in large part due to the lack of shari'a compliant options on the ground[68].

Segmentation and applying differential strategies are important because the need of microfinance services of a small and marginal farmer will be very different from a vegetable vendor as the cash inflows and economic cycle of both the people are different.

The specific suggestions that emerge for inclusion of vulnerable groups are:

Coverage of disaster-affected people for Micro financing: Members felt the need of assessing the requirements of the people affected by disasters and suggest appropriate financial products. Customized innovative financial products will help in reducing the impact of the disaster on the clients, decreasing loss and damage as well as increasing liquidity of money. Members recommended that a part of the report can be devoted to the microfinance issues related to disaster affected people.

Coverage of Rickshaw Pullers: One group that has been reached by exclusive design of products and services, is rickshaw pullers in UP. The key strategy for financial inclusion of rickshaw pullers may include - compulsory and voluntary Savings options , creating SHGs and JLGs for providing loans to rickshaw pullers, with the rickshaws and loans in the name of women; using Kiosk based models for loaning; linking rickshaw pullers with RSBY scheme and adopting the model of 'Health Mutuals' ; coverage of rickshaw pullers under NPS lite scheme and 'Swavalamban Pension Scheme' of government of India and taking services of Invest India Micro Pension Services (IIMPS) for providing micro pension services; and adopting technology based options for money transfer (through institutions like - FINO, Zero mass, EKO,Oxigen etc.)

Designing Islamic microfinance models: Islamic finance can be seen as a strategic tool towards achieving greater financial inclusion in the state and the country by bringing in a large section of the excluded population into the formal financial system. The Islamic Finance not only provides an interest free banking model but also provides an alternative where in the risk of business failure is shared by the lender[69].

Financial and enterprise counseling support: In addition to finance, low income people need counseling for choice of businesses as well as their management, good practice in such hand-holding support is available from the experience of Regional Rural Banks[70].

The need for a savings led model was also pointed out, which is in the interest of clients, an effort that NABARD has been promoting through SHG-BL model, and has also recently appointed anchor NGOs in Uttar Pradesh for promoting these[71].

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[68] Contribution by Mohammad Anasin Solution Exchange query.

[69] Mohamad Anas has pointed to manuals,Handbook on Islamic Banking, and experiences of several projects for more details (see Consolidated reply of SE query).

[70] Contribution by Mr. Resham Singh to Solution Exchange query

[71] Contribution by Mr. B. S. Suran to Solution Exchange query

Chapter 5: Projections and the Way Forward

This vision document had been written in April, 2012 and therefore the data taken into account for analysis and projections was that of 2012. Subsequently, the data tables have been updated to 2013 figures as far as possible ,but, the vision projections have been retained based on 2012 figures.

This section has used the discussions held with various stakeholders to build projections for access to finance by the low income households in UP. These assumptions have been made on the basis of suggestions made in the stakeholder consultations and field visits. They draw from the data and information given in the following key documents: Census of India 2011, Population projections by the technical group of the Census of India 2011, Progress Out of Poverty Report, NABARD Microfinance Status Reports 2011 and 2012, NABARD Focus Paper 2013, Microfinance State of the Sector Report 2012 by Access Development Services, UP State Rural Livelihoods Mission plans, projections by RGMVP, Post Office action plan for insurance and the State level Bankers Committee Report. The projection is built step by step as using the following framework:

Table 33: Framework for building Projections

Projections/ Scenario			2013	2014	2015	2016	2017
No. of Low Income Households							
Coverage of Low Income Households	Optimistic	Projected from all low income HHs					
		% of coverage					
	Conservative	Projected from all low income HHs					
		% of coverage					
Credit Demand	Optimistic	Projected from all low income HHs					
		Projected from HHs organised through groups					
	Conservative	Projected from all low income HHs					
		Projected from HHs organised through groups					
Credit Supply	Optimistic	Projected from all low income HHs					
		Projected from HHs organised through groups					
	Conservative	Projected from all low income HHs					
		Projected from HHs organised through groups					
Demand-Supply Gap	Optimistic	Projected from all low income HHs					
		% of supply gap					
		Projected from HHs organised through groups					
		% of supply gap					
	Conservative	Projected from all low income HHs					
		% of supply gap					
		Projected from HHs organised through groups					
		% of supply gap					

5.1 Projecting the Numbers of Low Income Households in UP

The total population of the State is taken from 2011 Census, which also projects the population of the State till 2017[72]. The Census data gives an average of 6 persons per household for UP, hence the number of households has been calculated accordingly.

About 77.72 % of UP's population lives in rural areas, and 22.28% in urban areas in 2011; for the projections of households, the actual rural-urban population projections by the Census are taken. The NSSO 66th round data presented by Tendulkar estimates poverty in UP to be 34.1% in rural areas, and 23% in urban areas. However, stakeholders in UP cautioned that the poverty on the ground was much higher than these estimates. A better set of estimates is available from the Progress out of Poverty report, whereby households are classified by income categories. The figures for UP, for households in two low income categories, are depicted in Table 34 below:

Table 34: Percentage of households in low income categories (2009)

Rural	% of Households
$0.81 - $1.35	46.20
$1.36 - $2.16	37.20
Rural - Total	83.40
Urban	
$0.81 - $1.35	25.20
$1.36 - $2.16	27.60
Urban – Total	52.80

The table shows that 83% of rural households earn less than $2.16 per person per day (pppd), and 52.8% of the urban population can be considered low income by the same standards. These are the percentages of households that were taken for projecting the low income households in UP, in this document.

The number of low-income households projected in UP, from 2013 to 2017, is given in Table 35.

Table 35: No. of Low Income Households Projected in UP (Numbers in Lakhs)

	2012	2013	2014	2015	2016	2017
Rural						
$0.81 - $1.35	117.69	1,21.62	120.92	120.12	119.21	118.19
$1.36 - $2.16	94.76	97.41	96.30	95.10	93.78	92.37
Rural - Total	212.46	219.04	217.23	215.22	213.00	210.56
Urban						
$0.81 - $1.35	18.77	18.66	18.19	17.69	17.16	16.61
$1.36 - $2.16	20.55	20.51	20.07	19.60	19.11	18.58
Urban - Total	39.33	39.18	38.27	37.30	36.28	35.19
TOTAL						
$0.81 - $1.35	**136.46**	**140.29**	**139.12**	**137.82**	**136.38**	**134.80**
$1.36 - $2.16	**115.32**	**117.93**	**116.38**	**114.70**	**112.90**	**110.96**
Total	**251.79**	**258.22**	**255.51**	**252.53**	**249.28**	**245.76**

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[72] Report of the Technical Group on Population Projections constituted by the National Commission on Population, May 2006

The table shows that in 2012, there are a total of 251 lakh (25.1 million) low income households in UP, of which 136 lakhs (13.6 million) are in the category who earn less than $1.35, and another 115 lakhs (11.5 milllion) are in the income category of $1.36 to $2. 16 pppd. Poverty levels are expected to reduce by 1% per year from 2013, both in urban and rural areas. Projecting according to these assumptions, the number of rural and urban households with low incomes in 2017 is estimated to be a total of 245 lakhs (2.45 million). This shows that even as the percentage of low income households reduces over the five years from 2013 to 2017, the actual number of households remains more or less the same, with only a very marginal decline of 6 lakh households.

5.2 Coverage of Low Income Households, Credit Demand and Supply

Estimation of coverage in low income households that gain access to finance, their credit demands and supply are worked out in two scenarios which are again differentiated by the demand projections:

1. Optimistic Scenario: wherein the constraints currently faced in both demand creation and supply of finance are expected to be overcome, through a change in attitudes, and pressure from the government for inclusion

2. Conservative Scenario: worked out on the premise that ground reality in 2013 is quite grim, with neither SHG II nor UP State Rural Livelihoods Mission (UP-SRLM) having acquired a good pace of work yet, and banks still facing attitudinal, human resource, and credit constraints

The demand projections in each of the above scenario are differentiated by estimating first for latent demand, by projecting demand for *all low income households,* assuming that they have a demand for credit, even though they have not been organized into groups, or financial included. The second estimation is made for only from those who have been reached, and organized into SHGs or JLGs, and therefore likely to get access.

5.2.1 Scenario 1: Optimistic Projections

The optimistic estimation of coverage in low income households that access to finance, their credit demands and supply gap are worked out in the following sections:

Step 1: Estimating Household Gap in Access to Financial Services

The next step is to calculate how many low income households have access to financial services through different channels, and when the outreach will be achieved to all of them. The assumptions for this calculation were as follows:

1. The total number of savings linked SHGs is stated to be 4.71 lakhs, reaching 53 lakh households. Of these, the assumption is that 80% are low-income households (as government guidelines allow up to 20% members to be non-poor). This gives 42.84 lakh low income households reached through SHGs in the year 2012.

2. These are next assumed to have an overlap of about 70% with No Frills Accounts,

as most SHPIs, especially RGMVP and others, and those who work on NREGA, have opened individual accounts already under FI. This reduced the number of NFAs to 12.74 lakhs.

3. The feedback from stakeholders was that some groups are inactive, and accordingly, 20% were considered inactive and 80% as active groups. This leads to a figure of 27.42 lakhs low income households in UP, reached through SHGs.

4. The next calculation was outreach through JLGs. Here too, 80% are considered poor. Of these, 40% are considered to have NFAs, just as SHGs. All of these are considered to be active accounts. Thus the households reached by JLGs, are about 100,426, or about 0.1 million households in JLGs.

5. The data on number of clients was available for 13 MFIs, from MFIN data. This was extrapolated to 32 MFIs, giving a client outreach of 34.95 lakh clients/households. Of these, 80% are considered low income households, giving an estimation of 27.96 lakh households reached through MFIs. It is assumed that about 50% of households have both an MFI account and are members of SHGs, yielding an estimate of 13.98 households covered through MFIs.

6. The overlap of these households with NFAs is also considered to be about 50%, as MFIs have been helping them to open NFAs (many MFIs also have operations as BCs, where they earn a commission for this linkage). However, as currently, NFAs are opened for DBTs and G2P payments, and don't yet have cash credit limits, no change is made in the estimation of clients for savings and loan products.

7. The households reached through NFAs and individual accounts under FI are reported to be 1.06 crores. Of these, 80% are considered low income households, as BCs reported covering many more than the low income households, for NFAs, under the FI drive. Further, 70% of these are considered to overlap with SHG members. Finally, only 50% of the NFAs are seen to be active (as per SLBC report). This yields that 12.75 lakh households have been reached through active individual accounts in banks.

8. Thus the total number of low income households in UP, reached through different channels, was 55.25 lakh in 2012.

9. Given that the total number of low income households is 251 lakhs in 2012, the financially excluded households number 55.25 lakhs, which shows financial inclusion of 22%. This differs from the figures given by the Rangarajan committee (36% in 2008), and the 2011 Census (76%), both of which seem to be overestimates compared to the ground reality in UP in 2013. According to Crisil Inclusix report, UP has an inclusion score of 33.5 (for a scale of 0-100) and ranked at 24 out of 35 States covered by the study[73]. These are likely to be overestimated as it counts accounts, and does not allow for more than one account per person, whereas it is quite likely that in the higher income ranges, people would have

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[73] Source: CRISIL (2013). CRISIL Inclusix: An index to measure India's progress on Financial Inclusion. Mumbai: CRISIL

more than one accounts, and none in the lower income ranges. The estimate given in this report, therefore, is more likely to reflect ground realities.

10. Further, the financially included households are divided into the two low income categories of <$ 1.35 and $ 1.36 - $2.16 pppd, with a total of 3.01 and 2.50 lakh households in each category. The assumptions here are that 75% of the SHG members, as well as 75% of those who hold NFA accounts, fall in the lower income category of < $1.36 pppd. The remaining 25% of SHG members, and NFA accounts holders, and all the clients of MFIs, are assumed to fall in the higher of the two low-income categories.

11. The projections have been done on the following assumptions:

    a. Though there is no growth in SHG promotions in the State from 2011 to 2012, this is seen as an anomaly in a year when SGSY is closing down and NRLM still to be rolled out in Uttar Pradesh. It is assumed for the projections that SHGs grow at 10% in 2013, 15% in 2014, 20% in 2015, 25% in 2016, and 30% in 2017. These growth rates are high, and assumed to be at this level, because the base in 2013 is very low, and because it expected the NRLM and NABARD SHG II will take root from 2013.

    b. Considering the challenge in banks putting efforts in establishing USBs and operationalising the BCAs, the JLGs by banks are assumed to grow at 10% from 2013, and at the same rates as SHGS, till 2017.

    c. Considering that the current capital constraints for MFIs are expected to be overcome by 2014, they also expect to grow at the same rate as SHGs and JLGs.

    d. NFAs grow at 10% in 2013, but then the financial inclusion drive is expected to escalate, therefore, it is assumed that NFAs will grow by 20% in 2014, 30% in 2015, and 40 in 2016, and 50% in 2017. These are aggressive estimates, as the base is very low.

    e. The rationale for taking aggressive estimates is also that the government, and RBI, and the banks and MFIs are all gearing up for full financial inclusion, and therefore likely to put in their best efforts to reach out to low income people.

12. These projections are detailed in Table 36.

Table 36: Low Income Households Access to Financial Services (Numbers in Lakhs)

		2012			**2013**			**2014**			**2015**			**2016**			**2017**		
		<1.35$	**1.36-2.16$**	**Total**	**<1.35$**	**1.36-2.16$**	**Total**	**<1.35$**	**1.36-2.16$**	**Total**	**<1.35$**	**1.36-2.16$**	**Total**	**<1.35$**	**1.36-2.16$**	**Total**	**<1.35$**	**1.36-2.16$**	**Total**
I	**Total Low income households**	**136.46**	**115.32**	**251.79**	**140.29**	**117.93**	**258.22**	**139.12**	**116.38**	**255.51**	**137.82**	**114.70**	**252.53**	**136.38**	**112.90**	**249.28**	**134.80**	110.96	245.76
II	**No. of low income households access to financial services through different channels**																		
1	SHGs (NGOs, coops, banks, MFIs)	20.56	6.85	27.41	22.62	7.54	30.16	26.01	8.67	34.68	31.21	10.40	41.62	39.02	13.00	52.02	50.72	16.90	67.63
2	JLGs by Banks		1.00	1.00	0	1.10	1.10	0	1.27	1.27	0	1.52	1.52	0	1.90	1.90	0	2.47	2.47
3	MFIs		13.98	13.98	0	15.37	15.37	0	17.68	17.68	0	21.22	21.22	0	26.52	26.52	0	34.48	34.48
4	Banks (NFAs)- 10% of the accounts are overlap of same households)	9.56	3.18	12.74	10.51	3.50	14.02	12.62	4.20	16.82	16.40	5.46	21.87	22.96	7.65	30.62	34.45	11.48	45.93
	Total low income households covered through financial services	**30.12**	**25.02**	**55.15**	**33.13**	**27.53**	**60.66**	**38.63**	**31.83**	**70.46**	**47.62**	**38.62**	**86.24**	**61.99**	**49.09**	**111.08**	**85.18**	**65.35**	**150.54**
III	**Gap - no of financially excluded households**	106.34	90.29	196.64	107.15	90.40	197.55	100.49	84.54	185.04	90.19	76.08	166.28	74.39	63.80	138.19	49.62	45.60	95.22
	% of financially excluded households			**78**			**77**			**72**			**66**			**55**			**39**

Table 36 starts with the number of low income households projected for the next five years, being 251 lakh in 2012, reaching 245 lakhs in 2017. The calculation of outreach through each channel shows that in 2012, 78% households did not have access to financial services. By 2017, the percentage of financially excluded household would drop to 39%, showing that the gap is covered to the extent of 61% in the next five years.

Step 2: Credit Demand Projection according to Category of Households

The assumptions made for projecting demand are as follows:

1. The demand projections are taken based on the total number of low income households projected in Table 35 from 2013 to 2017.

2. The credit demand for each channel is estimated for the two low income category households separately.

3. In the income category of less than $1.35, about 40% of the households are expected to take loans in the first year, 2013. Given that inclusion, awareness and financial literacy will increase over the years, the number of households taking loans is expected to increase at 5% every year, reaching 60% by 2017.

4. In the income category of $1.36 – 2.16 per person per day, about 50% of the households are expected to take loans in the first year, 2013 and is expected to increase at 5% every year, reaching 70% by 2017.

5. It is assumed that households in the extreme poverty range (less than $1.35) will take an average loan of Rs. 10,000 per household. These levels were taken at 2013, and the average loan amounts are assumed to be increased by Rs. 2,000 per year, till in 2017 the average reaches Rs. 18,000 per borrower.

6. It is assumed that households in the income range of $ 1.36-2.16 will take average loans of Rs. 12,000 per household, in 2013. This amount is also increased by Rs. 2,000 per year, so that the average loan in this category is estimated to be Rs. 20,000 by 2017.

Based on the above assumptions, the credit demand in the next five years, among low income households in UP, is estimated in Table 37 below:

Table 37: Credit Demand of Low Income Households in UP

Income Category of low income Households	Indicators	2013	2014	2015	2016	2017
Households having income of <1.35$	Households with <1.35$ (In Lakhs)	140.29	139.12	137.82	136.38	134.80
	No. of HH taking loan (In Lakhs)	56.11	62.60	68.91	75.01	80.88
	Loan amount (Rs. Crores)	5,611	7,512	9,647	12,001	14,558
Households having income of 1.36-2.16$	Households with 1.36-2.16 $ (In Lakhs)	117.93	116.38	114.70	112.90	110.96
	No. of HH take loan(In Lakhs)	58.96	64.01	68.82	73.38	77.67
	Loan amount (Rs. Crores)	7,075	8,961	11,012	13,209	15,534
Total	Total Households (In Lakhs)	**2,58.22**	**255.51**	**252.53**	**249.28**	**245.76**
	No. of household take loans (In Lakhs)	**115.08**	**126.61**	**137.73**	**148.39**	**158.55**
	% of HH taking loan (In Lakhs)	**45**	**50**	**55**	**60**	**65**
	TOTAL Loan amount (Rs. Crores)	**12,687**	**16,474**	**20,659**	**25,211**	**30,093**

The Table 37 shows a demand level of Rs.12,687 crores in 2013 by 115.08 lakhs low income households (45% of the households). This demand is likely to increase to Rs. 30,093 crores, by 158.55 households (65%) in 2017.

However, the demand projections made, based on the households organized through the SHGs and JLGs, show an optimistic demand of Rs. 2510 crores in 2013 and increased to Rs. 14,691 crores, by 2017. This is only half of the demand projected from the total low income households which is a clear indication of lack of outreach. The detailed optimistic projections worked out with households organized through groups are given in Annexure 5.1.

Step 3: Projections of Credit Supply

Assumptions were built in step by step to project the credit supply to low income households in UP. The credit estimation for SHGs includes all types of SHPIs: NGOs, Cooperatives, MFIs and banks.

Credit Supply through SHGs

1. The total number of SHGs in UP is 4.71 lakhs, of which number of groups estimated under both the low income categories in 2012 is 2.49 lakhs and estimated

to grow to 6.15 lakhs in 2017. Given that the large NGOs such as RGVMP plan to reach coverage of at least 50% of the districts in UP and the UPSRLM is estimated to cover all the 75 districts and 808 blocks by 2017 this may be possible.

2. Banks extended loans to about 7% of the groups in 2012, which is roughly 5% of the households from <$1.35 category and 13% of the households from the $1.36-2.16 income category was accessed loans. On this base, a small increase is estimated in 2013, i.e., 10% by the <$1.35 category and 20% by $1.36-2.16. This increase in 2014 and 2015 to 20% and 30% respectively expecting that support from agencies like NABARD would be extended to SHPIs to improve the quality of the groups, and also UPSRLM would have built capacities of the weak groups in the State, which allow the poor households to access loans from the banks. As stated earlier, the key assumption here is that banks would have improved their supply of loans by 2014-15. The increase of households access to loans will reach by 50% and 60% by the <$1.35 and 1.36-2.16 categories respectively by 2017.

Table 38: Percentage of households which get loans through SHG Channel

Income Category/ Year	2013	2014	2015	2016	2017
$1.35	10	20	30	40	50
$1.36-$2.16	20	30	40	50	60

The average size of a group in UP, estimated on the basis of NABARD data, is 11 members[74]. The loans per member from 2013 to 2017 are estimated as per the table given below:

Table 39 Estimated Average Loan per Member

Income category	2012[75]	2013	2014	2015	2016	2017
<1.35$	12,000	12,000	13,000	14,000	16,000	18,000
1.36-2.16$	12,000	14,000	16,000	18,000	20,000	20,000

As the existing average for 2012 is an anomaly, it is expected that the average in 2013, will be about the same for <1.35$ category, and an increase of Rs.2,000 for the 1.36-2.16$ category. This grows at a reasonable pace each year.

Credit to JLGs by Banks

1. The total number of JLGs in UP is 41, 844, of which number of groups estimated under low income household is 20,085 and estimated to grow to 49,545 in 2017.

2. Given that banks/ SHG II would promote JLGs to give loans, all JLGs should get loans. However, field realities show that banks too wait for JLGs to qualify as creditworthy. In 2012, 53% JLGs proved to be creditworthy as per the NABARD

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[74] It would have been preferable to get this information directly get this data from the banks/SLBC information on total credit disbursal, as it would have been more accurate. However, in the absence of such information, we have estimated it from the number of borrowers and average loan amounts.

[75] In 2012, the average loan per member is Rs. 12,000. However, this is a high figure due to lower number of SHGs getting loans.

report. Taking this as the base, and assuming that groups formed in later years will get capacity building trainings, the percentage of creditworthy JLGs is expected to increase by 5% each year, and is depicted in the following table:

Table 40: Percentage of Creditworthy JLGs (2013-17)

Income category	2012	2013	2014	2015	2016	2017
1.36-2.16$	53	60	65	70	75	80

Therefore, by 2017, as many as 80% of the JLGs are likely to be worthy of bank loans.

3. Assuming that all members of a JLG will take loans, the number of loan members per JLG is assumed to be 5.

4. The loan amount per member is assumed to be Rs. 14,000 for 2013, 16,000 in 2014, and from 2015 to 2017, loan per member is expected to be Rs. 18,000, Rs. 20,000 and Rs. 22,000 respectively.

Credit through JLGs Promoted by MFIs

1. In order to estimate credit supply by MFIs, the credit data of 5 MFIs was taken from SIDBI. This included their projections for three years, 2013-15. These MFIs were classified by the size of their loan disbursed. MFIs with a loan disbursement of less than Rs. 10 crores are classified as small. Those with loan disbursement between Rs. 10 and 250 crores were classified as medium sized, and those with more than Rs. 250 crores of loans disbursed were classified as large.

2. The total number of MFIs in UP is estimated to be about 32, based on information from NABARD, and supplemented by secondary research. These 32 have also been classified according to their estimated average loan disbursed, which was taken from their websites. Thus 18 MFIs are small, 10 are in the medium and 4 in the large category. Over the five years, the number of MFIs is estimated to increase to 19, 11 and 5 in the three categories respectively, with the total number of MFIs in UP reaching 35 in 5 years.

3. The average number of borrowers for the category of small MFIs is about 10,000; for the medium 62,000 and 3.2 lakhs for the large MFIs.

4. The loan amounts are Rs. 6,000 per borrower for the first two categories and Rs. 8,000 for the larger MFIs. This amount is based on the figures given for the currently active MFIs. On the basis of the projections provided by 5 MFIs for the next three years 2013-15, it is seen that the average loan amounts have not changed for the small category of MFIs, while for the middle size average loans per borrower have increased by Rs. 1,000 in the second year, and this increase was wiped off in the next year. This is understandable as in this category; number of borrowers is likely to grow faster than the availability of loan funds. In the large MFI category average loan size same as in year 2 and increased by Rs. 2,000 in year 3 to year 5.

5. Based on this information, the average loan per borrower is retained at Rs. 6,000 for all the years for the small category, assuming that new entrants will continue to be conservative. The average loan amount for the medium size MFIs is taken to be Rs. 6,000 in 2013, Rs. 7,000 in 2014, Rs. 6,000 in 2015, and then Rs. 7,000 for 2016 and 17. The average loan per borrower for the large size MFIs is taken to be Rs. 8,000 in 2013 and 2014, increasing to Rs. 10,000 in 2015, 2016 and 2017.

6. The total number of borrowers and credit disbursed by this channel is estimated by adding the figures for the three categories of MFIs.

7. However, this is the total number of clients reached by the MFIs. The reach to low income households is calculated using the earlier categorization of households in the income ranges of less than $2.16. Assuming that MFIs cover clients in the income categories of $ 1.36 to 2.16, the number of households get loans through MFIs in these categories is estimated to be 11.18 lakhs in 2012, increasing to 31.04 lakhs in 2017.

8. Given that the total number of households reached by MFIs is higher, this analysis reveals that in 2012, the percentage of low income households in MFI portfolios are likely to be about 75 – 80%. However, as MFIs grow to higher scales, they are likely to reach more clients in the income categories of more than $2.16 and it is likely that the percentage of low income clients that they reach is about 50% of their total clients by 2017.

   Credit supply estimated through different channels is calculated on this basis, and is given in Table 41.

Table 41: Credit Supply Estimation through different Delivery Channels

Different channels	Indicators	2012			2013			2014			2015			2016			2017		
		<1.35$	1.36-2.16$	Total	<1.35$	1.36-2.16$	Total	<1.35$	1.36-2.16$	Total	<1.35$	1.36-2.16$	Total	<1.35$	1.36-2.16$	Total	<1.35$	1.36-2.16$	Total
SHGs (NGOs, coops, banks, MFIs)	Low income Households (Lakhs)	20.56	6.85	27.41	22.62	7.54	30.16	26.01	8.67	3468	31.21	10.40	41.62	39.02	13.00	52.02	50.72	16.90	67.63
	No. of groups(Lakhs)			2.49			2.74			3,15			3.78			4.72			6.14
	No. of groups get loan(Lakhs)			0.17			0.47			0.97			1.69			2.76			4.43
	No. of HH get loan(Lakhs)	1.02	0.89	1.91	2.26	1.50	3.77	5.20	2.60	7.80	9.36	4.16	13.52	15.60	6.50	22.11	25.36	10.14	35.50
	Loan amount (Rs. Crores)	123	107	230	271	211	482	676	416	1,092	1,311	749	2,060	2,497	1,300	3,797	4,565	2,029	6,594
JLGs by Banks	Low income Households (Lakhs)		1.00	1.00		1.10	1.10		1.27	1.27		1.52	1.52		1.90	1.90		2.47	2.47
	No. of groups(Lakhs)		0.20	0.20		0.22	0.22		0. 25	0.25		0.30	0.30		0.38	0.38		0.49	0.49
	No. of groups get loan		0.10	0. 10		0.13	0.13		0. 16	0.16		0.21	0.21		0.28	0.28		0.39	0.39
	No. of HH get loan(Lakhs)		0.53	0.53		0.66	0.66		0.82	0.82		1.06	1.06		1.42	1.42		1.98	1.98
	Loan amount (Rs. Crores)		53	53		92	92		132	132		192	192		285	285		436	436
MFIs	Low income Households (Lakhs)		13.98	13.98		15.37	15.37		17.68	17.68		21.22	21.22		26.52	26.52		34.48	34.48
	No. of groups(Lakhs)		2.79	2.79		3.07	3.07		3.53	3.53		4.24	4.24		5.30	5.30		6.89	6.89
	No. of groups get loan(Lakhs)		2.23	2.23		2.46	2.46		3.00	3.00		3.60	3.60		4.77	4.77		6.20	6.20
	No. of HH get loan(Lakhs)		11.18	11.18		12.30	12.30		15.03	15.03		18.04	18.04		23,.7	23,.7		31.04	31.04
	Loan amount (Rs. Crores)		1,118	1,118		1,722	1,722		2,405	2,405		3,247	3,247		4,775	4,775		6,828	6,828
Total	Total Households (Lakhs)	30.12	25.02	55.15	3.13	27.53	60.66	38.63	31.83	70.46	47.62	38.62	86.24	61.99	49.09	111.08	85.18	65.35	1,50.54
	No. of Households taken loans(Lakhs)	1.02	12.60	13.63	2.26	14.47	16.73	5.20	18.46	23.66	9.36	23.26	32.63	15.60	31.80	47.41	25.36	43.16	68.53
	Total Loan amount (Rs. Crores)	**123**	**1279**	**1402**	**271**	**2017**	**2298**	**676**	**2954**	**3630**	**1311**	**4189**	**5500**	**2497**	**6362**	**8859**	**4565**	**9294**	**13859**

The table above shows that the credit offered by banks to SHGs, and JLGs, and by MFIs to 68.53 lakhs low income households (43% of the total households demanded loans in Table 37), totals to Rs 2,289 crores in 2013, rising to Rs. 13,859 crores (Rs. 13.8 billion) in 2017.

Credit through Other Channels

1. The channels not considered here are Post Offices, as they concentrate mostly on savings, and loans against NSCs are not considered here as this is likely to be emergency support and not credit for livelihoods. Secondly, those who currently save in post offices are not likely to be among the low income categories of people considered in this document.
2. Further, No Frills Accounts only allow people to save. Current information is that the amount of transactions per NFA is about Rs. 500, and only 51% of the NFAs have been operated at least once. This shows that NFAs are currently used largely for transfer payments of pensions or NREGA wages. They are not yet used by banks to give individual loans. Even when loans are extended, this will be through cash credit limits, the usage of which cannot yet be estimated with any reasonable assumptions. Therefore, although basic savings accounts may be used for transfers, and may be used for savings facility, credit through them is not yet likely, therefore has not yet been estimated.

Step 4: Estimating the Credit Gap

On the basis of an estimation of demand and supply, the unmet demand for credit has been estimated.

Table 42: Demand and Supply Gap (in Rs. Crores)

	2013	2014	2015	2016	2017
Demand	12,688	16,474	20,660	25,211	30,093
Total Supply amount (Rs. Crores)	2,298	3,630	5,500	8,859	13,859
Supply gap	10,399	12,844	15,160	16,352	16,234
% of gap	82	78	73	65	54

It is expected that supply of credit will leave a gap in loan demand of about 54% by 2017.

Scenario 1, therefore, shows that 39% of the households will remain excluded, and 54% of the credit demands will remain unmet by 2017.

However, if the demand is projected based on the households that are organized into SHGs and JLGs, the credit supply gap comparatively low (6%) by 2017. The details of the demand-supply gap projected through these demand estimation is given in Annexure 5.1.

5.2.2 Scenario 2: Conservative Projections

The Scenario depicted in the first option, above, is based on assumptions of positive developments on all fronts: banks overcome the attitudinal constraints and supply credit to SHGs, MFIs expand at a fast rate, and increase coverage of poorest districts in UP, and banks also extend their reach through financial inclusion drives, to enroll low income households as customers of the banks. The assumptions in Scenario 1 are optimistic and lead towards a five year projection whereby nearly 80% of low income households would have access to formal financial services.

We now depict another scenario, which will unroll if banks and MFIs don't overcome the outreach constraints, and if SHG and JLG formation is slower than projected. The less optimistic assumptions, and the results, are depicted in Scenario 2.

The key differences in assumptions (of the conservative projection in Scenario 2) are highlighted below:

- The first change in assumptions is about group formation.

o The current ground reality in UP is that SHG II and UPSRLM are still to roll out, and that currently NGOs are not yet invited to participate in UPSRLM, nor do they have sufficient donor funding, and NABARD has also been tardy in releasing grants for group formation. If these organisations do not change fast enough, the only growth in SHGs may be through some large organisations like RGVMP, while other NGOs may be able to form much fewer groups than projected in Scenario 1.

o Banks are currently focusing on starting more branches, so fewer human resources are likely to be available to form JLGs, which will then not grow at a fast pace.

o Many of UP's large MFIs had a presence in Andhra Pradesh, and are currently recovering from the AP crisis. It is likely that their coverage of low income households will be slow at least in the next 2-3 years (2014-16). Further, the growth of client outreach is only about 3% for the AP based MFIs[76], and the market is still yet to pick up; the banks are not coming forward to give equity or credit capitals, therefore reaching more households is not a profitable proposition for the MFIs. They will tend to get engaged in BC model to cover their costs rather than promoting more groups.

o The opening of basic accounts (NFAs) is for the transfer of NREGA payments and DBTs through banks. The ground reality in 2012 is that only half of the basic accounts are operated. As banks are focusing on opening branches, customer support is delegated more and more to BCAs, who in turn also focus on enrolments. They are unable to support customers to operate their bank accounts, either due to lack of time, or due to technical problems. The assumption therefore, is that the operational accounts will increase by only 5% in 2013, 10% for the next two years (2014-15), and 18% and 20% in 2016 and 2017 respectively. This is a significantly slower growth rate than projected in Scenario 1.

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[76] As stated in MFIN quarterly report

- Earlier, conservative assumptions on the formation of SHGS and JLGs conservative assumptions led to a reduction, as compared to Scenario 1, of the number of low income households reached by 2017. Further, there are additional factors which may result is a lower credit demand, and supply. These are as follows:

  - The SHG-BL channel is supposed to be the appropriate channel for credit supply to low income households but the current outreach by banks is only 7% of the total groups formed in UP. This does not offer hope for low income households for loans from banks. Also bankers' attitudes and questionable practices demotivate SHG members from demanding bank loans. On the other hand, genuine banks intend to reach out to SHGs, but the groups do not qualify for various reasons such as like irregular/non repayment of earlier bank loans (with an expectation that banks will eventually waive off the overdue loans), poor quality of SHGs which are not supported by the SHPIs and poor cooperation from NGOs in facilitation of SHG-BL. Further, banks lack human resources to build capacities of SHGs or to service their loan demands. These gaps are unlikely to be covered significantly over the next two years. May be if NABARD brings some SHPIs to address some of these problems under the SHG II program, or the UPSRLM put efforts to improve the poor quality groups or promote quality new groups, the scenario will be become positive. However, at the time of writing, in 2013, the off-take of these two programs is very slow.

  - With banks focusing on financial inclusion and SHG II is not in full operation, the possibility of many JLGs getting loans, as projected in Scenario 1, may not materialize.

  - It is also possible that even if MFIs form many JLGs in the poorest districts, they may not be able to raise sufficient capital to extend sufficient credit to low income households.

Step 1: Estimating Household Gap in Access to Financial Services

The first step is to calculate how many low income households have access to financial services through different channels, and when the outreach will be achieved to all of them. The assumptions for this calculation were as follows:

1. The total number of savings linked SHGs is stated at 4.71 lakhs, reaching 53 lakh households. Of these, the assumption is that 80% are low-income households (as government guidelines allow up to 20% members to be non-poor). This gives 42.84 lakh low income households reached through SHGs in the year 2012.

2. These are next assumed to have an overlap of about 70% with No Frills Accounts, as most SHPIs, especially RGMVP and others, and those who work on NREGA, have opened individual accounts already under FI. This reduced the number of NFAs to to12.74 lakhs.

3. The feedback from stakeholders was that some groups are inactive, and accordingly, 20% were considered inactive and 80% as active groups. This leads to a figure of 27.42 lakhs low income households in UP, reached through SHGs.

4. The next calculation was outreach through JLGs by banks. Here too, 80% are considered poor. Of these, 40% are considered to have NFAs, just as SHGs. All of these are considered to be active accounts. Thus the households reached by JLGs, are about 100,426, or about 0.1 million households in JLGs.

5. The data on the number of clients was available for 13 MFIs, from MFIN data. This was extrapolated to 32 MFIs, giving a client outreach of 34.95 lakh clients/ households. Of these, 80% are considered low income households, giving an estimation of 27.96 lakh households reached through MFIs. It is assumed that about 50% of households have both an MFI account and are members of SHGs, yielding an estimate of 13.98 households covered through MFIs.

6. The overlap of these households with NFAs is considered to be about 50%, as MFIs have been helping them to open NFAs (many MFIs also have operations as BCs, where they earn a commission for this linkage). However, as currently, NFAs are opened for DBTs and G2P payments, and don't yet have cash credit limits, no change is made in the estimation of clients for savings and loan products.

7. The households reached through NFAs and individual accounts under FI are reported to be 1.06 crores. Of these, 80% are considered low income households, as BCs reported covering many more than the low income households, for NFAs, under the FI drive. Further, 70% of these are considered to overlap with SHG members. Finally, only 50% of the NFAs are seen to be active (as per SLBC report). This yields that 12.75 lakh households have been reached through active individual accounts in banks.

8. Thus the total number of low income households in UP, reached through different channels, was 55.25 lakh in 2012.

9. Given that the total number of low income households is 251 lakhs in 2012, the financially excluded households number 55.25 lakhs, which shows financial inclusion of 22%. This differs from the figures given by the Rangarajan committee (36% in 2008), and the 2011 Census (76%), both of which seem to be overestimates compared to the ground reality in UP in 2013. According to Crisil Inclusix report, UP has inclusion scores of 33.5 (for a scale of 0-100) and ranked at 24 out of 35States covered by the study.

10. Further, the financially included households are divided into the two low income categories of <$ 1.35 and $ 1.36 - $2.16 pppd, with a total of 3.01 and 2.50 lakh households in each category. The assumptions here are that 75% of the SHG members, as well as 75% of those who hold NFA accounts, fall in the lower income category of < $1.36 pppd. The remaining 25% of SHG members, and NFA accounts holders, and all the clients of MFIs, are assumed to fall in the higher of the two low-income categories.

11. The projections have been done on the following assumptions:

    Though there is no growth in SHG promotions in the State from 2011 to 2012, this is seen as an anomaly in a year when SGSY is closing down and

NRLM still to be rolled out in Uttar Pradesh. It is assumed for the projections that SHGs grow at 5% in 2013, 10% in 2014, 15% in 2015, 20% in 2016, and 25% in 2017 for the income category <$1.35. It assumed that SHGs will grow at 5% in 2013, 15% in 2014, 20% in 2015, 25% in 2016, and 30% in 2017 for the income category$1.36 – 2.16. These growth rates are assumed to be at this level, because the base in 2013 is very low due no growth between the previous two years, and it expected the NRLM and NABARD SHG II will take root from 2014 and considering the other field constraints like banks cooperation and NGOs limited involvement, the growth is expected to increase slowly.

Table 43: Percentage of Households Projected through SHG Channel

Income Category/ Year	2013	2014	2015	2016	2017
$1.35	5	10	15	20	25
$1.36-$2.16	5	15	20	25	30

a. Considering the challenge faced by banks putting efforts in establishing USBs and operationalising the BCAs, the JLGs by banks are assumed to grow at 10% in 2013, 15% in 2014, 20% in 2015, 25% in 2016, and 25% in 2017.

b. The growth rate between 2011 and 2012 was 6% for overall MFIs and less for AP based MFIs, 3% as per MFIN quarterly report. But considering many MFIs in UP are MFIs from AP who are in the recovery stage. Therefore taken 5% increase for 2013. Considering that the current capital constraints for MFIs are expected to be overcome by 2014, it expected to grow at 10%, 15% in 2015, 20% in 2016 and 25% in 2017.

c. Considering that currently only half the NFA accounts are operational, they are assumed to grow only at 5% in 2013, then the financial inclusion drive is expected to escalate, They are assumed that NFAs will grow slowly by 10% in 2014, 15% in 2015, 20% in 2016, and 25% in 2017 for the income category <$1.35. With the income category of $1.36-2.16 category it assumed to grow at 5% in 2013, 15% in 2014, 20% in 2015, 25% in 2016, and 30% in 2017.

Table 44: Percentage of Households Projected through Bank-NFA Channel

Income Category/ Year	2013	2014	2015	2016	2017
$1.35	5	10	15	20	25
$1.36-$2.16	5	15	20	25	30

12. These projections are detailed in Table 45.

Table 45: Low Income Households Access to Financial Services (Numbers in Lakhs)

		2012			2013			2014			2015			2016			2017		
		<1.35$	1.36-2.16$	Total	<1.35$	1.36-2.16$	Total	<1.35$	1.36-2.16$	Total	<1.35$	1.36-2.16$	Total	<1.35$	1.36-2.16$	Total	<1.35$	1.36-2.16$	Total
I	**Total Low income households**	**136.46**	**115.32**	**251.79**	**140.29**	**117.93**	**258.22**	**139.12**	**116.38**	**255.51**	**137.82**	**114.70**	**252.53**	**136.38**	**11290**	**249.28**	**134.80**	110.96	245.76
II	**No. of low income households access to financial services through different channels**																		
1	SHGs (NGOs, coops, banks, MFIs)	20.56	6.85	27.41	21.59	7.19	28.78	23.75	8.27	32.02	26.12	9.51	35.64	31.35	11.89	43.24	39.18	15.46	54.65
2	JLGs by Banks		1.00	1.00	0	1.10	1.10	0	1.27	1.27	0	1.52	1.52	0	1.90	1.90	0	2.38	2.38
3	MFIs		13.98	13.98	0	14.68	14.68	0	16.14	16.14	0	18.57	18.57	0	22.28	22.28	0	27.85	27.85
4	Banks (NFAs)- 10% of the accounts are overlap of same households)	9.56	3.18	12.74	10.03	3.34	13.38	11.04	3.84	14.89	12.69	4.61	17.31	15.23	5.77	21.01	19.04	7.50	26.55
	Total low income households covered through financial services	**30.12**	**25.02**	**55.15**	**31.63**	**26.32**	**57.96**	**34.79**	**29.54**	**64.33**	**38.82**	**34.23**	**73.05**	**46.59**	**41.86**	**88.45**	**58.23**	**53.21**	**111.44**
IV	**Gap - no of financially excluded households**	**106.34**	**90.29**	**196.64**	**108.66**	**91.60**	**57.96**	**104.33**	**86.84**	**191.17**	**98.99**	**80.47**	**179.47**	**89.79**	**71.03**	**160.83**	**76.56**	**57.74**	**134.31**
	% of financially excluded households			78			78			75			71			65			55

The Table 45 starts with the number of low income households projected for the next five years, being 251 lakh in 2012, reaching 245 lakhs in 2017. The calculation of outreach through each channel shows that in 2012, 78% households did not have access to financial services. By 2017, the percentage of financially excluded household drops to 55%, showing that the gap is covered to the extent of 45% in the next five years.

Step 2: Credit Demand according to Category of Households

The assumptions made for projecting demand are as follows:

1. The demand projections are taken based on the total number of low income households projected in Table 33 from 2013 to 2017.
2. The credit demand for each channel is estimated for the two low income category households separately.
3. In the income category of less than $1.35, about 20% of the households are expected to take loans in the first year, 2013. Given that inclusion, awareness and financial literacy will increase over the years, the number of households taking loans is expected to increase at 5% every year, reaching 40% by 2017.
4. In the income category of $1.36 – 2.16 per person per day, about 25% of the households are expected to take loans in the first year, 2013 and is expected to increase at 5% every year, reaching 50% by 2017.
5. It is assumed that households in the extreme poverty range (less than $1.35) will take an average loan of Rs. 10,000 per household. These levels were taken at 2013, and the average loan amounts are assumed to be increased by Rs. 2,000 per year, till in 2017 the average reaches Rs. 18,000 per borrower.
6. It is assumed that households in the income range of $ 1.36-2.16 will take average loans of Rs. 12,000 per household, in 2013. This amount is also increased by Rs. 2,000 per year, so that the average loan in this category is estimated to be Rs. 20,000 by 2017.

Based on the above assumptions, the credit demand in the next five years, among low income households in UP, is estimated in Table 46 below:

Table 46: Credit Demand of Low Income Households in UP

Income Category of low income Households	Indicators	2013	2014	2015	2016	2017
Households having income of <1.35$	Households with <1.35$ (Lakhs)	140.29	139.12	137.82	136.38	134.80
	No. of HH take loans (Lakhs)	28.05	34.78	41.34	47.73	53.92
	Loan amount (Rs. Crores)	2,805	4,173	5,788	7,637	9,705
Households having income of 1.36-2.16$	Households with 1.36-2.16 $ (Lakhs)	1,17.93	116.38	1,14.70	112.90	110.96
	No. of HH take loans (Lakhs)	29.48	40.73	45.88	50.80	55.48
	Loan amount (Rs. Crores)	3,537	5,702	7,341	9,144	11,096
Total	Total Households (Lakhs)	258.22	255.51	252.53	249.28	245.76
	No. of household take loans (Lakhs)	57.54	75.51	87.23	98.3	109.40
	% of HH take loans	22	30	35	40	45
	TOTAL Loan amount (Rs. Crores)	**6,344**	**9,877**	**13,130**	**16,782**	**20,802**

Table 46 shows a demand level of Rs. 6,344 crores in 2013. This demand is likely to increase to Rs. 20,802 crores, by 2017.

The conservative estimation with households organized through SHGs and JLGs showed a demand of Rs. 2119 crores in 2013, which increases to Rs. 10,119 crores, by 2017, which is half of the demand of the latent credit demand estimated from all the low income households. The details of these projections are given in Annexure 5.2.

Step 3: Projections of Credit Supply

Assumptions were built in step by step to project the credit supply to low income households in UP.

Credit Supply through SHGs

1. The credit estimation for SHGs includes all types of SHPIs: NGOs, Cooperatives, MFIs and banks.
2. Banks extended loans to about 7% of the groups in 2012, which is roughly 5% of the households from <$1.35 category and 13% of the households from the $1.36-2.16 income category was accessed loans. On this base, same increase is estimated in 2013, i.e., 5% by the <$1.35 category and 13% by $1.36-2.16. This increase in 2014 and 2015 to 10% and 20% respectively expecting that slowly support from agencies like NABARD would have started to extend to SHPIs to improve the quality of the groups, and also UPSRLM would have built capacities of the weak groups in the State, which allow the poor households to access loans from the banks. The increase of households access to loan will reach by 25% and 35% by the <$1.35 and 1.36-2.16 categories respectively by 2017.

Table 47: Percentage of households get loan through SHG Channel

Income Category/ Year	2013	2014	2015	2016	2017
$1.35	5	10	15	0	25
$1.36-$2.16	13	20	25	30	35

The average size of a group in UP, estimated on the basis of NABARD data, is 11 members[77]. The loans per member from 2013 to 2017 are estimated as per the table given below:

Table 48: Estimated Average Loans per Member

Income category	2012[78]	2013	2014	2015	2016	2017
<1.35$	12,000	12,000	13,000	14,000	15,000	16,000
1.36-2.16$	12,000	13,000	14,000	15,000	16,000	17,000

As the existing average for 2012 is an anomaly, it is expected that the average in 2013, will be about the same, and grows at a slow pace each year.

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[77] It would have been preferable to get this information directly get this data from the banks/SLBC information on total credit disbursal, as it would have been more accurate. However, in the absence of such information, we have estimated it from the number of borrowers and average loan amounts.

[78] In 2012, the average loan per member is Rs. 12,000. However, this is a high figure due to lower number of SHGs getting loans.

Credit to JLGs by Banks

1. The total number of JLGs in UP is 41, 844, of which number of groups estimated under low income household is 20,085 and estimated to grow to 47,639 in 2017.

2. Given that banks/ SHG II would promote JLGs to give loans, all JLGs should get loans. However, field realities show that banks are concentrating on expanding branches and NFA accounts, the coverage will be 60% increase in 2013 and 2014, and 65% in 2015 and 2016, 70% in 2017.

Table 49: Percentage of Creditworthy JLGs (2013-17)

Income category	2012	2013	2014	2015	2016	2017
1.36-2.16$	53	60	60	65	65	70

Assuming that all members of a JLG will take loans, the number of loan members per JLG is assumed to be 5.

The loan amount per member is assumed to be Rs. 14,000 for 2013, 16,000 in 2014, and from 2015 to 2017, loan per member is expected to be Rs. 18,000, Rs. 20,000 and Rs. 22,000 respectively.

Credit through JLGs Promoted by MFIs

1. In order to estimate credit supply by MFIs, the credit data of 5 MFIs was taken from SIDBI. This included their projections for three years, 2013-15. These MFIs were classified by the size of their loan disbursed. MFIs with a loan disbursement of less than Rs. 10crores are classified as small. Those with loan disbursement between Rs. 10 and 250crores were classified as medium sized, and those with more than Rs. 250crores of loans disbursed were classified as large.

2. The total number of MFIs in UP is estimated to be about 32, based on information from NABARD, and supplemented by secondary research. These 32 have also been classified according to their estimated average loan disbursed, which was taken from their websites. Thus 18 MFIs are small, 10 are in the medium and 4 in the large category. Over the five years, the number of MFIs is estimated to increase to 19, 11 and 5 in the three categories respectively, with the total number of MFIs in UP reaching 35 in 5 years.

3. The average number of borrowers for the category of small MFIs is about 10,000; for the medium 62,000 and 3.2 lakhs for the large MFIs.

4. The loan amounts are Rs. 6,000 per borrower for the first two categories and Rs. 8,000 for the larger MFIs. This amount is based on the figures given for the currently active MFIs. On the basis of the projections provided by 5 MFIs for the next three years 2013-15, it is seen that the average loan amounts have not changed for the small category of MFIs, while for the middle size average loans per borrower have increased by Rs. 1,000 in the second year, and this increase was wiped off in the next

year. This is understandable, as in this category, the number of borrowers is likely to grow faster than the availability of loan funds. In the large MFI category average loan size same as in year 2 and increased by Rs. 2,000 in year 3 to year 5.

5. Based on this information, the average loan per borrower is retained at Rs. 6,000 for all the years for the small category, assuming that new entrants will continue to be conservative. The average loan amount for the medium size MFIs is taken to be Rs. 6,000 in 2013, Rs. 7,000 in 2014, Rs. 6,000 in 2015, and then Rs. 7,000 for 2016 and 17. The average loan per borrower for the large size MFIs is taken to be Rs. 8,000 in 2013 and 2014, increasing to Rs. 10,000 in 2015, 2016 and 2017.

6. The total number of borrowers and credit disbursed by this channel is estimated by adding the figures for the three categories of MFIs.

7. However, this is the total number of clients reached by the MFIs. The reach to low income households is calculated using the earlier categorization of households in the income ranges of less than $2.16. Assuming that MFIs cover clients in the income categories of $ 1.36 to 2.16, the number of households get loans through MFIs in these categories is estimated to be 11.18 lakhs in 2012, increasing to 31.04 lakhs in 2017.

8. Given that the total number of households reached by MFIs is higher, this analysis reveals that in 2012, the percentage of low income households in MFI portfolios are likely to be about 80%. However, as MFIs grow to higher scales, they are likely to reach more clients in the income categories of more than $2.16 and it is likely that the percentage of low income clients that they reach is about 50% of their total clients by 2017.

   Credit supply estimated through different channels is calculated on this basis, and is given in Table 50.

Table 50: Credit Supply Estimation through different Delivery Channels

Different channels	Indicators	2012			2013			2014			2015			2016			2017		
		<1.35$	1.36-2.16$	Total	<1.35$	1.36-2.16$	Total	<1.35$	1.36-2.16$	Total	<1.35$	1.36-2.16$	Total	<1.35$	1.36-2.16$	Total	<1.35$	1.36-2.16$	Total
SHGs (NGOs, coops, banks, MFIs)	Low income HH(lakhs)	20.56	6.85	27.41	21.59	7.19	28.78	23.75	8.27	32.02	26.12	9.51	35.64	31.35	11.89	43.24	39.18	15.46	54.65
	No. of groups (lakhs)			2.49			2.61			2.91			3.24			3.93			4.96
	No. of groups get loan (lakhs)			0.17			0.25			0.50			0.78			1.22			1.90
	No. of HH get loan (lakhs)	1.02	0.89	1.91	1.07	0.93	2.01	2.37	1.65	4.03	3.91	2.37	6.29	6.27	3.56	9.83	9.79	5.41	15.21
	Loan amount (crores)	123	1.06	230	129	121	251	308	231	40	548	356	905	940	571	1511	1,567	920	2487
JLGs by Banks	Low income HH(lakhs)		1.00	1.00		1.10	1.10		1.27	1.27		152	152		1.90	1.90		23.8	23.8
	No. of groups (lakhs)		0.20	0.20		0.22	0.22		0.25	0.25		30	30		0.38	0. 38		0.47	0.47
	No. of groups get loan (lakhs)		0. 10	0. 10		0.13	0.13		0.15	0.15		19	19		0.24	0. 24		0.33	0.33
	No. of HH get loan(lakhs)		0. 53	0. 53		0.66	0.66		0.76	0.76		99	99		1.23	1.23		1.66	1.66
	Loan amount (crores)		53	53		92	92		121	121		178	178		247	247		366	366
MFIs	Low income HH(lakhs)		13.98	13.98		14.68	14.68		16.14	16.14		18.57	18.57		22.28	22.28		27.85	27.85
	No. of groups (lakhs)		2.79	2.79		2.93	2.93		3.22	3.22		3.71	3.71		4.45	4.45		5.57	5.57
	No. of groups get loan (lakhs)		2.23	2.23		2.34	2.34		2.58	2.58		2.97	2.97		3.78	3.78		4.73	4.73
	No. of HH get loan (lakhs)		11.18	11.18		11.74	11.74		12.91	12.91		14.85	14.85		18.94	18.94		23.67	23.67
	Loan amount (crores)		1,118	1,118		1,409	1,409		1,550	1,550		2,079	2,079		3,030	3,030		4,262	4,262
Total	Total HH(lakhs)	30.12	25.02	55.15	31.63	26.32	57.96	34.79	29.54	64.33	38.82	34.23	73.05	46.59	41.86	88.45	58.23	53.21	1,11.44
	No. of HH taken loans(lakhs)	1.02	12.60	13.63	1.07	13.34	14.42	2.37	15.33	17.71	3.91	18.22	22.14	6.27	23.75	30.02	9.79	30.75	40.55
	Total Loan amount (Rs. Crores)	123	1279	1402	130	1624	1753	309	1904	2213	549	2615	3164	941	3850	4790	1568	5549	7117

The table above shows that the credit offered by banks to SHGs, and JLGs, and by MFIs to clients, totals to Rs 1,753 crores in 2013, rising to Rs 7,117crores in 2017.

Credit through Other Channels

1. The channels not considered here are Post Offices, as they concentrate mostly on savings, and loans against NSCs are not considered here as this is likely to be emergency support and not credit for livelihoods. Secondly, those who currently save in post offices are not likely to be among the low income categories of people considered in this document.

2. Further, No Frills Accounts only allow people to save. Current information is that the amount of transactions per NFA is about Rs. 500, and only 51% of the NFAs have been operated at least once. This shows that NFAs are currently used largely for transfer payments of pensions or NREGA wages. They are not yet used by banks to give individual loans. Even when loans are extended, this will be through cash credit limits, the usage of which cannot yet be estimated with any reasonable assumptions. Therefore, although basic savings accounts may be used for transfers, and may be used for savings facility, credit through them is not yet likely, therefore has not yet been estimated.

Step 4: Estimating the Credit Gap

On the basis of an estimation of demand and supply, the unmet demand for credit has been estimated.

Table 51: Demand and Supply Gap (in Rs. Crores)

	2013	2014	2015	2016	2017
Total demand	6344	9877	13130	16782	20802
Total supply	1753	2213	3164	4790	7117
Supply gap	4591	7664	9966	11992	13685
% of supply gap	72	78	76	71	66

It is expected that supply of credit will leave a gap in loan demand of about 66 % by 2017.

Scenario 2, therefore, shows that 55% of the households will remain excluded, and 66% of the credit demands will remain unmet by 2017.

5.3 Conclusions and Way Forward

This vision document first collected the perspectives of different stakeholders, and the information on access to finance in UP, and this provided a baseline, of the current status of access to finance for low income households in UP. Next, based on experiences of those in the field, assumptions were made for projecting both demand and supply, which highlights the scenario for the next five years, as it is most likely to pan out in the next five years, from 2013 to 2017.

5.3.1 The Current Status

Uttar Pradesh is a relatively poor State, ranking 16th in India in poverty. The state is mostly rural, with over three fourths of the population living in rural areas, and only about a fourth living in urban areas. High income inequalities exist, with 34.1% of the rural population being poor, and poverty levels in urban areas being 23%. Regional disparities are also high, with the Western and northern part of the State being significantly better off than Eastern and Central UP.

Financial service provision is offered by many different channels. The institutional infrastructure is impressive, with a total of 13,952 branches of public and private banks and cooperatives. Banks have been increasing their outreach by reaching out to villages with a population of over 2000 and have been largely able to meet their targets for reaching these villages. However, the outreach is by ultra-small branches (USBs) or Business Correspondents, which do not offer effective financial inclusion yet, as these have not yet proven to be viable for either the banks or the agents.

For the purposes of the calculation of the level of inclusion, financial inclusion is defined as having access to any financial service, to a savings account in a bank (including no frills accounts) or credit through MFIs. Financial services such as insurance, pensions and remittances were considered, but data on these is not available, making it difficult to estimate outreach and gaps. Further, savings and credit are the first two services offered by mainstream formal financial institutions (FFIs), and those who already have such access, e.g., as SHG or JLG members, then have further access to insurance or pension products and services. This being the case, the percentage of households covered can be calculated from the outreach of savings and credit services.

Census on the level of financial inclusion in UP: The Rangarajan Committee, 2008 found that 36% of the rural households are financially included and the Census 2011 states the access to banking services by the households in UP to be 72%. Our research showed that SHGs, JLGs and bank accounts all taken together reach about 22% low income households, signifying a low level of financial inclusion in UP. There are, in 2012, about 196.6 lakh households unreached with financial services.

5.3.2 Projecting Demand and Supply

The demand for financial services is projected using assumptions for the growth of population, and the percentage of households that are likely to remain in low income categories. Two categories of low income households are categorised, those below <1.35$ per person per day, and households with income levels of $ 1.36 to 2.16 per person per day. The total number of low income households is expected to change from 251.79 lakhs in 2012 to 245.76 lakhs by 2017[79].

Scenario 1 depicts the likely results based on optimistic assumptions, wherein the constraints currently faced in both demand creation and supply of finance are expected to

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[79] Ironically, even with a projected GDP growth rate of 6% per annum, the estimates based on population growth rates show that absolute numbers of low income households in UP will increase.

be overcome, through a change in attitudes, and pressure from the government for inclusion. A less optimistic scenario is projected, too, on the premise that ground reality in 2013 is quite grim, with neither SHG II nor UP State Rural Livelihoods Mission (UPSRLM) having acquired a good pace of work yet, and banks still facing attitudinal, human resource, and credit constraints.

Table 52: Summary of Projections based on Different Scenarios

(Number of Households in lakhs and amount of credit demand and supply in Rs. Crores)

Projections/ Scenario			**2013**	**2014**	**2015**	**2016**	**2017**
No. of Low Income Households			258.22	255.51	252.53	249.28	245.76
Coverage of Low Income Households	Optimistic	Projected from all low income Hhs	60.66	70.46	86.24	111.08	150.54
		% of coverage	23	28	34	45	61
	Conservative	Projected from all low income Hhs	57.96	64.33	73.05	88.45	111.44
		% of coverage	22	25	29	35	45
Credit Demand	Optimistic	Projected from all low income Hhs	12,687	16,474	20,659	25,211	30,093
		Projected from Hhs organised through groups	2510	3963	6082	9723	14691
	Conservative	Projected from all low income Hhs	6344	9877	13130	16782	20802
		Projected from Hhs organised through groups	2199	3555	4805	6999	10119
Credit Supply	Optimistic	Projected from all low income Hhs	2298	3630	5500	8859	13859
		Projected from Hhs organised through groups	2298	3630	5500	8859	13859
	Conservative	Projected from all low income Hhs	1753	2213	3164	4790	7117
		Projected from Hhs organised through groups	1753	2213	3164	4790	7117
Demand-Supply Gap	Optimistic	Projected from all low income Hhs	10399	12844	15160	16352	16234
		% of supply gap	82	78	73	65	54
		Projected from Hhs organised through groups	212	333	583	864	832
		% of supply gap	8	8	10	9	6
	Conservative	Projected from all low income Hhs	4591	7664	9966	11992	13685
		% of supply gap	72	78	76	71	66
		Projected from Hhs organised through groups	455	1342	1642	2208	3003
		% of supply gap	20	38	34	32	30

The more optimistic scenario projects that 61% low income households are likely to be reached in the next five years, till 2017, and 46% of the credit demand is likely to be met. The less optimistic Scenario 2 shows a situation where 45% households are reached, showing that as many as 55% of households will remain unreached over the next five years.

As per the optimistic projections, credit offered by banks to SHGs, and JLGs, and by MFIs to 68.53 lakhs low income households (43% of the total households demanded loans), which totals to Rs. 2,289 crores in 2013, that would rise up to Rs. 13,859 crores (Rs. 13.8 billion) in 2017. This leaves a credit gap of 54% by 2017. The less optimistic projection shows that credit offered by banks to SHGs, and JLGs, and by MFIs to clients, which totals to Rs. 1,753 crores in 2013, would rise upto Rs. 7,117crores in 2017.If outreach remains limited, 66% of the credit demands will remain unmet by 2017.

However, the credit demand projected from the households that are organized into SHGs and JLGs, the credit supply gap comparatively low by 2017; 6% and 30% as per the optimistic and conservative projections respectively.

The spread of SHGs, and JLGs needs to be much more, for effective access. For this, funds for financial awareness, literacy, and for group formation need to flow through from the government and NABARD to SHPIs in a bigger way than is currently possible. Further, the role of banks in extending credit remains paramount. Banks have to step forward with extending credit not only through SHGs and JLGs, but also through individual accounts, if the needs of low income households have to be met.

Access to formal financial institutions will require the official financial inclusion drive through banks to be successful. It is only if banks open accounts for individuals and SHGs/JLGs, and offer both savings and credit services, that access to financial services will be available to the poor at reasonable cost, as the route of bank credit reaching the poor through MFIs may enable access, but at a significantly higher cost.

5.3.3 Planning Effective Access to Financial Services for the Poor

Several steps need to be taken for planning of effective access to financial services for low income households in UP, and enable them to come out of poverty. These include the following:

Special Efforts for Disaster Affected People and Very Low Income Persons

Disaster affected people are among the most vulnerable, having lost life of family members, and assets[80]. Similarly, those who are rickshaw pullers are among those with extremely low incomes and lessons from working with them gives insight for such work to be scaled up in UP[81]. Special attention to this group could be given, with the following:

- **Transfer of Assistance and Remittances**

  In disaster-affected areas, we need innovative methods of transferring money. Mobile phone banking and other electronic based innovations can be used through spe-

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[80] Rani Sahay, in UN Solution Exchange

[81] Pradip Kumar Sarmah, in UN Solution Exchange

cialized intermediaries to help the affected families in reestablishing them in fast mode. In this context various technology based institutions can be of great help. I am aware of the FINO that has done good work in this area.

- **Micro Insurance**

  Micro insurance could be another important issue for the disaster-affected people. It relates to health, Life, livestock and General Insurance. A proactive approach needs to be applied at the time of micro insurance, making all efforts to provide the claims to the members of the affected families. ICT can play a vital role in making the process on fast track.

- **Lease Finance (Micro-Leasing)**

  At the time of disaster, the affected families do not have anything in the form of collaterals to give to the banks for taking any productive assets for livelihood activities i.e. Boats for the poor fisherman. They need support for getting such assets without providing any collateral. Lease Finance customized as per the needs of the members can be a good option.

- **Savings Products**

  Both mandatory and voluntary savings products are required by the people especially in pre-disaster stage so that they have some money available at the time of disaster. After the disaster, often families are not in a position to save but after sometime they require savings products.

- **Credit Products (Consumption loans and Working Capital loans)**

  To start with, the members will need consumption credit and later, after identification of relevant livelihoods, members require loan products for their income generating activities. There can be customization of such credit needs in the disaster-affected areas. Livelihood activities have different value chains as per the type of activity. A manufacturing / production related livelihood activity chain will require very different loans product and repayment schedule compared to a service type of livelihood activity.

- **Management of Donation Funds**

  In disaster-affected areas management and proper utilization of donations can be better undertaken by microfinance institutions compared to any other type of organizations. This will be a specified activity, which MFIs can take up after disaster management.

- **Disaster funds creation at SHG- federations level**

  At federation level, disaster funds can be created separately so that at the time of disaster, it can be used for SHGs and their members.

It is important to emphasize that organisations such as RMK need to enhance their support for the women-SHGs, including SHGs of minorities and SC/ST, as UP has large number of these disadvantaged categories of people who need support.

There is a need to understand better the potential: efficiencies and effectiveness of enrolling different BC channels – individual, institutions and MFIs, and see which channels can be used to reach a large number of people in UP. A small research project that helps compare the different channels will greatly aid the strategy development.

It is observed that NPA level is very in some of the banks high therefore it will be important to monitor the programme closely so that some remedial measures can be taken up[82]. The SHG-BL model will be better promoted through commercial banks and RRBs, and cooperative banks will need greater attention for improving their outreach, efficiency and effectiveness.

With the lack of data, it was not possible to estimates demand or supply of insurance, pensions and remittance services. While these services are needed, basic savings and credit services need to be provided first in UP before the protection needs can be met. There are indications that insurance services are expanding, the demand for insurance will also need government supported insurance services to expand, for low income households to get insurance coverage. Pensions can be organised, admittedly, only by those who can put aside savings to be able to earn pensions at a later date. For this reason, pension products typically do not target the poor, but those who have income levels from which such savings are possible. Recently, some pension products target low and middle income households, and these have been receiving a good response, such as Swavalamban product. Remittance services are increasing in the country, and are likely to benefit from use of mobiles and other advances in technology. However, these measures currently lie within the domain of formal banking and authorised money transfer agencies, therefore costs of remittances still remains high. Remittances can be made much cheaper especially as use of advanced technology, especially mobile phones, has speeded up remittances, and faster through effective access to banking services will also create the access to remittance services.

There is a need to look beyond the existing financial infrastructure and see how much investment is needed to create strong network of new generation financial institutions; how the unemployed youth from economically weaker sections can be deployed in financial services sector; and how the capacity of people can be enhanced. Some of the existing institutions that are non-functional might have to be closed/ liquidated to pave path for new and vibrant institutions.

Finally, access to banking services is the only long term option for the poor getting financial services at a reasonable cost. Hence the official drive for financial inclusion remains critical for achieving effective access to financial services for the poor in UP. Banks have to step forward by extending credit not only through SHGs and JLGs, but also through individual accounts, if the needs of low income households have to be provided for.

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[82] AanchalSinghal in response to query in Solution Exchange

Annexures

Annexure 1

Consolidated Reply of the [se-mf] QUERY: Vision document on Access to Finance (A2F) for Uttar Pradesh - Experience; Referrals

The PDF Version of this Consolidated Reply can be downloaded at ftp://ftp.solutionexchange.net.in/public/mf/cr/cr-se-mf-04031301.pdf (Size: 596 KB)

Poverty

Microfinance Community

Solution eXchange
Wider Choices
Smarter Development

Solution Exchange for the Microfinance Community

Consolidated Reply

Query: Vision document on Access to Finance (A2F) for Uttar Pradesh - Experience; Referrals

Compiled by NavinAnand Resource Person and Mohammad Anas, Research Associate

Issue Date: 11 June 2013

From SmitaPremchander, M. Chidambaranathan and M. Raj, SAMPARK, Bangalore

Posted 04 March, 2013

Financial inclusion has become a policy priority in India since 2006. The XIIth Five Year Plan aims to expedite financial inclusion in underserved regions of India, and to harness the potential of ICT in spreading financial inclusion, as well as that of scaling up the banking operations of the post office system. The Plan calls for greater importance to cooperatives, along with SHGs and JLGs. The Plan also recognizes the impact of financial inclusion on women's empowerment, and therefore considers it as an important means of achieving transparency in Direct Benefit Transfers (DBTs) for state sponsored schemes and entitlements such as MNREGA payments and pensions.

SIDBI is implementing the Poorest States Inclusive Growth (PSIG) programme (also known as PSIG) funded by Department for International Development, (DFID), UK. ACCESS-ASSIST, a specialized affiliate of ACCESS Development Services acts as a consortium partner to the SAMRIDHI programme particularly playing role in delivering the output on the policy and institutional environment for provision of financial services to the poor people. In context of the same project, a Vision document on **Access to Finance (A2F)** is being prepared in Uttar Pradesh, keeping in view the needs of disadvantaged and excluded segments of population.

Conceptually, access to finance encompasses various financial services such as savings, credit, insurance, pensions and remittances. Four different channels have been identified for supply of financial services: Banks; Microfinance Organizations (NBFCs or NGOs); Cooperatives; and Post offices. Each of these channels may offer financial services to individuals, Self Help groups (SHGs) or Joint Liability Groups (JLGs), and the types of services they offer are regulated by the respective Acts under which the institution is incorporated.

For the purpose of developing a vision document, we have opted for multiple methods. Besides collection of information from various primary and secondary sources of information, we are also taking inputs from a wide range of stakeholders such as banks, NGOs, cooperatives, Microfinance NBFCs, Business Correspondents, SHGs and their federations, apex level banking institutions, post master general, and variety of government officers, especially those who are working for National and State Rural Livelihood Missions. A consultative workshop was conducted in Varanasi, and a brief summary of the discussions is available at: ftp://ftp.solutionexchange.net.in/public/mf/resource/res02041301.pdf

While we will be interacting with practitioners face to face adopting in-depth interviews method and focus group discussions, we feel that inputs from the members of Microfinance Community can add lot of value to our endeavors. With this background, we request members to respond to the following key questions:

- **What are the best sources of information on supply of financial services in UP, especially for cooperatives, Microfinance Organizations, and NGOs engaged in providing or facilitating access to finance?**
- **What are the potentials and challenges of the different channels of financial services, and which ones do you feel have greater potential for scaling up their services in Uttar Pradesh?**
- **What are the ways in which we can do demand estimation for each of the financial services (savings, loans, insurance, pension and remittance)? Are there already existing demand estimations for different financial services?**

We also request members to **share names and addresses of NGOs and other financial institutions** that could be potential financial service providers in UP. The inputs of the members will be highly useful to develop a holistic vision document on financial inclusion for Uttar Pradesh. All contributions will be acknowledged in the A2F vision document.

Responses were received, with thanks, from

1. **B S Suran, Head Office, NABARD , Mumbai**
2. **Thomas Mehwald, Consultant, Germany**
3. **NidhiDubey, Development Professional, Gurgaon**
4. **NavinAnand, Solution Exchange , UNDP, New Delhi Response 1 and Response 2**
5. **Resham Singh, Micro finance Consultant, Mohali, Chandigarh**
6. **Jaipal Singh Kaushik, Independent consultant- Livelihoods and Microfinance, Jaipur**
7. **Rani Sahay, UNDP, New Delhi**
8. **Pradip Kumar Sarmah, Centre for Rural Development, NOIDA**
9. **AanchalSinghal, Department of Management Studies, JSSATE, Noida**
10. **Mohammad Anas, UNDP, New Delhi***

**Offline Contribution*

Further contributions are welcome!

Summary of Responses

Comparative Experiences

Related Resources

Responses in Full

Summary of Responses

Realizing the relevance of the query, members shared their inputs for the vision document on Access to Finance (A2F) and listed many valid reasons to justify its relevance in streamlining financial inclusion –

- Uttar Pradesh is having high level of diversity and disparity in economic and cultural context;
- The state is far behind many other states in terms of micro financing and coverage of SHGs; and
- In terms of demography, there is high level of heterogeneity that demands for specific strategies

Sources of Information and key players of microfinance in Uttar Pradesh

Members recommended various sources of information and considered following documents relevant for preparation of the vision document -

State Focus Paper and Potential Linked Credit Plans (PLPs): The State Focus Paper of UP andPotential Linked zs (PLPs) of different districts prepared by NABARD are highly useful documents for preparation of the vision document. While the state focus paper provides a holistic view of the state in terms of financing, PLPs give specific information about socio-economic scenario and financing taken up in each district. The documents also give a fair idea about prominent subsectors of farm and non-farm, in context of financing.

District Credit Plans prepared under Lead Bank schemes: Each district prepares a district level credit plan incorporating plans of all the banks so as to avoid any possibility of overlapping. Members felt that these credit plans will be highly useful in preparation of the vision document.

Reports of UP State Cooperative Bank: Recommending about considering the loaning done by Primary Agriculture Cooperative Societies (PACS) and other thrift and credit cooperatives under micro financing, members suggested referring to the consolidated reports of UP State Cooperative Bank to get the district wise and consolidated figures of loaning.

M-CRIL Report – Members informed that 'M-CRIL Microfinance Review 2012: MFIs in a Regulated Environment' is also a good document to refer for preparing the vision document as it provides a good overview of the role of microfinance institutions in India.

NABARD's Microfinance report for the year 2011-12: NABARD's microfinance report reveals some vital facts that also justify the importance of having a focused vision document on 'Access to Finance' in UP. Referring to the report, members highlighted that 70 out of 75 districts in UP have low coverage of SHGs and only three districts have more than 80 per cent of SHG coverage. Members felt the need of speeding up the process of increasing SHG coverage. Highlighting the level of Non-Performing Assets (NPAs), members informed that NPAs are more in case of SGSY- SHGs. They also informed that NPA are very high in some of the selected banks therefore while preparing the vision document this issue needs to be captured. They also stressed on importance of monitoring in microfinance sector.

Emphasizing on the credit services and loan outstanding of various banks by the end of March 2012, members informed that Public Sector Commercial banks, Regional rural banks and Cooperatives are the key players in MF. Private commercial banks have also started micro financing in UP to some extent.

SHG Bank Linkage Programme: Appreciating the successful functioning of SHG bank linkage programme in terms of linking SHGs with banks and providing savings and credit services, members felt that the vision document may cover the important aspect of outreach in context of SHG bank linkage programme. Members considered banks as the major channel for providing microfinance services to the poor under SHG bank linkage programme. They also suggested for customizing SBL Programme as per the needs of the clients in Uttar Pradesh. Financing for SHGs also comes under the priority sector lending so banks need to focus on SHG financing to fulfill the minimum requirement under priority sector lending. Recently, few private commercial banks including HDFC have also entered into retail micro financing.

Swarnajayanti Gram Swarojgar Yojana (SGSY): Mentioning about Swarnjayanti Gram Swarozgar Yojana (SGSY) members opined that the SHG approach has helped the poor to build their self-confidence through community action. Interactions in group meetings and collective decision making have enabled them in identification and prioritization of their needs and resources. Informing about renaming of SGSY scheme as National Rural Livelihood Mission (NRLM), members suggested incorporating about the scheme in the vision document.

Rastriya Mahila Kosh: RashtriyaMahilaKosh (RMK) is another important player functioning in Microfinance sector. They also have Nodal Agencies almost in every state. Sharing the state wise figures of lending by RMK, members informed that in Uttar Pradesh, 2657 SHGs were provided loan support through 139 NGOs by March 2013. The coverage in UP was low compared to southern states and also some of the northern states as well. Members recommended that in the vision document, emphasis could be given on enhancing the support of RMK for the women-SHGs of UP. Emphasis also needs to be given to SHGs of minorities as UP has large number of minority people who are in need of financial services. Members informed that Indcare Trust is one of the important Nodal Agencies of RMK in UP.

Projects and programmes of various Ministries and International organizations : The revolving loan fund and other financial support provided by various international agencies/ donor agencies and ministries are not recorded at any single place therefore it will be good to check with rural development and other relevant ministries and international agencies about the financial support provided by them.

Microfinance Institutions and NGO-MFIs: Members shared names of some selected examples of MFIs doing micro financing in UP. These organizations include - CASHPOR Micro Credit,SKS Microfinance Ltd., SONATA Finance (P) Ltd., SpandanaSpoorthy Financial Ltd.,Utkarsh Micro Finance Pvt. Ltd., SEED Financial Services Pvt. Ltd., NirmaanBharatiSamajik and ArthikVikasSangathan, Sanchetna Microfinance,Margdarshak financial services Pvt. Ltd., Aadhar (FINO), Manavodaya**,** Capital Trust Ltd., Fusion Microfinance, Mimoza Enterprises Fin. Pvt. Ltd. etc. Besides these institutions, members shared the name of 'the Goat Trust' which is a specialized institution working on goats and livestock insurance. Members also highlighted about NABARD's supported Rajiv Gandhi MahilaVikasParishad (RGMVP) which is implemented in 40 districts of UP and adopts a model of engaging Community Resource Person (CRP) for promotion of SHGs.

Thrift and Credit Cooperatives in Uttar Pradesh: Thrift and credit cooperatives especially Primary Agriculture Cooperative Societies (PACS) are good source of micro financing in Uttar Pradesh. Members informed that some of the PACS in UP are having mini banks with savings of one crore or more. Members felt that no major reforms have taken place in the cooperative sector of UP while states like Jammu and Kashmir, Uttarakhand, Bihar and many other states have introduced Self-Reliant Acts on the lines of MACS Act of Andhra Pradesh. Members recommended that either the present cooperative Act needs to be re-engineered or a self-reliant Act is to be introduced to fast track financial inclusion in UP.

Members' recommendations on Vision document

Classify the population into different segments and strategize for financial inclusion: Members quoted that microfinance services required by different segments of population will be varying and therefore they suggested for classifying different groups of people and strategizing for their financial inclusion. Members suggested following classification based on four parameters:

- Occupation – (Small and marginal farmers, rickshaw pullers, domestic workers, handloom weavers/artisans, migrant laborers/workers etc.)
- Vulnerability – (People with Disability (PwDs), Older Persons, Disaster affected people)
- Category – (Scheduled Tribes/PVTGs, Scheduled Caste, Minorities etc.)
- Geography – (People living in Mountain areas/remote areas/naxalite areas)

Coverage of disaster-affected people for Micro financing: Members felt the need of assessing the requirements of the people affected by disasters and suggest appropriate financial products. Customized innovative financial products will help in reducing the impact of the disaster on the clients, decreasing loss and damage as well as increasing liquidity of money. Members recommended that a part of the report can be devoted to the microfinance issues related to disaster affected people.

Coverage of Rickshaw Pullers: Sharing about the Rickshaw Bank model, members find the relevance of financial inclusion of rickshaw pullers in UP and therefore recommended for developing a clear strategy for them in the vision document. The key strategy for financial inclusion of rickshaw pullers may include - Compulsory and voluntary Savings options – (Successful cooperative Models on voluntary savings – SEWA, Cuttack Urban Cooperative Banks, ApniSewaShakari, District jaipur, Rajasthan can be studied so that it can be replicated in UP); Working of different stakeholders together; Creating SHGs and JLGs for providing loans to rickshaw pullers (Loans for rickshaws in the name of women and a system of daily collection of installment can be adopted); Using Kiosk Based Models for loaning; Linking rickshaw pullers with RSBY scheme and adopting the model of 'Health Mutuals' ; Coverage of rickshaw pullers under NPS lite scheme and 'Swavalamban Pension Scheme' of government of India and taking services of Invest India Micro Pension Services (IIMPS) for providing micro pension services; Technology based options for money transfer (through institutions like - FINO, Zero mass, EKO,Oxigen etc.)

Coverage of outreach factors and different types of MFIs: Members quoted M Schreiner's model on outreach and based on the same informed about six factors of outreach – Depth, Breadth, Length, Worth to Clients, Costs to Clients and Scope. They also suggested for classifying microfinance institutions into – For Profit, Not-for Profit and Mutual Benefit institutions. They recommended for analyzing them to find out the factors that are conducive or detrimental for providing MF Services to the poor.

Focus on demand side perspective and study the cash flows: The demand side of financial services should be the basis for the vision document. If cash flow studies are not available, then some cash flow studies should be done, at least with sample HH in different regions - Western UP will have need for different services than eastern UP.

Continue focusing on SHG/Savings Led Model: Members felt that it is difficult to say which model is better but certainly savings led models are better than pure credit groups. SHG movement is changing life of the poor especially dalits, landless laborers, small farmers and women. Members suggested that SHG model in UP needs to be continued focusing on women groups.

Engaging MF Support and Management institutions: Members mentioned that two important technical and capacity building institutions - 'MicroSave' and Bankers Institute of Rural Development (BIRD) can play vital role in building capacities for financial inclusion. They also informed that various management institutions and universities are focusing on the subject of micro financing in their courses therefore such institutions can become a good source to get human resource for the sector.

Opting for individual lending models for covering excluded groups: Members quoted example of individual lending model of Drishtee Foundation that functions as a Business correspondent of State Bank of India and leverages on the entrepreneur's knowledge of the village community and the village ecosystem. They suggested using the same model in addressing the needs of People with Disabilities (PwDs), Older Persons and other segment of population, where forming groups is difficult.

Introducing Interest Free Banking Model: Considering the large sizeof Muslim Population in the State, there will be a great demand for an alternative financing model which is Sharia compliant and promotes interest free financial transactions. Participatory Micro Finance (PMF) model wherein the financier instead of lending small amount on interest to someone; actually involves in customer's business through trade practices; or by sharing associated business risks or by leasing out high value assets to the customers can be of great value to the small holders in the state.

Nodal Agency Concept: A Nodal Agency concept needs to be introduced where one agency could be assigned to keep all the records of SHG movement and micro financing irrespective of SHG promoters.

Support in management of clients' enterprises: Highlighting about the successful experiments of Mohali branch of Grameen bank, Punjab and also Grameen Bank model, Bangladesh, members recommended that banks may adopt some support system to help clients in the enterprise management.

More important role of Regional Rural Banks: Members suggested that RRBs should be made free from the responsibility of doing commercial business and they should primarily do financing to SHGs, marginal and small farmers, women and other excluded group of people. RRBs are also well placed to manage MNREGA payments, delivery of pensions, insurance and other disaster funds to the rural poor so the work of providing support under various government progammes can be given to RRBs in UP.

Creation of Farmers Club before forming SHGs: Based on the experience of Punjab, members informed that formation of 'Farmers clubs' facilitated in establishing SHGs so it can be tested in UP also.

Joint Liability Groups in addition to SHGs: Besides SHGs, members recommend opting for creation of Joint liability groups especially for marginal, small and tenant farmers.

Specialized Branches: In addition to normal bank branches, members see the scope of establishing specialized 'Deposit Banks' as well as 'Credit Banks' so it can be recommended in the vision document.

Multipurpose knowledge centers for financial literacy: Members suggested creation of 'Multi-purpose knowledge centers' for the rural poor on the lines of the 'information centre model' of Bangladesh. On financial literacy and guidance, members suggested that multiple methods and modes such as community radio and local cable networks, SMS, street plays,short talks and discussions in educational institutions can be used to provide information about savings, MF products etc.

SHGs as Business Facilitators: SHGs can also work as Business Facilitators so that poor who are not in any group are being served by SHGs as Business facilitators of the banks.
Adopting sensitive approach in designing financial infrastructure: Members suggested that there is a need to adopt a sensitive approach while designing financial infrastructure for disadvantaged and excluded segments of the population in Uttar Pradesh. The focus must not be only on 'access to finance' but also on 'use of finance'. Members suggested that the team preparing vision document should look beyond the existing financial infrastructure and see how much investment is needed to create strong network of new generation financial institutions; how the unemployed youth of economically weaker sections can be deployed in financial services sector; and how the capacity of people can be enhanced. Some of the existing institutions that are non-functional might have to be closed/ liquidated to pave path for new and vibrant institutions.

Members highlighted GIZ's initiative of developing and testing the 'financial capability approach' in India and suggested to adopt the same approach to assess demand for financial services. The approach builds on perspectives of the people themselves asking what people associate with good use and management of money in their own community.

Members considered UP as one of the difficult States to work in. They felt that the state support is limited and in a few cases, it becomes detrimental and acts counter to the people's interests. Finally, members envisaged that the vision document will be a road map for financial inclusion in Uttar Pradesh.

Related Resources

Recommended Documentation

Consultative Workshop on Access to Finance for Uttar Pradesh *(From SmitaPremchander, SAMPARK, Bangalore)*
Report; consultative workshop,Access to Finance (A2F) Vision for UP; March 2013
Available at: ftp://ftp.solutionexchange.net.in/public/mf/resource/res02041301.pdf

> *Report on consultative workshop conducted in Varanasi, and a brief summary of the discussions onStatus, Issues, Challenges and Opportunities related to Access to Finance in Uttar Pradesh*

From NavinAnand, UNDP, New Delhi

Need for focused document on Access to Finance in UP
Annual Report; NABARD, Microfinance report; 2011-12
Available at: http://www.nabard.org/departments/pdf/Status%20of%20Microfinance%202011-12%20full%20book2.pdf

> *Annual report on microfinance by NABARD, reveals some important facts that also justifies the importance of having a very focused vision document on Access to finance in Uttar Pradesh.*

State Focus Paper and Potential Linked Credit Plans (PLPs) prepared by NABARD
State Focus Papers; NABARD ; 2012-2013
Available at: http://www.nabard.org/databank/databank.asp

> *The state focus paper provides a holistic view of the state in terms of financing in UP. PLPs provide specific information about districts with focus on different subsectors that are growing in the state as well as indifferent districts.*

District Credit Plans prepared under Lead Bank schemes
High Level Committee Report; Reserve Bank of India; 2010
Available at: http://www.rbi.org.in/scripts/NotificationUser.aspx?Id=5517&Mode=0

> *Provide details about Lead Bank Scheme (LBS) taken up by RBI in 1969. The report lays provision for district level credit plans incorporating plans of all the banks for better impact.*

UP State Cooperative Banks
Directory; National Federation of State Cooperative Banks Ltd, Mumbai
Available at: http://rbidocs.rbi.org.in/rdocs/PublicationReport/Pdfs/RLBSRB210509.pdf

> *Provides contact details of key position holders of PACS and other thrift and credit cooperatives working in state of Uttar Pradesh, a consolidated data could be procured from UP State Cooperative Banks*

Facts and figures about Microfinance
Report; M-CRIL – 'M-CRIL Microfinance Review 2012: MFIs in a Regulated Environment'
Available at: http://www.m-cril.com/Backend/ModulesFiles/NewsEvents/M-CRIL-Mi-

crofinance-Review-2012-MFIs-in-a-Regulated-Environment.pdf.

The report provides an updated and holistic data about Microfinance in India with specific details on various important financial and social aspects.

Leveraging on the network of SHGs in India: Status of Microfinance in India 2012
Annual Report; Microcredit Innovation Department, NABARD, Mumbai; 2011-2012
Available at: http://www.nabard.org/departments/pdf/Status%20of%20Microfinance%202011-12%20full%20book2.pdf

Annual Report issued by MICD-NABARD stating the facts and figures about huge network of SHGs created by NABARD through SHG Bank Linkage Programme

Financial literacy/Education initiatives as a tool for Financial Inclusion
Study Report by; Hemantha Kumar Pamarthy; Poverty Unit, UNDP, New Delhi; 2012
Available at:ftp://ftp.solutionexchange.net.in/public/mf/resource/res21121201.pdf

A report based on studies undertaken under Financial Inclusion Project of UNDP in seven

UN focussed state and discussions on UNDP supported Microfinance Community of Practice, Solutions Exchange

From Mohammad Anas, UNDP, New Delhi

Resource Book on Microfinance
Ready Reckoner on Microfinance; UNDP, New Delhi; 2010
Available at:ftp://ftp.solutionexchange.net.in/public/mf/Events/ReadyReckoner/MF_RRM_res010710.pdf

Popularly known "Resource of Resources on Microfinance", it incorporates significant experiences, important websites, relevant papers/circulars, tools and technologies including training programmes and courses, directory of organizations, classified by legal status and list of professionals with contact information.

Measuring the performance in Microfinance
MFIN MicroMeter©; Microfinance Institutions Network, Gurgaon; March 2013
Available at:http://mfinindia.org/wp-content/themes/twentyten/pdf/MicroMeter_Issue-05_22_May_2013.pdf

A quarterly document, provides state wise overview of the microfinance industry, as of 31st March 2013 and compares it with previous fiscal (FY 11-12) and previous quarter of current fiscal (Q3, FY 12-13)

Financial Services data- District Statistical Handbook
Handbook; Uttar Pradesh State Information Unit, Lucknow; 2013
Available at: http://nicsu.up.nic.in/dist/list.asp

Provides access to links of all the Districts Information Offices in UP, for accessing the District Statistical Handbook that provides updated figures on the state of financial services and inclusion in the respective districts

Microfinance India-State of the Sector Report 2012
Sector Report by; VenugopalanPuhazhendhi, ACCESS Development Services, Sage Publications; 2012

PoS link available at: http://www.sagepub.in/Web2012/SPM2012.htm

An annual publication of the microfinance sector. The Report covers many of the promising developments in providing products related to financial inclusion across the country.

Access to Finance Report

Report; Access to Finance, International Finance Corporation, New Delhi; 2011

Available at: http://www1.ifc.org/wps/wcm/connect/a4774a004a3f66539f0f-9f8969adcc27/G20_Women_Report.pdf?MOD=AJPERES

This report highlights key trends, challenges, and opportunities for advancing women's entrepreneurship and increasing their access to finance. It alsoprovides policy recommendations on expanding access to finance for women entrepreneurs

Contemporary Rural Financing

Colloquium Report; Rural Finance in Contemporary Times: Interface with Microfinance, IIM Ahmedabad; 2005

Available at: http://www.iimb.ernet.in/microfinance/Docs/colloquium.pdf

Includes debate by practitioners and academicians on contemporary issues related to Microfinance, Financial Exclusion, Regulations and Financial Service Delivery Innovations

Broadening Access to Finance

Study Report; A Hundred Small Steps, Planning Commission, New Delhi

Available at: http://planningcommission.nic.in/reports/genrep/rep_fr/ch3_fr.pdf

Provides an update on evidences of financial inclusion and approach, to tackle the issues of exclusion in financial services with relevant data and figures

Accessing Institutional Finance: A Demand Side Story for Rural India

Paper by; RajalaxmiKamath, ArnabMukherji& Maria Sandstrom, Economic & Political Weekly ; 2010

Available at: http://beta.epw.in/static_media/PDF/archives_pdf/latest_issues/SA091110_Accessing_Rajalaxmi_Kamath.pdf

A critical analysis of the Reserve Bank of India's "financial inclusion" campaign, highlights that states with the most access to institutional finance, or supply, are not necessarily the ones with the most demand for finance

Synthesis of discussions on Microfinance

Synthesis Document; UNDP, New Delhi; 2008-2009

Available at: ftp://ftp.solutionexchange.net.in/public/mf/Events/SynthesisDocument/MF_SD_res190509.pdf

The document is a synthesis of discussions on five major themes related to Microfinance Products, Services and Delivery Mechanism; Microfinance for Livelihoods and its Sub sectors; Microfinance for Inclusion; Microfinance Technologies, Tools, Processes and Systems; and Enabling Policy and Institutional Environment for Microfinance

Informal Savings of the Poor: Prospects for Financial Inclusion
Article by;ML Sukhdeve, NABARD, CAB Calling, College of Agriculture and Banking, Pune; 2008
Available at: http://www.cab.org.in/CAB%20Calling%20Content/Financial%20Cooperatives%20in%20India%20-%20Where%20are%20the%20Members/Informal%20Savings%20of%20Poor.pdf

> *A demand supply analysis of savings led product and services for poor in the country and the need for savings to attain the goal of financial inclusion*

Access to Finance for the Rural Poor in India
Study by; PriyaBasu, The World Bank, Washington DC; 2006-2007
Available at: http://unpan1.un.org/intradoc/groups/public/documents/apcity/unpan024234.pdf

> *The study suggests about the development directives for building inclusive financial systems that works for the poor in the context of rural India.*

Financing of Value Chains and MSMEs
Synthesis Document; UNDP, New Delhi; 2012
Available at: ftp://ftp.solutionexchange.net.in/public/mf/resource/res28121202.pdf

> *The document provides inputs related to financing value chains and MSME sector. It also provides a good strategy for microenterprise development and financing for MSME sector.*

Why Don't the Poor Save More? Evidence from Health Savings Experiments
Research Study by; PascalineDupas and Jonathan Robinson, Stanford University, Stanford; 2012
Available at: http://www.stanford.edu/~pdupas/DupasRobinson_HealthSavings.pdf

> *The study highlights that group-based savings and credit schemes can substantially increase investment in preventative health and reduce vulnerability to health shocks*

Post Offices: The Selling Point of National Savings Schemes
Product Note; Department of Post and Telegraph, Government of India, 2013
Available at:
http://indiapost.gov.in/POSBActs/SMALLSAVINGSSCHEMES.pdf

The Product note lays down the details of various Small Savings Products offered through Post offices in India

Postal Savings and the Provision of Financial Services
Paper; by Mark J. Scher; United Nations; December 2001
Available at:http://www.ruralfinance.org/fileadmin/templates/rflc/documents/1124872015541_Postal_savings_and_the_provision_of_financial_savings.pdf(PDF; Size: 930 KB)

> *Paper reviews the postal financial systems of 12 developing countries, including their product development, investments, mobilization of funds and utilizing financial technologies*

Reserve Bank of India (RBI) Circular on Micro-Credit
RBI Letter; RPCD. No. Plan, BC 21/04.09.22/2004-05 Dt. 21.08.04; June 30, 2004
Available at http://megapib.nic.in/mselfhelpgroup_rbicir.htm

> *The document details the guidelines set by the RBI for functioning of SHGs and highlights the provisions for Financial Inclusion by SHGs and SHG promoters*

Leveraging India Post's strength
News Article by; R. Vaidyanathan; The Hindu Business Line; July 13, 2006
Available at http://www.thehindubusinessline.com/2006/07/13/stories/2006071302221000.htm

> *Discusses the strengths of the Indian post and its ability to handle financial services in remote areas of the country; argues for more flexibility and more autonomy for viability*

Informal Credit in Rural India-Chit Funds
Research Study; Small Enterprise Finance Centre, IFMR, Chennai
Available at: http://ifmr.ac.in/sefc/publications/Chit-Funds-Innovative-Access-to-Finance.pdf

> *The study explores the option of Chit Funds as an Innovative Access to Finance for Low-income Households based on empirical evidences from the study conducted in four states of India*

Socio Economic Status of Muslims in India
Study Report; By Justice RajinderSachar, Cabinet Secretariat, Government of India; 2006
Available at: http://minorityaffairs.gov.in/sachar

> *The reports provides a complete overview about the Socio economic status of Muslims in India with focus on Access to finance*

Interest Free Banking Model
Handbook; Ethica Institute of Islamic Finance, Dubai; 2013
Available at: http://www.ethicainstitute.com/ebookdwnld.aspx

> *The Handbook is readily available as a user's guide that can be referred for understanding the concept of Sharia compliant alternative finance and Banking Models.*

Trends in Sharia-Compliant Financial Inclusion
Focus Note by; Mayada El-Zoghbi and Michael Tarazi; CGAP; March 2013
Available at: http://www.cgap.org/sites/default/files/Focus-Note-Trends-in-Sharia-Compliant-Finanicial-Inclusion-Mar-2013.PDF

> *The note provides an overview of the trends in interest free Islamic Banking and Finance models across the globe in achieving Financial Inclusion*

Recommended Portals and Information Bases

From Mohammad Anas, UNDP, New Delhi

India Development Gateway Project , Hyderabad
Web Portal; by Centre for Development of Advanced Computing (C-DAC*)*
Available at :www.indg.in

> *InDG is a unique initiative that uses the power of ICT to empower the poor and under-served through provision of information, products and services in six domains related to socio-economic development. viz, Agriculture, Health, Primary Education, e-Governance, Social Welfare and Rural Energy in 10 languages.*

Recommended Tools and Technologies

From Mohammad Anas, UNDP, New Delhi

The multidimensional poverty assessment tool (MPAT)
Poverty Assessment tool; by IFAD
Available at: http://www.ifad.org/mpat/resources/book.pdf

> *A poverty assessment tool to Design, Develop and Apply a new framework for measuring rural poverty*

CRI+ (SHG Rating Tool)

SHG Rating Tool; by APMAS
Available at: http://www.apmas.org/RatingTools.aspx

> *The SHG Rating Tool is based on the NABARD's Critical Rating Index (CRI) which is being used to rate SHGs.*

Related Consolidated Replies

From Mohammad Anas, UNDP, New Delhi

Financing the Micro-enterprises through MFIs . Issued 14 March 2012.Available at: ftp://ftp.solutionexchange.net.in/public/mf/cr-public/cr-se-mf-emp-11011201-public.pdf

> *Seeks inputs on constraints faced by the MFIs in financing the Microenterprises, National/international best practices and successful business models of Microenterprise financing and risks to be addressed for microenterprise lending in India*

Strengthening Money Lenders Act for Financial Inclusion. Issued 21 October 2011
Available at: ftp://ftp.solutionexchange.net.in/public/mf/cr-public/cr-se-mf-30081101-public.pdf

> *Seeks inputs on ways in which Money Lenders can contribute to financial inclusion by providing multifaceted Microfinance services and provisions that are required in the money lending Acts of different states to protect the poor*

Responses in Full
B S Suran, Head Office, NABARD , Mumbai

It is interesting that the query posers have asked about Access to Finance for UP. NABARD was part of this PSIG project and as there were many delays in starting the project, it stepped out of the project partnership.

UP is definitely one of the most difficult States to work in. The state support is near zero and in a few cases, it becomes detrimental and acts counter to the people's interests. NABARD does have a Women's Self Help Group (WSHG) anchor NGO in few districts which has just started. The biggest programme that NABARD supports is through the Rajiv Gandhi MahilaVikasParishad (RGMVP) in 40 districts. It has formed 50,000 SHGs and of good quality. It uses the Community Resource Person (CRP) model for promotion, which means that a community member who benefitted and transformed through SHG is groomed to promote further groups.

On the issue of models, I cannot say which model works better, I think the saving led one is better than pure credit groups. While men seem to join JLGs for credit access, the credit culture in the State is weak. The eco system is not supportive at all. I am also not sure why MFIs have not proliferated there, despite the potential for large outreach and raising resources, through large projects such as the PSIG.

I hope these reflections are of some help to you in making realistic projections for UP State.

Thomas Mehwald, Consultant, Germany

My suggestion pushes the 'access to finance' concept a little further towards a 'use of finance' idea. Because that is what ultimately counts when designing financial infrastructure for disadvantaged and excluded segments of the population: that financial services are being used by the people enabling them to lead a life they have reason to value.

I suggest using the financial capability approach to assess demand for financial services. Financial capability can be defined as the freedom to use and manage money in a beneficial way. The approach builds on perspectives of the people themselves asking what people associate with good use and management of money in their own community. Data collected in such a way will be the basis to outline relevant concepts which relate to use and management of money, to identify constraints or non-conducive environments in which people manage their money.

Using the financial capability approach ensures that people themselves articulate what is beneficial to them. The financial capability idea is thus open to context specific meanings of money use and management.

The approach outlines meanings of various financial services for the people and also provides insights of how these services could be designed in order to fit into the local contexts. By understanding factors affecting use and management of money, activities of financial service providers and stakeholders in the rural finance space will be more targeted and focused on the people and their financial needs.

Uttar Pradesh and its large gaps in well-being and social progress compared to other states of India needs a sensitive approach in designing a financial infrastructure which is beneficial to the people. Currently GIZ is developing and testing the financial capability approach in India.

NidhiDubey, Development Professional, Gurgaon

I do not work in the field of microfinance any longer however during the initial years of my career I had exposure to the financial practices across India.

I have visited Uttar Pradesh (Lucknow, Barabanki, Faizabad and Unnao) and met members of NGOs and NBFCs. There are a few issues and concerns that I would like to highlight:

- Access to finance is not something that can be made compulsory like immunization, hence it is necessary to learn and understand the **need** of the population we are targeting
- Most the NGOs and NBFCs (and also Grameen Banks/Regional Rural Banks) do not **explore** or make their **products innovative**. There is a tendency to play safe as a result of which credit/ financial services seeking population ends up with miscalculated risks
- After my discussion with various households (HH), I came to a conclusion that even though women are not the sole bread winners, the finances of the households is mostly woman's responsibility. Hence if financial services and packages are focused on women there could be a higher chance of it being successful.
- In certain cases credit taken has been utilized for HH purposes (which is not wrong) however such practices do not strengthen the financial capacity of the HH/ customer. There is no progress made and the situation remains as it was prior to taking credit.

Hence from the above mentioned experience, I would suggest formation and skill enhancement of savings cum credit groups of women would be the most effective channel. NGOs, NBFCs and other financial organizations that have the flexibility and capacity to answer to the needs of the population, should take up the responsibility of doing it.

Spreading the message across:

- Community radio and local cable networks are the most popular ways to spread information. Small skits and videos could be aired in between popular shows.
- SMS could be sent on their mobile providing information on types of products, interest rates etc.
- Street plays can be organized and pamphlets could be distributed during community events/ functions.
- Short talks and discussions could be organized at schools and educational insti-

tutions on topics like savings and judicious utilization of pocket money etc. This will enable the youth to understand its significance.

NavinAnand, Solution Exchange, UNDP, New Delhi

Developing a vision document on Access to Finance (A2F) for Uttar Pradesh is very important because of two reasons – Firstly, UP is a state having high level of diversity and disparity in economic and cultural context; and secondly, in terms of micro financing and coverage of SHGs, UP is far behind many states. In terms of demography, a high level of heterogeneity is also seen in Uttar Pradesh which makes the endeavor of developing a vision document and strategy for access to finance, more difficult. Thanks to Smita and her team for making sincere efforts in making a vision document.

My initial submission on the vision document is that it must take into account the **demographic, geographic and organizational** coverage of financing to the poor in addition to analysis various **MF product and services**. Accessing the scenario of financial literacy will also be useful.

NABARD's microfinance report for the year 2011-12 (available at: http://www.nabard.org/departments/pdf/Status%20of%20Microfinance%202011-12%20full%20book2.pdf)reveals some important facts that also justifies the importance of having a very focused vision document on Access to finance in UP–

- Potential Rural households to be covered - 138.19 lakh
- Rural households covered (SHG: savings linked) - 61.25 lakh
- Districts with low coverage of SHGs - 70 out of 75 districts
- Average savings of SHGs In UP – Rs.7815; National Average: Rs.8230
- Average credit disbursed by SHGs in UP – Rs. 129115, National Average : Rs.144046
- No. of SHGs (lakh) that have issued Loans - 0.34
- Loans outstanding - Rs. 2031.77 crore
- Gross NPA Rs. 254.25 crore (NPA SGSY Core 206.64 crore and NPA SHG (non-SGSY) 47.61 crore)

From the above mentioned statistics, it is quite clear that there is low coverage of SHGs in majority of the districts of UP and the level of NPA in context of SHG bank linkage programme is also high.

In context of the study for writing vision document, following points are suggested :

- **In-depth analysis of the different segment of people**
  In the last few years, various service providers and banks have applied a standardized strategy to cover persistently excluded people and therefore a large percentage of people are still excluded. In SGSY, Persons with disability (PwDs) were also to be covered under the scheme and government simplified the criteria by allowing formation of 5 persons groups but unfortunately it was again failed as getting five PWDs in a village was difficult. Hence, the first point which I want

to stress here is that different segment of people will need specific strategies in context of microfinance services. Keeping in view the diversity of households in Uttar Pradesh, the classification of people into different segments can be done on the basis of –

  - **Occupation** – (Small and marginal farmers, rickshaw pullers, domestic workers, handloom weavers/artisans, migrant laborers/workers etc.)
  - **Vulnerability** – (People with Disability (PwDs), Older Persons, Disaster affected people)
  - **Category** – (Scheduled Tribes/PVTGs, Scheduled Caste, Minorities etc.)
  - **Geography** – (People living in Mountain areas/remote areas/naxalite areas)

Segmentation and applying differential strategies are important because the need of microfinance services of a small and marginal farmer will be very different from a vegetable vendor as the cash inflows and economic cycle of both the people are different.

- **Coverage of outreach factors**

The model of outreach provided by M Schreiner seems to be very relevant for writing the vision paper and it can be used as a framework. In the paper, he has talked about following six factors related to outreach –

- **Depth** – It refers to poverty level of MFI's clients
- **Breadth** – Breadth refers to number of clients
- **Length** – Length of outreach is essentially the sustainability of the microfinance institutions. If an MFI can provide MF services for a long period of time, then it meets the length criteria.
- **Worth to Clients** – For clients, worth reflects their willingness to pay. For deposits worth increases with the interest rates and ease to access savings products.
- **Costs to Clients** – Cost of clients is the sum of the explicit costs, such as interest rates, fee and the transaction costs.
- **Scope** – Scope from clients point of view reflects the variety of microfinance services an MFI offers

Coverage of the present and potential role of different types of MFIs

Microfinance institutions can be broadly classified as – **For profit, Not-for profit and Mutual Benefit institutions**. Further, it will also be worthwhile to know –What are the factors that are conducive or detrimental in context of providing MF Services to the poor within a particular type of legal entity. Hence the report can cover analysis of different type of institutions and their present and future roles.

Sources of Information for financing related information

State Focus Paper and Potential Linked Credit Plans (PLPs) prepared by NABARD

NABARD prepares district level Potential Linked Credit Plans (PLPs) and these PLPs are aggregated to prepare State Focus Paper. These Potential linked Credit Plans and State Focus Paper of UP will be highly useful documents for preparation of the vision document as these documents provide a wide range of information related to finance in UP. While state focus paper will provide a holistic view of the state in terms of financing, PLPs will providespecific information about districts. The documents also give a fair idea about differentsubsectors that are growing in the state as well as indifferent districts.

District Credit Plans prepared under Lead Bank schemes

We all are aware that an important initiative of introducing Lead Bank Scheme (LBS) was taken up in 1969. Each district prepares a district level credit plans incorporating plans of all the banks so as to avoid any possibility of overlapping. These plans are also discussed and approved in State Level Bankers' Committees (SLBCs). These credit plans will be highly useful in preparation of the vision document.

Reports of UP State Cooperative Bank

It has been seen that the consolidations related to microfinance do not consider the micro financing done by the primary level cooperatives societies as it is not under SHG bank linkage programme. The loans below Rs. 50,000 provided by Primary Agriculture Cooperative Societies (PACS) and other thrift and credit cooperatives in UP and other states must be considered under microfinance. For getting the information about the financing done by PACS and other thrift and credit cooperative a consolidated data could be procured from Up State Cooperative Banks.

Rural Development Department and other Ministries – Point Person - International Collaboration

The revolving loan funds provided by various international agencies/ donor agencies are not recorded at any single place therefore it will be good to check with rural development and other relevant departments about the financial support provided by various agencies and ministries.

Potentials and Challenges of the different channels of financial services

Banking set up – Commercial Banks, Regional Rural Banks and Cooperative banks

The first major channel for financing poor could be banks as all the banks provide microfinance services to the poor under SHG bank linkage programme. Financing for SHGs also comes under the priority sector lending so banks need to focus on SHGs financing to fulfill the minimum requirement under priority sector lending. Recently HDFC and Axis have also entered into retail micro financing.

RashtriyaMahilaKosh

RashtriyaMahilaKosh is another important player functioning in Microfinance sector. They also have Nodal Agencies almost in every state. The assistance provided by RMK through its various schemes is beyond the SHG bank linkage programme, therefore, the assistance provided by RMK needs to be captured separately. In UP, RMK can play lead role, therefore while assessing the potential, involvement of RMK team will be useful. Details of various financial schemes of RMK can be accessed from: http://rmk.nic.in/chap3a.htm. One of the Nodal Agency of RMK that works in Uttar Pradesh is Indcare Trust (http://www.indcaretrust.org/modules/cms/rashtriya_mahila_kosh_(wcd).php).

Thrift and Credit Cooperatives in Uttar Pradesh

Thrift and credit cooperatives especiallyPrimary Agriculture Cooperative Societies (PACS) is another good source of microfinance in Uttar Pradesh. Many Mini banks of PACS especially those existing in western part of the state are having savings reaching up to 1 crore or more. Reforms in cooperative Act with permission to use some part of the deposits in lending to the members will make major difference in the whole scenario of rural financing. Here, it will also be important to protect the interests of the customers who have saved their money in mini banks.

Unfortunately, no major reforms have taken place in the cooperative sector of UP while states like Jammu and Kashmir, Uttarakhand, Bihar and many other states have introduced Self-Reliant Acts on the lines of MACS Act of AP. The benefit of the Self-Reliant Act in these states has been that new age financial cooperatives have emerged as federations of SHGs or collectives of the poor. It is suggested that either the present cooperative Act should be re-engineered and made conducive for microfinance or a self-reliant Act must be introduced to fast track the financial inclusion process.

Microfinance Institutions and NGO-MFIs

There are well proven examples of MFIs doing micro financing in UP. Some of the important players are – CASHPOR Micro Credit , SKS Microfinance Ltd., SONATA Finance (P) Ltd., SpandanaSpoorthy Financial Ltd., Utkarsh Micro Finance Pvt. Ltd., SEED Financial Services Pvt. Ltd., NirmaanBharatiSamajik and ArthikVikasSangathani, Sanchetna Microfinance, Aadhar (FINO), Manvodya**,** Capital Trust Ltd., Fusion Microfinance, Mimoza Enterprises Fin. Pvt. Ltd. etc. There are many other MFIs and NGOs working in Uttar Pradesh. For livestock insurance, the Goat Trust is one of the specialized institution (www.goattrust.org) working in UP and few other states. Similarly a Lucknow based NGO Margdarshak started doing micro financing from 2007 through Margdarshak financial services Pvt. Ltd. (http://www.margdarshak.org.in/microfinance.php).

MF Supporting institutions

One of the important organization that provides technical supports for the microfinance sector in UP as well as other states is 'MicroSave' (http://india.microsave.org/). Another important institution in UP is Bankers Institute of Rural Development (BIRD) which has a Centre for Microfinance Research. The centre conducts programmes in microfinance and has contributed well in the area of MF research and publication (http://www.birdlucknow.in/static/cmr.aspx).

Drishti Foundation – An organization that adopts individual lending model
Example of micro financing by Drishtee Foundation is unique as it provides MF services to the individuals as a Business correspondent of State Bank of India. Unlike the traditional Self Help Group (SHG) approach, Drishtee has leveraged on the entrepreneur's knowledge of the village community and the village ecosystem.Drishtee has worked on this model in three states (for Banking) and two states in Micro finance and the outcomes have been very encouraging. Drishtee in collaboration with Jantaa provides education loans to village students to pursue primary and vocational education. This pilot project was implemented in four states namely, Assam, Bihar, Haryana and Uttar Pradesh. For more details, please visit http://www.drishteefoundation.org/micro_finance.html. Since Drishtee has its head office in NOIDA, UP therefore, it can function as a key player in micro financing. The model of Drishtee will be very useful in case of People with Disabilities (PwDs), Older Persons and other segment of population where forming groups is difficult.

To sum up, it is important to mention that a good culture of micro financing and recovery of loans has yet to be developed in Uttar Pradesh therefore group mechanism will be the key strategy for promoting microfinance and financial inclusion in UP. I would also like to suggest that as a pilot a **Nodal Agency concept** needs to be introduced where one agency could be assigned to keep all the records of SHG movement and micro financing irrespective of the promoters.

Resham Singh, Micro Finance Consultant, Mohali, Punjab
The query initiated by Dr. SmitaPremchander and her team on developing a vision document on 'Access to finance for UP' is very timely and relevant. In Uttar Pradesh, there are two basic obstacles in implementation of the poverty reduction programmes - untouchablility and lack of political will. The poor in Uttar Pradesh require high degree of self-sufficiency to free themselves from the shackles of exploitation and poverty. The landowners in UP still play a dominating role in rural areas compared to poor and landless. It is quite unfortunate that the decade old "garibihatao" mission of the various political groups is not yet percolated down to the grassroots and therefore no major changes are seen in the living conditions of the poor.

Following are some of my thoughts on developing a vision document for UP –

Learning from the success story of Mohali branch of Gramin Bank, Punjab: While working as a Manager at Mohali in Gramin Bank, Punjab, I tried to do some experiments for the social and economic upliftment of poor, especially landless labourersunder SHG bank Linkage programme. A SHG - cluster in about a dozen of villages in Mohali was developed by the bank. Around 54 Self-Help Groups were established and their members were triggered to do some economic activities. The whole initiative has resulted into making illiterate and unaware members of the groups into bankable entrepreneurs. The experiment has given a big relief to the villagers as they were paying heavy interest to the moneylenders for their loans. Here, I would like to highlight an important point that besides providing financial services, we made attempts to guide and support people, formally and informally, in the successful management of their enterprises. It is a fact that Gramin Bank, Bangladesh was also successful not just because of timely lending but also due to success of their clients because of Bank's support in management of their Clients' enterprises. Now, women from socially marginalized sections of society don't go for menial labor any longer, the trend of dropouts from schools stands reversed and the role of money lenders has been drastically curtailed.

The success stories of the initiatives were covered by various newspapers and after reading the success stories of SHGs, the then Governor of Punjab Honorable Shri. O P Verma visited the SHGs supported by us and interacted with the poor members of SHGs to boost their morale. People followed the SHG model in the entire area of operation without any hurdle. The experiment of Mohali branch was also replicated in other branches of the Punjab. The bank led SHG bank linkage model was also appreciated by the Commonwealth Youth Program Asia Centre, Chandigarh Region and the Centre has covered the story of our experiment in 'Young Asia'.

Continue focusing on SHG Model: SHG movement is changing life of the poor especially dalits, landless laborers, small farmers and women in Punjab. Most of the landless laborers and other poor sections of society were taking loan from the landlords and money lenders to meet their emergency needs and paying interest somewhere from 36 to 60 per cent. By getting hassle free loans under SHG model they were able to access land on lease and machinery for agriculture and custom work and therefore transformation of rural poor in Punjab is taking place. So my first message for the architects of the vision document is that SHG model in UP needs to be continued and it must be made more effective and efficient.

Role of top executives in RRBs is important: Based on the above mentioned experiment, I will also suggest that regional rural banks can play vital role if the top executives in RRBs give due importance to the SHG model. Often, support to SHGs is often not seen as a great work in many banks and there are no tangible or intangible incentives attached to the achievements of managers for SHG lending. There is a need to change the mind sets of some of those top executives and managers of financial institutions who do not give due importance to the SHG lending. Based on the above, I suggest the following –

The core responsibility of financing poor needs to be given to RRBs in UP: I suggest that the poor should have the right to borrow from banks. In UP, besides other financial institutions, the task of financing rural poor could be assigned to the Regional Rural Banks however, RRBs should be made free from the responsibility of doing commercial business and they should primarily do financing to SHGs, marginal and small farmers, women and other excluded group of people. Financial support under different government schemes could be routed through regional rural banks. The committee members in RRBs should be nominated from the institutions having grassroots level experience of promoting self-help groups.

Creation of Farmers Club before forming SHGs: Before starting SHGs, we experimented to form 'Farmers' Club' for the promotion of agriculture activities and social interaction. The agriculturists, landless laborers, dairy farmers, seed sellers etc. were made members of the farmers' club and imparted trainings as per their needs. Formation of Farmers' clubs facilitated in establishing SHGs in Punjab. The main motto was to bring them close to each other and also close to the financial activities of the bank. This concept was implemented on the pattern of 4H clubs of USA and other western countries.

Joint Liability Groups in addition to SHGs: while I suggest for giving overdraft limits to those SHGs that have good record and high rating in grading, I also recommend for charging a very reasonable interest rates for SHGs. Here, it will also be good to form joint liability groups of marginal, small tenant farmers. I feel that there should be specialized 'Deposit Banks' as well as 'Credit Banks' in additional to normal bank branches. There are many banks including RRBs that are focusing only on deposits and there is unhealthy competition amongst them. The primary focus of the banks should be on formation and linkage of SHGs, providing knowledge and tracking the progress of SHGs, imparting training and monitoring meetings of SHGs. It is also recommended to federate SHGs to check exploitation and take up activities of the value chains collectively. There are many other functions that can be taken up by the federations for the welfare of the members.

Sometime back, I had initiated a discussion on Regional Rural banks and their role in providing microfinance to the poor, especially those who are living in the remote areas. Based on the discussions held earlier, I would like to suggest the following –

- RRBs have better understanding of their region in context of the needs and opportunities of the poor; hence RRBs can provide customized financial solutions to suit the socio-economic situation of the people in the rural areas. In order to do this, RRBs may focus more on evolving innovative financial products and mechanisms of delivery based on requirements of the clients
- RRBs also need to opt for innovative mechanisms to cut down their own costs. One possible way could be to engage local youth as agents to provide MF services at door steps of the poor. RRBs can also provide financial services through Business correspondents and also adopt technology based options like mobile banking, biometric cards etc.
- Besides credit and other financial services, RRBs can continue focusing on savings mobilization

Multipurpose knowledge centers for financial literacy and guidance at RRBs: As a Manager of a Regional Rural Bank in Punjab, I could observe that when the concept of SHGs and microcredit was introduced in India, the focus has been on informing the people about the concept and mechanism of forming SHGs. Many banks have established a sort of information centers in their banks itself. The information notes and circulars specifying details and terms and conditions of forming and managing self-help groups were prepared so that members are informed by using a standardized information package. The copy of the information package was distributed to the poor so that they get answers to their basic questions like - What are SHGs? Who can form SHGs? How can groups be formed? What are the Terms and conditions for membership? How to select members? Who can be the leader? How to write the books and account? These information packages also include other relevant information related to creating sustainable groups. When the groups came into existence, their members were also given inputs related to starting their income generating activities. Through the information centre at our bank, we could bring a change in people by providing financial literacy. Bangladesh

Gramin Bank has given the world a wonderful model of uplifting the poor. Through the information centers promoted by them, the bank provides multiple information services related to education, health, engineering, insurance, business, marketing, technologies of products and food processing, jobs, housing, and even disaster management. On the basis of the 'information centre Model' of Bangladesh, we have also introduced some of the additional services in our Information centre. So the lesson learned from the Bangladesh model is that we can create 'Multi-purpose knowledge centers' for the rural poor.

Financial support under various Government schemes through RRBs: RRBs are well placed to implement the MNREGA payments, distribution of social security pension, insurance and other disaster funds to the rural poor. RRBs can also play pivotal role in facilitating Flagship programmes such as MGNREGA, NRLM and other such programmers by undertaking financial literacy initiatives as well as facilitating in transfer of money. In UP, the work of providing support under various government progammes can be given to RRBs.

SHGs as Business Facilitators: The SHGs can also work as Business Facilitators so that poor who are not in any group are being served by SHGs as Business facilitators of the banks.

Jaipal Singh Kaushik, Independent consultant- Livelihoods and Microfinance , Jaipur

Preparation of the vision document is comparatively easy than its implementation, more so in state like UP where the society is increasingly polarized politically. We do not know how the party will take it up. This danger is everywhere but in UP it is very high. UP being most populated state and with highly skewed income and social profile of people, the A2F vision document will be challenging but interesting as well. Though I have not worked in UP, but my generic comments and suggestions are as:

1. **Focus on demand side perspective and study the cash flows:** The demand side of financial services should be the basis for the vision document. If cash flow studies are not available, then some cash flow studies should be done, at least with sample HH in different regions- Western UP will have need for different services (like bigger credit for agriculture, savings) than eastern UP (remittances and small credit), in Bundelkhand, there might be priority of MGNREGS payments and so on.

2. **Analysis of SHG data :** The data on SHGs cannot be taken on its face value – most of the places the SGSY SHGs are non-existent. It is very unfortunate that most of the data published by our survey organisations and public sector organizations does not match with ground realities. Moreover the aggregated data and averages do not make any sense when it comes to the matter like 'financial inclusion of poor'. For example, 20% SHGs having loan under SGSY (larger loan of about Rs.2 lakh/ SHG) pushes the average loan size and the 80% SHGs getting no loan or small loan are forgotten in the final analysis.

3. **Formal institutions and financial infrastructure:** The financial exclusion in India is 'non-voluntary' and it is largely due to 'failure of the formal institutions' - be it banks, post offices, NABARD, SIDBI or any other'. And most often the vision documents end up suggesting for appropriate products, sensitization of their staff, enabling policies and so on. We forget that all these institutions and policy makers have not delivered in last 60+ years and what is that we are suggesting which will make them to deliver!!

I would suggest that the team preparing vision document should look beyond the existing financial infrastructure. See how much investment is needed to create strong network of new generation financial institutions; how the unemployed youth of economically weaker sections can be deployed in financial services sector, see how the capacity of people can be enhanced.

Some of the existing institutions (non-functional institutions) might have to be closed/ liquidated to pave path for new and vibrant institutions.

The team will have to find out ways to keep the state (and politicians) out of the sector. And it will still be worthwhile if the vision (access to fin services to all) can be realized in next 20 years. Please do not think of it in 5 or 10 years; not in UP please.

Rani Sahay, UNDP, New Delhi

Giving a thought on microfinance as a part of socio-economic security and livelihood promotion of the families in disaster prone areas, I feel that disaster affected people could have the much needed access to financial services during crisis situations which could further help in lessening the impact of disaster. However, provision of microfinance services is possible only when the MFIs are prepared in advance. It is also important to assess the needs of the affected during times of disaster and suggest appropriate financial products (some modifications might be needed according to the context) that may assist the affected to cope better. Customised innovative financial products could help drastically reduce the impact of the disaster on the clients, decreasing loss and damage as well as increasing liquidity available to them when needed.

Following microfinance activities could be taken up in any of the disaster-affected areas:

Transfer of Assistance and Remittances

In disaster-affected areas, we need innovative methods of transferring money. Mobile phone banking and other electronic based innovations can be used through specialized intermediaries to help the affected families in reestablishing them in fast mode. In this context various technology based institutions can be of great help. I am aware about the FINO that has done good work in this area.

Micro Insurance

Micro insurance could be another important issue for the disaster-affected people. It relates to health, Life, livestock and General Insurance. A proactive approach needs to be applied at the time of micro insurance making all efforts to provide the claims to the members of the affected families. ICT can play a vital role in making the process on fast track.

Lease Finance (Micro-Leasing)

At the time of disaster, the families affected by it do not have anything in the form of collaterals to give to the banks for taking any productive assets for livelihood activities i.e. Boats for the poor fisherman. Affected families need support for getting such assets without providing any collateral. Lease Finance customized as per the needs of the members can be a good option.

Savings Products

Both mandatory and voluntary savings products are required by the people especially in pre-disaster stage so that they have some money available at the time of disaster. After the disaster, often families are not in a position to save but after sometime they require savings products.

Credit Products (Consumption loans and Working Capital loans)

To start with, the members will need consumption credit and later, after identification of relevant livelihoods, members require loan products for their income generating activities. There can be customization of such credit needs in the disaster-affected areas. Livelihood activities have different value chains as per the type of activity. A manufacturing / production related livelihood activity chain will require a very different loans products and repayment schedule compared to a service type of livelihood activity.

Management of Donation Funds

In disaster-affected areas management and proper utilization of donations can be better undertaken by microfinance institutions compared to any other type of organizations. This will be a specified activity, which MFIs can take up after disaster management.

Disaster funds creation at SHG- Federations level

At federations level, disaster funds can be created separately so that at the time of disaster, it can be used for SHGs and their members.

In the vision document, a part of the report can be devoted to the microfinance issues related to disaster.

Pradip Kumar Sarmah, Centre for Rural Development, NOIDA

I think it is an important initiative to prepare a - Vision document on Access to Finance (A2F) for Uttar Pradesh. As mentioned by Mr. NavinAnand in his response regarding coverage of different segments of excluded people in the vision document, I want to stress on the coverage of **Rickshaw Pullers** in the financial inclusion programmes. We are working for about a decade to bring this large community under inclusion with a project RICKSHAW BANK

http://skoch.in/images/29/PradipKumarSarmah.pdfkeepThis=true&TB_iframe=true&height=600&width=850&caption=Dr+Pradip+Kumar+Sarmah

As per a hypothetical estimate, it is found that there exists an estimated ten million rickshaw pullers in India. Another ten millions are also there to ride other slow moving vehicles like Hand Push-Cart, Vegetable Cart, ice-cream cart and Fish Cart etc. These pullers, or drivers, are among the poorest of employed urban dwellers, with typical incomes of rupees fifty to one hundred fifty per day (US $ 1.0 to 3.0), well within the target demographic of the first UN Millennium Development Goal. Many have migrated to the cities, where they found themselves without any support networks and options for shelter. They regularly spend the night on the pavement, or on their vehicles. Some migrants drive rickshaws periodically, during the off season for agriculture, to help sustain their families, but a large proportion are year-round drivers. The millions of Indian rickshaw pullers are providing critical last-mile transportation services to people in many cities. But the heart-rending issue is that pullers actually do not own their vehicles. They hire them, one day at a time, paying high rents and bearing all the risks of doing such work, including the need for repairs and the pain and loss from accidents.

Financial inclusion of Rickshaw Pullers is an important issue to be addressed and therefore it needs to be incorporated in the vision document. As per a study, only 1 per cent of the rickshaw pullers are linked with formal financial institutions. The key issues related to financial inclusion of rickshaw pullers are -

Savings

Compulsory Savings: Rickshaw pullers need to be grouped in different collectives especially SHGs, based on their affinity. The focus could be on two aspects – i) Enhancement of the savings amount in SHGs based on the saving capacities and ii) Ensuring maximum utilization of the common funds of SHGs for internal loaning and also common initiatives of the groups.

Voluntary Savings option for rickshaw pullers: Besides compulsory savings, voluntary savings needs be promoted adopting various mechanisms (Through SHGs, Federations and Business Correspondents). Recurring deposits schemes/Daily savings collection schemes, fixed deposit schemes as well as savings deposit schemes will be promoted. (In second phase of SHG bank linkage programme NABARD has allowed Voluntary Savings through SHGs). Voluntary savings needs to be promoted through SHGs, federations and also directly through Business Correspondents. (Circular No: 65(A)/ MCID-04 / 2011-12 dated 27 March 2012. Available at : http://www.nabard.org/pdf/SHG%202%20 circular.PDF.

Innovative mechanisms - Technology based processes/management based innovations Successful cooperative Models on voluntary savings – SEWA, Cuttack Urban Cooperative Banks, ApniSewaShakari, District jaipur, Rajasthan could be studies and replicated in UP.

Relevant institutions: National level development banks (NABARD, SIDBI/IDBI, Axis Bank etc.) ,technology based institutions (BCs such as FINO, EKO, ALW, Oxigen etc.) and specialized government promoted institutions for savings can work together to provide need based services.

Credit

SHG/JLG Model: For providing credit services to the rickshaw pullers, SHGs and JLGs could be created and linked with banks so that Rickshaw pullers of SHGs can get loans under SHG bank linkage programme. The credit schemes must have a system of daily collection of installment as the cash inflows of rickshaw pullers are on daily basis.

Loans for rickshaw in the name of women: For financial inclusion, households of the rickshaw pullers should be the focus and therefore women groups can also be formed for the rickshaw pullers' households. Loans can be given to women members for the rickshaws so that they hold the ownership of rickshaws. The financing for the rickshaw could be through SHGs.

Kiosk Based Models: Besides SHG and JLG model, individual lending model for selected group of people could also be used. (Example: Individual lending model of Drishtee (IFMR Trust had partnered with Drishtee Foundation to pilot a Kiosk based individual lending model for financial services delivery).http://www.drishtee.com/partners/our-partners/.

Social Security

Micro Insurance

For Rickshaw pullers of Uttar Pradesh, there could be three types of insurance – **life insurance, health insurance and asset insurance (insurance of Rickshaw).**

Health insurance: Rickshaw puller must be linked with **RSBY** scheme of the Government. Lessons learned from model of **'Health Mutual'** (promoted by **Uplift Pune)** can also be applied wherein a separate amount is created for health care services/health insurance as a part of the mandatory savings of SHGs.

Micro Pensions: It is a fact that around 92 percent of Indian workforce does not have any formal pension provision or an old age income security. Accordingly to an estimate, India will be having 320 million elderly, by 2050. Considering both the points, it becomes important to promote pension schemes. In India, there have been a number of pension schemes for the salary earners however there are very few options of micro pensions for unorganized sector workers like Rickshaw Pullers. In the recent past, Pension Fund Regulatory and Development Authority (PFRDA) had introduced National Pension Scheme (NPS) and NPS Lite. The NPS lite scheme is a lower cost version of NPS scheme which enables groups of people to join the NPS at substantially reduced cost.

Additionally, Government of India launched a contributory pension scheme – 'Swavalamban Pension Scheme'. Swavalamban is an incentive scheme for the NPS. Under this scheme any citizen in the unorganized sector, who joins NPS in 2010-11, with a minimum annual contribution of Rs.1000 and maximum of Rs.12000 will receive a Government contribution of Rs.1000 in his NPS account. Services of Invest India Micro Pension Services (IIMPS) could be taken to provide micro pension services to the poor.

Payment /Transfer of money/Remittances: As a large number of rickshaw pullers are migrated from villages to cities therefore sending money is difficult and there is a cost attached to it. Technology based options providing institutions like - FINO, Zero mass, EKO,Oxigen could be engaged to provide support in transfer of money by the rickshaw pullers to their homes.

Hope the vision document will incorporate a separate section for Rickshaw pullers.

NavinAnand, Solution Exchange, UNDP, New Delhi

In continuation to my earlier response on vision document on Access to finance, I would like to inform that the M-CRIL Report – **'M-CRIL Microfinance Review 2012: MFIs in a Regulated Environment'** is also a good document to refer for preparing the vision document as it provides a good overview of the microfinance in India. The report is available at: http://www.m-cril.com/Backend/ModulesFiles/NewsEvents/M-CRIL-Microfinance-Review-2012-MFIs-in-a-Regulated-Environment.pdf. The report provides a holistic data about Microfinance in India with specific details on various important financial and social aspects.

AanchalSinghal, Department of Management Studies, JSSATE, Noida

For the vision document, coverage of three big initiatives - SHG bank linkage programme (SBLP), SwarnaJayantiSwarozgarYojna (SGSY) (renamed as National Rural Livelihood Mission) and RastriyaMahilaKosh will be important.

SHG Bank Linkage Programme

The self-help group movement was started formally in 1992 with NABARD's proactive role of supporting banks technically and financially to lend to SHGs. In the beginning, 500 SHGs were promoted and linked with different banks. This number has now reached to 8 million SHGs. While in the beginning, the share of SHGs linked to banks was very high in southern states, the percentage has come down in the recent past. As per the NABARD statistics (March 2012), 8 million SHGs of the poor maintain a balance of over 6550crore in the savings bank accounts with the Banks. They have harnessed savings of over 22000 crore of which nearly 70% (over 15000 crore) goes for internal landings. Over 4.4 million SHGs are regularly availing credit facilities from the Banks.

As per March 2012 data, over 103 million rural households have now access to regular savings through 7.96 million SHGs linked to banksunder the SHG-Bank linkage programme. About 27% of these SHGs are savings linked through the SGSY programme – the rural poverty alleviation programme of the Government of India where predominantly households below the poverty line are admitted as members.

Analyzing the scenario of UP, we can observe that only three districts are having more than 80 per cent of SHG coverage. Overall the SHG coverage in the state is low therefore it will be important to speed up the process of increasing SHG coverage. An analysis of loaning through various banks in Uttar Pradesh shows that there have been four kinds of banks that were providing loans to SHGs under SBLP – Public Sector Commercial banks, Private Sector Commercial Banks, Regional Rural Banks and Cooperative Banks. The loan outstanding of various banks by the end of March 2012 was –

- Public Sector Commercial banks (19) – 135844.17 lakh
- Private Commercial Banks (1- HDFC) – 0.54 lakh
- Regional Rural Banks (10) – 65746.56 Lakh
- Cooperatives (32) – 1585.72 Lakh

It is observed that NPA level is very in some of the banks high therefore it will be important to monitor the programme closely so that some remedial measures can be taken up. It is true that SHG bank linkage programme has been a success in terms of linking SHGs with banks and providing loans however the aspect of outreach needs to be seen for financial inclusion. To do this, I will also suggest customizing SBLP as per the needs of the state.

Swarnajayanti Gram SwarojgarYojana (SGSY)

SGSY is an initiative launched by the Government of India to provide sustainable income to poor people living in rural areas of the country. The scheme was launched on April 1, 1999. The objective of Swarnjayanti Gram Swarozgar Yojana (SGSY) was to bring the assisted poor families (Swarozgaries) above the Poverty Line by ensuring appreciable sustained level of income over a period of time. This objective of the scheme has to be achieved by inter alia organising the rural poor into Self Help Groups (SHGs) through the process of social mobilization, their training and capacity building and provision of income generating assets. The SHG approach has helped the poor to build their self-confidence through community action. Interactions in group meetings and collective decision making enable them in identification and prioritization of their needs and resources. This process would ultimately lead to the strengthening and socio-economic empowerment of the rural poor as well as improve their collective bargaining power.
The SwarnaJayanti Swarozgar Yojna (SGSY) has been renamed as National Rural Livelihood Mission (NRLM). With this, the scheme will be made universal, more focused and time bound for poverty alleviation by 2014. Since its inception, over 2.25 million Self-help groups have been established with an investment of Rs. 14,403 crores, profiting over 6.697 million people.

Rastriya Mahila Kosh

The figures of state wise lending by Rastriya Mahika Kosh shows that in Uttar Pradesh, by March 2013, 2657 SHGs were provided loan support through 139 NGOs. The sanctioned amount was 917.85 lakh and disbursed amount was 600.42 lakh. Overall 26569 women were benefited by RMK. In Andhra Pradesh 23031 SHGs were supported by RMK covering 230313 women. The coverage in UP was low compared to southern states and also some of the northern states as well. State wise details of lending by RMK are available at http://rmk.nic.in/chap4a.htm#ch4s2.

In the vision document on financial inclusion, emphasis could be given on enhancing the support of RMK for the women-SHGs including SHGs of minorities as UP has large number of minority people who needs support.

Further, MFIs will have to follow the RBI norms about charging interest so that clients are not exploited. It will be important to assist the rural poor of Uttar Pradesh to bring them above the poverty line and help them in income generation through **combined effort with the help of SHGs, NGOs, CBOs, banks and SHPIs.**

There are various institutions that focus on the subject of micro financing in different courses of management and commerce. I believe that enlisting and supporting such institutions that are producing human resources for the microfinance sector in UP will be useful. Hence, in the vision document, one of the focus areas could be - **Human Resource development and Management**.

Mohammad Anas, UNDP, New Delhi

It is a welcoming move to come up with a Vision Document on A2F for Uttar Pradesh. Considering the size of population, it is imperative to consider the demographic heterogeneity of the state. Uttar Pradesh is home to more than 30 million of Muslim Population, which comprise 18.4% of the entire population of the state and one of persistently excluded group in terms of Access to Finance.

The figures from the famous RajendraSachar Committee Report on Socio Economic Status of Muslims in India reveals the fact that access of Muslims to Financial services and bank credit is abysmally low and inadequate. This has far-reaching implications for their socio-economic and educational upliftment. The report also highlights that the attempts to direct credit to minorities in line with the objectives of the Prime Minister's 15 Point Programme and corrective steps taken by RBI thereafter have also failed badly for Muslims. Interest based Banking and Financial System in India has persistently excluded the Muslim community to stay away from main stream financial services.

Enhancing financial inclusion is an important goal of regulators and policy makers in India. This assumes greater significance in a state like UP with its 30 million plus Muslim population, who have been shown to be relatively more financially excluded in large part due to the lack of shari'a compliant options on the ground. Islamic finance can thus be seen as a strategic tool towards achieving greater financial inclusion in the state and the country by bringing in a large section of the excluded population into the formal financial system.

The High Level Committee for financial Sector Reforms constituted by the Planning Commission of India has duly recommended that "*measures be taken to permit the delivery of interest-free finance on a larger scale, including through the banking system. This is in consonance with the objectives of inclusion and growth through innovation.*"

The Islamic Finance not only provides an interest free banking model but also provides an alternative where in the risk of business failure is shared by the lender. Such profit-sharing, risk minimization models may be particularly suitable for small holders. Please refer to Handbook on Islamic Banking for more details.

An important alternative model that is based on Islamic financial system is Participatory Micro Finance (PMF) model wherein the financier instead of lending small amount on interest to someone; actually involves in customer's business through trade practices; or by sharing associated business risks or by leasing out high value assets to the customers. Some of the key products under this alternative system that can be pursued are:

- Musharaka and Mudaraba – It may help MSEs to get micro equity funds compared to higher cost debts.
- Istisna and Ijara – It may serve MSEs get material and Assets needed for processing / manufacturing.
- Bai Salam may help farmers get required funds to sow crops as fair prices for harvest.
- Murabaha allows small retail get business stocks.
- Micro Housing Finance and Asset finance can be provided through Diminishing Musharaka

Some of the key initiatives of interest free alternative finance model available in India are: Sahulat Microfinance Societyis facilitating the establishment of 500 interest free microfinance cooperative branches all over the country to uplift the poor families by the end of 2016.

BASIX India group has already done pilot at Parbhani district of Maharshtra and is now aiming to scale up that pilot project in Haryana. It is providing direct capital in the form of Musharaka and Mudaraba in Mewat, Haryana to help MSEs to get micro equity funds compared to higher cost debts

Al Baraka Banking Group is a Bahrain Joint Stock Company Licensed as an Islamic Wholesale Bank by Central Bank of Bahrain. Al Baraka offers retail, corporate, treasury and investment banking services, strictly in accordance with the principles of the Islamic Shari'a. Recently the Kerala State Industrial Development Corporation, a State Government agency, invested for 11 per cent equity in Al Barakah Financial Services Ltd.

Infinity Consultants is a shari'a compliant advisory firm based in Bangalore, set-up in 2007 by a group of investment professionals with an in-depth knowledge of the business to fill the gap for quality and value-driven corporate finance, business and investment advisory solutions and leveraging key advantages of a India-centric off-shore delivery model to incubate innovative shari'a compliant initiatives in financing, savings, charity and venture capital on the ground in India.

Ethica Institute of Islamic Finance delivers online Islamic finance training and certification. As the most recognized Islamic finance certifier in the world, Ethica delivers standardized certifications based entirely on and completely in compliance with the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), the leading standard-setting body for the Islamic finance industry.

Islamic Finance is now becoming one of the largest alternative financial system in the world and growing in double digits. Though Indian banks are not permitted by RBI to practice interest free profit sharing products. RBI Governor has noted that Kerala is the only state that has been pursuing the possibility of Islamic banking in the country. RBI has written to the government of India regarding what necessary amendments are needed, or indeed there must be a separate law for Islamic banking. Henceforth alternative Banking models like Islamic Finance will be worth exploring while drafting the Vision Document on A2F for Uttar Pradesh.

Many thanks to all who contributed to this query!

If you have further information to share on this topic, please send it to Solution Exchange for the Microfinance Community in India at se-mf@solutionexchange-un.net.in with the subject heading "Re: [se-mf] Query: State of Sector 2011 for Microfinance – Experiences; Examples. Additional Reply."

Solution Exchange is a UN initiative for development practitioners in India. For more information please visitwww.solutionexchange-un.net.in

Annexure 2

Recommended Organizations and Programmes[83]

From *SmitaPremchander*, SAMPARK, Bangalore

Department for International Development (DFID), India
B-28 Tara Cresent, Qutab Institutional Area New Delhi - 110 016; Tel: 26529123; http://www.dfid.gov.uk/pubs/files/pppinfrastructureoct04.pdf

> *Bilateral donor contributed for Poorest States Inclusive Growth (PSIG) programme which aims at providing loans, guarantees, bridge finance and technical assistance*

ACCESS Development Services
28 HauzKhas Village, 1st floor, New Delhi-110 016; Tel: 011-26510915; Fax: 26850821; http://www.accessdev.org/index.php

> *ACCESS is a not-for-profit company that offers specialised technical assistance under two verticals microfinance and livelihoods*

From Multiple Sources

National Rural Livelihood Mission
Ministry of Rural Development, Government of India , 6th Floor, Hotel SamratKautilyaMarg, Chanakyapuri, New Delhi – 110021; Tel: 011 24122947;http://aajeevika.gov.in/index.html

> *NRLM is a flagship programme of Government of India aiming to increase household income through sustainable livelihood enhancements and improved access to financial services*

Reserve Bank of India (RBI), Mumbai
Rural Planning and Credit Department, Central Office Building, 13 Floor, Mumbai 400001; Tel.: 91-22-22610261; http://www.rbi.org.in/scripts/AboutUsDisplay.aspx?pg=Depts.htm#RPCD

> *Rural Planning and Credit Department of RBI formulates policies relating to rural credit and monitors timely and adequate flow of credit*

National Bank for Agriculture and Rural Development (NABARD), Mumbai
Plot No. C-24, "G" Block, Bandra-Kurla Complex, P. B. No 8121, Bandra (E), Mumbai - 400051; Tel.: 91-22-26539244; Fax: 91-22-26528141; nabmcid@vsnl.com;http://www.nabard.org/roles/microfinance/index.htm

> *Apex institution providing loan funds for microfinance services in the form of revolving fund assistance to NGO-MFIs, SHG Federations and NGOs to lend to SHGs*

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[83] These are listed in the Solution Exchange Query, under ***Recommended Organizations and Programmes***

RashtriyaSwasthyaBimaYojna (RSBY), INDIA
Email: urmila.goswami@nic.in; http://www.rsby.gov.in/about_rsby.html

RSBY was launched by Ministry of Labour and Employment, Government of India to provide health insurance coverage for Below Poverty Line (BPL) families

SwarnaJayanti Gram SwarozgarYojana (SGSY), New Delhi
KrishiBhawan, New Delhi 110001; Tel: 91-11-23782373/27; Fax: 91-11-23385876; http://www.rural.nic.in

Poverty alleviation programme that provides micro-credit and group insurance services to the poor through SHGs

Small Industries Development Bank of India, Lucknow
SIDBI Tower, 15, Ashok Marg, Lucknow - 226001 Uttar Pradesh; Tel: 91 -522-2288547; sfmc@sidbi.in; http://www.sidbi.in/Micro/index.htm

SIDBI Foundation for Micro Credit (SFMC) provides bulk loans and technical support to MFIs

India Post, Government of India, New Delhi
Ministry of Communications & Information Technology), Deputy Director General (FS), DakBhavan, SansadMarg, New Delhi— 110116; Tel: 011-23096089, 23096089; Fax: 23096089;
ddgfs@indiapost.gov.in, sbpgsection@gmail.com ;http://www.indiapost.gov.in/Index.aspx

India Posts offers small savings schemes products to provide safe & attractive investment options to the public and at the same time to mobilize resources for development

RashtriyaMahilaKosh (RMK), New Delhi
1, AbulFazal Road, Bengali Market, New Delhi 110001; Tel: 91-11-23354619; Fax: 91-11-23354621; ed_rmk@nic.in; http://www.rmk.nic.in/chap2.htm#sec3

Acts as a wholesaler in microfinance sector and on lends to smaller organizations to promote thrift and credit, has partnered with Women Development Organisation in Uttarakhand

Drishtee Foundation, Noida
Ground Floor A-11, Sector 2 Noida 201301, Uttar Pradesh; Tel: 91-120-4661000; Fax: 91-120-4661002; info@drishtee.com; http://www.drishtee.com/financialinc.html

Adopted a franchise and partnership model to develop village kiosks and extends micro-lending to the poor through kiosk owners

Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) - Ministry of Rural Development, New Delhi
KrishiBhawan, New Delhi 110001; Tel: 91-11-23782373, 23782327; Fax: 91-11-23385876; http://nrega.nic.in/netnrega/home.aspx

Aims at enhancing the livelihood security of people in rural areas by guaranteeing hundred days of wage-employment in a financial year

CARE India, New Delhi
E-46/12, Okhla Industrial Area - Phase II, New Delhi – 110020; Tel:011 - 49101100, 49101101; Fax: 011- 26385291, 26385292; contactus@careindia.org , info@careindia.org ; http://www.careindia.org/care-india

> *CARE India works for ending poverty and social injustice through comprehensive programmes in health, education, livelihoods and disaster preparedness and response*

Pension Fund Regulatory and Development Authority, New Delhi
First Floor, ICADR Building, Plot No. 6, VasantKunj Institutional Area, Phase - II, New Delhi - 110070; Tel: 91-11-26897948/49; Fax: 91-11-26897938; kamal.chaudhry@pfrda.org.in; http://pfrda.org.in/index.asp

> *Acts as a regulator for the pension sector with the mandate of development and regulation of pension sector in India*

National Savings Institute (NSI), Nagpur, India
CGO Complex, 'A' Wing, 4th Floor Seminary Hills, Nagpur – 440006;Tel : 0712 - 2510039, 2510608 ;Fax: 2510424, 2510413; nsi@nsiindia.gov.in ; www.nsiindia.gov.in

> *NSI mobilizes small savings through national level publicity of small savings with feed back to the ministry for policy intervention and redressal of customer's queries and grievances*

Ministry of Finance, Government of India, New Delhi
Department of Financial Services, Room No. 32, Jeevan Deep Building, Parliament Street New Delhi - 110 001; Tel: 011 - 23748705/23342287; http://finmin.nic.in/index.asp

> *Apex body that deals with policy formulations related to savings and financial services for the poor*

Ministry of Rural Development, Government of India, New Delhi
KrishiBhavan, Dr. Rajendra Prasad Road, New Delhi – 110001; http://rural.nic.in/index.asp

> *The nodal ministry for most of the development and welfare activities in the rural areas, the Ministry of Rural Development plays a pivotal role in the overall development strategy of the country*

State Bank of India, Mumbai
Tulsini Chamber, 1st Floor, West Wing, 212, Free Press Journal Marg, Nariman Point, Mumbai
400021 Maharashtra; Tel: 91-22-22820427; Fax: 91-22-22820411; crpd@sbi.co.in;
http://www.statebankofindia.com/viewsection.jsp?lang=0&id=0,8,67

> *Nationalized public sector bank lending for microfinance services and MSMEs*

Centre for Microfinance-Institute of Finance Market and Research, Chennai
IITM Research Park, A1, 10th Floor Kanagam Road (Behind TIDEL Park), Taramani, Chennai 600113;Tel: (91) 44 6668-7000; Fax: (91) 44 6668-7010; kenny.roger@ifmr.ac.in; http://www.centre-for-microfinance.org/

> *A research, knowledge dissemination and policy advocacy agency of IFMR that improves the accessibility and quality of financial services for the poor*

Housing Development Finance Corporation Limited (HDFC), Mumbai
Ramon House, 169, Backbay Reclamation, H T Parekh Marg, Churchgate, Mumbai 400 020, Maharashtra; Tel: 91 022 66316000; Fax: 91 022 22048834; http://www.hdfcbank.com

> *Private Indian bank promotes home ownership and provides microfinance, home loans and deposit products, property related services and training facility*

GIZ - Deutsche GesellschaftfürInternationaleZusammenarbeit, New Delhi *(From Thomas Mehwald, Consultant, Germany)*
21, JorBagh, New Delhi, 110003; Tel: 91-11-24603832; Fax: 91-11-24603831; giz-indien@giz.de; http://www.gtz.de/en/aktuell/607.htm

> *Implement advisory and service projects in more than 130 countries, in India focusing on Sustainable Economic Development, Energy and Financial Inclusion*

From NavinAnand, UNDP, New Delhi

Janshree Life Insurance policy for poor – Life Insurance Corporation of India
LIC Delhi, H-39, New Asiatic Building, Connaught Place, New Delhi-110001; Tel :1251 or 011-23762681 ; http://www.licindia.in/social_securities_001_features.htm

> *The objective of the scheme is to provide life insurance protection to the rural and urban poor persons below poverty line and marginally above the poverty line*

Swavalamban- National Pension Scheme for theUnorganised Sector
Swavalamban Rural Development Services, Survey No-240, Shop No-1, Bank Of India Complex,Opp: Padmavathi Colony Bus Stop, Mahabubnagar(Dist),Andhra Pradesh – 509002; Tel: +91 8542-270970; Email: info@swavalamban.co.in,nps.swavalamban@gmail.com ; www.swavalamban.co.in

> *Pension Scheme initiated by Government of India for the unorganized sector to voluntarily save for their retirement and to lower the cost of operations of the New Pension System (NPS)*

Financial Information Network and Operations Limited (FINO), Mumbai
C-401, Business Square, Solitaire Park, Chakala, Andheri-Kurla Road, Andheri (E), Mumbai –400093 Maharashtra; Tel: 91-22-40973466; Fax: 91-22-40973300; info@fino.co.in; http://www.fino.co.in/bcs.aspx

> *Company helping MFIs to build technology led delivery channels to help provide microfinance services to the poor in a cost effective manner*

Mimoza Enterprises Finance Co. Pvt. Ltd
35/2/9, Kishangarh,VasantKunj, New Delhi, Delhi 110070; Tel: +91 11-65154037 ; Fax: +91 1166173982/ +91 135 2644006 info@mimofin.net;www.mimofin.com

> *Also known as MimoFinance, provides sustainable access to microfinance, particularly to women that generate income, create jobs, enable families to obtain health care, and empower women to make the choices that best serve their needs.*

Capital Trust Limited
47 Community Centre; Friends Colony, New Delhi 110025; Tel: +91 11 41627007 ;
Fax: +91 11 41628485; info@capital-trust.com; http://www.capital-trust.com/index.htm

> *Capital Trust is a retail Microfinance lending company head quartered in New Delhi and is operational in Western Part of Uttar Pradesh and Delhi*

SEEDFINANCE Corporation
10B7 10th Floor, Francesca Tower, 73 Scout Borromeo corner EDSA, South Triangle, Quezon City, Metro Manila, Philippines; Tel: (632) 414 3509 / (632) 441 8352; abe@seedfinance.net; http://www.seedfinance.net/

> *Seed Finance works to bring the benefits of microfinance to micro-enterprises, self-employed workers, family-based and community-based food production and other livelihood activities activities through partnership with financial institutions*

Sanchetna Financial Services P Ltd
5/82 VipulKhand,Gomtinagar, Lucknow, Uttar Pradesh, 226010; Tel:+91-522-4076350 begin_of_the_skype_highlighting ; lokesh.singh@sanchetna.com; www.sanchetnaindia.com

> *Sanchetna provides client-focused financial services and business development expertise in a time bound and socially conscious manner to increase the productive capacity of the Indian poor*

Rajiv Gandhi MahilaVikasPariyojana (RGMVP)
Rajiv Gandhi MahilaVikasPariyojana; 619, Kanpur Road, Rana Nagar ; Raebareli 229001, Uttar Pradesh; Tel : +91 535 2211304 ; Fax : +91 535 2211300 ; info@rgmvp.org; http://rgmvp.org/index.asp

> *RGMVP is a rights-based organisation that works for poverty reduction, women's empowerment and rural development in Uttar Pradesh.*

NirmaanBharatiSamajikEvamArthikVikasSangathan
B-991, Sector "A", MandirMarg, Mahanagar, Lucknow, Uttar Pradesh 226007;
Tel: +91 522 4026159, Fax: +91 522 4026159; www.nirmaanbharati.org

> *NirmaanBharati works towards providing microcredit opportunities for the under-privileged to go through lifecycle needs in a respectable manner*

ALW (A little World)
T-951, 5th Floor, Belapur Railway Station Commercial Complex, Tower-4, Sector 11, CBD BelapurNavi Mumbai - 400 614;Tel: +91- 22 -3951 3888;Fax:91- 22 -3951 3801; http://www.alittleworld.com/htmls/alw/vision.html

> *Touch a billion people through innovative technologies and alliances for delivering multiple financial services at the lowest cost through mainstream financial institutions*

Oxigen Services India Pvt. Ltd.
257, UdyogVihar, Phase – I, Gurgaon - 122016 Haryana (India);
Tel: 91-124-3950100/3950110; Fax: 91- 124 – 4362151; http://www.myoxigen.com/

> *Payments solutions provider, who aggregates and distributes a plethora of services including first full service eWallet from State Bank of India called MobiCash*

SKS Microfinance Ltd , Hyderabad

Maruti Mansion, Municipal No.2-3-578/1, Kachi Colony, Nallagutta, Minister Road, Secunderabad 500003 Andhra Pradesh; Tel: 91-40-44526000; Fax: 91-40-44526001; info@sksindia.com; http://www.sksindia.com/sksultrapoor.htm

Leading Microfinance institution of India with significant portfolio and lending operations in the state of Uttar Pradesh.

Cuttack Urban Cooperative Bank, Cuttak

TinikoniaBagicha, Buxi Bazar, Cuttack 753001 Orissa; Tel: 91-671-2425013; Fax: 91-671-2425014; mail_ho@urbanco-opbankctc.com; http://www.urbanco-opbankctc.com/deposit-schemes/

Cooperative bank aims to provide financial assistance to the urban poor for their upliftment through microfinance

Zero Mass Foundation (ZMF), Mumbai

10-11, Shubhada B-Wing, Sir Pochkhanwala Road, Worli, Mumbai 400025 Maharashtra; Tel: 91-22-66173888; Fax: 91-22-66173999; ceo@alittleworld.com; http://www.alittle-world.com/htmls/zmf.html

Works as a Business Correspondent (BC) of multiple banks for extending banking services in villages

ATOM Technologies, Mumbai

Dipti Classic, 6 Floor, Suren Road, Chakala, Andheri East, Mumbai - 400093; Tel: 91-22-67698311; info@atomtech.in; http://www.atomtech.in/products.html

A mobile payments service provider aims to create a convenient and secure mobile payments platform

Eko India Financial Services Private Limited, New Delhi

547 Mandakini Enclave, Alaknanda, New Delhi–110019, Tel: 91-11-26278267; Fax: 91-11-40533092; biswajit@eko.co.in; http://www.eko.co.in/pilot.html

Work towards extending banking facilities in untapped/unbanked areas through existing branch network and mobile phones

SHG-Bank Linkage Program, Mumbai

MicroCredit Innovations Department, NABARD, Head Office, Plot No. C-24, “G” Block, 2nd Floor, “E” Wing, BandraKurla Complex, P.B. No. 8121, Bandra (East), Mumbai 400051 Maharashtra; Tel: 91-22-26539244; Fax: 91-22-26528141; nabmcid@vsnl.com; http://www.nabard.org/roles/microfinance/index.htm

NABARD initiative facilitating sustained access to financial services for rural unreached poor through various microfinance innovations loan funds for microfinance services in the form of revolving fund assistance to NGOs/MFIs

ApaniSahakariSewaSamiti Ltd

BalajiVihar, Kheda Road, Village & Post - Madhorajpura, Tehsil - Phagi District – Jaipur Rajasthan - 303 006; Tel: 01430-258456; info@aapanisamiti.com, apanis8@gmail.com ; www.aapanisamiti.com

ApaniSahakariSewaSamiti Ltd is a Community-Based Microfinance and Microlending Institution working for the development of weaker section of society in Rajasthan

Aadhaar-Financial Information Network and Operations (FINO), Mumbai
C-401, Business Square, Opp. Popular Car Bazaar, Andherikurla Rd. Andheri East Mumbai - 400793 Maharashtra; Tel: 91-22-40973466; Fax: 91-22-40973300 info@fino.co.in; http://www.fino.co.in/bcs.htm

> *Aadhaar is direct lending and Business Correspondence initiative of FINO that builds technologies to enable Financial Institutions to serve the unbanked sector, lower transactions costs, and increase outreach and transparency*

Bhartiya Micro Credit, Lucknow
645A/057, P-15 JankiVihar, Sector-I Jankipuram, Lucknow-226021; Tel: +91 522 273 0975 ,Mob.No.: +91 8795834401, +91 8795834420 ;bmclko@gmail.com,info@bmclko.in; www.bmcindia.co.in , http://bmcindia.net.in/index.html

> *A micro-finance company, running a Rickshaw SanghProgramme with support from America India Foundation and financing to rickshaw pullers for livelihood activities*

Bankers Institute of Rural Development (BIRD), Uttar Pradesh
Sector - H, LDA Colony, Kanpur Road, Lucknow 226012; Tel: 91-522-2421097; Fax: 91-522-2421047/176; bird@sancharnet.in; http://birdindia.org.in/bird_training.htm

> *Instituted to offer training, research and consultancy in the field of rural development banking; it can be used to train bankers to provide funding to micro enterprises.*

Utkarsh Microfinance Pvt Ltd
S-2/639-56, VarunaVihar colony, J.P Mehta Road, Cantt. Varanasi-221002 (U.P.) India ;Tel: 0542-2282002; communications@utkarshmfi.com ; www.utkarshmfi.com

> *Utkarsh is a leading NBFC-MFI in Eastren UP and Bihar that provides financial services to low income households*

Invest India Micro Pension Services, Noida
D26, Sector 3, Noida 201301; Tel: 91-120-4663900; Fax: 91-120-4232122; info@iimp.in; http://www.micropensions.com/front-page

> *Uses a proprietary "micro-pension" model to enable and encourage the working poor in developing countries to achieve a dignified retirement through thrift and self-help*

Fusion Microfinance
303-304, 3rd Floor, Building No.2, Community Centre, Naraina Phase-I, New Delhi-110028; Tel: +91 11 46243354; contact@fusionmicrofinance.com ; http://fusionmicrofinance.com/

> *Fusion is head quartered in New Delhi and is operational in the less penetrated North Central part of India like Madhya Pradesh, Uttarakhand, Uttar Pradesh, and Delhi*

Cashpor Micro Credit
B/4, DIG Colony , Varanasi-221002, U.P.; Tel:0542-2505590-91-92; headoffice@cashpor.in ; www.cashpor.in

CASHPOR Micro Credit is a poverty focused, not for profit Company that provides microfinance exclusively to Below Poverty Line women in eastern U.P. and Bihar.

Sonata Finance P ltd
125B/6B, Pt. Madan Mohan Malviya Road, George Town, Allahabad (UP)- 211002;
Tel: +91-532-6540311/6540326; e-mail: info@sonataindia.com ; http://www.sonataindia.com/

Sonata aims to make microfinance financially self-sustainable and affordable to poor in underserved states.

Indcare Trust
S-255, LGF, Greater Kailash-II, New Delhi-110048; Tel: 011-46567070; Fax : 011-41024128; Indcaretrust@yahoo.com ; www.indcaretrust.org

A Nodal Agency of RMK that works in Uttar Pradesh for implementation of micro-finance services through SHGs

MicroSave
B-52, Kapoorthala Crossing, Mahanagar Extension, Mahanagar, Lucknow-226006, UP;
Tel: 522-2335734; Fax: 522-4063773; info@MicroSave.net; www.microsave.org

Microsave is a leading financial services consulting firm that works across the globe.

Grameen Bank, Bangladesh *(From Resham Singh, Micro Finance Consultant, Mohali)*
Grameen Bank Bhavan, Mirpur-1, Dhaka-1216, Bangladesh; Tel: 88-02-9005257-69; grameen.bank@grameen.net;
http://www.grameen-info.org/index.php?option=com_content&task=view&id=28&Itemid=108

Largest Microfinance Institution in Bangladesh, provides interest based microfinance services including housing loans to the poor section

From Pradip Kumar Sarmah, Centre for Rural Development, NOIDA

Centre for Rural Development (CRD), NOIDA
D-41 (FF), Sector-27, Noida 201301, Uttar Pradesh; Mobile: + 91 9818863727, Landline: + 91 120 4258944 Fax: + 91 120 4320703; crd4ev@yahoo.com; pradipsarmah@hotmail.com; www.crdev.org

A Non-Profit Organisation focusing on social and economic advancement of rickshaw pullers in India through its 'Rickshaw Bank model'

SEWA Bank, Ahmedabad
109, Sakar-II, Opp. Town Hall, Ellisbridge, Ahmedabad 380006, Gujarat; Tel: 079-26576054, 26581597; Fax: 079-26576074; mail@sewabank.com; http://www.sewabank.com

SEWA Bank has registered SHG federations that are being used for collecting savings by SEWA bank. Here, federations are not acting as financial intermediaries but just as an agent.

From Mohammad Anas, UNDP, New Delhi

Punjab National Bank, New Delhi
7, BhikajiCama Place, New Delhi–110066; Tel: 91-11-26196459; Fax: 91-11-26196176; rbd@pnb.co.in; http://pnbindia.in/english_web/c_agriculture.htm

> *Nationalised bank providing loans through its priority-lending cell to SHG Federations and MFIs supplying the poor with access to microfinance services*

Unique Identification Authority of India (UIDAI)
Planning Commission,Government of India (GoI),3rd Floor, Tower II,JeevanBharati Building, Connaught Circus,New Delhi - 110001. Tel.: 91-11-23466899; Fax: 91-22-2652-8141; 080-2353 1947; webadmin-uidai@nic.in; http://uidai.gov.in

> *An Authority created by the Planning Commission to develop and implement the necessary institutional, technical and legal infrastructure to issue UID numbers to Indian residents. UID numbers can solve the KYC issue and help to promote Financial Inclusion*

National Handicapped Finance and Development Corporation (NHFDC), Faridabad
Red Cross Bhawan, Sector-12, Faridabad 121007 Haryana; Tel: 91-129-2287512, 91-129-2287513; Fax: 91-129-2284371; nhfdc@nda.vsnl.net.in; http://www.nhfdc.org/site/micro_sca.aspx

> *Provides loans for self-employment and other economic ventures to the people with a disability*

Industrial Credit and Investment Corporation of India (ICICI) Bank, Mumbai
ICICI Bank Towers, Bandra-Kurla Complex, Mumbai 400051, Tel: 91-22-26536425; Fax: 91-22-26531233; http://www.icicibank.com

> *Private bank, with the help of Business Correspondents is extending the financial services to the excluded section of society*

Aavishkaar, Mumbai
516, 5th Floor, Palm Spring, Besides D-Mart, Link Road, Malad (W), Mumbai – 400 064; Tel: 91-22-42005757; Fax: 91-22-42005777; info@aavishkaar.org; http://www.aavishkaar.in/index.html

> *Aavishkaar is a consortium of venture capital funds that provides micro equity for MSME support*

Indian Venture Capital and Private Equity Firm, Hyderabad
8-2-546, Plot No.140, Sheesh Mahal, Road No. 7, Banjara Hills, Hyderabad - 500034; Tel: 91-40-23351044; Fax: 91-40-23351047; info@ventureast.net; http://www.ventureast.net/microequity

> *Manages BYST Growth fund that provides equity-like financing to small, local, everyday businesses, along with one-on-one mentoring and business development assistance*

International Finance Corporation, New Delhi
Maruti Suzuki Building, 3rd & 4th floor, 1 Nelson Mandela Road, VasantKunj, New Delhi 110 070; Tel: +91 11 4111 1000/ 3000; Fax: +91 11 4111 1001/ 3001; www.ifc.org

> *IFC is a World Bank entity that supports private sector organizations working towards financial inclusion in low income states of India including Uttar Pradesh through its Access to Finance initiative.*

Small Farmers Agri Business Consortium (SFAC), Delhi
NCUI Auditorium Building, 5h Floor, 3 Siri Institutional Area, August KrantiMarg, HauzKhas, New Delhi 110016; Tel: 91-11-26862365; Fax: 91-11-26862367; info@sfacindia.com; http://www.sfacindia.com/;

> *Finances agri-business projects with venture capital assistance to set up a Project Development Facility to help producer groups develop economically viable projects.*

Infinity Consultants
Building No. 45, 5th Main, Bannerghatta Main Road (Next to Sobha Magnolia), Bangalore 5600029;
http://www.infinity-consult.com/

> *Infinityis a shari'a compliant advisory firm based in Bangalore that delivers model to incubate innovative shari'a compliant initiatives in financing, savings, charity and venture capital on the ground in India.*

Ethica Institute for Islamic Finance
Level 14, Boulevard Plaza - Tower One; Emaar Boulevard, Downtown Dubai, PO Box 127150, Dubai, UAE; http://www.ethicainstitute.com/index.aspx

> *Ethica Institute of Islamic Finance delivers standardized online Islamic finance training and certification*

Sahulat Microfinance Society, New Delhi
F. A. 18, Ground Floor,Near Ankur Public School,Thokar No. 4, AbulFazal Enclave, Jamia Nagar,
New Delhi-110025; Tel: +91 11 29940031/32; sahulat2010@gmail.com ;http://www.sahulat.org/index.php

> *Sahulat Microfinance Society is facilitating the establishment of 500 interest free microfinance cooperative branches all over the country to uplift the poor families by the end of 2016*

National Backward Classes Finance & Development Corporation (N.B.C.F.D.C), New Delhi
5th Floor, NCUI Building, 3, Siri Institutional Area, KhelGaonMarg, New Delhi - 110016; Tel: 91-11-26511027; Fax: 91-11-26850086 nbcfdc@del3.vsnl.net.in; http://nbcfdc.org.in/schemes.html

Aims to promote economic and developmental activities for the benefit of Backward Classes and to assist in skill development and self employment ventures

National Minority Development and Finance Corporation, New Delhi Core II, Second Floor, Scope Minar, Laxmi Nagar, Delhi - 110092; Tel: 91-11-22441442; Fax: 91-11-22441637; nmdfc@nmdfc.org; http://www.nmdfc.org Contact Mr. Abrar Ahmed; Managing Director; ahmad_abrar@hotmail.com
Wholesale apex organization, which channels funds from the GoI and other donors to retailing intermediate microfinance organizations and builds their institutional capacity

National Payments Corporation of India, Mumbai
C-9, 8th Floor, RBI Premises, Bandra - Kurla Complex, Bandra (East) Mumbai – 400051; Tel: 91-22-26573150; Fax: 91-22-26571001; contact@npci.org.in; http://www.npci.org.in/home.aspx
Section 25 Company that aims to consolidate and integrate multiple systems into nation-wide uniform and standard business process for all retail payment system

SaDhan, New Delhi
12 & 13, 2nd Floor, MPTCD Building, Special Institutional Area, ShaheedJeet Singh Marg, New Delhi-110067; Tel: 91-11-47174400 ; Fax: 91-11-47174405; info@sa-dhan.org; http://www.sa-dhan.net/Default.aspx
A forum for organisations and individuals engaged in the field of community development finance to meet, share and exchange their experiences, expertise and resources

Micro Finance Institutions Network (MFIN)
216, Radisson Suites Commercial Plaza, Sushant Lok-1, Gurgaon 122002, Haryana; Tel: 124 – 4212570; contact@mfinindia.org; www.mfinindia.org
Micro Finance Institutions Network (MFIN) is an Association of Non-Bank Finance Company Micro Finance Institutions (NBFC-MFIs). It has been promoting the key objectives of Microfinance in India and as the Self-Regulatory Organization for the industry.

Annexure 3

List of Organisations Visited and Participants of Stakeholder Consultations

1. List of Organisations Participated in the First Consultation Workshop held on March 5, 2013

Category		Organisation Name	Name of the Participant	Email Id	Contact No
SHPIs	1	CWWA	Mr.S.Singh	tripathicwwa@gmail.com	9415227625
	2	Sarati Development Foundation	Mr.Vijay Pandey	Vijayoct02@rediffmail.com	09451393646
	3	Grass	Mr.M.Prakash Singh	Grasses1@gmail.com	9918042222
	4	AkhilBharatiya Samaj Sewa Sansthan	Mr.Ashish Kumar	Not available	9450220416
	5	Rural Development-Krishnamurthy Foundation	Mr.Suresh Awarthi	ramghorosly@gmail.com	9452394308
	6	PANI	Mr. Indra Kumar Dubey	panidhp@gmail.com panisansthan@rediffmail.com	9415569554
	7	CREAT	Mr.Manoj Kumar Singh	manojminivish@gmail.com	9450965162
	8	Human Welfare Association	Dr.Rajani Kanth	hwa@rediffmail.com	9415304759
	9	Yuva Chetna Kendra	Mr.Ram Pratap Singh	Prataprams10@gmail.com	9807772425
	10	Shushra Samithi, Varanasi	Mr.N.K.Pandey	shushrass@gmail.com	9452011441
	11	Yuvak Vikas Samiti	Mr. Anand Dubey	Society1978@rediffmail.com	9451138832
	12	Lokchethana	Dr. Neet Bhai	loksamiti@yahoo.co.in	09450181545
MFIs	13	Cashpor	Mr.B.B.Singh	cfo@cashpor.in	9794452600
	14	Utkarsh	Mr.Arvind Kumar	Arvind.kumar@utkarshmfi.com	08573025745
	15	Sonata	Mr.Anup KR Singh	anup@sonataindia.com	9005880111
	16	Margdarshak	Mr.Anoop Mittra	anoopm@margadarshak.org.in	9899500968
	17		Mr.Shoubhik B	shoubhiks@margadarshak.org.in	9628999902
	18	Disha India Micro Credit	Mr.K.N.Tiwari	post@dishain.org	9412232835
	19	Bharatiya Micro Credit	Mr.Vijay Pandey	bmclko@gmail.com	Not available

Banks	20	Allahabad Bank, Mahoba	Mr.J.K.Dhingra	leadbankallmahoba@gmail.com	8005153120
	21	Central Bank of India	Mr.Shivandm Pt.Singh	shivandm@idbi.co.in	9935092465
	22	Bank of Baroda	Mr.Shailender Kumar	p.s.varanasi@bankofbaroda.com	9415719010
	23	State Bank of India	Mr.K.K. Mursari	kkmursari@sbbi.co.in	9453042736
	24	Union Bank	Dr. S.K.Chandra	skchandra@unionbankofindia.com	9918301683
	25	Central Bank of India	Mr.Bharat Singh	rdvararo@centralbankofindia.co.in	09161192111
	26	Oriental Bank of Commerce	Mr. A.K. Tiwari	tiwari@obc.co.in	8853002156
	27	Central Bank of India	Mr.M P Sinha		08745819721
Govt/ donors/ apex	28	NABARD	Mr.A.K Tripathi	ashoketripathi@gmail.com	09453004955
	29	SIDBI	Mr.Surender Srivatsav	surendra@sidbi.in	09999106193
	30	SIDBI	Mr.Amit R	amitra@sidbi.in	9839212900
	31	Institutional Finance	Mr.Pramod Kumar	pramodkumarfinance@gmail.com	08005134589
BC	32	EKO	Mr.Sandeep Moonka	Sandeep.moonka@eko.in	8802701659
	33	Zero Mass	Mr.Ajay KV.Bajpai	ajayk@zeromass.org	9598050151
	34	Margdarshak, Disha			
	35	FINO, Mumbai	Mr.Raj Khaira	Raj.khaira@fino.co.in	9769012089
Insurance +	36	Tata AIG	Mr. AnilKumar Singh	Anil3.singh@tataaia.com	9839064801
	37	Birla Sun Life	Mr.Debjit Banerjee	Debjit.banerjee@birlasunlife.com	09889223294
	38	KGSGB, Varanasi	Mr.P.P.Tiwari	kgsgbbamlcredit@gmail.com	7408428065

2. List of Organisations Participated in the Second Consultation Workshop held on April 18, 2013

Category		Organisation Name	Name of the Participant, Designation	Email Id	Contact No
SHPIs	1	PACE , Lucknow	T. Wilson, Co-ordinator, Documentation Office	thotsiwilson@gmail.com	9450096311
	2	ABSS, Chitrkoot	Ashish Kumar, Programme Officer	abssinfo@gmail.com	9415310662
	3	Swami Viveka Nanda Shishs samil	Anuj Srivatava, Director	svssimtia@rediffmail.com	9919211763
	4	CREATE	Dayananda Tandon, CEO	createchild@gmail.com	941510552
	5	Rajiv Gandhi Mahila Vikas Pari Yojana	Dr. Pl. Yadav, Programme Consultant	Plyadav@rgmup.org	9918600907
	6	Yuvachetna Kendra	Sudhakar Singh , Sr. Programmer Executic	yckendra@gmail.com	9027810006
	7	Yuvachetna Kendra	Ram Pratap singh , Sr. Programmer Executic	prataprams@gmail.com	9807772425
	8	Parmarth Samaj Sev Samsthan	Ramesh SinghBhadriya, Programming Manager	rameshbharadwaj@gmail.com	9480288505
	9	NIDAN	Shiv Govind, State head	shingovind@nidan.in	9044948449
	10	JOINT MISSION	J.P. Rastogi , Dirctor	jpastogi47@gmail.com	9456887989
MFIs	11	PAHAL	Mr. Ismail Hussain, Executive Director	haipahal@yahoo.co.uk	09675739411
	12	Disha India Micro Credit	K.N. Tiwari, Managing Director	post@dishain.org	9412232835
	13	Sonata Finance	Abhay Singh, DVP- buss	abhay@sonataindia.com abhysingh@gmail.com	9369333846
	14	EQUIFAX	PankajParmar, Manager	Pankaj.parmar@euifax.com	9582110178
	15	Shramikabh Arathi	Ganesh Pandey , Convener	ganesh@shramikabhrathi.org	993553673
	16	Bharthiya Micro Credit	Piyush Kumar, Program Manager	Dubeypiyushkumar@gamil.com	8795834450
	17	Bharthiya Micro Credit	Vijay Pandey, MD.		8795834401
	18	CASHPOR	Mukesh M,D.	md@cashpor.in	9794452502

Banks	19	Central Bank Of India	Y.P. Dhiman, Senior Manager		7897458987
	20	U.P. GRAMEEN BANK,MEERUT	Ajeet Kumar Singh, Regonal Manager Ro, Gonda	rogonda@ugb.com	9839159469
	21	IDBI BANK REGIONAL Office , LUCKNOW	RajniPandey , AGM	Rajni.pandey@idbi.com	0522-6052320
	22	INDIAN OVERSEAS BANK	Ranjay Kumar Jha, MANAGER	advluco@iob.net.com	9005997954
	23	UP CO-OPERATIVE BANK	Rajnath Singh , AGM	rajnath@upcb.com	9415513081
	24	GRAMIN BANK OF ARYAVANT	Rajendra pd verma , Senior Manager	rajenrapdvrma@gmail.com	7383899033
	25	KASHIGOMTI GRMIN BANK	S.N. Tripthi , Chairman	kgsgbank@samyut.net.in	9415600700
	26	K.G.S.G. BANK , HOVASNA	P.K. Srivastan, Chief Manager	Kpsgbankcredit@gmail.com	7402428300
	27	SYNDICATE BANK	K.M.Saxena, Senior Manager	up.kmsaxena@syndicate.co.in	9415004955
	28	Union Bank India	Sher Bahadur Singh , Assisr . Gene. Manager	shersingh@uninbankofindia.com	9918801731
Govt/ donors/ State level apex insitituions	29	NABARD	Ms. Sangeeta Mehra, AGM	fidlucknow@gmail.com	8004586240
	30	NABARD	Mr. Bhupeo Pal, AGM	fidlucknow@gmail.com	9532314310
	31	DFID	Mr. Arif Ghauri, Governance Advisor	Aghauripdfid@gov.uk	9971545923
	32	DFID	Ragini choudry, TEAM LEADER	r-chaudhry@dfid.gov.uk	9999716993
	33	BIRD	G.R.Chintala , DIRECTOR	grchintala@gmail.com	9839025765
	34	BIRD	Ramesh Tenkil, JT. Director	Rtenkil@gmail.com	9559229222
	35	PSIG, SIDBI	Utpal Chakravarthy , State Director	utpal@sidbi.com	-----------------
	36	PSIG , SIDBI	Shweta Roy , StateManager	shwetr@sidb.com	-----------------
	37	SIDBI	P.K. Saha , Chiet Gen Manager	pksaha@sidbi.com	983906954
	38	SIDBI	Prakash Kumar, AGM	Prakash@sidbi.com	9850080312
Insurance +	39	**TATA AIA LIC LTD**	Anil kumar Singh , Manager	Anilsingh@tataaia.com	9839064803
	40	BIRLA SUN LIFR INSURANCE	Debjit Banerjee, Manager	debjitbanerjee@birlasunlife.com	9889223294

3. List of Organisations Covered in the Field Visits

Categories		Organisation
SHPIs-NGOs	1	Disha Social Organisaton, Saharenpur
	2	VinobaSeva Ashram
	3	Need
	4	GDS
	5	RGMVP
MFIs	6	Disha India Micro Credit
	7	Margadarshak
	8	Cashpor Micro Credit
	9	Utkarsh
Bankers	10	Bank of Baroda
	11	Baroda Grameen Bank, Tejgaon Village
	12	Yes Bank
State level institutions	13	SIDBI, Lucknow
	14	SLBC- Bank of Baroda, Lucknow
	15	NABARD, Lucknow
	16	RBI- Rural Planning and Credit Department, Lucknow
Government Departments	17	SNRLM
	18	Directorate of Institutional Finance
	19	Block Development Office
Other Service Providers: Insurance, Academic institutions, donors	20	BIRD
	21	Microsave
	22	Birla Sun Life
	23	GIZ

Annexure 4

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Annexure 5

Projections based on households organized into SHGs and JLGs

Optimistic Scenario

The optimistic estimation of coverage in low income households (organized through SHGs and JLGs by SHPIs, banks, MFI) that access to finance, their credit demands and supply gap are worked out in the following sections:

Step 1: Estimating Household Gap in Access to Financial Services

The next step is to calculate how many low income households have access to financial services through different channels, and when the outreach will be achieved to all of them. The assumptions for this calculation were as follows:

1. The total number of savings linked SHGs is stated at 4.71 lakhs, reaching 53 lakh households. Of these, the assumption is that 80% are low-income households (as government guidelines allow up to 20% members to be non-poor). This gives 42.84 lakh low income households reached through SHGs in the year 2012.

2. These are next assumed to have an overlap of about 70% with No Frills Accounts, as most SHPIs, especially RGMVP and others, and those who work on NREGA, have opened individual accounts already under FI. This reduced the number of NFAs to to 12.74 lakhs.

3. The feedback from stakeholders was that some groups are inactive, and accordingly, 20% were considered inactive, and 80% as active groups. This leads to a figure of 27.42 lakhs low income households in UP, reached through SHGs.

4. The next calculation was outreach through JLGs. Here too, 80% are considered poor. Of these, 40% are considered to have NFAs, just as SHGs. All of these are considered to be active accounts. Thus the households reached by JLGs, are about 100,426, or about 0.1 million households in JLGs.

5. The data on number of clients was available for 13 MFIs, from MFIN data. This was extrapolated to 32 MFIs, giving a client outreach of 34.95 lakh clients/households. Of these, 80% are considered low income households, giving an estimation of 27.96 lakh households reached through MFIs. It is assumed that about 50% of households have both an MFI account and are members of SHGs, yielding an estimate of 13.98 households covered through MFIs.

6. The overlap of these households with NFAs is also considered to be about 50%, as MFIs have been helping them to open NFAs (many MFIs also have operations as BCs, where they earn a commission for this linkage). However, as currently, NFAs are opened for DBTs and G2P payments, and don't yet have cash credit

limits, no change is made in the estimation of clients for savings and loan products.

7. The households reached through NFAs and individual accounts under FI are reported to be 1.06 crores. Of these, 80% are considered low income households, as BCs reported covering many more than the low income households, for NFAs, under the FI drive. Further, 70% of these are considered to overlap with SHG members. Finally, only 50% of the NFAs are seen to be active (as per SLBC report). This yields that 12.75 lakh households have been reached through active individual accounts in banks.

8. Thus the total number of low income households in UP, reached through different channels, was 55.25 lakh in 2012.

9. Given that the total number of low income households is 251 lakhs in 2012, the financially excluded households number 55.25 lakhs, which shows financial inclusion of 22%. This differs from the figures given by the Rangarajan committee (36% in 2008), and the 2011 Census (76%), both of which seem to be overestimates compared to the ground reality in UP in 2013. According to Crisil Inclusix report, UP has an inclusion score of 33.5 (for a scale of 0-100) and ranked at 24 out of 35 States covered by the study[84]. These are likely to be overestimated as it counts accounts, and does not allow for more than one account per person, whereas it is quite likely that in the higher income ranges, people would have more than one accounts, and none in the lower income ranges. The estimate given in this report, therefore, is more likely to reflect ground realities.

10. Further, the financially included households are divided into the two low income categories of <$ 1.35 and $ 1.36 - $2.16 pppd, with a total of 3.01 and 2.50 lakh households in each category. The assumptions here are that 75% of the SHG members, as well as 75% of those who hold NFA accounts, fall in the lower income category of < $1.36 pppd. The remaining 25% of SHG members, and NFA accounts holders, and all the clients of MFIs, are assumed to fall in the higher of the two low-income categories.

11. The projections have been done on the following assumptions:

    a. Though there is no growth in SHG promotions in the State from 2011 to 2012, this is seen as an anomaly in a year when SGSY is closing down and NRLM still to be rolled out in Uttar Pradesh. It is assumed for the projections that SHGs grow at 10% in 2013, 15% in 2014, 20% in 2015, 25% in 2016, and 30% in 2017. These growth rates are high, and assumed to be at this level, because the base in 2013 is very low, and because it expected the NRLM and NABARD SHG II will take root from 2013.

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[84] Source: CRISIL (2013). CRISIL Inclusix: An index to measure India's progress on Financial Inclusion. Mumbai: CRISIL

b. Considering the challenge in banks putting efforts in establishing USBs and operationalising the BCAs, the JLGs by banks are assumed to grow at 10% from 2013, and at the same rates as SHGS, till 2017.

c. Considering that the current capital constraints for MFIs are expected to be overcome by 2014, they also expect to grow at the same rate as SHGs and JLGs.

d. NFAs grow at 10% in 2013, but then the financial inclusion drive is expected to escalate, therefore, it is assumed that NFAs will grow by 20% in 2014, 30% in 2015, and 40 in 2016, and 50% in 2017. These are aggressive estimates, as the base is very low.

e. The rationale for taking aggressive estimates is also that the government, and RBI, and the banks and MFIs are all gearing up for full financial inclusion, and therefore likely to put in their best efforts to reach out to low income people.

12. These projections are detailed in Table 53.

Table 53: Low Income Households Access to Financial Services (Numbers in Lakhs)

		2012			2013			2014			2015			2016			2017		
		<1.35$	1.36-2.16$	Total	<1 .35$	1.36-2.16$	Total	<1.35$	1.36-2.16$	Total	<1.35$	1.36-2.16$	Total	<1.35$	1.36-2.16$	Total	<1.35$	1.36-2.16$	Total
I	**Total Low income households**	**136.46**	**115.32**	**251.79**	**140.29**	**117.93**	**258.22**	**139.12**	**116.38**	**255.51**	**137.82**	**114.70**	**252.53**	**136.38**	**112.90**	**249.28**	**134.80**	110.96	245.76
II	**No. of low income households access to financial services through different channels**																		
1	SHGs (NGOs, coops, banks, MFIs)	20.56	6.85	27.41	22.62	7.54	30.16	26.01	8.67	34.68	31.21	10.40	41.62	39.02	13.00	52.02	50.72	16.90	67.63
2	JLGs by Banks		1.00	1.00	0	1.10	1.10	0	1.27	1.27	0	1.52	1.52	0	1.90	1.90	0	2.47	2.47
3	MFIs		13.98	13.98	0	15.37	15.37	0	17.68	17.68	0	21.22	21.22	0	26.52	26.52	0	34.48	34.48
4	Banks (NFAs)-10% of the accounts are overlap of same households)	9.56	3.18	12.74	10.51	3.50	14.02	12.62	4.20	16.82	16.40	5.46	21.87	22.96	7.65	30.62	34.45	11.48	45.93
	Total low income households covered through financial services	**30.12**	**25.02**	**55.15**	**33.13**	**27.53**	**60.66**	**38.63**	**31.83**	**70.46**	**47.62**	**38.62**	**86.24**	**61.99**	**49.09**	**111.08**	**85.18**	**65.35**	**150.54**
III	**Gap - no of financially excluded households**	106.34	90.29	196.64	107.15	90.40	197.55	100.49	84.54	185.04	90.19	76.08	166.28	74.39	63.80	138.19	49.62	45.60	95.22
	% of financially excluded households			**78**			**77**			**72**			**66**			**55**			**39**

The table 53 starts with the number of low income households projected for the next five years, being 251 lakh in 2012, reaching 245 lakhs in 2017. The calculation of outreach through each channel shows that in 2012, 78% households did not have access to financial services. By 2017, the percentage of financially excluded household drops to 39%, showing that the gap is covered to the extent of 61% in the next five years.

Step 2: Credit Demand Projection according to Category of Households

The assumptions made for projecting demand are as follows:

1. The demand projections are taken based on the number of SHGs, JLGs and MFI clients that are reached from 2013 to 2017.
2. The credit demand for each channel is estimated for the two low income category households separately.

Projecting the Credit Demand for SHGs

3. Of the total households projected to be covered through SHGs, the average number of households per SHG yields the total number of SHGs. Out of total households projected through SHGs, 15% are expected to take loans under the income category of <$1.35 and 25% of the households under the income category of $1.36-2.16 in 2013. Assuming that UPSRLM and SHG II are in full operation, loan demand is expected to increase from 2014. It is also assumed that banks would have increased their human resource capacity and the forum like SLBC and RBI helped to change the attitudes of the bankers to respond better to the SHGs' need. The percentage of households taking loans from SHGs are projected as per the Table below:

Table 54: Percentage of households takes loan through SHG Channel

Income Category/ Year	2013	2014	2015	2016	2017
$1.35	15	25	35	45	50
$1.36-$2.16	25	35	45	55	60

If these assumptions are realised it is expected that percentage of households taking loan increasing to 25% and 35% in 2014, 35% and 45% in 2015, 45% and 55% in 2016, and 50% and 60 respectively in 2017. It is assumed that only a maximum of 60% of the households are likely to make demand for loans on banks, with another 40% rotating only their savings.

4. The number of SHGs is estimated to grow as per the assumptions given earlier. SHG loans amounts are known to be an average of Rs. 1.29 lakh per group for 2012,, the average loan per member would come to Rs. 11,700. It is assumed that households in the income range of <$ 1.35 pppd will take average loans of Rs. 12,000 per household, in 2013, and those in the category of $ 1.36 to $2.16, the average loan demand is estimated to be Rs. 14,000 per household. The loan progression over the years is shown in Table 55.

Table 55: Loan Demand Estimates per Household (In Rs)

Income Category/ Year	2013	2014	2015	2016	2017
$1.35	12,000	14,000	16,000	18,000	20,000
$1.36-$2.16	14,000	16,000	18,000	20,000	22,000

The average loan in the lowest income category is assumed to increase to Rs. 20,000 and for the second income category to Rs. 22,000 by 2017.

Projecting the Credit Demand for JLGs by Banks

1. The number of JLGs are estimated based on an average of 5 members per group, and are expected all members in each group availing of loans. The actual growth rate of number of groups/ households taking loans between 2011 and 2012 was 53%.

2. Considering this, it is assumed that 70% of the JLG households will take loan in 2013, the average loan amount Rs. 15, 000 per member. In 2014, 75% of the JLG households take loans, the average loan is assumed to be Rs. 17,000. In 2015, 80% of the household take loans, with the average loan being Rs. 20,000. By 2017, 90% of the groups take loans, and the average loan amount is estimated to Rs. 25,000.75%. This aggressive coverage is expected based on the assumption of SHG II being on the right track, and more JLGs are promoted within SHGs for business loans.

Projecting the Credit Demand for MFI Clients

As MFIs form groups largely to extend loans, it is assumed that 80% will take loans in 2013, rising 85% in 2014 to 90% by 2017. The average loan amount is estimated to be Rs. 14,000 in 2013, rising to Rs. 22,000 by 2017. This outreach is estimated based on the assumption that MFIs are following minimum standards prescribed by RBI and apex agencies like SIDBI and major banks/ financial investors provide equity fund/ loan capital to the MFIs from 2014/ 2015 on wards.

The loan demand for NFAs is not estimated, assuming that they will be given a cash credit limit, on which they can draw as per their needs.

Based on the above assumptions, the credit demand in the next five years, among low income households in UP, is estimated in Table 56 below:

Table 56: Credit Demand of Low Income Households in UP

Different channels	Indicators	2012			2013			2014			2015			2016			2017		
		<1.35$	1.36-2.16$	Total	<1.35$	1.36-2.16$	Total	<1.35$	1.36-2.16$	Total	<1.35$	1.36-2.16$	Total	<1.35$	1.36-2.16$	Total	<1.35$	1.36-2.16$	Total
SHGs (NGOs, coops, banks, MFIs)	Low income Hh (Lakhs)	20.56	6.85	27.41	22.62	7.54	30.16	26.01	8.67	34.68	31.21	10.40	41.62	39.02	13.00	52.02	50.72	16.90	67.63
	No. of groups (Lakhs)			2.49			2.74			3.15			3.78			4.72			6.15
	No. of Hh take loan (Lakhs)	1.02	0.89	1.91	3.39	1.88	5.27	6.50	3.03	9.53	10.92	4.68	15.60	17.55	7.15	24.71	25.36	10.14	35.51
	Loan amount (Crores)	123	107	230	407	264	671	910	486	1396	1748	843	2591	3161	1430	4591	5072	2231	7304
JLGs by Banks	Low income Hh (Lakhs)		1.00	1.00		1.10	1.10		1.27	1.27		1.52	1.52		1.90	1.90		2.47	2.47
	No. of groups (Lakhs)		0.20	0.20		0.22	0.22		0.25	0.25		0.30	0.30		0.38	0.38		0.49	0.49
	No. of Hh take loan (Lakhs)		0.53	0.53		0.77	0.77		0.95	0.95		1.21	1.21		1.61	1.61		2.22	2.22
	Loan amount (Crores)		53	53		116	116		162	162		244	244		356	356		557	557
MFIs	Low income Hh (Lakhs)		13.98	13.98		15.37	15.37		17.68	17.68		21.22	21.22		26.52	26.52		34.48	34.48
	No. of groups (Lakhs)		2.79	2.79		3.07	3.07		3.53	3.53		4.24	4.24		5.30	5.30		6.89	6.89
	No. of Hh take loan (Lakhs)		11.18	11.18		12.30	12.30		15.03	15.03		18.04	18.04		23.87	23.87		31.04	31.04
	Loan amount (Crores)		1118	1118		1722	1722		2405	2405		3247	3247		4775	4775		6828	6828
Total	Total Hh planned to cover (Lakhs)	30.12	25.02	55.15	33.13	27.53	60.66	38.63	31.83	70.46	47.62	38.62	86.24	61.99	49.09	111.08	85.18	65.35	150.54
	No. of Hh taken loans (Lakhs)	1.02	12.60	13.63	3.39	14.96	18.35	6.50	19.02	25.52	10.92	23.94	34.86	17.55	32.65	50.20	25.36	43.41	68.77
	Total Loan amount (Rs. Crores)	**123**	**1279**	**1402**	**407**	**2102**	**2510**	**910**	**3053**	**3963**	**1748**	**4334**	**6082**	**3161**	**6562**	**9723**	**5073**	**9618**	**14691**

The Table 56 shows a demand level of Rs. 2510 crores in 2013 and this demand is likely to increase to Rs. 14,691 crores, by 2017.

Step 3: Projections of Credit Supply

Assumptions were built in step by step to project the credit supply to low income households in UP. The credit estimation for SHGs includes all types of SHPIs: NGOs, Cooperatives, MFIs and banks.

Credit Supply through SHGs

1. The total number of SHGs in UP is 4.71 lakhs, of which number of groups estimated under both the low income categories in 2012 is 2.49 lakhs and estimated to grow ot 6.15 lakhs in 2017. Given that the large NGOs such as RGVMP plan to reach coverage of at least 50% of the districts in UP and the UPSRLM is estimated to cover all the 75 districts and 808 blocks by 2017 this may be possible.

2. Banks extended loans to about 7% of the groups in 2012, which is roughly 5% of the households from <$1.35 category and 13% of the households from the $1.36-2.16 income category was accessed loans. On this base, a small increase is estimated in 2013, i.e., 10% by the <$1.35 category and 20% by $1.36-2.16. This increase in 2014 and 2015 to 20% and 30% respectively expecting that support from agencies like NABARD would be extended to SHPIs to improve the quality of the groups, and also UPSRLM would have built capacities of the weak groups in the State, which allow the poor households to access loans from the banks. As stated earlier, the key assumption here is that banks would have improved their supply of loans by 2014-15. The increase of households access loan will reach by 50% and 60% by the <$1.35 and 1.36-2.16 categories respectively by 2017.

Table 57: Percentage of households which get loans through SHG Channel

Income Category/ Year	2013	2014	2015	2016	2017
$1.35	10	20	30	40	50
$1.36-$2.16	20	30	40	50	60

The average size of a group in UP, estimated on the basis of NABARD data, is 11 members[85]. The loans per member from 2013 to 2017 are estimated as per the table given below:

Table 58 Estimated Average Loan Per Member

Income category	2012[86]	2013	2014	2015	2016	2017
<1.35$	12,000	12,000	13,000	14,000	16,000	18,000
1.36-2.16$	12,000	14,000	16,000	18,000	20,000	20,000

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[85] It would have been preferable to get this information directly get this data from the banks/SLBC information on total credit disbursal, as it would have been more accurate. However, in the absence of such information, we have estimated it from the number of borrowers and average loan amounts.

[86] In 2012, the average loan per member is Rs. 12,000. However, this is a high figure due to lower number of SHGs getting loans.

As the existing average for 2012 is an anomaly, it is expected that the average in 2013, will be about the same for <1.35$ category, and an increase of Rs.2,000 for the 1.36-2.16$ category. This grows at a reasonable pace each year.

Credit to JLGs by Banks

5. The total number of JLGs in UP is 41, 844, of which number of groups estimated under low income household is 20,085 and estimated to grow to 49,545 in 2017.

6. Given that banks/ SHG II would promote JLGs to give loans, all JLGs should get loans. However, field realities show that banks too wait for JLGs to qualify as creditworthy. In 2012, 53% creditworthy as per NABARD report. Taking this as the base, and assuming that groups formed in later years will get capacity building tranings, the percentage of creditworthy JLGs is expected to increase by 5% each year, and is depicted in the following table:

Table 59: Percentage of Creditworthy JLGs (2013-17)

Income category	2012	2013	2014	2015	2016	2017
1.36-2.16$	53	60	65	70	75	80

Therefore, by 2017, as many as 80% of the JLGs are likely to be worthy of bank loans.

7. Assuming that all members of a JLG will take loans, the number of loanee members per JLG is assumed to be 5.
8.

The loan amount per member is assumed to be Rs. 14,000 for 2013, 16,000 in 2014, and from 2015 to 2017, loan per member is expected to be Rs. 18,000, rs. 20,000 and Rs. 22,000 respectively.

Credit through JLGs Promoted by MFIs

9. In order to estimate credit supply by MFIs, the credit data of 5 MFIs was taken from SIDBI. This included their projections for three years, 2013-15. These MFIs were classified by the size of their loan disbursed. MFIs with a loan disbursement of less than Rs. 10 crores are classified as small. Those with loan disbursement between Rs. 10 and 250 crores were classified as medium sized, and those with more than Rs. 250 crores of loan disbursed were classified as large.

10. The total number of MFIs in UP is estimated to be about 32, based on information from NABARD, and supplemented by secondary research. These 32 have also been classified according to their estimated average loan disbursed, which was taken from their websites. Thus 18 MFIs are small, 10 are in the medium and 4 in the large category. Over the five years, the number of MFIs is estimated to increase to 19, 11 and 5 in the three categories respectively, with the total number of MFIs in UP reaching 35 in 5 years.

11. The average number of borrowers for the category of small MFIs is about 10,000; for the medium 62,000 and 3.2 lakhs for the large MFIs.

12. The loan amounts are Rs. 6,000 per borrower for the first two categories and Rs. 8,000 for the larger MFIs. This amount is based on the figures given for the currently active MFIs. On the basis of the projections provided by 5 MFIs for the next three years 2013-15, it is seen that the average loan amounts have not changed for the small category of MFIs, while for the middle size average loans per borrower have increased by Rs. 1,000 in the second year, and this increase was wiped off in the next year. This is understandable as in this category, number of borrowers is likely to grow faster than the availability of loan funds. In the large MFI category average loan size same as in year 2 and increased by Rs. 2,000 in year 3 to year 5.

13. Based on this information, the average loan per borrower is retained at Rs. 6,000 for all the years for the small category, assuming that new entrants will continue to be conservative. The average loan amount for the medium size MFIs is taken to be Rs. 6,000 in 2013, Rs. 7,000 in 2014, Rs. 6,000 in 2015, and then Rs. 7,000 for 2016 and 17. The average loan per borrower for the large size MFIs is taken to be Rs. 8,000 in 2013 and 2014, increasing to Rs. 10,000 in 2015, 2016 and 2017.

14. The total number of borrowers and credit disbursed by this channel is estimated by adding the figures for the three categories of MFIs.

15. However, this is the total number of clients reached by the MFIs. The reach to low income households is calculated using the earlier categorization of households in the income ranges of less than $2.16. Assuming that MFIs cover clients in the income categories of $ 1.36 to 2.16, the number of households get loans through MFIs in these categories is estimated to be 11.18 lakhs in 2012, increasing to 31.04 lakhs in 2017.

16. Given that the total number of households reached by MFIs is higher, this analysis reveals that in 2012, the percentage of low income households in MFI portfolios are likely to be about 75 – 80%. However, as MFIs grow to higher scales, they are likely to reach more clients in the income categories of more than $2.16 and it is likely that the percentage of low income clients that they reach is about 50% of their total clients by 2017.

Credit supply estimated through different channels are calculated on this basis, and is given in Table 60.

Table 60: Credit Supply Estimation through different Delivery Channels

Different channels	Indicators	2012			2013			2014			2015			2016			2017		
		<1.35$	1.36-2.16$	Total	<1.35$	1.36-2.16$	Total	<1.35$	1.36-2.16$	Total	<1.35$	1.36-2.16$	Total	<1.35$	1.36-2.16$	Total	<1.35$	1.36-2.16$	Total
SHGs (NGOs, coops, banks, MFIs)	Low income House-holds (Lakhs)	20.56	6.85	27.41	22.62	7.54	30.16	26.01	8.67	3468	31.21	10.40	41.62	39.02	13.00	52.02	50.72	16.90	67.63
	No. of groups(Lakhs)			2.49			2.74			3,15			3.78			4.72			6.14
	No. of groups get loan(Lakhs)			0.17			0.47			0.97			1.69			2.76			4.43
	No. of Hh get loan(Lakhs)	1.02	0.89	1.91	2.26	1.50	3.77	5.20	2.60	7.80	9.36	4.16	13.52	15.60	6.50	22.11	25.36	10.14	35.50
	Loan amount (Rs. Crores)	123	107	230	271	202	473	676	416	1,092	1,311	749	2,060	2,497	1,300	3,797	4,565	2,029	6,594
JLGs by Banks	Low income House-holds (Lakhs)		1.00	1.00		1.10	1.10		1.27	1.27		1.52	1.52		1.90	1.90		2.47	2.47
	No. of groups(Lakhs)		0.20	0.20		0.22	0.22		0. 25	0.25		0.30	0.30		0.38	0.38		0.49	0.49
	No. of groups get loan		0.10	0. 10		0.13	0.13		0. 16	0.16		0.21	0.21		0.28	0.28		0.39	0.39
	No. of Hh get loan(Lakhs)		0.53	0.53		0.66	0.66		0.82	0.82		1.06	1.06		1.42	1.42		1.98	1.98
	Loan amount (Rs. Crores)		53	53		92	92		132	132		192	192		285	285		436	436
MFIs	Low income House-holds (Lakhs)		13.98	13.98		15.37	15.37		17.68	17.68		21.22	21.22		26.52	26.52		34.48	34.48
	No. of groups(Lakhs)		2.79	2.79		3.07	3.07		3.53	3.53		4.24	4.24		5.30	5.30		6.89	6.89
	No. of groups get loan(Lakhs)		2.23	2.23		2.46	2.46		3.00	3.00		3.60	3.60		4.77	4.77		6.20	6.20
	No. of Hh get loan(Lakhs)		11.18	11.18		12.30	12.30		15.03	15.03		18.04	18.04		23,.7	23,.7		31.04	31.04
	Loan amount (Rs. Crores)		1,118	1,118		1,722	1,722		2,405	2,405		3,247	3,247		4,775	4,775		6,828	6,828
Total	Total Households (Lakhs)	30.12	25.02	55.15	3.13	27.53	60.66	38.63	31.83	70.46	47.62	38.62	86.24	61.99	49.09	111.08	85.18	65.35	1,50.54
	No. of Households taken loans(Lakhs)	1.02	12.60	13.63	2.26	14.47	16.73	5.20	18.46	23.66	9.36	23.26	32.63	15.60	31.80	47.41	25.36	43.16	68.53
	Total Loan amount (Rs. Crores)	**123**	**1279**	**1402**	**271**	**2017**	**2289**	**676**	**2954**	**3630**	**1311**	**4189**	**5500**	**2497**	**6362**	**8859**	**4565**	**9294**	**13859**

The table above shows that the credit offered by banks to SHGs, and JLGs, and by MFIs to 68.53 lakhs low income households, totals to Rs 2,289 crores in 2013, rising to Rs. 13,859 crores (Rs. 13.8 billion) in 2017.

Credit through Other Channels

1. The channels not considered here are Post Offices, as they concentrate mostly on savings, and loans against NSCs are not considered here as this is likely to be emergency support and not credit for livelihoods. Secondly, those who currently save in post offices are not likely to be among the low income categories of people considered in this document.
2. Further, No Frills Accounts only allow people to save. Current information is that the amount of transactions per NFA is about Rs. 500, and only 51% of the NFAs have been operated at least once. This shows that NFAs are currently used largely for transfer payments of pensions or NREGA wages. They are not yet used by banks to give individual loans. Even when loans are extended, this will be through cash credit limits, the usage of which cannot yet be estimated with any reasonable assumptions. Therefore, although basic savings accounts may be used for transfers, and may be used for savings facility, credit through them is not yet likely, therefore has not yet been estimated.

Step 4: Estimating the Credit Gap

On the basis of an estimation of demand and supply, the unmet demand for credit has been estimated.

Table 61: Demand and Supply Gap (in Rs. Crores)

	2013	2014	2015	2016	2017
Total demand	2510	3963	6082	9723	14691
Total supply	2298	3630	5500	8859	13859
Supply gap	212	333	583	864	832
% of supply gap	8	8	10	9	6

It is expected that supply of credit will leave a gap in loan demand of about 6% by 2017.

Scenario 1, therefore, shows that 39% of the households will remain excluded, and 6% of the credit demands will remain unmet by 2017.

Conservative Scenario

The less optimistic assumptions, and the results, are depicted as Scenario 2 in the following sections.

Step 1: Estimating Household Gap in Access to Financial Services

The projections have been done on the following assumptions:

1. Though there is no growth in SHG promotions in the State from 2011 to 2012, this is seen as an anomaly in a year when SGSY is closing down and NRLM still to be rolled out in Uttar Pradesh. It is assumed for the projections that SHGs grow at 5% in 2013, 10% in 2014, 15% in 2015, 20% in 2016, and 25% in 2017 for the income category <$1.35. It assumed that SHGs will grow at 5% in 2013, 15% in 2014, 20% in 2015, 25% in 2016, and 30% in 2017 for the income category$1.36 – 2.16. These growth rates are assumed to be at this level, because the base in 2013 is very low due no growth between the previous two years, and it expected the NRLM and NABARD SHG II will take root from 2014 and considering the other field constraints like banks cooperation and NGOs limited involvement, the growth is expected to increase slowly.

Table 62: Percentage of Households Projected through SHG Channel

Income Category/ Year	2013	2014	2015	2016	2017
$1.35	5	10	15	20	25
$1.36-$2.16	5	15	20	25	30

a. Considering the challenge in banks putting efforts in establishing USBs and operationalising the BCAs, the JLGs by banks are assumed to grow at at 10% in 2013, 15% in 2014, 20% in 2015, 25% in 2016, and 25% in 2017.

b. The growth rate between 2011 and 2012 was 6% for overall MFIs and less for AP based MFIs, 3% as per MFIN quarterly report. But considering many MFIs in UP are MFIs from AP who are in recovery stage. Therefore taken 5% increase for 2013. Considering that the current capital constraints for MFIs are expected to be overcome by 2014, it expected to grow at 10%, 15% in 2015, 20% in 2016 and 25% in 2017.

c. Considering that currentlyonly half the NFA accounts are operational, they are assumed to grow only at 5% in 2013, then the financial inclusion drive is expected to escalate, They are assumed that NFAs will grow slowly by 10% in 2014, 15% in 2015, 20% in 2016, and 25% in 2017 for the income category <$1.35. With the income category of $1.36-2.16 category it assumed to grow at 5% in 2013, 15% in 2014, 20% in 2015, 25% in 2016, and 30% in 2017.

Table 63: Percentage of Households Projected through Bank-NFA Channel

Income Category/ Year	2013	2014	2015	2016	2017
$1.35	5	10	15	20	25
$1.36-$2.16	5	15	20	25	30

These projections are detailed in Table 64.

Table 64: Low Income Households Access to Financial Services (Numbers in Lakhs)

		2012			2013			2014			2015			2016			2017		
		<1.35$	**1.36-2.16$**	**Total**	**<1.35$**	**1.36-2.16$**	**Total**	**<1.35$**	**1.36-2.16$**	**Total**	**<1.35$**	**1.36-2.16$**	**Total**	**<1.35$**	**1.36-2.16$**	**Total**	**<1.35$**	**1.36-2.16$**	**Total**
I	**Total Low income households**	**136.46**	**115.32**	**251.79**	**140.29**	**117.93**	**258.22**	**139.12**	**116.38**	**255.51**	**137.82**	**114.70**	**252.53**	**136.38**	**11290**	**249.28**	**134.80**	110.96	245.76
II	**No. of low income households access to financial services through different channels**																		
1	SHGs (NGOs, coops, banks, MFIs)	20.56	6.85	27.41	21.59	7.19	28.78	23.75	8.27	32.02	26.12	9.51	35.64	31.35	11.89	43.24	39.18	15.46	54.65
2	JLGs by Banks		1.00	1.00	0	1.10	1.10	0	1.27	1.27	0	1.52	1.52	0	1.90	1.90	0	2.38	2.38
3	MFIs		13.98	13.98	0	14.68	14.68	0	16.14	16.14	0	18.57	18.57	0	22.28	22.28	0	27.85	27.85
4	Banks (NFAs)- 10% of the accounts are overlap of same households)	9.56	3.18	12.74	10.03	3.34	13.38	11.04	3.84	14.89	12.69	4.61	17.31	15.23	5.77	21.01	19.04	7.50	26.55
	Total low income households covered through financial services	**30.12**	**25.02**	**55.15**	**31.63**	**26.32**	**57.96**	**34.79**	**29.54**	**64.33**	**38.82**	**34.23**	**73.05**	**46.59**	**41.86**	**88.45**	**58.23**	**53.21**	**111.44**
IV	**Gap - no of financially excluded households**	**106.34**	**90.29**	**196.64**	**108.66**	**91.60**	**57.96**	**104.33**	**86.84**	**191.17**	**98.99**	**80.47**	**179.47**	**89.79**	**71.03**	**160.83**	**76.56**	**57.74**	**134.31**
	% of financially excluded households			78			78			75			71			65			55

The Table 64 starts with the number of low income households projected for the next five years, being 251 lakh in 2012, reaching 245 lakhs in 2017. The calculation of outreach through each channel shows that in 2012, 78% households did not have access to financial services. By 2017, the percentage of financially excluded household drops to 55%, showing that the gap is covered to the extent of 45% in the next five years.

Step 2: Credit Demand according to Category of Households

The assumptions made for projecting demand are as follows:

1. The demand projections are taken based on the number of SHGs, JLGs and MFI clients that are reached from 2013 to 2017.

2. The credit demand for each channel is estimated for the two low income category households separately.

Projecting the Credit Demand for SHGs

3. Of the total households projected to be covered through SHGs, the average number of households per SHG yields the total number of SHGs. Out of total households projected through SHGs, 10% are expected to take loans under the income category of <$1.35 and 20% of the households under the income category of $1.36-2.16 in 2013. Assuming that UPSRLM and SHG II are in full operation, loan demand is expected to increase from 2014. It is also assumed that banks would have increased their human resource capacity and the forum like SLBC and RBI helped to change the attitudes of the bankers to respond better to the SHGs' need. However, keeping the deep and complex problems exists in the field against to these above assumed developmentsthe percentage of households taking loans from SHGs may takes place at slow pace as projected in the Table below:

Table 65: Percentage of households takes loan through SHG Channel

Income Category/ Year	2013	2014	2015	2016	2017
$1.35	10	25	30	35	40
$1.36-$2.16	20	35	40	45	50

If these assumptions are realisedit is assumed that only a maximum of 50% of the households are likely to make demand for loans on banks, with another 50% rotating only their savings.

4. The number of SHGs is estimated to grow as per the assumptions given earlier. SHG loans amounts are known to be an average of Rs. 1.29 lakh per group for 2012, the average loan per member would come to Rs. 11,700. Considering the negative growthrate(-4%)of loan amount taken by the people between 2011 and 2012, it is assumed that households in both the income range of <$ 1.35 and $ 1.36 to $2.16 pppdwill take average loans of Rs. 12,000 per household, in 2013.

The loan progression over the years is shown in Table 66.

Table 66: Loan Demand Estimates

Income Category/ Year	2013	2014	2015	2016	2017
$1.35	12,000	13,000	14,000	15,000	16,000
$1.36-$2.16	13,000	15,000	17,000	19,000	21,000

The average loan in the lowest income category is assumed to increase to Rs. 16,000 and for the second income category to Rs. 20,000 by 2017.

Projecting the Credit Demand for JLGs by Banks

1. The number of JLGs are estimated based on an average of 5 members per group, and are expected all members in each group availing of loans. The actual growth rate of number of groups/ households taking loans between 2011 and 2012 was 53%.
2. Considering this, it is assumed that 70% of the JLG households will take loan in 2013, the average loan amount Rs. 15, 000 per member. In 2014, 75% of the JLG households take loans, the average loan is assumed to be Rs. 16,000. In 2015, 80% of the household take loans, with the average loan being Rs. 18,000. By 2017, 85% of the groups take loans, and the average loan amount is estimated to Rs. 20,000.The slow and steady coverage are assumed considering the slow progress of the SHG II in 2013.

Projecting the Credit Demand for MFI Clients

As MFIs form groups largely to extend loans, it is assumed that 80% will take loans in 2013, rising 85% in 2014 and 2015, 90% in 2016 and 2017. The average loan amount is estimated to be Rs. 14,000 in 2013, rising to Rs. 22,000 by 2017. This outreach is estimated at constant rate after 2014 based on the assumption that agencies like SIDBI and major banks/ financial investors will be conservative in providingtheir equity fund/ loan capital to the MFIs.

The loan demand for NFAs is not estimated, assuming that they will be given a cash credit limit, on which they can draw as per their needs.

Based on the above assumptions, the credit demand in the next five years, among low income households in UP, is estimated in Table 67 below:

Table 67: Credit Demand of Low Income Households in UP

Different channels	Indicators	2012			2013			2014			2015			2016			2017		
		<1.35$	1.36-2.16$	Total	<1.35$	1.36-2.16$	Total	<1.35$	1.36-2.16$	Total	<1.35$	1.36-2.16$	Total	<1.35$	1.36-2.16$	Total	<1.35$	1.36-2.16$	Total
SHGs (NGOs, coops, banks, MFIs)	Low income House-holds (Lakhs)	20.56	6,85	27.41	21.59	7.19	28.78	23.75	8.27	32.02	26.12	9.51	35.64	31.35	11.89	43.24	39.18	15.46	54.65
	No. of groups(Lakhs)			2.49			2.61			2.91			3.24			3.93			4.96
	No. of groups take loan(Lakhs)			0. 17			0.44			1.10			1.45			2.04			2.92
	No. of Hh take loan(Lakhs)	1.02	89	1.91	2.15	1.43	3.59	5.93	2.89	8.83	7.83	3.80	11.64	10.97	5.35	16.32	15.67	7.73	23.40
	Loan amount (Crores)	123	106	230	259	187	446	772	434	1,206	1,097	647	1,744	1,646	1,017	2,663	2,508	1,624	4132
JLGs by Banks	Low income House-holds (Lakhs)		1.00	1.00		1.10	1.10		1.27	1.27		15.2	15.2		1.90	1.90		2.38	2.38
	No. of groups(Lakhs)		20	0. 20		0.22	0.22		0.25	0.25		0.30	0.30		0.38	0.38		0.47	0.47
	No. of groups take loan(Lakhs)		10	0. 10		0. 15	0. 15		0.19	0.19		0.24	0.24		0.32	0.32		0.42	0.42
	No. of Hh take loan(Lakhs)		53	0. 53		0.77	0.77		0.95	0.95		1.21	1.21		1.61	1.61		2.14	2.14
	Loan amount (crores)		53	53		108	108		152	152		219	219		323	323		471	471
MFIs	Low income House-holds (Lakhs)		13.98	13.98		14.68	14.68		16.14	16.14		18.57	18.57		22.28	22.28		27.85	27.85
	No. of groups(Lakhs)		2.79	2.79		2.93	2.93		3.22	3.22		3.71	3.71		4.45	4.45		5.57	5.57
	No. of groups take loan(Lakhs)		2.23	2.23		2.34	2.34		2.74	2.74		3.15	3.15		4.01	4.01		5.01	5.01
	No. of Hh take loan		11.18	11.18		11.74	11.74		13,72	13,72		15.78	15.78		20.05	20.05		25.07	25.07
	Loan amount (Crores)		1118	1118		1,644	1,644		2,196	2,196		2,841	2,841		4,011	4,011		5,515	5,515
Total	Total House-holds planned to cover(Lakhs)	30.12	25.02	55.15	31.63	26.32	57.96	34.79	29.54	64.33	38.82	34.23	73.05	46.59	41.86	88.45	58.23	53.21	111.44
	No. of Households take loans(Lakhs)	1.02	12.60	13.63	2.15	13.95	16.11	5.93	17.57	23.51	7.83	20.81	28.65	10.97	27.03	38.00	15.67	34.94	50.62
	Total Loan amount (Rs. Crores)	123	1279	1402	259	1940	2199	772	2783	3555	1097	3708	4805	1646	5353	6999	2508	7611	10119

The Table 67 shows a demand level of Rs. 2119 crores in 2013, at baseline. This demand is likely to increase to Rs. 10,119crores, by 2017.

Step 3: Projections of Credit Supply

Assumptions were built in step by step to project the credit supply to low income households in UP.

Credit Supply through SHGs

The credit estimation for SHGs includes all types of SHPIs: NGOs, Cooperatives, MFIs and banks.

Banks extended loans to about 7% of the groups in 2012, which is roughly 5% of the households from <$1.35 category and 13% of the households from the $1.36-2.16 income category was accessed loans. On this base, same increase is estimated in 2013, i.e., 5% by the <$1.35 category and 13% by $1.36-2.16. This increase in 2014 and 2015 to 10% and 20% respectively expecting that slowly support from agencies like NABARD would have started to extend to SHPIs to improve the quality of the groups, and also UPSRLM would have built capacities of the weak groups in the State, which allow the poor households to access loans from the banks. The increase of households access loan will reach by 25% and 35% by the <$1.35 and 1.36-2.16 categories respectively by 2017.

Table 68: Percentage of households get loan through SHG Channel

Income Category/ Year	2013	2014	2015	2016	2017
$1.35	5	10	15	20	25
$1.36-$2.16	13	20	25	30	35

The average size of a group in UP, estimated on the basis of NABARD data, is 11 members[97]. The loans per member from 2013 to 2017 are estimated as per the table given below:

Table 69: Estimated Average Loans per Member

Income category	2012[88]	2013	2014	2015	2016	2017
<1.35$	12,000	12,000	13,000	14,000	15,000	16,000
1.36-2.16$	12,000	13,000	14,000	15,000	16,000	17,000

As the existing average for 2012 is an anomaly, it is expected that the average in 2013, will be about the same, and grows at a slow pace each year.

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[87] It would have been preferable to get this information directly get this data from the banks/SLBC information on total credit disbursal, as it would have been more accurate. However, in the absence of such information, we have estimated it from the number of borrowers and average loan amounts.

[88] In 2012, the average loan per member is Rs. 12,000. However, this is a high figure due to lower number of SHGs getting loans.

Credit to JLGs by Banks

The total number of JLGs in UP is 41, 844, of which number of groups estimated under low income household is 20,085 and estimated to grow to 47,639 in 2017.
Given that banks/ SHG II would promote JLGs to give loans, all JLGs should get loans. However, field realities show that banks are concentrating on expanding branches and NFA accounts, the coverage will be 60% increase in 2013 and 2014, and 65% in 2015 and 2016, 70% in 2017.

Table 70: Percentage of Creditworthy JLGs (2013-17)

Income category	2012	2013	2014	2015	2016	2017
1.36-2.16$	53	60	60	65	65	70

9. Assuming that all members of a JLG will take loans, the number of loanee members per JLG is assumed to be 5.

The loan amount per member is assumed to be Rs. 14,000 for 2013, 16,000 in 2014, and from 2015 to 2017, loan per member is expected to be Rs. 18,000, Rs. 20,000 and Rs. 22,000 respectively.

Credit through JLGs Promoted by MFIs

1. In order to estimate credit supply by MFIs, the credit data of 5 MFIs was taken from SIDBI. This included their projections for three years, 2013-15. These MFIs were classified by the size of their loan disbursed. MFIs with a loan disbursement of less than Rs. 10 crores are classified as small. Those with loan disbursement between Rs. 10 and 250 crores were classified as medium sized, and those with more than Rs. 250 crores of loans disbursed were classified as large.

2. The total number of MFIs in UP is estimated to be about 32, based on information from NABARD, and supplemented by secondary research. These 32 have also been classified according to their estimated average loan disbursed, which was taken from their websites. Thus 18 MFIs are small, 10 are in the medium and 4 in the large category. Over the five years, the number of MFIs is estimated to increase to 19, 11 and 5in the three categories respectively, with the total number of MFIs in UP reaching 35 in 5 years.

3. The average number of borrowers for the category of small MFIs is about 10,000; for the medium 62,000 and 3.2 lakhs for the large MFIs.

4. The loan amounts are Rs. 6,000 per borrower for the first two categories and Rs. 8,000 for the larger MFIs. This amount is based on the figures given for the currently active MFIs. On the basis of the projections provided by 5 MFIs for the next three years 2013-15, it is seen that the average loan amounts have not changed for the small category of MFIs, while for the middle size average loans per borrower have increased by Rs. 1,000 in the second year, and this increase

was wiped off in the next year. This is understandable as in this category, number of borrowers is likely to grow faster than the availability of loan funds. In the large MFI category average loan size same as in year 2 and increased by Rs. 2,000 in year 3 to year 5.

5. Based on this information, the average loan per borrower is retained at Rs. 6,000 for all the years for the small category, assuming that new entrants will continue to be conservative. The average loan amount for the medium size MFIs is taken to be Rs. 6,000 in 2013, Rs. 7,000 in 2014, Rs. 6,000 in 2015, and then Rs. 7,000 for 2016 and 17. The average loan per borrower for the large size MFIs is taken to be Rs. 8,000 in 2013 and 2014, increasing to Rs. 10,000 in 2015, 2016 and 2017.

6. The total number of borrowers and credit disbursed by this channel is estimated by adding the figures for the three categories of MFIs.

7. However, this is the total number of clients reached by the MFIs. The reach to low income households is calculated using the earlier categorization of households in the income ranges of less than $2.16. Assuming that MFIs cover clients in the income categories of $ 1.36 to 2.16, the number of households get loans through MFIs in these categories is estimated to be 11.18 lakhs in 2012, increasing to 31.04 lakhs in 2017.

8. Given that the total number of households reached by MFIs is higher, this analysis reveals that in 2012, the percentage of low income households in MFI portfolios are likely to be about 80%. However, as MFIs grow to higher scales, they are likely to reach more clients in the income categories of more than $2.16 and it is likely that the percentage of low income clients that they reach is about 50% of their total clients by 2017.

9. Credit supply estimated through different channels are calculated on this basis, and is given in Table 71.

Table 71: Credit Supply Estimation through different Delivery Channels

Different channels	Indicators	2012			2013			2014			2015			2016			2017		
		<1.35$	1.36-2.16$	Total	<1.35$	1.36-2.16$	Total	<1.35$	1.36-2.16$	Total	<1.35$	1.36-2.16$	Total	<1.35$	1.36-2.16$	Total	<1.35$	1.36-2.16$	Total
SHGs (NGOs, coops, banks, MFIs)	Low income Hh(lakhs)	20.56	6.85	27.41	21.59	7.19	28.78	23.75	8.27	32.02	26.12	9.51	35.64	31.35	11.89	43.24	39.18	15.46	54.65
	No. of groups (lakhs)			2.49			2.61			2.91			3.24			3.93			4.96
	No. of groups get loan (lakhs)			0.17			0.25			0.50			0.78			1.22			1.90
	No. of Hh get loan (lakhs)	1.02	0.89	1.91	1.07	0.93	2.01	2.37	1.65	4.03	3.91	2.37	6.29	6.27	3.56	9.83	9.79	5.41	15.21
	Loan amount (crores)	123	1.06	230	129	121	251	308	231	540	548	356	905	940	571	1511	1,567	920	2487
JLGs by Banks	Low income Hh(lakhs)		1.00	1.00		1.10	1.10		1.27	1.27		152	152		1.90	1.90		23.8	23.8
	No. of groups (lakhs)		0.20	0.20		0.22	0.22		0.25	0.25		30	30		0.38	0. 38		0.47	0.47
	No. of groups get loan (lakhs)		0. 10	0. 10		0.13	0.13		0.15	0.15		19	19		0.24	0. 24		0.33	0.33
	No. of Hh get loan(lakhs)		0. 53	0. 53		0.66	0.66		0.76	0.76		99	99		1.23	1.23		1.66	1.66
	Loan amount (crores)		53	53		92	92		121	121		178	178		247	247		366	366
MFIs	Low income Hh(lakhs)		13.98	13.98		14.68	14.68		16.14	16.14		18.57	18.57		22.28	22.28		27.85	27.85
	No. of groups (lakhs)		2.79	2.79		2.93	2.93		3.22	3.22		3.71	3.71		4.45	4.45		5.57	5.57
	No. of groups get loan (lakhs)		2.23	2.23		2.34	2.34		2.58	2.58		2.97	2.97		3.78	3.78		4.73	4.73
	No. of Hh get loan (lakhs)		11.18	11.18		11.74	11.74		12.91	12.91		14.85	14.85		18.94	18.94		23.67	23.67
	Loan amount (crores)		1,118	1,118		1,409	1,409		1,550	1,550		2,079	2,079		3,030	3,030		4,262	4,262
Total	Total Hh(lakhs)	30.12	25.02	55.15	31.63	26.32	57.96	34.79	29.54	64.33	38.82	34.23	73.05	46.59	41.86	88.45	58.23	53.21	1,11.44
	No. of Hh taken loans(lakhs)	1.02	12.60	13.63	1.07	13.34	14.42	2.37	15.33	17.71	3.91	18.22	22.14	6.27	23.75	30.02	9.79	30.75	40.55
	Total Loan amount (Rs. Crores)	123	1279	1402	130	1624	1753	309	1904	2213	549	2615	3164	941	3850	4790	1568	5549	7117

The table above shows that the credit offered by banks to SHGs, and JLGs, and by MFIs to clients, totals to Rs 1,753 crores in 2013, rising to Rs 7,117crores in 2017.

Credit through Other Channels

1. The channels not considered here are Post Offices, as they concentrate mostly on savings, and loans against NSCs are not considered here as this is likely to be emergency support and not credit for livelihoods. Secondly, those who currently save in post offices are not likely to be among the low income categories of people considered in this document.

2. Further, No Frills Accounts only allow people to save. Current information is that the amount of transactions per NFA is about Rs. 500, and only 51% of the NFAs have been operated at least once. This shows that NFAs are currently used largely for transfer payments of pensions or NREGA wages. They are not yet used by banks to give individual loans. Even when loans are extended, this will be through cash credit limits, the usage of which cannot yet be estimated with any reasonable assumptions. Therefore, although basic savings accounts may be used for transfers, and may be used for savings facility, credit through them is not yet likely, therefore has not yet been estimated.

Step 4: Estimating the Credit Gap

On the basis of an estimation of demand and supply, the unmet demand for credit has been estimated.

Table 72: Demand and Supply Gap (in Rs. Crores)

	2013	2014	2015	2016	2017
Total demand	2199	3555	4805	6999	10119
Total supply	1753	2213	3164	4790	7117
Supply gap	455	1342	1642	2208	3003
% of supply gap	20	38	34	32	30

It is expected that supply of credit will leave a gap in loan demand of about 30% by 2017.

Scenario 2, therefore, shows that 55% of the households will remain excluded, and 30% of the credit demands will remain unmet by 2017.

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