

Bihar Inclusive Finance Bulletin

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PSIG PROGRAMME UPDATES

Seventh Meeting of the State Financial Inclusion Forum



The State Financial Inclusion Forum (SFIF) initiated under the PSIG programme, acts 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 7th SFIF meeting of Bihar was organized on 8th July 2015 in Patna on the key theme of “Jan Dhan Se Jan Suraksha” and was attended by various SFIF members, PSIG team and participants from banks and insurance companies. The discussion in the meeting centered on the newly launched Pradhan Mantri Jan Suraksha Yojana where the participants shared their expectations as well as experiences so far on this national programme. Some of the major concerns which came out during the discussions were scalability and sustainability of the scheme, alignment of scheme with the need of poor, different options in insurance schemes, key challenges in implementing these schemes and suggestions and way forward. As action point, a meeting with BC organization was suggested at state level to discuss the issues and challenges faced by them in implementing these schemes.

Roundtable with BC Organizations

As follow up action of 7th SFIF meeting, a roundtable with major BC organizations, working in Bihar was organized on 28th August, 2015 in Patna to discuss the issues, challenges and opportunities of Pradhan Mantri Jan Suraksha Yojana in a BCA perspective. 12 BC organizations working in Bihar participated in the meeting. The discussion was majorly focused on issues and challenges at three levels viz Policy, Operational and Bank Level.



Exposure Visit for Bankers to MFI-Arohan Financial Services Pvt Ltd.



With an objective to promote MFI lending through Banks, an exposure visit to Arohan Financial Services Pvt Ltd was organized for Bankers on 4th September, 2015. The visit was planned to acquaint the bankers further with MFI's operations, management practices, MIS and other systems and procedures. 8 Bankers from different banks (RBI, Bank of

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Baroda, Bank of India, Union Bank of India, State Cooperative Bank, SBI, Axis Bank and Bihar Gramin Bank) participated in the exposure visit. Bankers were taken to Arohan's branch office as well as the collection centers to help them understand the overall process of loan disbursement and repayment. The bankers had a positive response and feedback by the end of the visit.

Other updates from Bihar

- PSIG grant support extended for the “Leaders for the Field” (LFTF) Programme, to be organized by Grameen Foundation India (GFI) for the existing/potential partners of SIDBI, operating in PSIG states of Bihar and UP. The programme has been initiated for PSIG partners in Bihar.
- One RRB recently received CB grant for capacity building activities of its field functionaries and to promote MUDRA Credit product in 18 districts of Bihar
- Two NBFC-MFIs were provided term loans to help them expand their outreach in PSIG states.
- Cash Collateralized Guarantee Fund support provided to one MFI as a contribution towards FLDG required by the BC Bank.



UPDATES FROM OTHER PSIG STATES

Uttar Pradesh

- 4th meeting of State financial Inclusion forum was organized on 14th July, 2015 on the theme of “*Business Correspondent model- Strengths, Constraints and Opportunities ahead*”.
- Regional level Lender’s Forum meeting is being planned in October to discuss issues, concerns, etc. at the local level.
- An exposure visit for RBI AGM’s to MFI is scheduled to be organized in the month of October. Objective of this exposure visit is to help bankers understand about the working of MFIs.

Madhya Pradesh

- 3rd meeting of SFIF, Madhya Pradesh was organized on 3rd Sept, 2015 on key theme of “*Strengthening Financial Literacy Centers: Current Status, Constraints and Way forward*”
- PSIG has commissioned Chaitanya to undertake a rapid assessment study on the status of SHPIs, SHG bank linkages in MP. The study focused on two core objectives a) to understand the challenges that constraints for accessing credit for SHG members b) to identify and assess institutional capacities of SHPIs engaged in SHG Bank linkage.

Odisha –

- 7th SFIF Meeting was organized on the theme “*Role of Financial Literacy in Financial Inclusion of the Poor – Initiatives, Challenges and Way Forward*”. The meeting was well attended by senior officials from RBI, NABARD, SIDBI, Public Sector Banks, RUDSETI, BCs, SHPIs, Academicians and MFIs. The discussion surrounded upon different mediums of communication for better spread of financial literacy initiatives and to that of making the modules as easy as possible. The Odisha Inclusive Finance Bulletin was also released during that meeting.
- The third Bankers-MFI exposure visit under PSIG initiatives in Odisha was organized to Sambandh FinServe Pvt Ltd based out of Rourkela. Altogether 17 senior bankers from 12 PSU Banks and RRB participated in the day- long programme held on 11th Sept’2015.
- Meeting with BC organizations is being planned for the month of October to discuss the various issues. Challenges faced by BCs at the field level.
- Regional level Lender’s Forum meeting is being planned in November to discuss issues, concerns, etc. at the local level.

RECENT DEVELOPMENTS IN THE FINANCIAL INCLUSION SPACE

License to Payment Banks

The Reserve Bank of India granted approval to 11 entities to set up payment banks. These entities are Aditya Birla Nuvo, Paytm, Vodafone, Airtel, NSDL, Tec Mahindra, Dept. of Post, Cholamandlam Distribution services, Fino paytech and Sun pharma - Dilip Sanghvi. The approval will be valid for a period of 18 months, during which time the applicants have to comply with the requirement under the guidelines and fulfill other conditions as may be stipulated by RBI.

Small Bank License

Reserve Bank of India has granted in-principle license for small finance banks to ten entities- Au Financiers, Capital Local Area Bank, Disha Microfin,

Equitas Holdings, ESAF Microfinance and Investments, Janalakshmi Financial Services, RGVN (North East) Microfinance, Suryoday Micro Finance, Ujjivan Financial Services and Utkarsh Micro Finance. The in-principle approval granted by RBI will be valid for a period of 18 months.

Bandhan Bank Started Operations

The country’s youngest lender Bandhan Bank started its operations on 22nd August with a loan book of Rs 10,500 crore, 501 branches and 1.43 crore account holders. Its operations will be divided into two sectors: micro-banking and general banking, offering complete retail financial solutions with different types of savings and loan products. The interest rate for the savings bank

account has been fixed at 4.25 per cent for a balance up to Rs 1 lakh and 5 per cent for balance above Rs 1 lakh. For term deposits, the maximum interest rate has been fixed at 8.5 per cent for one to three years, with an additional 0.5 per cent for senior citizens.

RBI Revamps Priority Sector Lending

The Reserve Bank of India (RBI) has revamped priority sector lending (PSL) norms. Now, loans to sectors such as social infrastructure, renewable energy and medium enterprises will also be treated as PSL.

While retaining the 40 per cent PSL target for domestic banks, the distinction between direct and indirect agriculture has been done away with. This means

banks can meet their entire agriculture lending target - 18 per cent of their net loans disbursed in the previous year - by funding to indirect agriculture, which includes loans to companies engaged in the agriculture sector.

SBI & ICICI Bank designated as D-SIBs

The Reserve Bank of India (RBI) designated State Bank of India (SBI) and ICICI Bank Ltd, the country's two largest lenders, as *Domestic Systemically Important Banks (D-SIBs)*, meaning their collapse could have a cascading impact on the entire financial system and the economy. This is the first time the central bank has designated any banks as D-SIBs; this will now be an annual practice every August. SBI and ICICI have been so designated on the basis of a systemic importance score, arrived at after an analysis of the banks' size as a percentage of annual gross domestic product (GDP). Banks with assets that exceed 2% of GDP will be considered to be part of this class of lenders. SBI and ICICI will need to maintain 0.6 % and 0.2% of additional capital to maintain buffer.

Study of Financial Literacy Center – Updates

ACCESS ASSIST under the aegis of PSIG has conducted a study on Financial Literacy Centre (FLC) in four focused state- Madhya Pradesh, Uttar Pradesh, Bihar and Odisha. The study tried to focus on the aspects like outreach and activities of FLCs, material and module used infrastructure and human resource available. It also tried to understand the cost and funding structure of FLCs, mechanism for monitoring and review and challenges faced by FLCs. A sample of 5 FLCs in each state were selected from among the promoting Commercial Banks, RRBs and Coop Banks followed by detailed interviews with FLC Counselor; representatives of apex banks, interview with clients, etc. Some of the key highlights from the study are:

Highlights:

- Number of activities, especially the outdoor camps under the FLCs ranged from 4-12 per month with an average attendance of 25-30/camp; most of the FLCs conducted village level camps for the clients
- The Financial Counselor is the primary resource person responsible for the various activities
- Book keeping methods adopted to document the activities and outreach.
- Annual expenditure per FLC varied between 3-7 lakhs. Grant assistance is being provided by NABARD to RRBs and Cooperatives Banks to run FLCs at District and Block Level respectively. Up to Rs. 5 Lakhs/FLC is provided as grant assistance for the programme.

Issues and Challenges:

- Lack of adequate infrastructure facility
- Interest shown by other banks to use the services of the existing FLCs for FL was not found to be very encouraging.
- Lack of follow-ups on camps and financial diaries despite RBI guidelines; FL modules generally not followed
- Resistance from local moneylenders
- Indoor activity/walk in customers not an effective mechanism in rural areas
- The need to enhance remuneration of Counselors and BCAs came out during the course of the study.

STATE FI STATUS AT A GLANCE: WHAT NUMBERS SPEAK?

Pradhan Mantri Jan Dhan Yojana (PMJDY)

Under the PMJDY account 1.37 crore accounts have been opened in Bihar till 2nd September, 2015 through 40 Banking channels which include Brick & Mortar Branches, USB/CSP/Kiosk. While Aadhar penetration is around 28%, seeding of Aadhar in the account is about 15%.

PMJDY Progress Report as on 02-09-2015	
Population Census- 2011	103, 804, 637
Aadhar Issued	29, 007, 678
Aadhar Issued (%)	27.94%
Accounts Rural	9, 829, 712
Accounts Urban	3, 894, 107
Total Accounts	13, 723, 819
Aadhar Seeded	2, 072, 911
Aadhar Seeded (%)	15.1%
Source: www.pmjdy.gov.in	

Bank Branch Coverage

As on June, 2015, 6,403 bank branches are operating in the state, 56% of which belongs to rural areas. 460 new branches were opened during the year. The CD ratio has increased from 42.66% to 44.59%, while the priority sector advances have increased to 19.48%.

Particulars	June'14	June'15	% variation
CD Ratio	42.66%	44.59%	1.93
Priority Sector Advances (Rs. In Cr.)	46,468.57	55,520.78	19.48
Share of Adv. to Women in disbursement	6.60%	5.75%	(0.85)
Total number of branches	5,943	6,403	7.74
(A) Rural	3,487	3,600	3.24
(B) Semi-urban	1,369	1,587	15.92
(C) Urban	1,087	1,216	11.87
Source: Report - 53rd meeting of SLBC, Bihar			

Finance to SHGs and JLGs

Banks have opened savings bank account of 23, 180 SHGs and have credit-linked 9,117 SHGs during the first quarter of financial year 2015-16, with a total Bank finance of Rs. 51.24 crore. Against the yearly target of 75, 000 units, the bank have sanctioned 7, 406 number of JLGs amounting to Rs. 95.80 crore during the first quarter of financial year 2015-16. The RRBs have performed much better than the commercial banks with regard to credit linkage of JLGs and SHGs.

Kisan Credit Card

The banks operating in the state have sanctioned loans to a total of 7, 19, 094

beneficiaries (New – 191, 359 & Renewal -5, 27, 735) under KCC amounting to Rs. 5736.04 crore during the first quarter of FY 2015-16. For agricultural term loan, against the target of Rs. 14,651.10 crore, banks have sanctioned loans amounting to Rs. 3,184.82 crore to 150,991 farmers. The ratio of priority sector advance to total advances is as high as 68.13% in the state. The ratio of Agri Credit to Total advance stands at 37.91% against the national benchmark of 18%.

Progress update on No-frill account and Financial Literacy Initiative

A total of 24, 01, 158 No-frill accounts were opened during the first quarter of

FY 2015-16. Thus a total of 2, 90, 94, 970 No-Frill accounts have been opened till 30th June cumulatively. Out of these 19, 512, 367 (49%) are operational.

FLCs are functional in all the districts in the state. 1, 11, 845 persons participated in 1, 524 camps organized by the FLCs during the first quarter of FY 2015-16.

Crop Insurance Scheme

The Cooperative Department, Government of Bihar has allotted all districts of the State under the National Agriculture Insurance Scheme (NAIS) to Agriculture Insurance Company of India Ltd (Notification No. 1607 dated 19.05.2015).

MFI UPDATES

Key Highlights – Pan India

- As on 30th June 2015, all MFIs provided microcredit to over 3.11 crore clients, an increase of 24% over Q1 FY 14-15.
- The aggregate Gross Loan Portfolio (GLP) of MFI stood at Rs. 42, 106 crore. This represents a YoY growth of 69% over Q1 FY 14-15 and an increase of 10% over the last quarter.
- Funding to MFIs (in Q1 FY 15-16) grew by 40% compared with Q1 FY 14-15.
- Portfolio at Risk (PAR) figures remained under 1% for Q1 FY 15-16.
- 58% of total disbursement during the quarter was from 5 states viz WB, TN, Karnataka, Maharashtra and Bihar

Progress of NBFC- MFI in Bihar as on 30th June, 2015			
Particular	Q4 FY 14-15	Q1 FY 15-16	Rank
MFI count	18	19	4th
GLP (Rs. Cr)	2,694.2	2,915.7	5th
Clients (Lakh)	21.0	22.7	6th – 7%
Branches	695	728	7th
Employees	4,913	5,424	--
Loan Disbursement (Rs. Cr, Quarterly)	1,516.8	1,264.0	5th
Loan disbursed (Quarterly)	8, 13, 415	6, 49, 426	--
Average loan disbursed per account (Rs.)	813,415	649,426	--

Source: MFIN, Micrometer June, 2015 Edition

Key Highlights – Bihar

- In Bihar there has been a 8% GLP growth rate (Q1 FY15-16 over Q4 FY 14-15).
- Bihar contributes 7% of total GLP of the country.
- Bihar ranks 4th in terms of MFI count, the highest being in MP with 28 NBFC MFIs.

EXCERPTS FROM THE FIELD - JEEVIKA



Pinki Devi, a resident of Nahub village in Nalanda district, is the eldest among five sisters in landless family. After getting married, she was working as

a wage laborer earning a meager income to sustain her family. As a member of the SHG, Pinki Devi decided to take 2 bighas of land on batai (share cropping method). The initial support for taking land on lease, were sourced from SHG as a loan of Rs. 4, 000. She along with her husband started working on the land to enhance their income.

The production from the “batai” land was sufficient to meet the food requirement of the family for 5-6 months and for rest of the lean period her family had to

depend on other sources. Her association with SHG helped her to subsequently harness her entrepreneurial abilities as well. The initial association focused on savings, micro-credit and inter- loaning in the community. She has been taking repeated loans from SHG & VO for supporting her agricultural activities by taking land on lease. She has also taken loan from VO for construction of house and toilet.

The agricultural intervention gradually shifted to other livelihood activities

as well. With the focus on farm based intervention, she was introduced to SRI, SWI, vermi-compost etc. to improve the agricultural practices. In 2010 following the SRI and SWI practices, Pinki took a credit to lease the land for farming through SRI. Through SRI/SWI she could reap twice the production. While the increased production helped to ensure grain sufficiency, it also earned economic benefits for the family.

Further she also took up poultry farming when it got introduced through the VO.

This added income avenue along with a credit support of Rs. 15, 000 from SHG helped her to buy a buffalo in order to engage in dairy activities as well. With all these activities in place, Pinki Devi has been able to boost earning to Rs. 8-10, 000/ per month. She has also been able to purchase 1 kattha land to build a house for her family. Her son is now studying in a leading convent school of the district. With the economic benefits and savings, her husband got trained in driving in 2011 and is now fetching an

extra income for his family. Furthermore Pinki Devi Joined, JEEViKA as a Village Resource person and has presently been upgraded to the position of Master village Resource Person.

Pinki Devi, who once struggled to survive with no assets or security, today has become an independent woman with sufficient economic and social possessions. Her hard work along with support from various institutions has set an example for the rest of her community.

INTERVIEW WITH GENERAL MANAGER – RBI, PATNA MR. AMRESH RANJAN ON URBAN COOPERATIVE BANK



1. How important currently is Urban Cooperative Banks (UCBs) in Indian Financial System? Why do they occupy a small share in the banking? What are the issues and challenges?

- UCBs are important cog in the wheel of Indian Financial System. They are catering to the population which are not having the reach to the main banking channel (particularly Commercial banks) for banking services. Generally, the officials / management of these banks know the customers very well hence these customers feel more comfortable in interacting / transacting with these banks. This proximity and personal rapport between the bank & customers grows a long way to build the loyalty for these bank, so they have a very stable customer base.
- They are tiny part of the banking system by volume mainly because

their average loan ticket size is very small and they cater from lower middle class to urban poor of the country. There are many factors contributing to stunted growth of these banks. The first and foremost is the control structure, which is dual at present. Lack of professional vision of Board of Directors in most cases etc.

- As I said earlier, the dual control structure of these banks where the management is governed by respective state governments and the financials fall under the ambit of RBI is not giving RBI the required freedom to regulate and address the entire gamut of issues of a particular bank at one go. Dual control of State Govt. and Reserve Bank of India takes decision making slow and lengthy in UCBs. Incorporation / registration, management, administration, amalgamation, or liquidation is dealt with the respective State's Cooperative societies Act whereas if they are operating in multiple states then these are governed by Central Registrar of Co-operative Societies (CRCS).
 - Also recruitment of professional staff to enable the bank to tap lending opportunities in MSME segments.
 - Augmentation of capital for faster growth.
- ### 2. What are the major steps / policy measures RBI has taken up to strengthen the cooperative banking sector?

In recent days RBI has given some guidelines for strengthening the

cooperative banking sectors. In one of the circulars RBI has chalked out a plan for removing / liquidating the UCBs which are in bad health.

In a latest development, the High Powered Committee on Urban Co-operative Bank Chaired by Shri R. Gandhi, Deputy Governor has given some recommendations for further growth of the UCBs. The important recommendations made by the committee are as under:

- I. Conversion of Multi-State UCBs of business size of Rs.20, 000 crore or more into joint stock bank.
- II. Conversion of willing UCBs with business size less than Rs.20, 000crore into Small Finance Banks (SFBs).
- III. Issuance of fresh Licenses to financially sound and well-managed co-operative credit societies having a satisfactory track record of minimum 5 years.
- IV. Putting in place a Board of Management (BoM) in addition to Board of Directors (BoDs) has to be one of the mandatory conditions for licensing a new UCBs as well expansion of existing ones.
- V. The capital requirements as New Entry Point Norms (EPNs) for issuing licenses to well-managed co-operative societies has been recommended as under:
 - To operate as a Multi-State Urban Co-operative Bank- 100 crore
 - To operate beyond two districts and as a State level UCB - 50 crore
 - To operate as District level UCB (upto 2 districts) - 25 crore
 - In case of conversion of co-operative credit societies in unbanked areas and

in the north-east, suitable relaxation may be made by the Reserve Bank.

VI. A majority of the board seats have been recommended to be reserved for Depositors by making suitable provisions in the bye-laws.

But these are recommendatory in nature and final call has not been taken so far.

3. RBI is going to give licenses for Small Finance Banks, which will be mandated to serve unserved and underserved sections, thus make them potential competitors of the UCBs. What is going to be future of UCBs under this changing financial system?

➤ Given the above conditions, it will really be a challenge for the UCBs to retain their existing customer intact. Making new customers would also be very difficult in computerized environment as the banking services via electronic / cyber mode is new norms in banking sector. Accordingly the UCBs have to improve their internal system for providing a reasonable customer satisfaction. The management have to be more professional in their approach to take up the problem.

➤ If UCBs will not brace the challenge posed by these upcoming new Payment banks & Small banks, they will become extinct from the financial scene.

4. With still a sizable population remaining without access to formal institutional finance, what role RBI perceives for Urban Cooperative Banks in Financial Inclusion?

➤ RBI have appreciated that even after 100 years of Co-operative as well as introduction of RRBs into the banking services a sizeable number of Indian population is out of formal institutional finance. Therefore, it was decided to infuse competition in this sector like what has been done in case of full service commercial banks. These new small and payments banks will force the competition quotient up in this segment with which the ultimate beneficiary will be the customers of this sector.

5. What are the advantages of Urban Cooperative Banks over commercial Banks and RRBs in promoting Financial Inclusion?

A large influx of labor population into the cities still continues. These

are mostly illiterate or barely literate people but need to save his / her earning and remit a part of the same to their family members at home. Further, this class of population has been hesitant in going into a premise where comparatively affluent section of the society used to take banking services. It is here, the UCBs have edge if they grab it for their growth in banking business.

6. What support role PSIG can play to cope up with the Challenges of UCBs and promote financial inclusion?

PSIG (Poorest States Inclusive Growth) a programme to be implemented by SIDBI aimed to enhance the income and employment opportunities of poor women and men in 8 states. As the purpose of the programme is to improve income of poor people and small producers by expanding their access to finance and markets, UCBs can be a very good medium for identifying those needy and underprivileged people in the urban areas. If good market is provided for produces the UCBs can be encouraged for joint liability advances to the people.



About us:

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.



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