

MP Inclusive Finance Bulletin

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The Poorest States Inclusive Growth Programme

The Poorest States Inclusive Growth Programme (PSIG) is a UKAid, Department For International Development (DFID) supported program and is being implemented by Small Industries Development Bank of India (SIDBI). Implementation period for the project is 5 years starting from 2012 till 2017.

The main objective of this pan-India programme is to improve access of low income households to diverse financial services in the 4 poorest States of India viz.

Uttar Pradesh, Madhya Pradesh, Bihar and Odisha.

Chief components of the programme include:

- Policy Advocacy at the state and national level
- Capacity building of institutions/channels for delivery of financial services and
- Financial literacy and women empowerment for women clients.

PSIG is expected to leverage private sector financial and technical resources to

reach up to 12 million direct and indirect beneficiaries of which three-fourth are women

The programme has two separate inter-linked components. Component I includes Micro Finance and Women's Empowerment in the four states of Bihar, Odisha, UP and MP and Component II covers Impact investment. The program envisages delivering two key outputs which are: increasing access of financial services for the poor, especially women and, empowering women and augmenting financial literacy among them.

Recent regulations towards financial Inclusion

- In light of the problems being faced by customers in producing proof of address (especially migrant workers, transferred employees etc.) under **KYC norms**; the RBI has revised its guidelines regarding the same. From now on customers may submit only one documentary proof of address (either current or permanent) while opening a bank account or undergoing periodic updation. For customers whose proof of address is not the local address or where the customer is currently residing, the bank may take a declaration of the local address from the customer.
- Regarding appointment of BCs, banks will now be permitted to engage non-

deposit taking NBFCs (NBFC-ND) as BCs provided there is no comingling of bank funds and of the NBFC-ND appointed as BC; all possible conflicts of interest between the bank and the NBFC-ND are adequately taken care of; banks ensure that the NBFC-ND does not adopt any restrictive practices regarding savings and forced bundling of services offered by the NBFC-ND. Earlier BCs were required to be situated within 30 kms of the base branch of the supervising bank and within 5kms in metropolitan centers. As per the circular, this restriction has been relaxed and banks can now decide on where to situate their BCs as long as they adhere to objectives of adequate oversight of BCs.

- In a drive to “eradicate . . . financial untouchability”, the Prime Minister in his maiden Independence Day speech announced the ambitious ‘Pradhan Mantri Jan Dhan Yojana’. The scheme aims to ensure that every household has at least one bank account. These benefits will apply to all accounts opened before January 26, 2015. The programme aims to cover 7.5 crore households in unbanked areas and will be implemented in two phases. BMC Holders will be eligible for Rs. 5000 overdraft facility and accidental insurance of 1 lakh, pension account under the NPS and life insurance of Rs. 30,000. Prime Minister, Narendra Modi said that the launch marked a breakthrough in breaking the vicious circle of poverty and debt.

Bankers' Exposure Visit to Samhita Community Development Services

One of the lead themes under policy advocacy for PSIG is MFIs Funding and Regulation. Recent developments in the sector indicate resumption of lending to MFIs from banks as well as through equity. The loan portfolio climbed to Rs. 27.93 billion in March 2014. The sector now has a framework that focuses on responsible finance and establishes norms of behaviour for MFIs. As an effort to further this objective an exposure visit for bank officials at the state and regional levels to Samhita Community Development Services was organised in Bhopal on July 24th 2014.

The main objective behind organizing this event was to provide senior bankers first-hand information on MFI operations, MIS, internal audit process, code of conduct compliance, etc. through interface with MFI senior management (CEO & HoDs), field staff, and clients. The visit was divided into three stages combining both in-class presentations and branch and field visits to make it a learning experience for the bankers. The visit turned out to be very successful as concluding remarks from bankers were very positive.

PSIG initiatives in Madhya Pradesh so Far

Policy Advocacy

- Stakeholders and national level think tank meet held on July 5, 2013 at Bhopal. Chaired by Shri Anurag Jain, Jt. Secretary, Ministry of Finance, Govt of India. Discussion held on various channels of financial services and efforts made to reach the unprivileged section of the society.
- Drill down Business Correspondent study in Madhya Pradesh conducted jointly with Directorate of Institutional Finance, Govt of MP.
- Study on Governance structure of Microfinance Institutions: understanding practices and gaps.
- Poverty Outreach Survey of microfinance clients in the four PSIG states by Grameen Foundation.

- The Finscope Survey has been assigned to the Finmark Trust, South Africa (FMT). The survey primarily looks at demand and supply side assessments of financial products and services and finds key gaps in financial inclusion.

Access to Finance

- Capacity building support and grant assistance to Microfinance Institutions in Madhya Pradesh. Total of 6 partners i.e., 2 NBFCs, 1 Sec 25 company, 2 Co-operatives, 1 Society were provided support in terms of confidence building through rating, portfolio audit, code of conduct assessment, and social performance management.
- Technical assistance is provided to support and innovate technology, MIS and automation for greater transparency

and cost effectiveness. Support for strengthening governance structure, risk management, data sharing with CREDIT BUREAU, HR development and promoting other financial services such as Micro Pension & Insurance.

- Engagement with Regional Rural Bank to address viability issues of banking correspondence agents and Bank Mitras.
- Engagement with IFAD supported Tejaswini project of WCD for strengthening of Federations promoted under Tejaswini.
- Supporting a pilot on Legal awareness of women by Samhita Community Development Services in urban slums of Bhopal.

Amul Urdhwareshe, CEO, Shahayog on Responsible Finance

Until the Andhra Crisis hit the sector, Microfinance Institutions were the poster boys for Financial Inclusion, which was often perceived as a synonym to poverty reduction. In all fairness, neither the sector nor the larger visible players within the Industry took any known steps to dispel this convenient image. As was warned by many insiders, observers and stakeholders the political backlash was disproportionate to the problem, which, amongst others was also prompted by a turf war as well as some malpractices, attributed to the MFIs. With RBI stepping in, at least for the regulated entities (NBFCs), the rules are now clearly laid down. These protect not only the vulnerable but the Regulator as well; from a possible accusation of not being prudent, they are framed keeping in mind the lowest common denominator.

While there cannot be two opinions about the need to protect the poor, it is, and is

going to be, an unbeatable challenge, to have a universally applicable regulatory policy defining the same.

But as said, it is an almost impossible task to capture a universally applicable definition of poverty and vulnerability because these are mostly contextual and the context is far better understood by field practitioners, i.e. the MFIs and their people and hence while the RBI or the SRO may attempt to define the same and lay down best practices, the final responsibility must and does lie with the MFIs.

So what is needed for being a responsible finance provider? A few brief highlighters may be handy.

- Is it good for the client?
- If there is a conflict between the MFI and the client, what drives the decision?
- A clear communication and understanding of the purpose and

actual usage of the financial products being marketed.

- The compassion and understanding has to effectively reach the client through the interactive point, be it the field officer, the checking agencies or the grievance redressal system.
- Is financial or other support being provided, actually making a perceptible difference in the long run?
- The awareness of limitations of knowledge/understanding on part of the client and ensuring that it does not directly or indirectly result in any unfair advantage to MFIs being the big brother.

Mr. Amul Urdhwareshe
CEO & Executive Vice Chairman
Sahayog

Key Highlights on Financial Inclusion in the state

- A team of British Members of Parliament of Commonwealth Parliamentary Association (CPA) led by Mr. Liam Byrne has hailed achievements in development by Madhya Pradesh on their visit on February 19, 2014. They also apprised themselves with features of Samagra Social Security Mission launched to deposit benefits.
- Special SLBC meet was called on February 26, 2014 to discuss target achievements in disbursement of Government schemes through banks and bottle necks.
- State has formulated its credit plan 2014-15 for Government sponsored schemes worth Rs. 6563.02 crores.
- Madhya Pradesh was also honoured with the 'SKOCH order of merit certificate' on June 21st, 2014 at the 'SKOCH Financial Inclusion and Deepening Award-2014 function.'

MP's Model of financial Inclusion-Samruddhi

The Government of Madhya Pradesh has adopted a model for financial inclusion, which is now popularly known as 'Samruddhi'. This has enabled the state to write a new chapter of progress through inclusive growth in rural areas. With this, Madhya Pradesh has become the first state in the country to launch a Direct Benefit Transfer system. Other states are also replicating the system now.

This Financial Inclusion model has evolved in the state due to continuous efforts from



Government Departments and constant liaisoning with Central ministries and banks, through State Level Bankers Committee and District Level Bankers Committees. Keeping the beneficiary at the center, efforts have been made to streamline the devolution of funds through various channels.

Madhya Pradesh with a population of 72 million and a large geographical area of 3 lakh km² is sparsely populated and therefore has low population density. As a result people in one third of the villages in the state need to travel almost 20-90kms for a single financial transaction. The situation got further worsened due to RBI's norms that allowed serving of villages with less than 2000 population in a graded manner through BCs. This practice would have left a large portion of the population waiting for financial services.

Two years back, out of 53,009 villages 14,676 were selected that did not have any financial institutions and had to cover more than 5 Km to avail financial services. This selection of villages has specially been done through a massive exercise conducted by the District Level Coordination committee and the villages are called as shadow area villages.

“The concept of social security integration called ‘SAMAGRA’ carries a multi-utility database.”

Efforts have been made to cover these villages in priority through Ultra-Small Branches (USBs) / BCs. Government has taken up the challenge and offered 100 sq ft. space in the e-panchayat rooms to run such USBs/BCs through agents from these shadow area villages. The Government

had concerns over business viability and distribution of Government Benefits through these centers.

“Shadow area defines the area that does not have any brick and mortar financial institution.”

This has led an umbrella program ‘Samagra Samajik Suraksha Mission’. Under this, benefits from different schemes are being rationalized and action is being taken to benefit people through a single window. Under this mission a multivariate database of individual and family wise information was incorporated in the Samagra portal. More than 76 schemes have been rolled out through this portal such as food security, pension, scholarship, housing, MGNREGA, and Nirmal Bharat Abhiyan. The Data base so created has also led to various new initiatives under good and e-governance.

The Samagra Portal has been supporting application tracking and trend analysis for planning and support enabling efficient delivery of public benefits under the MP Lok Sewa Guarantee Act 2010. The MP

Government has been able to effectively engage various departmental schemes through IT applications such as e-FMS for NREGA payments and e-Uparjan for food grain procurements from farmers. Disbursement of such transfers is done electronically to beneficiaries' accounts who get notifications on their mobile phones through SMS.

Various questions and concerns were raised on the viability and status of such arrangements. However, 7,828 of shadow villages, 2,736 villages with population above 2,000 and 17,125 villages with population below 2,000 have now been covered by USBs/BCs. This coverage has shown an extended performance through enrollment of 7.65 million accounts, 9.04 million transactions carrying 10,231 million worth of rupees. Systematic approach and Information Technology has enabled this model to be replicated with ease and comfort in new areas.

(The above article draws largely from ‘The MP Bulletin’ Published by the directorate of Public Relations, Government of Madhya Pradesh, January 2014, Year-2, Vol-1)

Performance of MFIs in the State

	As on 31st March, 2014	As on 30th June, 2014
No. of MFIs	22	22
GLP (bn.)	15.20	15.41
Clients	1,725,652	1,698,076
Branches	689	652
Employees	4474	4271
Loan Amount Disbursed (Rs. bn. , quarterly)	6.05	5.29
No. of loans disbursed (quarterly)	413,946	332,551
Average loan size	14,621	15,906

The tables alongside depict the status and working of MFIs and the SHG-Bank Linkage programme in the State. The gross lending portfolio is clearly seen to rise by 0.21 billion however the number of clients seems to have reduced over the quarter. Similarly there is a reduction in the number of employees as well as loan disbursed.

The Second table shows that commercial banks collectively opened the largest number of accounts when compared to the others in the previous quarter and have the highest amount of outstanding balance as well as NPAs. Private Banks rank the highest in terms of amount disbursed, RRBs disbursed only Rs 961 lakhs as loans will Cooperatives surprisingly did not extend any loans in the past quarter.

Progress of SHG-Bank Linkage as on 30th June, 2014

(amt. in lakhs)

	Target no. of A/c	Savings A/c opened	Amount disbursed	Balance Outstanding	NPA Amount
Commercial banks	25770	5512	2976	153412	1726
SBI Group	6370	3956	2189	4791	669
Private Banks	2000	1467	3259	3245	27
Regional Rural Banks	8190	1376	961	3246	656
Cooperative Banks	7670	17340	0	725	245

Microfinance India Awardees from Madhya Pradesh, 2013

Sahayog Microfinance Limited awarded Micro finance India organization of the year small and emerging.



Mr. Amul Urdhwarshesha, CEO & Executive Vice Chairman, Sahayog receiving award at Microfinance India Summit-2013 at New Delhi.

Sahayog Microfinance Limited is a Non Banking Finance company registered with the RBI. Sahayog began its micro finance operations in Nov 2009 with its head office based in Bhopal. It currently operates in 22 districts of Madhya Pradesh and 2 districts of Maharashtra and has plans to operate across the state with focus on underserved regions. Sahayog's core activity is making small loans to beneficiaries for income generating purposes through Joint Liability Groups. Every loan beneficiary is also covered by the insurance products.

Pratigya Samanvit Vikas Sakh Sahakarita Maryadit awarded Community Based Microfinance Organisation of the year



Ms. Arti Kushwaha, President, Pratigya Samanvit Vikas Sakh Sahakarita Maryadit receiving award at Microfinance India Summit-2013 at New Delhi

Pratigya Samanvit Vikas Sakh Shahkarita Maryadit is a community based cooperative enterprise registered under Madhya Pradesh Swayatta Sahakarita Adhiniyam on 6th July 2006. Pratigya is promoted by its parent organization Priya Sakhi Mahila Sangh Indore. It was formed as a strategic unit to provide microfinance service including savings to its members. It observes a credit plus approach and provides, Livelihood support, human resource development and community development through various activities. Pratigya has operations in Indore, Dhar, Ujjain, Khandwa and Dewas districts of MP.

Updates from other PSIG states –

Bihar -

- Meeting with GM, PFRDA and two State Govt. Departments (Social Welfare & Labour Resource) held on 11th Aug'14; both the departments agreed to implement the Swavalamban scheme.
- Aggregators' Forum on micro-pension formed in Bihar; first meeting of the Forum was held on 2nd September'14.
- MicroSave has conducted a "Drill-Down Study on the BC Model in Bihar" in support with SIDBI-PSIG. To share findings from the study and seek recommendations, a workshop was organised on 9th June'14. The study findings will be shared with all on 18th September'14.

Odisha –

- Pilot study on NPA in SHG portfolio conducted in collaboration with Odisha Gramin Bank.
- Piloting of credit bureaus initiative under process in collaboration with Utkal Gramin Bank
- Interface with Royal Sundaram insurance company to develop general insurance products for SHGs.
- Exposure visit of bankers to Annapurna Microfinance Pvt. Ltd. held on 23rd August in Bhubaneswar.

Uttar Pradesh --

- Formation of SFIF and inception meeting was held on 26th August 2014.



The Poorest States Inclusive Growth Program (PSIG): The DFID assisted PSIG programme is being currently implemented by SIDBI in 4 poorer states viz. Bihar, Madhya Pradesh, Odisha and Uttar Pradesh. The program is envisaged to benefit the poor and vulnerable people, especially women by providing financial access to 12 million poor people, thereby helping in enhancement of their income and employment opportunities in the above four states including Odisha. ACCESS-ASSIST is managing the policy component of the program.

For sending feedback and queries please contact: Shubhangi Jaiswal (shubhangi@accessassist.org)