

# Bihar Inclusive Finance Bulletin

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## Second Meeting of the State Financial Inclusion Forum



Under the PSIG programme, 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 SFIF held its second meeting on 11th March, 2014 in Patna. The theme of this meeting was Micro-pension. Along with SFIF members, Mr. Rakesh Sharma, GM, PFRDA and some important aggregators from Bihar attended this meeting as special invitees. Mr. Rakesh Sharma briefed the participants on the NPS Lite (Swavalamban) scheme

of the Government of India. Aggregators shared their experience from the field in executing this scheme. Mr. Sharma addressed the queries raised by aggregators and other participants. He indicated that, to increase the outreach of micro-pension in the state convergence between PFRDA and state government departments like Dept of Social Welfare and the Department of Labour Resources etc. is needed.

Key action points that emerged out of the discussion were:

- 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 coordination with PFRDA.
- Organize content based interactive workshop with aggregators for better clarity on micro-pension product and process.
- Capacity building of frontline staff of aggregators.

### Financial Inclusion Update in the State

- Bhartiya Mahila Bank, India's first all-women bank set up its branch in Patna on 29th March, 2014.
- RBI granted preliminary banking license to IDFC and Bandhan.
- The Development Management Institute, established with active support from the Government of Bihar, Bihar Rural Livelihoods Promotion Society (BRLPS), and COMFED is set to be initiated.
- RBI goes to school to spread financial literacy and raise awareness among children.

## Activities under the PSIG Programme in Bihar

The PSIG programme envisaged to grant financial access to the poor is slowly and steadily progressing in the desired direction. Following are a few updates on the various activities being conducted in the state.

- State financial Inclusion Forum was set up with its inception meeting on January 24th, 2014.
- MicroSave is currently conduct-

ing a drill down study on the existing BC model in Bihar to provide institutional assessment, critical success factors of each organisation and policy recommendations.

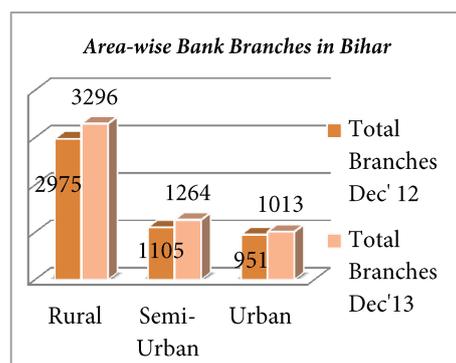
- Partnership with Madhya Bihar Gramin Bank to support a pilot on accelerating financial inclusion, using the Banking Correspondent channel.
- PSIG has partnered with 4 MFIs (2 home grown) towards their capacity building, expansion in excluded areas and deepening in other services like pension and insurance.
- In partnership with Sahaj e-Village Ltd. PSIG will help to support the organisation's financial inclusion initiatives across Bihar, U.P and Odisha.

## Bihar State Financial Inclusion Updates

The third quarter SLBC 47th review meeting for the current financial year was held on the 28th of February, 2014. Banks in the state have shown sincere efforts towards achieving annual credit targets set forth by the SLBC. So far, collectively they have been successful in extending Rs. 42,617 crore worth of credit and therefore achieving 68.74% of the targets as of Dec. '13. RRBs however have performed better and achieved 74.13% of their annual credit target.

With 5,573 branches in the state, 59.14% in rural areas show a 9.72% increase corresponding to the last FY.

SHGs in Bihar are playing a very crucial role in providing timely and adequate credit and other financial services to the vulnerable and weaker sections of the society at an affordable cost. Banks have credit linked 31,185 SHGs disbursing close to Rs. 246.20 crore worth of credit up till the quarter ending in 2013-14. Given a target of credit linking 8,280 SHGs, the highest has been achieved by Punjab National Bank, which sanctioned 6,562 loans amounting to 3,454 lakh and achieving 78% of its target.



### Performance of SHG- Bank Linkage in the state

Year	Number of SHGs Credit linked	Amt. of finance (Rs. In crore)
FY 2012-'13 (Dec'12)	20,684	144.16
FY 2013-14 (Dec'13)	31,185	246.20

The loan recovery percentage in the state is quite low at 61.99% of the total demand raised by Banks, as on 31st Dec, 2013.

JEEViKA and WDC are two important Self Help Promoting Institutions in Bihar. While JEEViKA is a nodal agency to roll out NRLM activities in the state, WDC is a government agency, specially working for women development.

### Performance of JEEViKA and WDC

Parameters	JEEViKA	WDC
No. of SHGs	126,836	61,616
No. of A/C opened	78,850	32,990
Credit Linked A/C	61,593	12,102
Loan to SHG (in cr)	348.02	62.58

Almost half of the SHGs of JEEViKA and 1/5th of WDC SHGs are credit linked. As a result of efforts made by agencies, SHG credit linkage has improved in the last few years but needs further improvement.

### Interest Subvention for WSHG

Former Finance Minister Mr. P. Chidambaram in his budget speech for 2013-14 proposed to provide interest subvention to WSHGs who avail loan up to Rs. 3 lakh at 7% per annum. In the category I, subvention will be provided to select 150 backward districts in the country including 11 districts of Bihar, which are Arwal, Aurangabad, Gaya, Jamui, Jehanabad, Kaimur, Munger, Nawada, Rohtas, Paschim Champaran and Sitamarhi. All the women SHGs promoted by NRLM or other Central or State Govt. line departments or NGOs or by NABARD under WSHG programme, which are linked with the banks, will be eligible for the scheme. RRBs will be subvented to the extent of the difference between lending rates and 7% for the FY-2013-14 and will also get concessional refinance from NABARD. Moreover, the WSHGs will be entitled to an add-on subvention of 3% if they repay in time and satisfy the following conditions:

1. For Cash Credit, outstanding balance shall not have remained in excess of the limit/drawing power continuously for more than 30 days.
2. For term loans, where all of the interest payments and/or installments of principal were paid within 30 days of the due date during the tenure of loans.

For the II category of districts (other than these 150 districts), all WSHGs under NRLM will continue to be eligible for interest subvention and avail loans at 7%. The funding of this scheme will be provided by the State Rural Livelihoods Missions (SRLMs).

## Business Correspondent: A Channel for Access to Finance

**B**usiness Correspondents have been playing an important role in extending financial services to those who are financially excluded by providing deposits, withdrawals and remittances. Under the business correspondent model, NGOs/MFIs set up under the societies/Trust Act, societies registered under Mutually Aided Cooperative Societies Acts of the state, Section 25 companies, registered NBFCs not accepting public

deposits and Post offices may act as business correspondents.

In the third quarter of FY 2013-14, 19,06,647 accounts have been opened through the BC channel. The number of No-Frills accounts opened through the channel amount to a total of 1,26,75,113 of which, 91,58,605 accounts are active.

### BC Activity: Bank wise Performance

Bank Name	No. of BCs	No. of BCA	No. of A/C opened in 2013-14
Commercial Bank (PSU)	319	4,061	13, 93,998
Commercial Bank (Pvt.)	12	0	37, 945
RRBs	40	4,205	4, 74, 704
Total	371	8,266	19, 06, 647

Source: 47th SLBC Review Meeting

### “BCs are the most suitable approach to increase access to finance. . .”, excerpts from an interview with the DGM for outreach, SBI.

**A**CCESS ASSIST, Bihar team interviewed Mr. N. S. Napolchyal, DGM, Outreach of State Bank of India on Business Correspondent Activity of SBI in Bihar.

**What is your assessment of the progress made by the banking sector in general and your bank in particular, on Financial Inclusion in Bihar in the last three years?**

Banks are reaching out to more and more remote areas year on year and as far as SBI is concerned, the progress is good. Apart from opening branches in rural and semi urban areas, the bank is reaching people through Business Correspondent Agents. There are 2900 CSPs of SBI with 8 BCs out of which 80-85% are active.

**What are the major barriers that prevent low income households across Bihar and India from getting access to reliable, sustainable and affordable financial services?**

There are two major barriers:

- Lack of accessibility to Bank, because customers are in remote areas where banking facility is unavailable.
- Lack of awareness about importance of availing financial services

**What is the current strategy and approach of SBI on broadening Financial Inclusion in the state?**

SBI has adopted few strategies to increase access to finance in remote areas:

- Initially BCs were working for Financial Inclusion in villages allotted by SLBC, but now this activity has extended to surrounding villages as well. This is called hub and spoke in which hub is the BC village and spokes are the villages around the BC.

SBI is planning to offer a bouquet of products through BC agents like insurance, micro credit etc. This strategy is in its developmental stage.

**How important is the BC approach in SBI's financial inclusion strategy? In your view, does the BC approach hold promise for the last mile banking access in Bihar?**

Business Correspondents is a potential channel to increase access to finance for people. This is the most suitable approach to increase access to finance in remote areas and it does not have any alternatives.

**What do you believe are the challenges faced by the bank in providing access to finance through BC Channel?**

The challenges are:

- Lack of infrastructure in remote areas
- Lack of common regulatory guideline for all banks
- Lack of expected performance by BCs

**In your view, what policy level changes are required to develop BC as the most effective channel for FI?**

There should be common guidelines for all banks to monitor and regulate BC activities formulated by the regulator. For example, SBI monitors its BCs through link branches, regional branches and head offices where they conduct weekly or monthly visits to see if the Community Service Providers (CSPs) are working as per the plan. Such practices will lead to more clarity in terms of monitoring and it will be easy for BCs also to follow.

**What is your experience about small accounts (no-frill) in SBI?**

SBI is focusing on increasing the number of small accounts and opening more than double the accounts every year through the BC channel. Till 2013-14 more than 18 lakhs such accounts have been opened through the BC channel.

**What is your vision and road map for better BC operation in Bihar?**

SLBC has already given a Financial Inclusion Plan for year 2013-16. SBI is now targeting villages of less than 2000 population through its BC channel.

## Performance of MFIs in Bihar

## Agriculture Insurance at a Glance

Microfinance is a form of financial service for entrepreneurs and small businesses lacking access to banking and related services. It is a sustainable means for poverty alleviation that has a lasting impact and caters to a holistic development of poor households. Although the status of microfinance in Bihar is improving, it still has a long way to go. Performance of major MFIs in Bihar is illustrated in the table below:

### Snapshot of nine MFIs as on 31st Dec. 2013

MFI	No. of Districts	No. of clients in Dec. 13	No. of clients in Sept. 13	Percentage Growth in no. of clients from Sept'13	Loan Outstanding (Rs. million)
C-DOT	3	13,926	13,399	3.9%	105.13
SAIJA	5	38,997	31,967	22%	413.60
Ujjivan	11	64,483*	56,349#	14.43% (in one year)	800
Jagaran	2	315	-	-	2.50
Arohan	6	43,410	-	-	369.50
BSFL	12	16,583	18,969	-12.57%	106.97
Cashpor	11	175,545	-	-	1,583.14
Bandhan	33	651,280	-	-	5,970

\*data for March, 2014

#data for March 2013

Agriculture Insurance is always a key issue in Bihar because the state has a dominant primary sector.

However Bihar faces undulating weather conditions affecting a large percentage of the population. While North Bihar is a victim of frequent floods, a significant part of south Bihar witnesses periodic

drought despite receiving adequate rainfall. 16.5% of the total flood affected area in India is located in

### Performance of major companies providing crop insurance in Bihar

Name of Insurance Company	No. of Farmers whose crop insured	Area (in Ha)	Sum Insured (In Cr)
AIC	9,31,244	9,93,578.23	2,118.33
Chola Mandalam	53,969	53,227.84	119.99
Tata AIG General Insurance Co. Ltd	30,239	65,972.82	1.48
Total	10,15,452	1,11,2778.89	2,239.80

Bihar. In 2013, floods in Bihar affected more than 5.9 million people in 3,768 villages. At the same time, in the years 2013, the state has received deficient rainfall by 25% at 668.6 mm as against annual average at 892.2 mm, and the monsoon lasted for just 15 days in the state as against the normal 45-46 days. Towards this, the government of Bihar under the cooperative department has given a confirmation for piloting the insurance for WB-CIS (Weather Based Crop Insurance) and has distributed the districts to different insurance companies.

Crops like Wheat, Gram seed, Maize, Mustard, Potato, Brinjal, Tomato and Mango in 38 districts, Lichi in 17 districts and banana in 22 districts are to be covered under the Rabi crop 2013-14. Performance of major companies providing crop insurance is shown in the table above.



**The Poorest States Inclusive Growth Programme (PSIG):** The DFID supported Poorest State Inclusive Growth (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

For sending feedback and queries please contact: Aparna Shukla ([aparna@accessassist.org](mailto:aparna@accessassist.org))  
at ACCESS ASSIST, M20, Road No. – 25, Sri Krishna Nagar, Patna – 800001 and Shubhangi Jaiswal ([shubhangi@accessassist.org](mailto:shubhangi@accessassist.org))