

# Odisha Financial Inclusion Conclave

Organized under the aegis of

**State Financial Inclusion Forum (SFIF)**

**Poorest States Inclusive Growth (PSIG) Programme**

## Conclave Proceedings

Under the aegis of Poorest States Inclusive Growth (PSIG) Programme, funded by DFID and implemented by SIDBI, ACCESS ASSIST organized a day long state level Financial Inclusion Conclave at Bhubaneswar, Odisha on November 4, 2015 (Wednesday) to deliberate on the issues and challenges that affect and advance financial inclusion discourse in the State. The conclave witnessed the presence of around 100 distinguished representatives from the sector.

The Odisha Financial Inclusion Conclave was formally inaugurated by Mr. Upendra Nath Behera, IAS, Development Commissioner-cum-ACS, Government of Odisha. Mr. Behera shared various initiatives taken by the state as well as central governments to expand financial inclusion for the poor. He also pointed out to the slow growth rate of financial inclusion parameters in the state and highlighted certain pockets which need

special attention. He stated that “for instance 92 of 102 gram panchayats in Malkangiri do not have bank branches, ATMs or any other banking facility. In terms of social security schemes also it has not been able to affect the lives and bring about substantial changes”. He further added that in Odisha a common trend has been that around 70% of agriculture loans have been funded by Cooperative banks while only 30% of such requests have been attended by commercial banks. The interest subvention scheme in the agri loan is huge which means a farmer can avail a loan for 2% interest rate only. However, in the 30% lending from commercial banks, the subsidy claims are hardly registered showing a lack of awareness among the bankers. In view of the issues that still pose challenges to financial inclusion, Mr. Behera advised all the stakeholders to work in a coordinated and effective manner so that the benefits of financial inclusion reach to all, especially the poor and vulnerable families.

### INAUGURATION

Welcome Address by Ms. Radhika Agashe, Executive Director, ACCESS-ASSIST

#### Special Addresses by:

- S.K. Kale, CGM-NABARD
- S. Ramakrishnan, CGM (SFMC) - SIDBI
- B. P. Samantaray, SLBC Convenor, UCO Bank

#### Inaugural Address by:

- Upendra Nath Behera, IAS, Development Commissioner-cum-ACS, Govt of Odisha

*Some of the key highlights of the inaugural session are as follows:*

- Government programmes like PMJDY, PMJJY etc. have been potent initiatives to advance financial inclusion. In the state of Odisha as well, these initiatives have been performing fairly well with more and more people enrolling and reaping the benefits. However Atal Pension Yojana has not been able to perform with much vigor and as compared to the other social security schemes has shown an average performance (below 1 lakh enrolments).
- Along with these the MUDRA yojana also displays potential in terms of financial access to small organizations and enterprise development.
- Women SHGs in as commissioned by NABARD also been extremely successful with around 3,000 being credit linked. There is however a need to work in areas like strengthening the BC support through



infrastructure, technology etc. can further make the systems more cost effective and sustainable.

- However, in terms of SHGs there is also a huge gap in commercial bank lending which because of the percentage of NPA in Odisha is extremely high. Banks and technical agencies can step in as well to support these SHGs in the marketing linkage, livelihood enhancement etc. There should be concerted efforts to improve the prevailing situations in the state to help more and more beneficiaries avail the existing services. Connectivity and infrastructure facilities are most crucial to ensure a widespread of these activities. To make all these programmes a success continued availability of power (electricity) and connectivity across the state is crucial. This will further lead to the successful running of the brick and mortar and BC channels as well.

**Plenary Session 1: ONE YEAR OF PMJDY: HIGHLIGHTS OF KEY ACHIEVEMENTS & CHALLENGES AHEAD**



**Moderator** - T. K. Pradhan, Director-Institutional Finance, Govt of Odisha

**Discussants-**

- P.K. Sinha, GM, SBI
- R. Venkatasubramanian, GM, IDBI
- Premananda Dash, DGM, Canara Bank
- Neera Chakravarty, DGM, Indian Bank
- Santosh Dash, CEO, Sahaj e-Village

PMJDY being one of the major initiatives of the current government to focus on financial inclusion in the country is seen to have achieved its initial target of 100% household banking access in rural areas. Pradhan Mantri Jan Dhan Yojana has made its way into Guinness World Record for opening the highest number of bank accounts in the least time. 18,096,130 bank accounts were opened in one week (from August 23 to 29, 2014) as part of the Financial Inclusion Campaign. However with the first phase of the programme over, now the strategic focus has shifted from access to

usage. The greater agenda in the current context in to ensure adequate usage of these accounts by the customers. Some of the processes which advance and affect the progress of the mission could be identified- minimization of zero balance accounts, promotion of financial literacy, clarity on overdraft facility, telecom connectivity, Aadhar linkage, use of RuPay Debit Card. This session aims to deliberate on similar processes to further look into the prospects of PMJDY under Financial Inclusion.

*Some key highlights of the first plenary session are as follows:*

- Given the cost of operating a bank branch in remote areas, it is more efficient to reach out to beneficiaries through the BC channel, moreover they can actually serve more than one single purpose. The BCAs, Bank mitras etc. are often based out of their operational areas and are more suitable to work with the local population. This potential should further be harnessed to create a successful structure. The remuneration of CSPs who work at the grass root level is also a concern.

The Lead Bank Scheme (LBS) plays a big role on the banking spectre and acts as a link between banks and the Government. In Odisha, only four banks have been entrusted with the responsibility of LBS in 30 districts. The current responsibility of lead banks should be spread over so that other commercial banks can also participate in the process of decision making so as to address the Financial Inclusion issues. In order to make the banking system reach out to the goals of financial inclusion is it essential to have an unhindered system of connectivity, almost all banks now are synced with the CBS.

- Financial literacy initiatives should be viewed with utmost importance. The Government is working on increasing the responsibility of LBS to more banks in the near future. Under the PMJDY-phase II the surprising factor is that only 20,000 people have adopted the Atal Pension Yojana (APY) out of 30 lakh insurance enrollments. The APY is the cheapest pension scheme in the world and the procedure of enrolling into the scheme is simplest among all.
- Financial literacy is the key to the success in terms of financial inclusion. As many of the zero-balance account holders are in the myth that the Government going to put money in their accounts The subscriber

at the grass root level should be made aware about processes like KYC, the various schemes, etc. BCAs should be used to further advance the processes of financial literacy.

- The success so far achieved under PMJDY with around 26 thousand cr shows that the BC channels have been working at their level to ensure such results. They can further be utilized especially for the promotion of financial literacy in the villages and rural areas. The BCAs along with local participation should be effectively sensitized with adequate remuneration to ensure the sustainability of this structure. The selection of BCs is important on the part of banks so as to technologically empower them.

it has shown signs of fatigue. The need to give a new momentum to the SHG programme will require greater integration and convergence between the Government and NABARD, in order to dovetail strategies. The session tried to deliberate on the need to build synergies and jointly invest in public goods that will strengthen the SHG financing infrastructure, digitize reporting and monitoring, approaches to leverage the SHG infrastructure for Financial Inclusion and raising the resources for capacity building initiatives.

**Some Key highlights of the session are as follows:**

- Various capacity building trainings are essential to sustain this model in the long run. NABARD has been playing a very important role in the promotion of SHGs in Odisha. The issue however lies in the fact that the focus under Financial Inclusion has moved to individual accounts whereas the SHG movement continues to work in groups. Somehow in this pursuit to focus on individual accounts, the SHG growth has slowed down in its momentum. Further there are several regional disparities which effect the uniform growth of this model. There should be a strict process that needs to be put to use in order to revive the dormant SHGs starting with capacity building measures, venturing into under-penetrated areas, financial literacy to bank linkage. When there was a space between society and economy, and more importantly to create an interface point, SHG movement started in the country. Gradually the SHGs became primary targets of mobilising money and channelising different Government schemes/sops. That invariably hampered the nobel movement and the consequences we can easily witness from the existing status of the SHGs.
- The kind of efforts put in forth by the institutions in Odisha to promote as well as nurture the SHGs is commendable. That nurturing helps in lowering the default rate to bare minimum. Thus when the banks lend to NGOs/MFIs/NBFCs and they further finance the SHGs, the NPA is substantially negligible; but the case in the scenario of direct lending from banks to SHGs is not that pleasant looking. The NPA continues to go northward. The reasons are like the field coordinators of MFIs/NGOs constantly monitor the SHGs throughout the loan cycle but that cease to exist on the part of bank field/branch staffs.

**Plenary Session 2: REVITALIZING THE SHG MOVEMENT: STRATEGIES AND STAKEHOLDER ROLES**

**Moderator - N. Srinivasan**

**Discussants-**

- B. M. Pattnaik, Technical Adviser – OLM
- Jagadananda, Mentor & Founder – CYSD
- A. Chandrasekhar, GM, NABARD
- B. K. Rout, Director, RUDSETI
- Parashuram Nayak, Whole-time Director-SMCS

The SHG bank linkage programme in India had for long been a vibrant people’s movement and the largest micro finance programme globally. Pioneered by NABARD, the SHG Bank Linkage Program (SHG-BLP) has completed more than two decades of its journey since it was started in 1992. Over the years it has made significant progress in the country including in Odisha and facilitated Financial Inclusion for the poor, especially women. In recent times however,

## Plenary Session 3: CHANGING LANDSCAPE FOR MICROFINANCE INSTITUTIONS: FROM ALTERNATE TO MAINSTREAM



**Moderator** - Ashok Samal, Former GM-SIDBI

### Discussants-

- U. C. Gaur, GM, SIDBI
- Dibyajyoti Pattnaik, Director, AMPL
- Rakesh Das, Risk Head, IFMR Capital
- Md. Amin, MD, Adhikar Microfinance
- S. K. Arya, VP (COR), Vodafone Mpesa

The microfinance world has had its own learning curve with the AP debacle of 2010 and is now once again on an ascendant curve. Non Banking Finance Companies-Microfinance Institutions (NBFC MFIs) which account for more than 90% of MFI lending in the country grew at 61% last year and if the first two quarters of this year are any indication, will continue to grow at this rate.

The MFI ecosystem is in the process of a significant transition. Recently Small Finance Bank Licenses have been accorded to eight NBFC MFIs and include several of the large MFIs. With Bandhan, the largest MFI, becoming a bank in August this year, almost 5000 crores moved out of the Gross Loan Portfolio (GLP) space. Today, the GLP is around 39,000 crores but about 50% of this will also move out with the eight SFBs. The session on changing landscape for Microfinance Institutions aimed at understanding the implications of these changes and with future prospects for the same in terms of Financial inclusion in India

### *Some key highlights of the session are as follows:*

- After undergoing various development processes, the MFIs in the current scenario have reached a matured phase where the support extended should also be tailored as per the needs. Indicators like the establishment of Bandhan Bank, share of MFIs under small finance banks, payment banks, etc. tend to point out to the emergence in its structure.

- The number of small finance bank licenses given to MFIs itself is a sign that we are given due importance. As a result the responsibilities and expectation from MFI increases. The other existing MFIs can collaborate with these new form of entities so that the last mile challenges of product enhancement and cost structure simplified for the benefit of the clients. Despite several developments in the MFI sphere, the MFI investments in Odisha have not been performing so well. At the same time it is important to and take into account the crisis like situations in the structure as well. The MFIs need to continue in building their internal systems as well as capacities in order to see themselves in the mainstream.
- In 2010, about 95% of the lending to MFIs was from public sector banks where you compare that in 2015, it has come down to 70%. This 25% support has come from a mixture of sources like private banks, insurance, mutual funds, other institutional investors etc. So the mainstreaming is possible if the MFIs were able to bring in a diverse set of investors to the sector.

## Plenary Session 4: STRENGTHENING FINANCIAL LITERACY CENTRES



**Moderator** - Radhika Agashe, Executive Director, ACCESS ASSIST

### Discussants-

- S. K. Nayak, DGM, NABARD
- G. Sahani, FL-Counsellor, UGB
- Veena Padia, Theme Leader, SIDBI-PSIG
- Sanjib Puhan, ACCION
- D. Mishra, Former CGM - RBI

The Financial Literacy Centres, set up by banks as per mandate of the RBI are the mainstream delivery mechanism for financial awareness. There is however still a lack of a shared understanding of the knowledge and capability gaps these initiatives can help address. Factors like the nature of impact in altering financial behaviour, effective delivery models and the

business case for driving financial education should be understood in its entirety. This session brought together participants with different models of delivery, target segments, and content to understand their views on financial education, the organizational motivations for their interventions, gain insights into the benefits these programmes offer to the clients and to the providers, and recommend how support and funding could best be deployed.

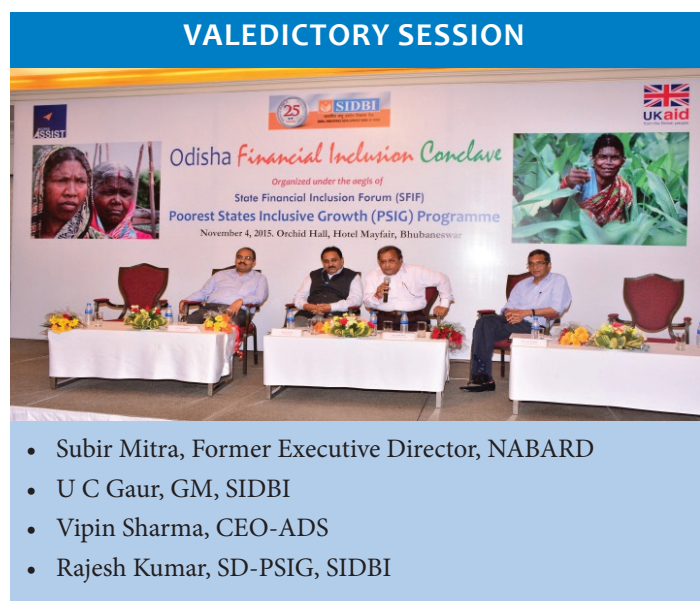
*Some key highlights of the session are as follows:*

- Looking at state specific needs, in Odisha concerted efforts should be put on extending FL measures to the tribal regions wherein a direct intervention of some kind is needed with the help of community members, etc. For instance, tribal school students need to be sensitized and made aware of the various financial products who in turn could be used to spread the word in the community. FLCs should be institutionalized in nature with a much stronger and structured approach. Rather than looking at the fact that MFIs have been helping farmers with crop loans it should be pointed out that the farmers are not adequately educated to ask the same from the banks.
- NABARD has issued guidelines (2012) on the FLCs and have institutionalized two funds for this which are Financial Inclusion Fund and Financial Inclusion Technology Fund (FITF). FITF's objective is to address the supply side issues - in order to reach the remote areas technology intervention is a must. The first one is to address the demand side issues which are to create the awareness among public about all the available financial services and their benefits. The guidelines on this have been issues to all cooperative banks as well RRBs across the country, and the FLCs were created to do away with the issues at the ground level. It's true that the FLCs are not yet housed properly not only in Odisha but in the entire country. So looking at the status, NABARD has temporarily paused the process of opening new FLCs from 1st October 2015. After reviewing the existing challenges the scheme/process may be reopened.
- The women need to be informed about the financial knowledge. The PMJDY's 6 pillars talks about a gamut of important areas where financial literacy is given prime importance. The FLCs are one of the mediums to reach out to the women/women SHGs

to spread the financial literacy in order to achieve the universal Financial Inclusion in the country.

*What can serve as better approach- FLCs acting as the Bank's extended arm? Or to institutionalize the concept and model?*

- It can be seen as a useful model wherein the FLCs are integrated with the Bank businesses. This helps in increasing the bank business as well as helps to increase the outreach of such programs. Some suggestions to improve the model were looking into extending the network by introducing Block level FLCs along with good connectivity and BC support. Further monitoring mechanisms to measure the effectiveness of the FLCs should also be put in place to get quantitative outcomes to help advance the processes.



The valedictory session of the conclave was addressed by senior officials from NABARD, SIDBI and ACCESS-ASSIST team. A number of insightful suggestions and observations came out during the session with an aim to lay down the future course of action. The officials congratulated the entire team and appreciated the initiative for providing a platform for debate, questioning and sharing of ideas and practices thereby contributing to the larger policy advocacy ecosystem of Financial Inclusion.

*Some of the key highlights of the session are as follows:*

- The focus now should be on advancing financial inclusion rather than just focusing on MFI growth. Institutions like NABARD, SLBC, etc. should

come together can create forums like this to help deliberations of financial inclusion. Even though under PMJDY around 190m accounts have been opened but there is still a long way to be achieved. The question to be asked at this point is that what do we do with these accounts or what is the future how do we sustain these accounts in the long run?

- In terms of the SHG model, increasing NPA is problem which needs to be tackled. Further low capacity of the SHPIs lead to low quality of SHGs; SHGs as an effective model of financial inclusion

should be considered along with other available schemes. There has to be fresh, innovative orientation to the programme.

- Technology can definitely serve as an enabler in financial inclusion. With better connectivity and infrastructure powered by technology financial inclusion initiatives can reach out to the remotest of areas. In all this discourse it is extremely important to focus on the significance of financial education/awareness, etc. Innovative, people centric models of financial awareness can sensitize the beneficiaries.



The **Poorest States Inclusive Growth Programme (PSIG)**: The DFID supported PSIG programme, implemented by SIDBI, aims to increase access of financial services to 12 million low income clients in the 4 State of UP, MP, Bihar and Odisha. This £30m, 7-year project has three distinct outputs – policy advocacy, capacity building and financial literacy & women empowerment. ACCESS-ASSIST is managing the policy component of the programme as one of its partners.

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