

## **Third Meeting of State Financial Inclusion Forum (SFIF), Bihar**

**3<sup>rd</sup> July, 2014**

**Hotel Chanakya, Patna**

**Background-**Bihar, which is in the bottom five of CRISIL Financial Inclusion Index, requires cooperation amongst regulators, government agencies, financial institutions, service providers, and other stakeholders to strengthen financial inclusion efforts. Assisted by DFID, the Poorest State Inclusive Growth programme (PSIG) is working towards improving the access of financial services to low income households in 4 poorest states-viz Bihar, Madhya Pradesh, Odisha and Uttar Pradesh. The project has 3 components viz. – policy advocacy, improving access to finance and financial literacy. SIDBI has implementing agency for PSIG.

*ACCESS-ASSIST* has been contracted by SIDBI to coordinate the initiatives on policy advocacy in the above four states as well as at the national level. Setting up of multi-stakeholder State Financial Inclusion Forum (SFIF) in each programme focus state has been agreed as one of the key mechanisms to achieve the objectives under the policy advocacy component. The SFIF is expected to act as an exchange and deliberation Forum to promote effective coordination and synergy among various stakeholders for accelerating the process of financial inclusion in the state. The list of SFIF members and other participants of the meeting is provided in **Annexure 1**.

### **SUMMARY OF PROCEEDINGS**

#### **1. Feedback on Bihar Inclusive Finance Bulletin:**

Two quarterly bulletins have been released and circulated so far. Suggestions sought from SFIF members to make it better and more informative. Major suggestions and feedback are:

- Apart from developments under SFIF, the newsletter may also highlight progress under PSIG programme in Bihar. It was informed to the forum that PSIG is considering launching of a webpage for sharing information and developments under PSIG programme.
- Latest data regarding agencies may be presented. Instead of presenting institution wise data it would be good to give summarized information of all the MFIs/ NBFCs operating in Bihar. .
- Small case studies on social impact of MFIs and their field level experience should be shared.
- A section of bulletin should be dedicated to client speak; this could be sourced from JEEViKA, WDC, MFIs etc. The quote from the case study should reflect direct impact of financial services on the client.
- Since PSIG programme is for 4 states, namely UP, MP, Bihar, and Odisha, a section may be included to share key activities happening in other states.
- Each bulletin should focus on one key theme on which articles, interviews, case studies, analysis etc. can be given. Contributions on the key theme should be sought widely from various stakeholders in the state; in addition experiences from other states may also be shared

2. **Recap of second meeting of SFIF (Main theme - Micro-Pension):** Second meeting of SFIF was held on 11<sup>th</sup> March, 2014. As decided in the inception meeting of SFIF, focus theme of this meeting was micro-pension. Mr. Rakesh Sharma, GM, PFRDA also participated in this meeting and shared features of and provisions under Swavalamban Scheme. Apart from SFIF members, aggregators and sub aggregators were also present as special invitees. The three key action points identified in the meeting and a brief action taken report presented in the meeting is as below:
- a. PSIG to explore partnerships for setting up a **State level Pension Cell** that can play the role of local point of contact for convergence, communication and information on product and process and coordination with PFRDA.  
**Action taken:** Bihar ASSIST team consulted NABARD and different pension aggregators to seek their views on formation of State Level Pension Cell. Unanimous view has come from all, that there is a need of such cell, but the process of formation of this cell and its constitution needs more discussion.
  - b. Explore tie-ups of PFRDA with State government for enhancing outreach of pension to unorganized workers  
**Action taken:** ASSIST team met with Department of Labour Resource, ICDS, and Transport Department to share preliminary details of NPS-Lite pension scheme. Meeting of Commissioner, Labour Dept. and related official from ICDS and Transport with PFRDA will be facilitated for next level discussion in Patna.
  - c. Capacity building of front line staff of aggregators with the help of PFRDA – This can be done by PSIG in partnership with NABARD and other state level agencies.  
**Action taken:** A ready reference handbook on NPS-Lite product and process has been developed for field staff of NPS aggregators, and has been forwarded to PFRDA for review.

**Suggestions from SFIF members:**

- For facilitating access of pension, there has to be synergy and communication between Pension Aggregators and SHG Federations. To facilitate this establishing micro-pension centre/cell at district or block level would be useful. The cell can be hosted by any one of the aggregator and should have trained team along with systems and processes to serve information and communication needs of all existing (of all aggregators) and future pension clients. The concept could be developed and pilot tested in one or two blocks of Bihar.
  - Since formation of pension cell at state level does not seem feasible in the current context, efforts can be directed to form a loose association of aggregators and sub-aggregators at state level for coordinated advocacy and communication with PFRDA on operational issues and also explore ways of undertaking pension literacy efforts. A small group of aggregators can form an association and share their experiences in which PFRDA could be invited. This can be initially facilitated by SFIF secretariat under the PSIG programme. It was agreed that one meeting of this association will be organized before the next SFIF Meeting
3. **Recap of BC Workshop:** A workshop on Business Correspondent theme was organized on 9<sup>th</sup> June, 2014. Findings of drill down case studies on BC Models in Bihar conducted under PSIG programme was presented by MicroSave. MicroSave shared different BC models, presented assessments of 4

Business Correspondent Network Managers (BCNMs), and administered open discussion on issues and recommendations.

Suggestion from SFIF members on BC theme were as follows:

- There is a prevalence of naxalism in the districts where the traditional banking system has not worked well. BCs have performed well in such areas, and serve as a key mechanism for sending and receiving remittances.
  - Account opening is a very important as first step, followed by financial literacy programme and focus on increasing transactions. Credit through BCs also needs to be encouraged so that clients can access capital which will lead to income, savings and therefore transactions.
  - For real financial inclusion, holistic investment in sub sectors such as agriculture, aquatic culture and animal husbandry is required through development of Detailed Project Report (DPR) and study of supply chain. This can be supported with credit through BC model.
  - There needs to be standardization of sharing of commission by BCs with CSPs so that the activity is viable for BCs.
  - A study on commission systems of different banks under BC model can be undertaken for sharing and learning of different models
  - As far as sustainability of CSPs is concerned, there should be uniform guidelines about incentive and fixed payment to CSPs across the banks. Also, there should be diversified financial products offered through CSPs. This will also increase their scope of earning and simultaneously banks will offer their different products through single channel. General purpose credit card can also be rooted through BC channel.
  - Micro credit (10-15,000) can be pushed through NBFC-BCs by taking advantage of robust systems and client relationship, for making this channel viable and also making finance available for people at door step.
  - Next Inclusive Finance Bulletin should cover major major findings, issues and recommendations provided in the study. UBGB model for BC is working well and can also be included in the bulletin.
4. **Standing Committee Report on Micro Finance:** Report of the Parliamentary Standing Committee on Microfinance Regulation and Development Bill has been recently circulated to states by Ministry of Finance, Govt. of India for seeking their response. It was informed by Directorate of Institutional Finance and Dept. of Finance, Govt. of Bihar that they are yet to receive the report. One of the major issues cited in the Standing Committee Report is lack of consensus among various stakeholders on critical issues.

#### **Summary of discussion:**

- Targeted advocacy needs to be done instead of generic approach. Example – Mr. Jayant Sinha, Member of Parliament from Bihar, can be invited for an interaction with SFIF for influencing views on MFI model.
- Research shows that maximum return on capital is 22.5% and interest rates of MFIs are in the range of 26%. Loan is a discounted financial product and person should be able to get these products and repay it from the income.
- Reducing interest rates of loans by MFIs is important and earnest efforts and strategies should be tried to enable this.

- One way could be to create fund (may be under RIDF) for lending to MFIs at lower interest rates so that MFIs can lower their pricing.
- Also, a combination of bundling of products, lowering of cost of funds by banks, use of existing community institutional architecture (SHGs/federations/VOs) for reducing mobilization costs and further enhancing operational efficiency of MFIs can lead to lowering of interest rates.
- Enhancing outreach of credit MFI-BCs is another way of lending at lower interest rates.
- Advocacy for interest rate subvention can be done for MFI loans similar to WSHGs loans.

It was agreed that PSIG can offer to support the process of seeking views from various stakeholders for formulating a balanced response, if and when the request for response is received by the State Government of Bihar.

5. **Ways of working of SFIF:** It has been 6 months since the Bihar SFIF was set up and 3 meetings have been organized so far. So, it is important to analyze whether the forum is moving in right direction, and what needs to be done further. Suggestions received from members towards this are as below:
- SFIF meeting is conducted once in a quarter; for keeping people updated with the activities under PSIG, a monthly report can be shared with the members. To make the forum more interactive and stay updated with the activities, an e-group can be formed and activities and updates can be shared through this group.
  - The insurance workshop organized under PSIG helped clarify lot of policy aspects. As a follow-up action, a catalogue of various insurance products and schemes along with analysis of outreach in Bihar in comparison with other states and reasons of why some states are leading can be prepared through a technical agency. This will provide good background data for advocacy at the state level.
  - Activities taken up under PSIG should also be presented in SFIF Meeting for better understanding of the progress of PSIG programme.
  - To maintain continuity of discussion and for the forum to gain from the rich experience of the respected members, it is very important that the nominated members of SFIF should participate in the meeting.

**The Theme for next meeting:** *“Financial Inclusion Programme in Flood Affected Area of Bihar”* is decided to be the theme for next meeting of SFIF.

**ANNEXURE 1**

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