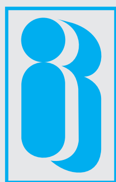

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CONTENTS

From the Editor

Special Features

Mainstreaming Microfinance

-- Graham A. N. Wright and Manoj K. Sharma 5

Capital and Citizenship : Challenges and Opportunities before Financial Inclusion

-- Ela R. Bhatt........ 14

Banking with the last, the lost and the least

-- Dr. Prakash Bakshi 22

Measuring Financial Access - Some Lessons for India

-- Vijay Mahajan and Suman Laskar 34

Microfinance

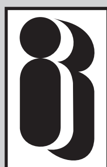
-- Reserve Bank of India 45

Book Reviews

CORPORATE GOVERNANCE - Challenges & Necessity for Emerging India

-- Bimal R. Bhatt 69

Bank Quest



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editorial

Shri. R. Bhaskaran
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The Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel, more commonly known as the Nobel Prize in Economics for 2009 was awarded to two economists working in the area of New Institutional Economics. Institutional Economics looks outside the formal market structure for solutions to economic problems. Microfinance would very much fit into the subject matter of Institutional Economics because it has sought answers to the problems of poverty outside the formal financial framework of banks and financial institutions. It is, therefore, fitting that this issue of Bank Quest is dedicated to Microfinance.

Though microfinance has achieved remarkable success in reaching finance to the poor and helped them keep their heads above water, to catapult them to higher brackets of income and earning it is critical for microfinance to be aligned with mainstream formal financial system. Small amounts of finance are enough to help the poor survive but to grow in economic status, larger amounts of finance become critical. The impediments to mainstreaming microfinance and the solutions thereof are discussed by Graham A. N. Wright and Manoj K. Sharma in their paper 'Mainstreaming Microfinance'. Microfinance Institutions (MFIs) in India, they say, require larger amounts of credit but are unable to raise these from banks for reasons like general liquidity squeeze, growth in the risk profile of the MFI clients and increasing appetite for credit among the big 4-5 MFIs. Therefore, access to capital is one hurdle in the path of mainstreaming microfinance in India. Other than capital, the other hurdles to mainstreaming microfinance are poor governance in the MFIs, lack of transparency in the nature of transactions and risks underlying them, inadequate human capital leading to poor management, inefficient processes and systems and insufficient product diversification.

National Bank for Agriculture and Rural Development (NABARD) has been a pioneer in the microfinance movement in India with its Self Help Group (SHG) Bank Linkage programme which has, till date, connected more than 4 million SHGs and about 45 million households in the country. But NABARD was set up only in 1982; the co-operative movement and other initiatives taken by the banking industry in India were precursors to the SHG Bank Linkage movement. Dr. Prakash Bakshi's paper 'Banking with the last, the lost and the least' traces this history of microfinance in India and also offers some insights into the lessons drawn by NABARD from its work in microfinance. For example, they learnt that the poor need a simple

means to save their money and they were not really looking for interest on these deposits, they also needed a simple mechanism to help the poor draw meeting emergent and short period consumption requirements and small economic activities. Finally, there has to be an inexpensive mechanism through which capacities of the poor to handle larger finances can be built.

Use of finance is distinctly different from access to it. One of the winning features of microfinance has been its access. Whether or not the people are able to lift themselves above the poverty line would depend to a great extent on their access to finance. Therefore, measuring access to finance is extremely important say Vijay Mahajan and Suman Laskar of Basix, India. They offer various ways in which access to finance can be measured in the Indian context. There is the demand side and the supply side measures of access to finance. From the demand side financial access can be measured through household surveys. In this they mention the All India Debt and Investment Survey (AIDIS) as an important source of data on financial access as it is quite comprehensive in its coverage (covering rural and urban areas) and provides details on financial transactions including cash transactions and repayment. The report also highlights the borrowings and repayments by households, state level variation, details by credit agencies, etc. From the supply side Reserve Bank of India's Basic Statistical Returns (BSR) report which highlights trends in credit and deposit over a period of time and also the number of accounts and the amount of loan or deposit outstanding is a good source of data on financial access as is the post office data on savings and money orders. However, the authors find that sources of data from supply side are the only ones that measure the total number of citizens who are covered by financial services. There is no equivalent source of data from demand side. Therefore, they suggest that a large scale sample survey should be conducted in India to estimate financial access from the demand side and it should be conducted at least once in two years.

We are also carrying in this issue a chapter on microfinance from RBI's Trend and Progress of Banking, 2007-08. It serves as a primer on microfinance and captures all the details regarding microfinance in India.

In addition to the above articles on microfinance we carry the text of the 3rd R. K. Talwar Memorial Lecture, delivered by Smt. Elaben Bhatt on 'Capital and Citizenship: Challenges and Opportunities before Financial Inclusion'. Smt. Bhatt talks about the necessity for conceptualisation of capital to create a fair world of rights, livelihood and stable peace. Advocating a more open and less definition-driven approach to financial inclusion, she stressed on the Gandhian idea of Community to help the poor gain access to finance as well as livelihood.

(R. Bhaskaran)

Mainstreaming Microfinance

Graham A. N. Wright *

Manoj K. Sharma *

Introduction

India, with its 1.1 billion people (about 15% of the world's population) represents a huge market with tremendous opportunities for expanding financial access, especially among its poor. The microfinance sector in India has seen rapid growth during the last few years. The availability of a large market, willingness of banks to lend to microfinance institutions (MFIs) for meeting their priority sector targets as also because they sense a good market has all helped the rapid growth of the microfinance sector. The last five years have been very monumental in the growth of the microfinance sector; especially the last couple of years. In fact, the figures, speak for themselves. During 2007-08, the Government backed Self-Help Group (SHG) - Bank linkage programme reached an estimated 4.5 crore households. In 2007, the founder of Grameen Bank won the Nobel Peace prize. In India, in addition to the SHG approach, a growing number of MFIs are following the joint liability group-based approach of Grameen Bank. In 2007-08, the outreach achieved by these Grameen Bank-inspired MFIs also reached a creditable 1.4 crore households and at the same time, achieved an impressive target of Rs.2,500 crore in portfolio outstanding[1].

Growth in the microfinance sector in terms of outreach has also meant institutional growth. At least four institutions have crossed milestones of one million client outreach and have outstanding portfolios in the range of Rs.350 - Rs.800 crore. Private equity players are making investments in the burgeoning microfinance sector, which is slowly but surely moving towards achieving the status of a niche industry within the overall financial sector. The sector continues to have a disproportionate presence in the south of the country with MFIs in AP, Tamil Nadu and Karnataka accounting for 52 percent of the clients and 59 percent of the outstanding loans[2]. However, a growing number of start-ups have initiated operations in the Northern and North-eastern states which is comforting in terms of the possibilities of greater outreach in the future.

Microfinance is thus coming of age, but is it yet mainstreamed? To consider this we must look at what is necessary for the sector to achieve this status - to be fully integrated with the Indian financial sector. It is possible to argue that this is happening already, not least of all because the Reserve Bank of India's (RBI's) priority sector lending requirements (PSLR) force banks to look for exactly the sort of opportunities that MFIs offer them to lend to the poorer elements of society. However, the past year has actually shown that this link is very tenuous. The MFIs had (and the smaller ones continue to have!) problems in raising debt funding from banks. Closer examination suggests funding to the sector is not only driven by PSLR compunction but is also largely based on short term loans, and thus somewhat tenuous as many of the medium and small MFIs found out when the credit crunch bit in late 2008. For true integration to occur MFIs will need to significantly improve their governance, management, systems, MIS / IT capability and thus transparency and eventually they will need to offer more than the very basic and standardised credit products they currently provide.

* ***The authors are senior members of the management team at MicroSave India, Lucknow. MicroSave's work and documents can be accessed on www.MicroSave.org.***

1. *Microfinance India State of the Sector Report 2008; N. Srinivasan*
2. *Microfinance India State of the Sector Report 2008; N. Srinivasan*

Linking to Capital Markets

Credit

India has a remarkably sophisticated market for financing MFIs. SIDBI has played a pioneering (and much under recognised) role in using a judicious mix of grant and loan funds to stimulate the MFIs towards a commercial and sustainable approach. ICICI Bank's lead, together with the Reserve Bank of India's priority sector lending requirements (PSLR), has meant that many, if not most, major banks are now actively lending to MFIs - even relatively small ones with apparently questionable and widely varying risk profiles. The emphasis of banks in lending to capitalised structures under the companies format have meant greater emphasis on Non Bank Financial Companies (a legal form to which banks feel much more comfortable lending). This in turn has made MFIs transform from Societies and Trusts into Non Bank Financial Companies (NBFCs). These NBFCs require capitalisation since banks are looking for appropriately structured balance sheets thus, prompting the development of a vibrant venture capital / equity investment market. On the liabilities side, however, little progress has been made to date despite the Banking Correspondent circular of January 2006[3]. This looks set to change with the emergence of e- and m-banking based systems and the RBI's clear commitment to relax some of the rules if that is what it takes to spur real financial inclusion. It now appears that RBI has finally come around to the view that by merely 'opening' “No Frills Accounts” financial inclusion will not be achieved.

In recent times, however, the availability of debt has caused concern for the sector. The general credit squeeze, the growth in risk profile of the sector and the increasing appetite of the big four or five players have all contributed to a general scarcity of credit for smaller and mid-segment MFIs. At least one bank (a relatively small player) has stopped lending to MFIs all together and another bank has reportedly taken a stance that it will not increase its portfolio beyond the levels in FY 2008. Another trend witnessed is that banks like to lend to the top ten or fifteen MFIs and not disperse their portfolio too broadly. This, from the point of view of banks is understandable as it does away with the need to monitor a large number of MFIs. However, such an approach does not help in increased outreach as it affects the growth plans of several promising small and mid-segment MFIs. In view of these developments, small and mid-segment MFIs will definitely feel the pinch in the coming years in terms of availability of funds for on-lending. This will continue as long as liquidity remains an issue with banks and will be exacerbated by the introduction of Basel-II norms, which call for assigning a higher risk weighting on exposure to MFIs. In fact, scarcity of funds for on-lending along with the increasing competition may, over the next couple of years, lead to mergers and consolidation, an emerging trend in Africa.

The silver lining in this entire development is that public sector banks have stepped in to fill part of the gap and have actively considering credit support to MFIs. The entry of the public sector banks (that hitherto only lent to Self Help Groups) is a very important step forward and likely to lead to increased demands for further efficiency and reduction in interest rates, and also to increased availability of funds. On the whole however, MFIs and experts expect tighter credit conditions in the new financial year, from April 2009.

Equity

The easy availability of debt as a result of the PSLR has prompted the arrival of commercial equity investors, seeking to leverage that debt and make quick gains by driving rapid expansion of MFIs. As Moumita Sen Sarma noted in 2007[4], “Riding the wave of the new found popularity of microfinance, mainstream investors like Sequoia and Legatum suddenly discovered a new asset class in the fast growing Microfinance Institutions (MFIs) of India. The infamous Krishna District episode of March 2006, that appeared to threaten the very survival of the microfinance sector became a distant memory, all but erased. The MFIs

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3. *See Singh, Anup and Krishna Thacker, “MFIs as Business Correspondents To Be or Not to Be?” MicroSave India Focus Note # 18, MicroSave, Lucknow, 2007. for a discussion of this*
4. *Sen Sarma, Moumita, “Microfinance Is Not An Easy Business!”, MicroSave India Focus Note # 5, MicroSave, Lucknow, 2007.*

of India are suddenly the toast of shrewdest investors, boasting of valuations almost reminiscent of the dot com boom". Had the stock market not plummeted in 2008, it is safe to suggest that the investors in MFIs would have sought an IPO with a view to selling their shares and exiting with the profits.

With the entry of these (largely) foreign, commercial, private equity funds into the Indian microfinance market, the level of latent political risk has risen significantly. These funds are looking for capital growth of 30-40% per annum, and when they sell their shares to realise these type of returns, the negative publicity and backlash that is likely to occur will make the controversy surrounding Comportamos in Mexico look benign. As Moumita Sen Sarma, 2007[5], says, "One wonders if the MFIs can afford investors seeking internal rates of return of 30%; and what may be the cost of doing so? The jury may still be out, but the need for capital is very much in". Impact analysis or at the very least Social Performance Management describing the way MFIs respond to the needs of the poor, (as well as the nature of their clients), will be essential to manage the growing political risk.

Governance

One of the potential benefits of the commercial equity investors might have been to improve the governance of the MFIs, which was universally acknowledged to be poor. Good governance will be essential for the long term mainstreaming of microfinance. Good governance is about both achieving desired results and achieving them in the right way. Since the "right way" is largely shaped by the cultural norms and values of the institution, there can be no universal template for good governance. Each institution must tailor its own definition of good governance to suit its needs and values. There are, however, some universal norms and values that apply across cultural boundaries. The United Nations published a list of characteristics of good governance which includes five key principles that are universal for all good models of governance and central to the approach outlined in MicroSave's toolkit on "Governance for MFIs", which was developed in collaboration with MEDA.

1. Legitimacy and Voice
Participation - all men and women should have a voice in decision-making, either directly or through legitimate intermediate institutions that represent their intention. Such broad participation is built on freedom of association and speech, as well as capacities to participate constructively.
Consensus orientation - good governance mediates differing interests to reach a broad consensus on what is in the best interest of the group and, where possible, on policies and procedures.
2. Direction
Strategic vision - leaders and the public have a broad and long-term perspective on good governance and human development, along with a sense of what is needed for such development. There is also an understanding of the historical, cultural and social complexities in which that perspective is grounded.
3. Performance
Responsiveness - institutions and processes try to serve all stakeholders.
Effectiveness and efficiency - processes and institutions produce results that meet needs while making the best use of resources.
4. Accountability
Accountability - decision-makers in government, the private sector and civil society organizations are accountable to the public, as well as to institutional stakeholders. This accountability differs depending on the organizations and whether the decision is internal or external.
Transparency - transparency is built on the free flow of information. Processes, institutions and information are directly accessible to those concerned with them, and enough information is provided to understand and monitor them.
5. Fairness
Equity - all men and women have opportunities to improve or maintain their well being.
Rule of Law - legal frameworks should be fair and enforced impartially, particularly the laws on human rights.

Governance has assumed increasing importance for several reasons.

- Banks and equity investors making investment decisions place a very high premium on the governance of institutions to which they are lending, or in which they are investing equity.
- Rating institutions also attach a lot of importance to governance. A well structured and active board will more likely than not ensure a higher rating for the institution and thus access to debt.
- As MFIs grow in their outreach, the size of their assets, as reflected in their portfolio, also grows to

5. *Sen Sarma, Moumita, "Microfinance Is Not An Easy Business!", MicroSave India Focus Note # 5, MicroSave, Lucknow, 2007.*

considerable size. Ensuring effective management of this growth requires added input and involvement from the board of directors.

- Increasing numbers of MFIs are becoming regulated and assuming the responsibilities and challenges of a regulated entity.
- MFIs are operating in increasingly competitive markets, and maintaining or increasing market share has become an important component of their strategic objectives.
- Good governance leads to a number of positive consequences, including :
  - Trust
  - Clear vision, mission, and direction
  - Relevant values
  - Connection to the stakeholders
  - Sustainable financial stability

Transparency

The microfinance industry, lead by CGAP[6] and the MIX Market[7], has long since placed a premium on transparency, openness and excellence in reporting financial results. Indeed several of the leading Indian MFIs have won the CGAP Annual Transparency Awards. However, there still remains work to be done if microfinance is to become fully integrated into the financial services sector. Recent events in the mainstream sector strongly suggest that commercial banks in the UK and USA in particular also need to pay greater attention to transparency (and indeed governance). The problems faced by these banks were, that Boards were unable to fully understand the nature of the transactions and the risks being undertaken by the banks; management was unable to adequately assess and manage the risk and systems unable to track and quantify the risk inherent in the banks' portfolios. MFIs face exactly these risks too.

There are relatively few auditors in India who really fully understand the nature of MFIs' business, the processes that underlie it and the risks involved … and still fewer that really go out into the field to assess that risk properly. Rating companies' approaches are simply inadequate to assess the real risks in any MFI - and typically offer a beautifully presented report outlining an analysis of the financial performance of the organisation as told by the audit and the MIS. To understand the real risk, a much more thorough loan portfolio audit (LPA) exercise is essential - and now, finally, banks are insisting on these before making their decisions on large scale lending to MFIs. As Swandip Sinha, 2008[8] notes, “A LPA report is a vital supplement to a rating report and often a reality check for the rating. In this context, it is noteworthy that because of the anomaly between the budget / time resource constraints and the volume of work involved, rating methodologies often rely on data reported in by the MIS and the audit systems of the MFI, which themselves are sometimes imperfect. In the case of one MFI, more elaborate and in-depth analysis by LPA revealed that the actual portfolio at risk was ten times higher that the rating report estimates … the rating given was clearly optimistic and misleading for the MFI, as well as those lending to it. On the basis of the LPA, the MFI was able to make significant progress in strengthening its systems and real institutional creditworthiness”.

Management

As noted above, the Indian microfinance industry is unique in that there is an abundance of financial capital chasing opportunities to invest, but a clear lack of adequate human capital / capacity to manage it. Most MFIs have limited (and often no) credible second-tier management to manage the institutions and their growth. There is, therefore, a pressing need to develop the management capacity of MFIs in India. Furthermore, the support services industry for microfinance in India is limited in scope and scale. What little exists was, until recently, focused primarily on external (and occasionally internal) audit, delivering 4-5 CGAP toolkits and extending basic “hand-holding” services to nascent MFIs.

In MicroSave's India Focus Note # 11, “Capacity Building Needs and Challenges in India” Brij Mohan notes that,

6. See www.CGAP.org
7. See www.MixMarket.org
8. Sinha, Swandip, “Benefits of Loan Portfolio Audit for MFIs”, MicroSave Briefing Note #62, MicroSave, Lucknow, 2009.

"In addition, to maintain the confidence of (and thus fund flows from) the bankers, MFIs will need to improve their systems, governance, management and transparency. Surveys and informal discussions reveal that the central bank, and commercial banks lending to the MFIs, continue to be concerned about their weak governance and second-line management. In line with private sector business, MFIs need to start seeing training as an investment rather than expense. As part of this they need to pay more attention to training and capacity development as a part of an integrated HR management that includes HR retention."

Worldwide (and in India too) training and capacity development remains the single biggest challenge for microfinance. MFI leaders report that there is no regular supply of trained manpower either at the grass root level or at the management level. As a result they are forced to rely on ad hoc in-house training methods and infrastructure which does not yield the professionalism and competencies that they need to build strong and effective financial institutions. Like many countries across the globe, India still needs a cadre of high quality technical service providers to train / service the sector in the future.

Currently, not enough attention is being paid to training for senior and middle management. This probably stems from three constraints :

1. A thinking that senior management does not really require training.
2. A mindset that senior management does not have the time to attend training.
3. Inadequate capacity of senior management to implement the outputs of training within MFIs.

Further, as with many other countries around the world, India sometimes suffers from inappropriate selection of participants for training courses with staff attending training as a reward, or because it is "their turn" or because the course is being held in their home town.

Over time training will need to be built into part of the staff retention systems - realistically, all professionals

Microfinance is all about managing high volumes of low value transactions and the credit and operational risks associated with doing this.

seek challenging environments within which they are learning and growing … And the professionalisation of the industry will mean that salaries in the sector will have to rise to become more realistic and market related. Indeed, with the churn in staff amongst MFIs in many countries, this is already happening.

Systems / Processes

Microfinance is all about managing high volumes of low value transactions and the credit and operational risks associated with doing this. Standardised and efficient systems and processes (and the compliance with these processes) are, therefore, the fundamental foundation of any successful MFI - and essential for mainstreaming microfinance.

A cursory look at most MFIs across the world will often reveal that different processes are being implemented in different branches something that is rapidly amplified by the typical "on-the-job" training provided to new recruits. In response to this, increasing numbers of MFIs are using process mapping to analyse and then refine or re-engineer their processes. Process mapping is a technique that makes workflows visible. A process map is a flowchart that shows who is doing what, with whom, when, for how long and with what documents. It shows how operational decisions are made and the sequence of events.

MicroSave suggests and adopts an approach that goes beyond drawing flowcharts, adopting a four-tier approach. The four tiers are, the flowchart, a description of the process, potential risks in the process and possible controls. This approach enables efficiency and internal controls to be carefully balanced, to the benefit of the institution and its customers. In India, this approach has been used to optimise the systems of MFIs, banks' business correspondent operations and the delivery systems of a leading m-banking service provider.

Steps in Process Mapping
1. Choose processes to be mapped
2. Select people for the process mapping exercise
3. Define process along with process mapping objectives
4. Gather data
5. Construct "As Is" map
6. Analyse "As Is" map
7. Analyse "Could Be" and "Should Be" maps
8. Summarise and distribute findings
9. Getting into action testing new processes

MIS and IT

Applying a similar logic to the need for standardised and efficient processes / systems, the importance of an efficient MIS for MFIs is clear since (as noted above) their operations typically involve a large number of clients, repetitive transactions at regular intervals and the small amounts per transaction. The increased focus on growth has made it vital for MFIs to obtain ready and actionable information with which to aid strategic and operational decision making. A well designed MIS enables organisations to have access to the required information on a continuous basis. Moreover, a good IT-based MIS collates information from different functional areas, as compared to information silos which are typically seen in manual systems, and thereby provides more clarity on the big picture.

India ought to have a natural competitive advantage with this aspect of mainstreaming microfinance.

As Foster and Garg, 2008[9], note, "India boasts of a world-class Information Technology (IT) sector". A recent NASSCOM report notes, "Continuing on its established track-record, the overall Indian IT-BPO revenue aggregate is expected to grow by over 33 per cent and reach $64 billion by the end of the current fiscal year (FY2008). Over the same period, direct employment in the sector is expected to reach nearly 2 million, an increase of about 375,000 professionals over the previous year".

Both microfinance and technology sectors seem poised for continued growth. Banks have been using technology for years, as a core component of their operations. Microfinance, on the other hand, with its roots in the NGO world has been slower to catch up. One reason for this may indeed be the cost of the acquiring and implementing technology required, but another might be that the management of many MFIs do not yet recognise the value, importance and strategic advantage that can be leveraged using technology.

The key areas which call for close monitoring in MFIs include sustainability and profitability, asset / liability management, portfolio quality, efficiency and productivity. The MIS implemented needs to be tailored to suit these requirements which are specific to their operations and should be designed in a manner as to enable comparative studies on past performance, market performance, benchmarking etc.

Foster and Garg 2008[10], go on to note that, "Large microfinance institutions are well aware of the benefits of technology but many medium-sized ones are not. It seems that MFI managers do not fully appreciate the central importance of IT in product innovation and defining new delivery channels - indicating that there is much scope for improvement. There are numerous software suppliers, and an excessive reliance on poorly designed software by small suppliers. However, with several new entrants into the software provision sector, and some interest in applying the application service provider approach, potential institutions are gaining access to a wider selection of well designed, though more expensive, software".

Thus, for basic microfinance operations effective and efficient MIS / IT is essential, however, there is another reason why IT will shape the future of microfinance. E-banking has the potential to revolutionise access to financial services for the poor. There is growing consensus that e-banking offers a unique opportunity to address mainstream banks' two major barriers to serving the low-income market : the need for a branch infrastructure and managing high volumes of low value transactions. The potential of e-banking to significantly extend the reach of financial institutions into rural areas, without investing in "bricks and mortar" branches, is widely acknowledged.

9. Foster, Dayo and Nitin Garg, "Improving MIS in Indian MFIs: An assessment with suggestions for active engagement", MicroSave, Lucknow, 2008.

10. Foster, Dayo and Nitin Garg, "Improving MIS in Indian MFIs: An assessment with suggestions for active engagement", MicroSave, Lucknow, 2008.

In India, for example, both the Government and the regulator are quite concerned about the skewed outreach of the banking sector including the nationalised banks. Of the 428 million deposit accounts in the country, only 30% are in rural areas. With a rural population of 741.6 million, the rural penetration of banks is as low as 18%. Even when access to banking is available, the transaction costs of savings in formal institutions in India are as high as 10% for the rural poor.

However, for all the growing talk of a revolution in financial access for the poor through e-banking, there is limited evidence of it actually happening. Indeed markets across the globe (including India) are littered with examples of unsuccessful e-banking initiatives that failed to achieve their potential. Careful examination of the reasons for the failures almost invariably traces the cause to one or several of three key factors :

1. Inadequate customer value proposition for the end users; and / or
2. A poorly developed business case for the companies collaborating; and / or
3. A debilitating environment.

Successful implementation of an e-banking solution is not dependent on technology - which has been available for a long time now - but rather on understanding these three key factors.

India's 400 million un-banked represent a tremendous opportunities for financial institutions, and telecommunications companies interested in serving the bottom of the pyramid. Serving this market requires the management of high volumes of low value transactions - which is precisely what robust e-banking systems are designed to do. Indeed profitable e-banking systems are dependent on managing large volumes of transactions, since it is these transactions that drive the majority of their revenue. With the significant and growing penetration of mobile phones, linked to the potential the public call office system, and the low cost of mobile telephony in India, one can only hope that m-banking will be allowed to play a significant role in the push for financial inclusion.

In India, we have learned (and continue to learn the hard way), that financial inclusion will not happen just because of the ready availability of technology and a market. Little progress has been made to date despite the Banking Correspondent circular of January 2006[11]. Most of the no-frills accounts opened by using biometrics and smart cards are dormant (90% dormancy by some accounts). Banks which started on this path are questioning the business case and wondering whether working with the bottom of the pyramid sector is all about corporate social responsibility and does not make business sense. It now appears that RBI has also come around to the view that by merely 'opening' “No Frills Accounts” financial inclusion will not be achieved. This looks set to change with the emergence of e- and m-banking based systems which seem to work in the pilot stages and the RBI's clear commitment to relax some of the rules if that is what it takes to spur real financial inclusion. Understanding the needs of poor people and making a business case for all concerned will however be the key to making e- and m-banking work for the poor and provide a scalable and credible savings option.

Product Diversification

Another change which must happen over the next few years, as an essential part of the mainstreaming process, is for the microfinance sector to begin to provide greater diversity in its product offerings. A mix of regulatory restrictions around savings and a desire of most MFIs to spread horizontally, has contributed to an almost mono-product offering from the microfinance sector. Most MFIs end-up offering to clients a basic working capital loan product with a year long tenure and a weekly repayment format. This may change over time as competition picks up and the need to retain clients, in at least some of the more competitive markets, leads to the development of tailored products suited for specific household needs.

Product diversity may, it is fondly hoped, at some stage, bring about clear linkages between livelihood and microfinance. Critics of microfinance have always

11. See Singh, Anup and Krishna Thacker, “MFIs as Business Correspondents To Be or Not to Be?” MicroSave India Focus Note # 18, MicroSave, Lucknow, 2007. for a discussion of this

maintained that the debt based intervention from the sector does not always lead to enhanced income generation and as such poor households always remain vulnerable and if anything, microfinance increases indebtedness. While the truth in these assertions can be debated, it has to be said that microfinance in India has till very recently involved credit of such small amounts that any serious income generation effort, on the part of the recipient household may have been difficult. This has changed over the last couple of years and loan sizes have definitely shown an upward trend (Average loan size for SHGs is Rs.3,500 and for MFI channels it is Rs.5,000)[12]. The need now is to tailor the loans to different livelihood opportunities in the region to enable poor households to diversify income streams.

At another level, product diversity in microfinance has to encompass a more varied bouquet of services in the form of savings, insurance and money transfer. Saving services continue to elude poor households as the regulatory framework restricts most legal forms, through which microfinance can be purveyed, from undertaking this activity. An unattractive cost-benefit economics of the correspondent banking initiative, under which an MFI can become a correspondent of a banking entity, has been a hindrance to any meaningful effort.

Micro-insurance is another area which needs more and diversified offerings. Life insurance has picked up over the last couple of years and is gradually becoming a bundled offering with the credit products of MFIs. However, other insurance covers, most importantly health insurance, continue to be peripheral offerings. Studies in the past have indicated that health related downturns in the lives of poor families are perhaps the single most important reason for increasing vulnerabilities and pushing people into the hands of usurious money lenders. This puzzle remains to be cracked and microfinance in association with insurance companies and health service providers needs to develop products and delivery systems which can provide the poor with this service. As with credit, the market for this product will be huge.

As outreach of banks and MFIs is increasing, money transfer is becoming an area of interest.

As outreach of banks and MFIs is increasing, money transfer is becoming an area of interest. This is further helped by the availability of technologies which can aid the money transfer process. Until now, money transfer from MFI channels is limited and very few MFIs are offering this service. The limited offering, is at least in part, because of the regulatory hurdles around money transfer. The Reserve Bank of India equates remittance with a deposit taking activity and as such, most MFIs are barred from entering this domain. Of late, however, banks have shown interest in entering this segment. At least one bank is presently undertaking market research to study the needs of poor people in terms of money transfer services, the existing channels that they employ, the costs of the existing channels and the product features which will make clients shift to a banking network. This service also has immense possibilities, considering the huge migrant population which flocks to India's cities from rural areas.

Savings

Ultimately, mainstreaming microfinance will result in (and be testified by) MFIs' ability to offer savings services to their clients. As we all know, poor people face a wide variety of risks / needs including those driven by life-cycle events, crises, macro-level structural events, consumption smoothing and of course, responding to opportunities. Some of these risks / needs are predictable, others less so. These risks / needs dictate that poor must and do save. The nature / predictability of these risks / needs have significant implications for the design of savings services / products.

Responding to these needs, the Government of India and Reserve Bank of India clearly and fully committed to “Financial Inclusion” and also to protecting poor people's savings. These two commitments set up a conflict of priorities and approaches (different departments in RBI responsible for financial inclusion and prudential regulation.)

12. Microfinance India State of the Sector Report 2008; N. Srinivasan

The recommendations of the "Raghu-Rajan-committee" (CFSR 2008) constitute an excellent basis for putting financial inclusion into the driver's seat. Re-opening the option of Local Area Bank-licenses would allow to roll out an institutional structure that has proven its ability to offer flexible savings; opening the banking correspondent route to NBFCs would eventually give rise to a real choice of savings products - among which flexible life insurance-based schemes (e.g. LIC / Max) and variations of asset-backed borrowing to save schemes might be the most obvious, particularly useful for long term asset accumulation. The beauty of these latter examples is : MFIs can pursue them already under today's regulatory framework.

Conclusion

We have argued that while India's MFIs already have remarkable access to capital markets, there are several preconditions for the real mainstreaming and integration of microfinance into the financial services sector. Unsurprisingly, these preconditions read like a bankers' loan appraisal form or checklist - supplemented with a recognition of the need for MFIs to diversify their product offerings and thus improve the quality of the service they offer their clients. Ultimately, this should lead to MFIs offering savings services to their clients - either directly or (more likely) as agents for banks.

But effecting these changes will not be easy for many of the smaller transforming MFIs. As Mathew Leonard, 2009[13], points out, “Building new systems and capacities, and enjoying greater access to capital, brings a range of new cultural challenges to an MFI. Institutional culture can be defined as a system of shared beliefs and values that develops within an organisation and guides the behaviour of its shareholders, management, staff and clients. There are two primary cultural shifts that take place in transforming MFIs, and which affect each stakeholder in different ways. One is moving from grant-funding into a much higher risk profile - e.g. accessing debt from banks, on-lending funds and ensuring repayments in order to meet its commitments. The second involves fostering an attitudinal and behavioural change throughout an organisation built on purely social foundations”.

For the larger MFIs, management remains in many ways the key challenge, as this is the key to improving governance, systems, MIS / IT and thus transparency. In their haste to lend to the MFIs, the commercial banks lending large funds (both on and off-balance sheet) to these organisations, typically perform perfunctory and inadequate performance appraisals. With this relatively easy access to financial capital, many of the MFIs have grown too fast and have systems and management that are over-stretched. MicroSave is engaged in responding to this huge and pressing need for capacity development through piecemeal courses and the Applied Microfinance Institute India.

The Indian microfinance market is growing and evolving extremely quickly; with these changes come challenges and opportunities. The next few years will demonstrate if the potent combination of commercialisation, technology, and abundant debt capital has over-stretched the systems and capabilities of MFIs to breaking point or will serve to turbo-charge successful, balanced financial inclusion that offers a range of financial services to the currently un-banked poor in India, through a microfinance sector that is integrated with the formal financial sector, and has been mainstreamed.

13. *Leonard, Matthew, “Institutional Culture and Transformation: From NGOs to Market-led MFIs” MicroSave India Focus Note # 20, MicroSave, Lucknow, 2009.*

Capital and Citizenship : Challenges and Opportunities before Financial Inclusion*

Ela R. Bhatt **

Respected Shri O. P. Bhatt, Shri Bhaskaran, distinguished Chairs and Managing Directors of Banks, leading banking Community, ladies and gentlemen.

I feel humbled to be here in midst of you, the esteemed, hard core bankers of this country to deliver a speech on a subject related to your domain, which is Banking and Finance. At the farthest end of your vast domain, I am just like a small vendor - practicing but more struggling to grow. However, I am glad that I have such valuable opportunity to speak my mind in front of you. I trust, you will let me attempt and understand the part of my struggles.

It is indeed a great idea of State Bank of India and its staff to honour a past leader of their Bank through commemorative lectures. I thank the Bank and Shri O. P. Bhatt, the Chairman of State Bank of India to have invited me, here, today.

I feel deeply honoured to deliver the third R. K. Talwar Memorial Lecture. I thank The Indian Institute of Banking and Finance for that matter. Thank you, Shri Bhaskaran, CEO of the Institute.

It is well known that Late Raj Kumar Talwar, as Chairman of State Bank of India, had played a very significant role in shaping the activities of State Bank of India during the seventies. He had an outstanding career in the Bank and also earned kudos for his straightforwardness, principles and integrity. His contributions to the cause of SME development, agriculture financing and rural development are legions. Under his leadership, I understand that, State Bank took several initiatives in the areas of innovative banking, rehabilitation of sick industries, credit plans for rural development, and introduced simplified procedures for financing of small-scale industries. He launched new schemes for the benefit of smaller entrepreneurs, small businessmen and agriculturists. I am proud to inform you that if SBI did not have "innovative banking" concept and an Officer-in-Charge one Shri Sundaram, at the Central office in Ahmedabad, in the seventies, our SEWA Bank would not have come into existence. Definitely, Shri Talwar's vision of banking included not only SME, but also women, poor self employed of Ahmedabad city right from the beginning. Today the State Bank is unparalleled in terms of size and outreach. Its involvement in Agriculture finance and Micro finance is noteworthy. The seeds of this huge growth were laid at the time of Late Shri Talwar. I consider it as a great privilege to have been invited for this memorial lecture and wish to acknowledge and pay my tribute to the great visionary through this lecture. Thank you.

1. SEWA Women's access to capital and Citizenship

Mine is a simple story. It is an analysis a narrative and a appeal. All three ask for a different kind of democracy, a democracy that goes beyond elections and parties and thinks of the citizenship of marginals. A democracy that cares for ecology, survival and sustainability. Let me begin with my community : SEWA women.

They are workers, producers, entrepreneurs, self employed, who have started a business, who manage their money and live on their surplus. They take risks they borrow from money-lenders, they brave the policemen, and if they fail, they pay with hunger and destitution. If they succeed, they employ others in their family to carry on the trade.

This entrepreneurship comes out of a need for survival. A woman who has no money will set herself up as a rag picker. She can pick the kind of trash that can be turned to cash at the end of the day and feed the family. The day

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* *"Third R. K. Talwar Memorial Lecture 2009", at Indian Institute of Banking and Finance, Mumbai, dt. 23/7/2009.*

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she does not work, she does not feed her family. The equation is simple. She may have money today, but if it rains, she has none tomorrow. Their economic cycle is a daily cycle. Their savings are miniscule and they can be wiped out in an instant. When one lives on the margin, anything can happen. Picking garbage dumps is risky business. The sharp metals and glass can injure, and the chance of catching disease is very high. Illness is a constant companion to the poor. Their vulnerability does not allow them to get ahead.

Yet, these women earn money to support their families. In fact, 94% of India's women are thus self-employed. They have no employer. They are scattered in trades they have devised for themselves, doing work they see that needs to be done.

The question one asks is what makes a woman self-employed? What makes her an entrepreneur? It is her assets. In order to understand the correlation between work, money and entrepreneurship, let us see what a poor woman views as assets.

Of the tangible assets, there may be some money-perhaps some cash savings, or silver jewellery. She may have a roof over her head, which can then be turned into a workplace. She may have a cow or a buffalo, or she may own a weaving loom given to her by her family. She may have a basket to sell wares in, or a pushcart or a sewing machine. Even a food ration card is an asset because it allows her to buy or borrow food at a fair price from a government shop. In fact, any identity card is an asset, because it asserts that she exists.

The list of intangible assets is long, but quite noteworthy. Education is an asset that few possess, but even basic literacy can be turned to good advantage. Children are an enormous asset, because the more hands that work, the more income the family has. Husbands can be assets or liabilities. A husband that does not have a drinking problem for example is an asset. In-laws that will allow her to work outside the house are an asset. The goodwill of ones' caste is an asset.

So women look to their lives and find those assets which they can turn into capital. A woman with few skills and no money still has her body as an asset. She sells her labour, pulling carts, carrying loads, working at construction sites. Women with traditional skills like basket making or junksmithy make wares at home and sell them in the market. Some are traditional vendors like the vegetable vendors. Among the Muslim women where their cultural norms do not allow for working outside the home, they turn to sewing garments and block-printing and tie-dyeing. Some make bidis at home, depending on the contractor for both work and the price they will get for it.

But money is an elusive resource. Turning their savings into capital seems almost impossible, given the realities of their lives. Saving, therefore, takes many forms.

When Gauriben, a wastepaper picker, complained to a friend that since she has no money whatsoever to begin with, there is no question of savings, her friend gave her this piece of advice: Every time you knead dough to make roti, take two fistfuls of flour and put it aside. If you do it for six days in a row, on the seventh day you will have enough flour to cook that day's roti without reaching for new flour! That's how you save money without having any money! If you remember to cook your vegetables with lots of gravy, you need less vegetables! And if you make them very spicy, you eat a lot less of it! Certainly, we do not wish to build capital at the household level.

As you can see, food is the very first thing that women economise on. The other victim of their economizing is their sleep, so that they can increase their work hours. The few assets they see at their command, like food and water and sleep are all treated like scarce capital. Frugality is a lesson in financial discipline that every poor woman understands.

Women know savings as a form of suffering. For without making-do and going- without, and constant self-denial, one cannot save. They believe that to ensure a better future, suffering is a given. The greater your capacity for suffering, the better your chances of survival.

As a SEWA member put it, “One thing I know to be true--there is no money without work, but of course, there is plenty of work without money.”

What do the poor need?

The major lesson that we learnt gradually, over years, is that :

One, poor women need capital formation at the household level. With access to financial services like savings, credit, insurance, they can build up and

create assets of their own. They can buy land, build a house, a workshed, buy equipment, or cattle to increase productivity. Or, they just want cash in the bank. Asset ownership is the best weapon to fight the vulnerability of poverty.

Two, poor women need to build their capacity to stand firm in a competitive market. They need access to market infrastructure, access to technology, information, education, knowledge and skills like accountancy, management know-how, planning, designing, marketing.

Three, they need social security, basic healthcare, childcare, shelter and relief to combat the chronic risks they face with their families.

And lastly, they need collective, organised strength to be able to actively participate at various levels in the planning, implementation and monitoring processes of the economic, social and political affairs of the nation.

It is important that all the four components are in place simultaneously, and in the combination that the women think is viable and manageable by them. One input without the other does not yield any results, while one after the other comes too late.

SEWA straddles the realms of both union and co-operatives. The union mobilizes and organizes the women to come together around their work issues. The women then form trade co-operatives in an effort to become owners of their labor. In villages, the producers groups, the savings groups, and their district associations and federations are, in broad terms, co-operative enterprises. Trade co-operatives give the women greater bargaining power; access to credit, training, and markets : and help to build assets. SEWA has nearly hundred different co-operatives - rural and urban - some built around products; others around services. There are vendors' co-operatives as well as midwives' co-operatives; rag pickers' co-operatives as well as weavers' co-operatives. There are as many trades as there are facets to a country's economy, and self-employed women can be found in every one of them.

The Registrar of Cooperatives would not, initially, register SEWA Bank because its members were illiterate women. Of course, these women could earn an income, run their own businesses, save, borrow, and repay, but they could not form their own banking cooperative because they could not sign their names. Literacy was more important to the Registrar than the women's dynamic economic productivity. I've often felt that the real illiterates are on the other side of the table.

Similarly, we had trouble registering service cooperatives. Our rag pickers' cooperative was suspect because they did not manufacture any products; the midwives' cooperative was asked why delivering babies should be considered an economic activity; the video producers' cooperative was denied registration because the directors, the producers, and the sound and camera technicians were illiterate the officials had no concept of how much more powerful a visual medium is in the hands of those not enslaved by the written word. When vegetable vendors and producers wanted to form a joint cooperative, they were told that despite the fact that both belong to one common industry, they fell under separate category lists and therefore could not formally collaborate. Taxonomies can be life denying because classification can exclude.

Other problems result from such classification and categorizing. Since the income of poor women from any one type of work is usually not enough to make ends meet, they must have several income-earning occupations. In fact, 80 percent of SEWA members are engaged in multiple types of work. Vegetable sellers also make kites at home. Should they be covered by a social security fund for home-based workers or are they entitled to a hawker's license from the municipal authorities? Let me give you an example which is a common one :

A small farmer works on her own farm. In tough times, she also works on other farms as a labourer. When the agriculture season is over, she goes to the forest to collect gum and other forest produce. Year round, she produces embroidered items either at a piece rate for a contractor or for sale to a trader who comes to her village to buy goods. Now, how should her trade be categorized? Does she belong to the agricultural sector, the factory sector, or the home-based work sector? Should she be categorized as a farmer or a farm worker? Is she self-employed or is she a piece-rate worker? Because her situation cannot be defined and

contained neatly in a box, she has no work status and her right to representation in a union is unrealized. She is denied access to financial services or training to upgrade her skills. The tyranny of having to belong to a well-defined "category" has condemned her to having no identity.

When someone asks me what the most difficult part of SEWA's journey has been, I can answer without hesitation: Removing conceptual blocks. Some of our biggest battles have been over contesting preset ideas and attitudes of officials, bureaucrats, experts, and academics. Definitions are part of that battle. The Registrar of Trade Unions would not consider us "workers"; hence, we could not register as a "trade union." The hard-working chindi workers, embroiderers, cart pullers, rag pickers, midwives, and forest-produce gatherers can contribute to the nation's gross domestic product, but heaven forbid that they be acknowledged as workers. Without an employer, you cannot be classified as a worker, and since you are not a worker, you cannot form a trade union. Our struggle to be recognized as a national trade union continued until we succeeded in 2007.

Because they fall through this web of terminology, the livelihoods of millions of people are not perceived as work and therefore remain uncounted, unrecorded, unprotected, and unaddressed by the nation. They remain conveniently "invisible" to policy makers, statisticians, and theoreticians. Dividing the economy into formal and informal sectors is artificial it may make analysis easier, or facilitate administration, but it ultimately perpetuates poverty. Until the International Labour Organisation (ILO) was forced to acknowledge the growing numbers of home-based workers, even international trade unions did not wish to recognize them as workers; instead, they considered them a threat to the organized labour movement. My point is this : *When you are not classifiable you are officially unidentifiable. When you can't be identified you can be ignored. As an invisible you are no longer subject to policy. You cease being a citizen in many ways. If you ever exist it is only as an obstacle.*

Today, SEWA with a membership of one million women spread in 9 States of India, is a family of organizations, similar in structure to a banyan tree that spreads its branches. Over time, the branches grow vines that reach for the ground and take root, becoming trunks themselves; in this way, they become a sprawling forest within the same, ever-expanding tree. Each one is independent and autonomous, both financially and in the decision-making process. At the same time, new growth draws strength from the old.

All this could begin happening because the poor women self employed were recognised as the active participants of the national economy. Two, they formed their own economic initiatives like Trade Union, Cooperatives, Trade Associations, even For-profit and non-profit companies.

My point is that only *when the working poor need to have their own organisations, that generate collective strength.* Once, at a SEWA Bank meeting, I asked our board members if money was power. Some women categorically agreed. One woman said that money gave strength and that was power. But when asked who was the most powerful person in the room, the women pointed to the Managing Director of SEWA Bank. They felt she had the money power of the bank. Her power also came from the fact that she was educated, was efficient at her work and had the strong support of the women she worked for. I argued that since the money of the bank came from the women, why is it that they themselves did not feel the most powerful? They explained that savings and capital give one a sense of power to the self, but the collective strength of hundred of thousands of women gave one "big power." In short, money is power, but collective strength is bigger power.

2. Citizenship

A Roof and a Toilet is a base of Citizenship

As SEWA experience goes, shelter is their number one priority in life. A roof and a toilet is a base of citizenship.

A roof over their head makes their family complete. Physically and mentally, it feels protected against the wrath of nature and violent forces of the society.

We see with our own eyes that home is also the workplace. In city slums, people work under their roof and earn their livelihood stitching garments, making kites, producing food items, assembling machinery parts, running shop, holding tuition classes or using a corner as storage. For them their houses are their

assets, their own wealth. The house is where the next generation is raised and reared. We all have homes. Do we need more official studies and policy documents to find that the safer the living conditions the better is the future citizenry?!

Above all, secure shelter gives citizenship rights to urban residents. For a large portion of the urban poor who live in slums, there is a problem of who you are. Unless you have a house, a house address, you do not exist. The house you live in is illegal so you cannot have power or water connection, nor a ration card. If residence is illegal, how does one establish one's legal citizenship. Moreover, you as a poor and a woman working in informal sector and contribute to the city economy. Because your home which is your workplace is non existent or 'illegal', you can't improve your living conditions nor increase your productivity or increase income by working for longer hours. So, your right to citizenship is denied, your right to making a living is denied. This is not Swaraj!

Moreover, it is absurd to apply the rule of land ownership or land tenure to the provision of basic primary human needs of water and sanitation. Minimum level of safe water and sanitation, irrespective of identity proof or status of migration should be extended to every city dweller, in their own right. This is Freedom, Swaraj.

It is puzzling why the poor are not encouraged to make investments in their own existing housing? Why is tenure security required for the purpose? In fact, we should encourage the poor to invest in their living place. How long do we go on stating this issue? I remember, since the First Habitat Conference in 1976 at Vancouver, this has been argued but there has been very little progress on this front. It appears that the cities and the city governments do not want to give land access to the urban poor!

It seems there is no land left in the city! No wonder the slum dwellers have to combat cut throat antisocial forces today to hold on to the minimum shelter they already have. But then what about the new comers to the cities, do they have any options? Cities invite investments but not those who make those investments generate profits. It seems clear that labour is welcome but not the labourer.

We also have to recognize the fact that increasingly in some rural areas, adverse forces are so powerful that despite great reluctance to leave their homelands, the rural poor head for the city in search of work. This kind of migration is painful and traumatic. But greener pastures are nowhere to be found certainly not in the city. The first thing they need is a place to sleep - not an easy feat in cities where even sidewalks are spoken for. Public places are constantly patrolled by the police-less for public safety and more for fees to look the other way.

The city municipal systems hardly touch this vast population; with its numbers growing, their issues are overwhelming. Actually, their instability and illegality are of advantage to the city. The city wants to prosper on this cheap, docile and easily available labour. By keeping their homes and work unauthorised, a vast urban workforce is denied identity and their due economic return. Their children are everywhere, visible, working in streets, in factories, in markets, in home but not in schools. Schools are far from their homes. The constant feeling of being unwanted does not generate civic mindedness or loyalty to a city where they live and work for long years. Thus, alienation roots in and opens a breeding ground for violence.

My point is this : if urbanization is welcomed then the urban poor also have to be welcomed in the cities and we do need to find them space to live in the cities in the form of asset ownership as a citizen.

3. Capital

My Vision of Capital

Access to Capital summons the usual stereotypes : big Corporates, the Investors, the Markets. All these, I fear, I do not understand enough. For me, as a grassroots organiser of women poor, self-employed in India, capital on one hand is abstract, impersonal, while on the other hand, capital is a strong social force.

As I have already mentioned, what I know of capital is that it excludes and denies access to people in subsistence economy. I would like to move away from both senses of stereotypes and create a space of freedom where we can look at capital in a fresh creative way.

Within my worldview based on experience of SEWA and the Women's World Banking, capital is what is denied to marginals in a society because capital is a relation established by law that links money with citizenship, in a

formal economy. Citizens who have access to capital carry different kinds of certificates including tax-form number. Such capital excludes the marginal, the subsistence economy of squatters, hawkers, scavengers with whom I work, particularly poor self employed women. They do not have registered house number, rent receipt, license number, identity card or social security number. They struggle through the Courts and often through street protests against fines and penalties or through demanding a supportive state policy enabling them to stand firm in the competitive market. In fact, for acquiring legitimacy, a lot of their own capital goes into corruption, paying cash. Corruption and bribe are one form of capital which no one talks about.

Let me reformulate the idea of capital. It is not an abstraction. Capital expresses itself in many forms. For a woman, nature is a model and an ecology for capital. Nature works and creates wealth, a wealth which is often not immediately measurable. Once we recognized that Nature is capital, we move to culture and society and realize that classifications are the expressions of power. Both the formal and the official disempower the informal by denying it access to capital. The constitution must emphasize not merely the right to property but to capital. Capital is not only a right, it is a part of the structure of current life. It is life giving and life building. It allows citizenship to be creative. It provides access to society and turns citizenship from a passive to an active agency while emphasizing prudence, care and simplicity. For subsistence economy to move creatively we need an understanding of Nature, the informal sector and gender.

Gender often connects the above two to create networks of community. Gender helps one move from a capitalism based on individualism to a capitalism based on community. To scarcity, gender adds hospitality. It broadens work into livelihood, Responsibility in a subsistence economy is most often gender based for it is women who most often work with forest, farm, water and food.

This demands one further distinction between innovation and improvisation. Innovation today involves state policy, big science and corporate investment and advertising. Improvisation settles for what there is making do, muddling through. It is a world of adjustment, compromises and substitution. It is odd that women as citizens are always improvising but the history of invention has little place for them. Let us consider a successful innovation.

Microfinance is today successful, in fact so successful that large banks and Corporates see it as the fortune at the bottom of the pyramid. But the new recent successful microfinance legitimised by the establishment lacks the spirit of the original innovation which is based on rationality, profit, stability. What it lacks is the spirit of survival, the adventure of risk and trust that everyday survival entails. That is the microfinance seeded by marginal women seeking to create a network of livelihoods. These livelihood systems are embedded in a community just as certain skills and culture are embedded in community. So, then, how do we ensure that the new capital does not destroy existing skills and livelihoods without bringing them acceptable better alternatives? How do we ensure that the new capital will preserve Nature and local culture and invention and improvisation.

So, *my first point is that private sector is invited not as an overwhelming force but as part of our vision where livelihood meets capital markets, as equals. Secondly, the language of stockholders must meet the ideas of stakeholders in the widest sense with nature invariably as stakeholder which is my third point.*

Let me also emphasise two other points. Just as skill is embedded in the family, and, knowledge in the culture, the capital that I talk about is embedded in community. I want to see the hawker, the scavenger as capitalists. But these are capitalists who seek small forms of surplus (profit) which enable survival. I think it is the difference between the idea of work and a notion of livelihood. Livelihood seeks to preserve Nature and community, while capital expressed in terms of economic choices might tend to destroy both.

There is also a political aspect of it. Capital has to be seen as political right. One cannot sustain right to life and property without a guarantee or entitlement to capital, especially when capital is necessary to sustain life and livelihood. Unfortunately biases operate here. The hawker is legally treated as anti social, a migrant though badly wanted, is treated as illegal by Banks, city authorities. But if they had access to

capital, as our SEWA Cooperative Bank experience goes, they would create a different notion of capital. They would create citizenship for themselves and would be treated as citizens. Because, without capital, it is not just entrepreneurship that becomes difficult, it is citizenship that becomes improbable.

My approach to capital goes beyond suffixes and prefixes like 'green capital' and microfinance. Capital for all its innovation, needs to come out of its stereotypes. New ways of conceptualisation of capital is needed to create a fair world of rights, livelihood and stable peace. The keywords of globalisation need a new meaning that allow for possibilities beyond the official, and particularly the officially 'economic'.

My vision of capital is one such effort based on SEWA experience.

4. My vision of Citizenship

The 100 Miles Principle

I think Gandhi was an inventor and what he kept reinventing was citizenship, the sense of the community. What I want to stress is the old Gandhian idea of Community. I employ the slogan of 100 miles to do so.

Citizenship is of two kinds. It is a membership in a community and membership of a nation state. The second is clearly defined by territoriality, passports, by other forms of certification and symbolism like the flag. It guarantees a certain membership to equality, uniformity, a central homogeneity of access. But democracy needs two forms of citizenship and minimally two kinds of the Social. The social space defined by citizenship in a nation state is inadequate. Without membership in a community, the nation state alone can be alienating and coercive. It provides liberty without freedom.

The community I am talking about is not only the identity of caste, village or ethnicity. My sense of community centres around work, but work defined not as an occupation, a job, a career but as livelihood. A livelihood is a chain of being. It connects work to ecology, to a sense of community with nature. Livelihood has implicit in it two forms of access: access to Nature as a commons and access also the means of production, consumption, distribution and renewal. Renewability involves the renewability of all the three processes : production, consumption and distribution. In recycling livelihoods, you recycle both Nature and community. Thus we sustain both over time.

Livelihood is a more demanding term. It makes greater demands on citizenship. A citizenship based on paying tax, following traffic rules and voting is not enough. It demands more active involvement. It demands that you invent and sustain the community. Here rights and duties are not separate registers but forms of reciprocity, of complementarity. Caring demands both rights, and, duties and without caring and access, it is difficult to sustain a community.

Such a community does not need a boundedness, a territory, a boundary as spatial lines, it needs *boundary conditions*, it needs a sense of the threshold, of the limits and possibilities of freedom. My 100 Miles as an idea is a boundary definition, a threshold.

It is defined not as stock or as territory but through a flow of processes.

A community has three flows in time and space. It is a life cycle, a livelihood cycle and a cosmic cycle. Life cycles emphasize biography of birth, marriage, death. Livelihood is the cycle of labour of consumption, production and distribution. Cosmic cycles move from seasons to global climatic change.

It begins simply. Take food. Is it grown and cooked locally? How many energy miles has it consumed? Unless food is grown locally, you cannot sustain diversity. Food has to be grown locally, made locally. Ask ourselves what happened to local fruits, local foods like barley, and local staples like cotton. But when food is produced locally and exported, the locality has no access to its own labour, to its produce. We grow milk and vegetables for the city and survive on less. Freedom is right to your labour, your produce. Such a freedom needs a community. A community is autonomous when it controls food, clothing, shelter. The old cliché of *roti, kapda, makan* has to be within a hundred miles radius. The minute you extend the production cycle you lose control. Comparative advantage might be good economics but let us leave well intentioned economics outside communities. Otherwise instead of freedom, we face obsolescence. When food is exported, when technology is centralized, when shelter depends

on some remote housing policy, we lose our freedom as a community. 100 miles is a guarantee that citizens retain control, inventiveness, diversity. We could grow 50,000 varieties of rice because we followed the 100 miles principle intuitively.

The diversity of our agriculture should serve as our basis for our models of helath care, education and capital. To say that a large percentage do not have access to health and education is obscene. We need to realize that access to health is access to the diversity of medical systems. A right to health involves a right to the variety of healing.

We must also realize that knowledge cannot be a deskilling process. Science cannot put other forms of knowledge above subsistence in a museum. 100 miles allows for the conversation of knowledges which makes alternatives life giving. The dialogue of our medical systems has to be built upon.

Finally, capital in this sense becomes part of the new commons. It is a resource a right like any other resource like fuel or water. It is an entitlement, not a property. A commons not an oligopoly. The poor need capital simply as capital. The poor also need capital based on this new philosophy.

Like all ideas, 100 miles can be conceived of badly or creatively. This is implicit in Gandhi's distinction between Swadesi and Swaraj. Swadesi can be parochial, territorial, Swaraj needs the idea of oceanic circles. You don't have the dualism of local and global. They enmesh each other. I care, therefore I am. I care for the community but my community as a set of flow encompasses the globe. The neighborhood implicates the cosmos.

Basically, my 100 miles principle is an attempt to revive citizenship which has become too passive.

5. Where will future finance go?

So the, question remains, where will our finance go - to whom and for what? Our finance will go to build sustainable energy systems, clean water systems, food security, green cities, green markets, build local capacities in education, healthcare, self management. Titles of land will be recorded in women's name as first holders. Assets and even cash are safer in the hands of women than their men, as my own experience in SEWA Bank which is solid evidence. This will happen only when the poor are not mere beneficiaries of microfinance. As leaders, the women in finance will need to develop capacity - collectively, organisationally - to shape the direction of how finance can be used, owned and managed, and thus show the way of women's banking.

My plea to all those in banking sector is for a gentler economy a caring economy. I hope you agree with me. To repeat, we build economies that encourage self-reliance and self development of sustainable communities. We help conserve, preserve, restore balance of formal and informal systems. We create power and resources that are decentralised and inclusive. We recycle our flow of food, water, energy, naturals, wastes. We maintain our structures and systems autonomous, interdependent that enrich each other and everybody. Most importantly, we create and recreate productive work that enhances human dignity.

My speech is thus both an appeal and a challenge, it is an invitation to a conversation where two forms of institution building and community building talk to each other and not past each other. The urgency is clear. How we define economics will determine how we will live out our democracy. At another level the question is stark. Can the informal economy bank on you or will it battle alone. It is a reciprocity of obligations I seek to emphasize. Prayer and democracy share this much.

Banking with the last, the lost and the least

Dr. Prakash Bakshi *

Internationally, the terminology "microcredit" has been in use for the last thirty five years or so, became a fashion about ten years ago when it was renamed "microfinance" and has almost become a fad for the last five years or so when it got rechristened as "financial inclusion". Quite interestingly, these terms are mostly used in international circles by people who are not even remotely part of the formal banking system. In India, the term "microcredit" became popular outside the formal banking system; banks willy-nilly adopted "microfinance" and banks have almost been vying with one another in showing that "financial inclusion" is at the core of their hearts. Having attended dozens of international and national meets, workshops, seminars, summits and so on these subjects, let me also say one more thing the farther the participants of such meets from the banking system, the higher is decibel level of the meet, and, similarly, farther the banks from rural areas, higher is their intensity of participation in these meets ! And the same is true for the oft quoted and cited literature on the subject too !! And a new type of institution called "microfinance Institution or mFI" seems to have born during this period.

But what do these terminologies really mean? Do they really represent something new or, as I said earlier, are merely more fashionable terms for something that we already knew and practiced for long?

Let us for some time just forget these high sounding words, and look back at what we did, and more importantly, why did we do that.

When we look back on what we did in our country, we realize that the first effort to provide agricultural credit to farmers through an organization or an agency other than the government itself so that they are not exploited by unscrupulous moneylenders, traders, etc. (often termed as the informal sector) was taken a little over one hundred years ago. That is when the first co-operative of farmers was formed. More of such co-operatives were formed in the coming years, and when it was realized that they would not be able to meet the needs of the member farmers because the co-operative does not have enough financial resources, the policy makers, even in the first half of the last century could think of innovative ways of allowing such cooperatives to float debentures to which other institutions could contribute so that the co-operative has enough resources to meet the needs of its farmer members, and later the Central Bank of the country (RBI) even decided to set apart a line of credit to these co-operatives.

Given that even 70 or 80 years ago, half the farmers in the country owned less than 2 hectares of land and practiced traditional agriculture without tractors and other farm equipments, without modern seeds and fertilisers, and so on, it is easy to surmise that the credit needs of such a farmer was really small. And if any attempt to make such small doses of credit available to such a farmer who was hundreds of miles away from any bank was not "microcredit" or "financial inclusion", I do not know what else will qualify for that.

Am I going too far into history to which most readers of this article are not able to relate to? Let me then jump a few decades and start off with something that all readers are aware of although even old timers like me were only in school when some of these things happened.

The co-operatives initiative of the first half of the last century, as also many subsequent ones, especially those taken in the past fifty years or so, show one

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common trait, most of our initiatives were taken as response to specific emergent situations. While the emergent situations varied in nature and degree, the responses (i) included specific policy initiatives, (ii) focused on designing new financial products, and (iii) created appropriate delivery systems and delivery mechanisms for reaching those products to the masses, often through specific programmes. This will become clearer as we move on further in this article.

Even in mid 1960s, almost 80% of our population lived in rural areas and 40% of our GDP was contributed by agriculture. But how did this huge segment of population carry out its economic activities that is practicing agriculture and producing not only food for the whole country but actually producing 40% of the country's GDP and thus driving the entire growth process?

Let us just have a look at how the commercial branch network looked like (Table-1) in March 1969.

Table-1 : India - Commercial Banking System (March 1969)			
Commercial banks	**Public**	**Private**	**Total**
Number of banks	8	81*	89
Total Branches	6,596	1,666	8,262
Rural and semi-urban branches (% to total branches)	1,504 (22.8)	329 (19.7)	1,833 (22.2)
Total Credit (Rs. crore)	3000	600	3600
% share of Priority Sector in total credit	15*	10	14
% share of agriculture in total credit	2.2	Negligible	2.2
* *approximation*			

There were 89 banks, of which only 8 were Public Sector Banks (PSBs) - the SBI and its associates. The banking system had more than 8,000 branches, only 1,833 (22%) of which were rural and semi-urban branches. Let us note the significant fact now, over 1,500 of these rural branches were those of the 8 PSBs, and the 81 private sector banks had only 329 such branches. These 1,800 and odd branches provided only 2.2% of the total credit to agriculture, almost entirely by the PSB branches. Thus, while industry and business sectors which together contributed about 60% of the GDP walked away with 98% of bank credit, agriculture, despite contributing 40% of GDP got only 2% of bank credit. Clearly this situation was unacceptable, not only politically, but also in terms of harsh economic realities.

One would have perhaps not thought of doing much in this regard had things continued normally. But that did not happen. Years 1965-66 and 1966-67 had turned out to be the worst consecutive drought years of the century. Thousands died of starvation. Food output had fallen drastically and India survived on American charity. It was obvious that this could not go on and food output had to be increased immediately. Since more area cannot be added to agriculture, the only way was to improve productivity - this meant using better seeds, fertilisers, pesticides, irrigation and farm machinery and equipments. If farmers had to use all these, they would need more money and for them to rely on moneylenders' high interest rate loans would dissuade them from using better technology and also increase the cost of food output. As both were not desirable, there was an emergent need to ensure that agricultural credit from the formal banking system is increased. But how could that be expected from the less than 2,000 rural and semi-urban branches to meet the needs of six lakh villages? It was obvious that rural branch network had to increase so that more and more farmers and other rural people, hitherto outside the services of the banking sector, could avail financial services from the formal banking system, or, in modern sophisticated language, get "financially included" by the formal financial sector.

As a response to this critical situation, extremely important policy initiatives were taken by the Government of India, the most significant of which was taken in July 1969. No, I am not referring to just the nationalization of 14 private sector banks about which everyone knows - but to the decision that any of these PSBs would be allowed to open urban bank branch provided it first opens four rural branches. Simultaneously, the concept of Priority Sector lending was developed and formalised by RBI in 1972. Special programmes aimed at creating self-employment among the rural population started being designed.

This policy initiative had a significant impact and in just six years (by 1975), 10,882 rural and semi-urban branches of commercial banks had been opened[1].

1. *It is interesting to note that almost all these branches were opened by the public sector banks and not by private sector banks*

Such branch network expansion in rural areas in such a short period is unheard of anywhere in the world. This had a positive impact on the business front also the number of deposit accounts with the rural and semi-urban branches increased from 3.5 crore in December 1972 to 5.4 crore in June 1975, and the number of loan accounts jumped 15 times from a mere 4 lakh to over 62 lakh during the same period.

But the policy makers did not relax. Despite this expanding rural branch network and exemplary increase in rural and agricultural business by the commercial banks, it was being realised more and more that the core business of commercial banks is not dealing with weaker sections of the population as also dealing in small amounts, both for deposits as well as loans. It was, therefore, felt that the weaker sections in rural areas can best be served by specialised institutions created for the purpose. These institutions need not be very large institutions in terms of capital, geographical coverage and staff, as they need to be "local" in character so that they and their staff, can develop a bonding or a lasting relationship with the local population. Although co-operatives and co-operative banks seemed to meet these criteria and were also seen as agencies which were extremely flexible in their approach and work processes to suit the limitations of the rural population, they were not seen as very professional institutions as was demonstrated by their poor financial health.

It was, therefore, decided to open a new set of rural financial institutions which would operate in a small geographical area of about 1 to 3 administrative districts in a state and have the flexibility of the co-operatives and professionalism of commercial banks. The critical issue however was - who would open such financial institutions? The private sector which often claims to be more efficient was not interested in rural areas as was already demonstrated by the lack of any alacrity of private sector banks in even opening rural branches; and so the democratically elected government was left with no other choice but to take the initiative itself.

While the move was initiated by the Central Government, it was thought necessary that the state governments take a proactive role in the creation of these new institutions as these were to be created for local population in any state. Also, as these financial institutions were conceived as banking institutions, they had to be managed professionally and therefore, existing commercial banks - and public sector banks as well as private sector banks (which did not seem to be interested) - had to be an integral part of the initiative.

Thus the Regional Rural Banks (RRB) were born, with ownership of the Central Government (50%), the State Government (15%) and a sponsoring commercial bank (35%)[2]. RRBs were started with a small capital base of only Rs.25 lakh[3], generally operated in two to three districts serving about 40 lakh people and were mandated, when created, to have only the weaker sections of the population as their clients[4]. To ensure that an RRB is governed and managed professionally, the RRB Chairman and other top officers were deputed by the sponsoring commercial bank, while to ensure that it retains a local character it was decided that all other staff would be recruited only from the operating area of the RRB. Right from the day of its birth, every RRB was a scheduled bank and fully regulated by the Central Bank of the country. Simply put, RRBs were the first legal and fully regulated microfinance institutions (mFI) set up anywhere in the world. Over the years, 196 RRBs[5] were set up which expanded their branch network to about 14,000 branches. The approach of branch expansion by both the commercial banks and RRBs has continued and by June 2006

2. There was one single case of a State Co-operative Bank sponsoring an RRB, and another in which a private sector bank was involved.

3. The increase in capital of RRB to Rs.1 crore merely reflects inflation and they remain banking institutions with a very small capital base. Given their increasing business volumes, it is imperative now that their capital base is significantly increased.

4. These included small and marginal farmers, land less labourers, artisans, women, etc.

5. Whether by consolidating the RRBs and consequential HR issues we are diminishing the local character of the institution as well as its ability to build relationship banking with the rural population can be hotly debated.

the bank network had almost 46,000 rural and semi-urban branches[6].

The approach to expanding rural services by the banking sector was given a further boost by setting up NABARD in 1982 to support the banking system with liquidity, capacity building of the staff and technical inputs in terms of technical and financial parameters for rural financing.

This well expanded branch network of the banking system provided all the products that a normal commercial bank provides. For example, so far as deposit products are concerned, all these branches, including the rural and semi-urban branches of RRBs, provided all types of savings, recurring, term, or flexible deposit schemes as per the usual rules of client identification, minimum balance required etc. These branches also offered various types of loan or credit products, which included crop loans for periods ranging from about 3 months to 12 months and investment loans for periods upto about 15 years. The income generating activities, including those for self-employment, covered a wide range of activities like crop production, storage and marketing of agricultural produce, purchase and rearing of milch and other animals, land development, farm machinery, plantation and horticulture crops, fisheries, small businesses, transport vehicles, artisans, tiny and village industries etc. I have little hesitation to add that most commercial banks in the world (except specialised banks which have been set up only to provide agricultural loans) do not offer such loans to their clients, in such large numbers, of such small amounts, and for such long periods[7].

By June 1985, the deposit accounts of rural and semi-urban branches had increased to 21.6 crore, a four time increase of over 16 crore in 10 years and further to 35.5 crore by March 1991 and to 39 crore by March 2006. This confirms that even rural people badly needed safe places to keep their incomes and that in just two decades, almost 34 crore new people started using banking services. By any standard, this was a great leap forward in financial inclusion. The number of loan accounts of these branches also rose more than five times in a decade to touch 3.4 crore by June 1985, and further to 6.2 crore by March 1991.

Until the advent of financial sector reforms in early 1990s, banks worked under the regime of regulated interest rates, both for deposits and loans. One can however generally say that during the last three decades banks provided rural loans at interest rates of about 10% to 15% per annum on reducing balance method. The policy prescription of RBI that no collateral or security should be taken for small loans has gone a long way in allowing (rural) people of small means who had no collateral or security to offer (or no willingness, even if they had some security, as this was the last resort for them) for availing small loans to get financially included even on the credit front[8].

Instituting appropriate policies (like the concept of priority-sector lending, taking no security for small loans, etc.) or a vast branch network in rural areas creates the enabling environment for the poorer sections of the population to avail of financial services, specially deposit and loan facilities, from banks. However, this can be given a phenomenal boost if suitable programmes are designed which are focused on the poor and which seek to increase the incomes of the poor so that their capacity to avail financial services continues to grow.

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6. *Of this, less than 1,800 were by the private sector banks and only one semi-urban branch by a foreign bank. It is interesting to note, however, that after the advent of Financial Sector Reforms in early 1990s, while the total number of rural and semi-urban branches actually decreased between 1996 and 2006 by about 600, the number of urban branches increased by 3,000 and of Metropolitan branches by 4,000 during the same period. As a proportion of total number of branches, the share of rural and semi-urban bank branches therefore actually decreased from 72% to 65%. The success of the RRB experiment had also prompted that localised microfinance banking entities be allowed in the private sector. Thus the idea of Local Area Bank (LAB). However, the fact that RBI had to put the scheme on hold after some time as well as cancel some of the licences issued to LABs continues to show that genuine interest in practising microfinance through regulated entities is lacking in the private sector.*
7. *Even the most famous mFIs of the world provide loans to their clients for maturities not exceeding 52 weeks. Most of these mFIs also charge a flat rate of interest which actually doubles the interest cost for the borrower when the loan is for less than one year.*
8. *With the advent of Financial Sector Reforms in 1991, however, the pace was seen to have changed - although deposit accounts of rural and semi urban branches still increased by about 3.5 crore in 1996 over the 1991, a much lower growth rate than seen so far, the number of loan accounts actually fell from 6.2 crore in 1991 to 5.7 crore in March 1996. While on the political front the decrease in number of loan accounts and the reduction in the number of rural and semi-urban branches gave rise to debate whether financial sector reforms are anti poor, the principal reasons were the unsuitability of the existing banking products and procedures so far as the rural population is concerned. These issues are discussed later in the article in greater detail.*

The reasoning used in designing anti-poverty programmes seem to be almost foolproof - people below poverty have incomes below a given cut off (the below poverty line or BPL families)[9], and the principal reason for their low incomes is absence of adequate resources at their command to do business and the lack of required production assets. In other words, if only these poor people could have the minimum necessary production assets and necessary working capital, they would be able to add their labour (and skills) to utilise these production assets and generate sufficient income from their micro-enterprises which will push them above the poverty line. Since the poor did not themselves have the capacity to acquire such assets, the same needs to be provided by an outside agency. Any king or government of any country would have loved to provide such production assets to all the poor in the country - the only problem was that even the king or the government would not have enough money to pay for it. And therefore the reasoning that the poor could acquire such assets by taking loans, but since they are poor, the government can partly subsidise it through interest or capital subsidy to make the investment more profitable, and thus hasten the progress towards poverty alleviation. Thus, poorer the family (or belonging to socially deprived), higher was the proportion of capital subsidy and lower the interest rate charged. As I said earlier, the logic was almost foolproof.

All schemes aimed at the poor, therefore had elements of bank loan and capital or interest subsidies. Programmes like MFDA and SFDA[10] focused on improving productivity of small and marginal farmers and providing activities allied to agriculture for the agricultural labourers. IRDP and SGSY sought to improve incomes of the poor through self-employment activities in agricultural and allied sectors and were designed as a tool for alleviating poverty.

The IRDP and other client group oriented programmes covered nearly 1 crore families with bank loans aggregating Rs.40,000 crore over a 20 year period. These were the days of regulated or fixed interest rates, and as I said earlier, interest rates for small sized loans to the poor were lower than those applicable for other bank loans. In other words, interest margins available to the banks were small and small sized loans meant that the transaction cost to be incurred by the bank per Rupee of loan was much higher than normal loans, making such small loans unprofitable if disbursed in the conventional way. Banks therefore tried to cut down on appraisal and monitoring costs by relying more and more on DRDAs for "sponsoring" applications. This resulted in high defaults[11] and leakages of subsidised resources, both loans and subsidies, and almost ensured poor impact. Although tremendous outreach was achieved through these programmes by covering almost 1 crore families or about 5 crore people, but at the end of 20 years, one third of the population continued to remain poor and the banks were laden with loads of NPAs. This net result led to the common view that the poor are not bankable. More than the wasted thousands of crores of Rupees, the most disastrous consequence was the fact that 36,000 rural bank managers started believing that small loans to the poor is not a good business proposition.

Around this time the results of the Debt and Investment Survey 1981, conducted by the RBI, also became available and showed that despite the expansion of the rural branch network and the number of rural loan accounts, almost 40% of rural indebtedness was still from informal sources. The data also showed that smaller the household's assets, the smaller was the share of the banks and larger the share of the informal sources. In other words, poorer sections of the rural population had to increasingly depend on informal sources for meeting their credit needs. This meant that we were still trapped in the dilemma of the inverted pyramid (Figure-1) where the rural branch network was trying to penetrate the population pyramid in an effort to reach to the bottom of the pyramid, but was still quite a bit

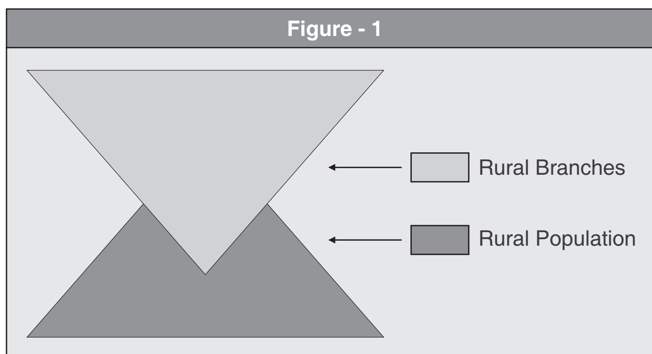
9. The international version now is people below one US Dollar a day !

10. The 1970s had seen special initiatives targeted towards small and marginal farmers and agricultural labourers which were implemented through Small Farmers Development Agency (SFDA) and Marginal Farmers and Agricultural Labourers Development Agency (MFAL). These were principally targeted towards agricultural activities. The early 1980s saw the design and growth of Integrated Rural Development Programme (IRDP) implemented through District Rural Development Agency (DRDA). This was later redesigned as Swarnajayanti Grameen Swarojgar Yojana (SGSY) in 1990s.

11. The average default rate under IRDP was 30%.

away from it. The fact that this failure was taking place despite these initiatives, using time-tested products of the banking sector only added to our discomfiture.

Figure - 1



NABARD therefore decided in the mid1980s to take up research studies to investigate why the poorer sections of the people are not able to avail of banking services, and very appropriately, the research project was called "improving access of the poor to financial services". To ensure that the studies are objectively carried out and information properly analysed, the research team comprised officers of NABARD, banks, NIBM, and IIM Ahmedabad. The findings of these research studies looked simple but questioned the very fundamentals of traditional banking when applied to rural areas and especially to the poorer sections of the rural population. Due to this reason, these findings were not easily acceptable to the banking system and policymakers, but repeated workshops organised by NABARD during 1986 and 1987 to discuss these findings gradually helped the vastly experienced bankers and policymakers to realise and accept some realities.

So, what were these research findings in the mid 1980s, so far as transacting with the banks is concerned?

1. The systems and procedures of banks are complicated, costly and time-consuming[12] - with only one branch for almost 30 villages, it would perhaps take a whole day to just get to the branch and get application forms for any type of deposit or loan, spend a few more days to get photographs and other documents required for the account, lose not only wages for all these days but also spend on travelling to the branch and other offices and perhaps even spend some money - fees and bribes - for getting these documents and perhaps also for filling the application form! All this to put one's own money in the bank as a deposit? And to once again spend such money if one wants to withdraw any of that saving money? So why should one have it at all?
2. Savings and credit products offered did NOT meet the needs of the poor - even a savings bank account required a certain minimum balance to be always maintained which was often too high for the poor. Or, a recurring deposit which requires a fixed amount of money to be deposited at fixed periodicity which was often not possible for farmers, who do not have regular periodic incomes. So why bother about opening such deposit accounts?
3. Transaction costs of the poor are high for dealing with banks (as explained above) and offsets the interest income on savings and increases the effective cost of loans. Thus, even though bank loans were supposed to be available at fairly low rates of interest, the non-interest costs were often so high that they were enough to dissuade the poor from even approaching a bank let alone avail its services.
4. Transaction costs of the banks are also high - the amount of time and paperwork by the bank branch remains constant whether the savings account is opened for only Rs.100 or Rs.1 lakh, the same is true whether a loan of Rs.5,000 is sanctioned or Rs.5 lakh. Nothing wrong if the bank preferred high-value customers compared to the low value customers that the rural poor are.
5. The poor had hardly any collateral to offer - banks preferred to give loans against tangible security and took collaterals like mortgage of land which, in fact, cannot be easily used by banks for salvaging their non-performing loans. Despite banks having

12. I would however not be surprised if even today some people do not accept that these findings made any sense. Let me emphasise that I am in no way suggesting that any of the systems and procedures created in the formal banking system is unnecessary - no, every system and procedure has been devised after careful thought and absolute necessity. However, all these were created with the urban, educated, and rich and the not so poor people in mind for whom a bank branch was just round the corner and complying with these systems and procedures is, if not easy, not difficult also. Just as an illustration, for opening a savings bank account, the application form has to be filled in capital letters - one letter in each small box and getting proof of identity and residence, photographs etc., is not at all seen by us, the educated, as difficult or unnecessary. However, for most rural people these are difficult things and entail costs.

thousands of such unusable mortgages in their books, banks ignored the utility of intangible securities like collective wisdom, peer pressure and community appraisal which were not only much stronger collateral substitutes but could also work as inexpensive monitoring tools in their hands.

6. The dividing line between consumption and production is too thin when it comes to the poor - banks chose to give only loans for production activities which they thought would be repaid from incremental incomes and chose not to give what would normally be known as consumption loans because the bankers thought they cannot be repaid by the poor. In fact, for the very poor there is hardly a dividing line between production and consumption - to give an extreme case, for a landless labourer whose only asset for earning income is his labour, eating food is like putting fuel in a tractor or a transport vehicle for it to work. While the bank would call a loan for buying fuel for tractor a working capital loan, the same bank would say loan for buying food for the labourer is consumption loan and therefore does not provide it.[13] Similarly, there is hardly a distinction between work-shed of an artisan and shelter for an artisan as the same shed doubles up for both and it is left to the banker to decide whether it is a consumption loan or a production loan!

There were certain other extremely crucial learnings on even the thought process that went behind designing programmes for the poor. It was always felt that the poor do not have money, and their low incomes do not allow them to save anything. Nothing was more incorrect than this misconception. The fact is that even the poor have occasional surpluses - they may be tiny and may be infrequent - but they are there. Unfortunately, however, these occasional tiny surpluses get lost for the simple reason that the poor have no place to keep them safe as needs and emergencies hit the poor more frequently than we the urban educated can imagine. During the research we learnt that the poor are only looking for a safe place to keep their tiny thrift and deposits and do not even expect any interest on that. There were cases where the poor were paying a charge to the traders and wholesalers for maintaining or keeping safe their deposits (Oh, how happy the modern banker would be to learn that somebody is willing to pay for keeping a deposit and not expect any interest on it!!). The emergence of SEWA Bank in Ahmedabad was a testimony that the poor needed a bank, first to save and only then think of loan from a bank. All the special programmes designed for the poor, however, focused only on providing loans to them with no thought of where they would keep their tiny surpluses. It was forgotten that a borrower can make periodic repayments only from accumulated savings, but if the occasional tiny surpluses that the poor may have are allowed to get lost only because there is no place to keep safe those surpluses, loan instalments cannot be repaid promptly. This fundamental shortcoming was very largely responsible for defaults of loans given under programmes like IRDP or SGSY or any other.

Most of the programmes for the poor were designed as antipoverty programmes, based on the logic mentioned earlier. Therefore, the lower the income of the poor from the BPL cut-off level, the larger was the size of the investment required to generate income which would push the person above the poverty line. The larger size of investment also meant a larger loan size. The problem is that lower the asset and income base of a person, the lower is his capacity to handle larger resources, due to a variety of factors including illiteracy, low level of skills and entrepreneurship. Thus, when poorer people were provided with loans larger than their capacity to handle, the assets often got mismanaged, resulting in poor incomes and poorer repayments, and yet, the poor were hardly to be blamed -- the actual culprit was a faulty design of the program intervention which had thrust on the map assets larger than their capacity to handle. The moral of the story was that the capacity of the poor to handle larger resources and investments can be built up only gradually and therefore poverty removal is not a single push intervention; it has to be a sustained intervention over a period.[14]

13. Is it not strange that the same banker does not blink an eyelid when he allows the rich pay their hotel bills through credit cards an interest free bank loan to the rich for food !!

14. Unfortunately, we are yet to learn from this significant learning and our antipoverty programmes continue to focus on a "single push" above the poverty line interventions.

Another reason why the small loans and subsidies made available under the antipoverty programmes failed to make a sustainable impact for a large portion of the clients was that the programmes did not have any element, which the poor could fall back upon, in case of any disruption in the economic activity leading to suspension of expected income flow[15]. Since the banks focused only on loans for the income generating activities which did not have any component (and banks did not provide separate loans) to meet even small-time emergencies like sickness, it was obvious that the poor would divert a portion of the production loan for meeting the emergency. Such events have a negative impact on the economic activity, resulting in lower incomes and poorer repayments. The lesson to be learnt is that a mechanism on which the poor can fall back upon in case of emergencies, and which is in addition to the loans and subsidies for economic activities, needs to be an integral part of any programme aimed at the poor.

Last, but not least, was the fact that in all programmes aimed at the poor, it was others who decided everything - these "others" include policymakers, bankers, government officials and so on who all joined together to decide who is poor, and what assistance he should get, when, and on what terms. As practising bankers all of us would know that most of the time even what economic activity the poor should undertake is also decided by government officials and bankers. In simple words, the poor had no say in deciding what they want, how much they want, and when and where they want. Not allowing the poor to decide these simple things which concern their own lives also had a psychological disadvantage as the poor never mentally owned what they were required to do under such programmes. Somewhere or the other, this too had a negative impact on the efficiency with which the economic activities were practised by them.

The three important lessons that NABARD drew from this research were :

- the poor need a simple mechanism available in their own village through which they could keep safe their tiny thrifts; they were not looking for interest on these deposits,
- a simple mechanism needs to be created which the poor could draw upon for meeting emergent and short period consumption requirements and small loans for economic activities - usually for smoothening the fund flows in their existing activities and to marginally expand them and
- there needs to be an inexpensive mechanism through which capacities of the poor to handle larger financial resources can be gradually built to enable them to avail larger-sized loans for economic activities.

As already mentioned, the branch network of the formal banking system was expanding at a fast pace and creating a network of any alternate set of institutions focusing on the poor would have been not only time-consuming but also extremely expensive. It was therefore decided that the best way is to leverage the already available bank branch network. However, we have already seen earlier that both banks and the poor were finding it unattractive to deal with each other because of the high non-interest costs that the poor had to bear and the high transaction costs that the banks had to bear while using the available products and delivery methods.

The only solution was then to design a delivery mechanism which works with the existing branch network and enables the rural people to access financial services while

- reducing the transaction costs of the poor for keeping safe their thrift as well as taking loans,
- reducing the transaction costs of the banks while simultaneously improving the quality of appraisal, monitoring, and security for loans and
- enhancing the capabilities and decision-making of the poor for handling larger resources.

In any case, the initiative had to be savings led and not credit led as was the case of all programmes for the poor so far.[16] Also, the mechanism had to be simple, fairly inexpensive and replicable if it was to be implemented in the whole country. Once such a delivery mechanism was

15. Economic activity can get disrupted for a variety of reasons ranging from sickness to heavy rains.

16. We would have perhaps been happy even if the mechanism enables the poor just to keep safe their thrift so that they can use it when they really needed it.

designed, it would be necessary to groom the existing partners, the banks and the rural people, to adopt it and perhaps also find new partners with specified roles to assist both the banks and the rural people in the initiative.

In 1986-87, therefore, NABARD started an action research project[17] with MYRADA, an NGO based in Bangalore, which sought to

- assess the capacities of the poor to save and the incentives (or removal of hindrances) they need to encourage them to do so,
- assess whether and how individual savings could be pooled together without having formal co-operatives,
- assess and enhance their capacities in managing higher sums than hitherto managed by them,
- develop methods for enhancing financial discipline among them,
- assess how fluctuations in their income streams due to various reasons could be met through short term consumption loans and whether these could be integrated with their productive activities,
- assess how the working of their micro-enterprises and livelihood activities could be smoothened and enhanced and how they could be encouraged to adopt new activities, and
- assess how appraisal and monitoring costs (which implicitly means risk costs) of financing agencies (banks) could be diminished and develop alternatives for the same.

It is this action research project which led to the design and development of the programme which is by now known to all - the "SHG-bank linkage programme"[18]. But what is an SHG?

An SHG is a small group of people, say, 10 to 20, who have common characteristics e.g., they may all have similar low incomes, may have common problems like illiteracy, or for that matter may have a common religion or caste, or may be small and marginal farmers or practicing dairy, or so on something all members of a group may easily relate to and which can become a rallying factor for them to bind and hold them together in adversity. It is easier to ensure all members attend meetings when the group is small. The small size of the group allows all members to participate in any discussion, in a meeting and does not allow only a few members to dominate when all members participate, the decisions taken are transparent and all can take ownership of such decisions. SHGs are encouraged to have their meetings in late evenings when all other chores are already over and no one loses any wages or income because one is participating in a meeting. These are critical factors, the absence of which has seen many a co-operative fail.

Once such an SHG is formed (yes, the rural villagers have to be assisted by someone to do this), it is encouraged to decide how much thrift every member would save every week or fortnight. As said earlier, our research had shown (and the growth of deposit accounts in the rural and semi-urban branches corroborates it) that even poor want to keep their tiny thrifts safe. The compulsion to bring the same amount every week kindles financial discipline among the members and even sometimes forces them to stop wasteful expenses like tobacco or liquor. The members are taught to keep simple accounts, which is fairly easy because of the fixed sums that are collected. We strongly believed that the "saving habit" is the basis for growth and will be useful even for prompt repayment of loans.

It is here that a path breaking policy decision was taken by RBI to support this initiative. RBI decided that SB accounts could be opened in banks in the name of such informal groups (say, Lakshmibai SHG - remember, an SHG is an unregistered group) and not in the individual names of the authorised operators of such accounts. Every SHG was mandated to open an SB account and deposit the pooled thrift collected in every weekly or fortnightly meeting collected transparently before every members' eyes so that no one can later dispute any transaction. With one stroke multiple problems were solved - suppose an SHG has 20 members and the SHG decides to save just Rs.5 per member every week. One, the bank operates only one account in the name of the SHG and not 20 individual accounts, thereby reducing its transaction cost twenty times. Second, it would not have

17. An 'action research project' is an effort in which an experiment is started with certain premise and understanding, and based on the mid term learnings while the project is going on, certain parameters are changed to see their impact.

18. SHG - Self Help Group

liked to take a small sum of Rs.5 as a deposit from each member, but it does not mind accepting the pooled deposit of Rs.100 per transaction! This enables 20 members to keep safe their individual thrift of just Rs.5 in a bank! Can there be greater safety? More importantly, every one of these 20 members is not required to go to the bank at all just one or two members travel to the branch, thus reducing the transaction costs of the depositors as well.

But what do the SHGs do with these deposits? Rs.5 is too tiny for our thoughts, Rs.100 collected in a week may also not be enough, but if an SHG does it for six months, the collected savings of these very poor people will be close to Rs.3,000! Once the SHG has some such money, it is encouraged to give small loans to the needy members at interest rates and repayment periods the members decide in their meeting. As total demand may far outstrip the available sum, the SHG will be forced to ration it and even decide who should first get and who should wait. The SHGs would obviously decide this on two counts, whose needs are more critical and who can repay!! Let us remember that since it is their own money which they are lending, the repayment would be at the top of their minds. Another issue, while none of them had handled and decided on the use of a sum like Rs.3,000 individually, as a group, each one of them is learning it in every meeting that the member attends. Can there be a better way for the poor to learn appraisal, monitoring, prioritising, and managing larger sums without incurring any costs?

And the kitty with the SHGs would continue to grow with their regular savings and interest incomes they earn from the small (or micro-micro) loans they give! Once the SHG demonstrates such mature behaviour and financial discipline, the bank lends to the group, merging its loan with the own savings of the group to enable the SHG to meet larger credit needs of members. Since each loan by the SHG to a member contains a mix of their own savings and bank loan - and they cannot distinguish how much is what - they ensure repayment, because they do not want to lose their own money and thereby, also ensure repayment of the bank loan portion of the individual loans. Based on repayment performance and the growing kitty of the SHG, it avails larger and larger loans from the bank with every passing year. As the relationship of the SHG continues with the same bank branch, and the loan sizes become larger and larger, the bank's appraisal and monitoring costs keep reducing further as it already knows its client well !

The delivery methodology of SHGs sought to find solutions to almost all the issues that were brought out by our research studies. SHGs are generally formed by NGOs, government departments, and increasingly by the banks themselves. Many banks are investing in support agencies like NGOs - to help them form SHGs with whom they would have business relationships.

By now the whole world knows that the small initiative started in 1992 for linking 500 SHGs with banks has today snowballed into the largest microfinance programme of the world. By March 2008, banks had opened savings bank accounts for 50 lakh SHGs covering about 8 crore rural poor families, and these SHGs had deposited Rs.3,785 crore in these savings accounts. As most SHGs use substantial savings in their internal lending to members, it can be safely assumed that the aggregate savings of these SHGs are in the range of at least Rs.7,000 crore. During the year 2007-08, banks had given loans to 12 lakh SHGs (an increase of 11% over 2006-07) aggregating Rs.8,849 crore (an increase of 35% over 2006-07). Loans aggregating Rs.17,000 crore were outstanding as on March 2008 (an increase of 38% over 2006-07) in respect of 36 lakh SHGs covering about 5.8 crore rural poor. The average loan per SHG disbursed last year was Rs.72,076. Such a single loan account, which is larger than most individual loans issued by banks in rural areas for agriculture, allied farm activities like dairy etc. or even non-farm sector loans makes SHG financing a business proposition for any bank. With average NPAs of less than 3% (NPAs in other rural loans like agriculture and non-farm sector are generally much higher), is lending to SHGs small business for the rural and semi-urban branches of the banking system?[19] There are RRBs in the country whose loan business with SHGs is over 50% of their loan portfolio and loans to SHGs account for over 70% of their profits.

19. NPAs on SHG lending of some of the banks are higher. But, most of the time, these NPAs have built up because the banks have not followed the methodology for financing SHGs properly including their periodic monitoring. Quite often such bankers erroneously believe that forming, monitoring and getting repayments from SHGs is the job of someone else like NGOs and the bank needs to only enjoy its profits !

While this significant development was taking place, there is another development which has simultaneously taken place. This is the emergence of what are popularly called microfinance institutions or mFIs. Most such mFIs are NGOs, societies registered under the Charitable Societies Acts, or Trusts, or companies registered under Section 25 of the Companies Act (which makes them companies which do not share profits with their investors).[20] Often started with donor moneys, these mFIs have increasingly received bulk loans from banks in the last three-four years, mostly from those banks which do not have large branch networks and those who are short of meeting their priority sector lending targets[21]. Most such mFIs do not provide any savings or deposit services to their clients and in cases where they do take deposits in one or the other form, it is limited to their loan clients and is usually in the form of a compulsory deposit as part of security for the loan, though it is explicitly not so mentioned. These mFIs however mostly provide only short-term loans to their clients, generally for less than a year and take repayments in fixed weekly instalments. Rates of interest charged often work out to more than 25% p.a. and effective interest rates (i.e., interest charges plus many other charges like registration fee, administrative charges, monitoring fees and so on levied on loan clients) of even 40% p.a. are not uncommon. Such high rates of interest and short repayment periods are tenable for loans for petty business and such activities where the operating cycle of the activity (like buying goods and selling them) is completed in short periods of less than a week. Investment loans - like pumpsets or horticulture crops which require longer repayment periods are therefore seldom financed by them. Very few mFIs follow the SHG model - and most mFIs deal either directly with individual clients while providing loans or follow the five member group model based on the methodology developed by Grameen Bank, Bangladesh[22]. In either case, individual loan accounts are maintained by the mFI which increases their transaction costs substantially. During the year 2007-08, Rs.1,970 crore were provided (an increase of 71% over the previous year) as loans to 518 mFIs (an increase of 55%).

Considering that banks generally give loans to mFIs at interest rates ranging from 10% to 13% per annum, knowing well that the mFIs usually charge interest rates of about 25% p.a. or above, one needs to seriously debate whether this route of financing the poor is a better option than financing SHGs directly where the SHGs can get their loans at interest rates of 10% to 13%.

As mentioned earlier, the methodology of SHG-bank linkage sought to reduce the physical and psychological distances between the rural people at the bottom of the population pyramid and the bank branch network. The authorised leaders on behalf of the SHGs had to still travel to the bank branch, or occasionally the branch official had to visit the SHG - and considering that despite the vast expansion of branch network, a rural or semi urban branch still served about 12 villages, the physical distance and the time and costs for travelling could still be a dissuading factor. It is here that the recent policy initiative of RBI of encouraging banks to have business correspondents (BC) of bank branches may well turn out to be the second biggest path-breaking initiative in banking the urban and rural poor. The recent developments in computing technologies and telecom infrastructure have

20. In fact, even while designing the SHG model, it was felt that if banks do not take interest in financing SHGs directly, the only alternative left would be to provide bulk bank finance to such NGO-mFIs and let them do the retailing. The growth of the programme however showed that most banks preferred to lend to SHGs directly and not through NGO-mFIs.

21. RBI has allowed such lending to be included under priority sector.

22. The five member Grameen group is quite different from the SHG as we know although both are commonly called groups and many learned and highly placed academicians, politicians, bureaucrats and bankers quite often do not know the difference between the two and happily use the terms SHG and Grameen groups interchangeably. In a Grameen group every member receives exactly the same amount of loan (irrespective of the need), say Rs.1,000 to be repaid in 50 equal instalments -- with one member getting his or her loan on a particular day, the second member getting it the next week or the next month, the third member a week or month after that and so on. The subsequent members would get loans only if those earlier given continue to be prompt in their weekly repayment, and this is how the peer pressure works in the Grameen group. If all five loans are repaid on time, the five members become entitled to a higher second loan, say Rs. 1,500 per head which is issued on similar lines. Loan account of each individual of this five member group is however maintained by Grameen. Grameen groups do not meet themselves as in the case of SHGs but are compulsorily mandated to attend weekly "centre meetings" organised by the Grameen official in which 8 to 10 such five-member groups attend simultaneously. This process tends to increase the transaction cost of Grameen as well as of the members.

changed the very meaning of the word connectivity. Instruments like - simple cell-phones that not only provide telecom connectivity to transmit encrypted financial data but also store volumes of data, handheld point-of-sale (POS) devices, contact and contactless smart cards and card-readers, fingerprint recognition devices, solar battery chargers, etc are fast removing the concept of brick and mortar bank branch from our minds and bring banking services right at the door step of the rural people. RBI is actively considering recognizing the local village shopkeepers and public call offices (PCOs) and even the authorised representatives of SHGs as business correspondents of banks. Coupled with the vast network of formal agencies like post offices and primary co-operatives[23] and many other entities which can be recognized as BCs, that day is not far when no one in a village will be required to walk more than 15 minutes to avail banking services without being exorbitantly charged for availing of such services.[24]

When designing the SHG-bank linkage programme, we, in our wildest dreams, had never imagined that one day poor rural women - would not just become clients of the banking system but would graduate to become its own extended arms for providing banking services to their other brothers and sisters.

Banking with the last, the lost, and the least is destined to come a full circle.

Progress under SHG-Bank Linkage

Year	New SHGs financed by banks					Bank loan **(Rs. crore)
	During the year		Cumulative During the year			Cumulative
	No.	Growth (%)	No.	Amount	Growth (%)	Amount
2002-03	2,55,882	29	7,17,360	1,022.34	87	2,048.68
2003-04	3,61,731	41	10,79,091	1,855.53	81	3,904.21
2004-05	5,39,365	49	16,18,456	2,994.25	62	6,898.46
2005-06	6,20,109	15	22,38,565	4,499.09	50	11,397.55
2006-07	11,05,749*	-	28,94,505@	6,570.39	-	12,366.49
2007-08	12,27,770	11	36,25,941	8,849.26	35	16,999.90
2008-09#	6,42,636		@@	6,471.77		@@

*** Include report loans to existing SHGs.*

 # Provisional

** Included existing SHGs also, which were provided repeat bank loan.*

@ From 2006-07 onwards, data in respect of number of SHGs financed by banks and bank loans are inclusive of SHGs financed under the Swarnajayanti Gram Swarozgar Yojana (SGSY) and the exiting groups receiving repeat loans. Owing to this change, NABARD discontinued compilation of data on cumulative basis from 2006-07. As such data from 2006-07 onwards are not comparable with the data of the previous years.

@@ Not available.

SourceEconomic Survey 2008-09.

23. Post offices (POs) have over one lakh outlets, and also already offer their own financial products like savings deposits, term deposits and remittances. POs are therefore ideally suited to become BCs of banks or one day become a bank itself. In a significant experiment that has been on in Tamil Nadu for the past three years, POs are forming and financing SHGs with loan funds made available by NABARD. Although POs accept deposits from SHGs and disburse loans to SHGs and maintain their accounts, the risk of non-repayment is on the books of NABARD. In other words, POs are already experimenting as BCs. Similarly, there are about one lakh Primary Agricultural Cooperative Societies (PACS) with a membership of almost 12 crore farmers and other rural people. The PACS already offer agricultural loans and also provide deposit services to their members with the risk on their books. Though currently most PACS deal only with Central Cooperative Banks, RBI instructions on BCs permits commercial banks to take PACS as their BCs.

24. The institution of business correspondent would perhaps permanently remove the last piece of alibi on the part of some bankers who feel that they are so short of staff and time that the only way to provide a small loan to the poor is to give a large loan to an NGO or some such agency and allow it to charge whatever it likes to the poor.

Measuring Financial Access - Some Lessons for India

Vijay Mahajan *

Suman Laskar *

Why is financial access and its measurement necessary?

Inclusive growth requires financial inclusion

Economic growth of the economically, socially and geographically disadvantaged segments of the population of any country requires access to financial services. In addition to a bank account, financial services include savings, credit, insurance and payments facilities and other financial social security measures. Financial inclusion denotes delivery of financial services at an affordable cost to the disadvantaged and low-income groups.[1]

Well functioning financial markets provide equality of opportunity. One of the crucial functions of the financial system is to allocate resources to most productive uses, thus boosting economic growth, improving opportunities and income distribution and reducing poverty.[2] Financial development exerts a disproportionately positive influence on the poor by expanding their opportunities. According to Asli, Demirgüç-Kunt, Ross and Levine (January 2008), access is different from use. Figure-1 illustrates these differences. Access is more difficult to measure since it is not observed as use is. It is also likely to be wider since some may have access but may not wish to use financial services for cultural and religious reasons. On the other hand, there are the involuntarily excluded who, in spite of demanding financial services, do not have access to them.

Access to financial services and its mirror image, financial inclusion, depend on a number of factors. First, there is a group of households and enterprises that do not have enough income or constitute too high a lending risk. This group is considered un-bankable by commercially oriented financial institutions and markets. Second, there might be discrimination against certain population groups based on social, religious or ethnic grounds. Third, the contractual and informational framework might prevent financial institutions to reach out to certain population groups since it is too costly to be commercially viable. Finally, the price of financial services or the product features might not be appropriate for certain population groups. While the first group of involuntarily excluded cannot be a target of financial sector policy, the other three groups demand different responses from policy makers.

The distinction between access and use suggests that not only it is important to collect information on the use of financial services, but also on barriers to access, in order to identify boundaries and causes of exclusion. These barriers, by excluding large parts of the population from access to finance, are likely to play an important part in perpetuating inequality and limiting economic opportunities for the poor.

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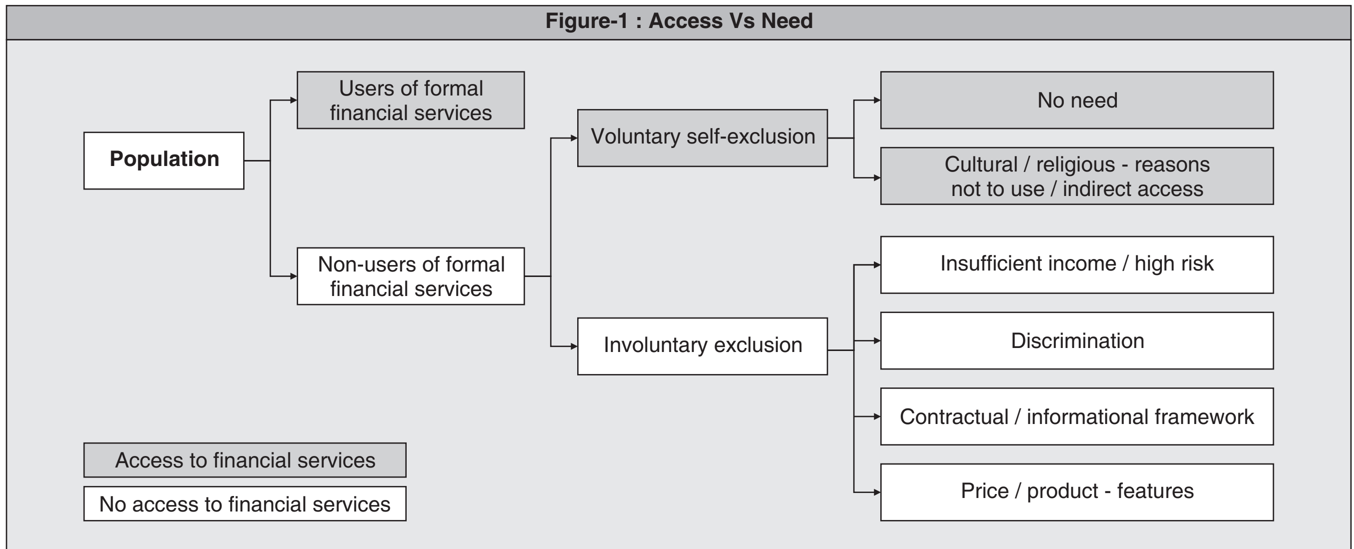
* ***BASIX, India.***

1. *Government of India, Report of the Committee on Financial Inclusion, NABARD, January 2008*
2. *Asli, Demirgüç-Kunt, Ross and Levine, Finance and Economic Opportunity, The World Bank Development Research Group, Finance and Private Sector Team, January 2008*

Figure-1 : Access Vs Need



Source : World Bank (2007).

Measures for Assessing the Performance of the Financial Sector

Performance of financial sector is traditionally assessed broadly on the basis of whether the financial sector promotes economic growth and whether it displays price stability - domestic prices in terms of low inflation and international process in terms of stable foreign exchange rates.

Traditional Measures - Growth and Stability

Economic growth is the increase in the amount of the goods and services produced by an economy over time. It is conventionally measured as the percent rate of increase in the gross domestic product (GDP). An increase in GDP of a country is generally taken as an increase in the standard of living of its inhabitants. In the mid 20th century, it became the policy of most nations to encourage growth of this kind. It required enacting policies and being able to measure the results of those policies. This gave rise to creating measurements for underlying conditions, such as GDP growth rate, unemployment rate, and inflation.

The purpose of economic policy is to enable economic activity, particularly increasing production and consumption, without causing a rise in the general level of prices. In other words, GDP growth with near full-employment and price stability is the Holy Grail of macro-economists and central bankers. However, in a vast majority of developing countries, the goal of financial inclusion has to be added as a third deliverable from the financial sector, because for decades, these countries have witnessed a dual economy, with one part showing robust growth while another part has stagnated in terms of incomes. We illustrate this below for India.

Assessing the Financial Sector on Inclusion or Access is a must

In India many of who work as agricultural and unskilled / semi-skilled wage labourers, micro-entrepreneurs and low-salaried worker, are largely excluded from the formal financial system. Over 40 per cent of India's working population earn but have no savings.

Only 34.3 per cent of the lowest income quartile has savings, and only 17.7 per cent have a bank account. By contrast, in the highest income quartile, 92.4 per cent have savings and 86.0 per cent have bank accounts.[3]

The National Sample Survey Organization (NSSO), 59th Round data reveals that out of a total of 89.3 million farmer households in India 45.9 million (51.4%) do not access credit, either from institutional or non-institutional sources.

In spite of the vast network of bank branches and credit co-operatives, only 27% of total farm households had borrowings from formal sources.

3. *Government of India, Committee on Financial Sector Reforms (Chairman Prof. Raghuram Rajan), 2008.*

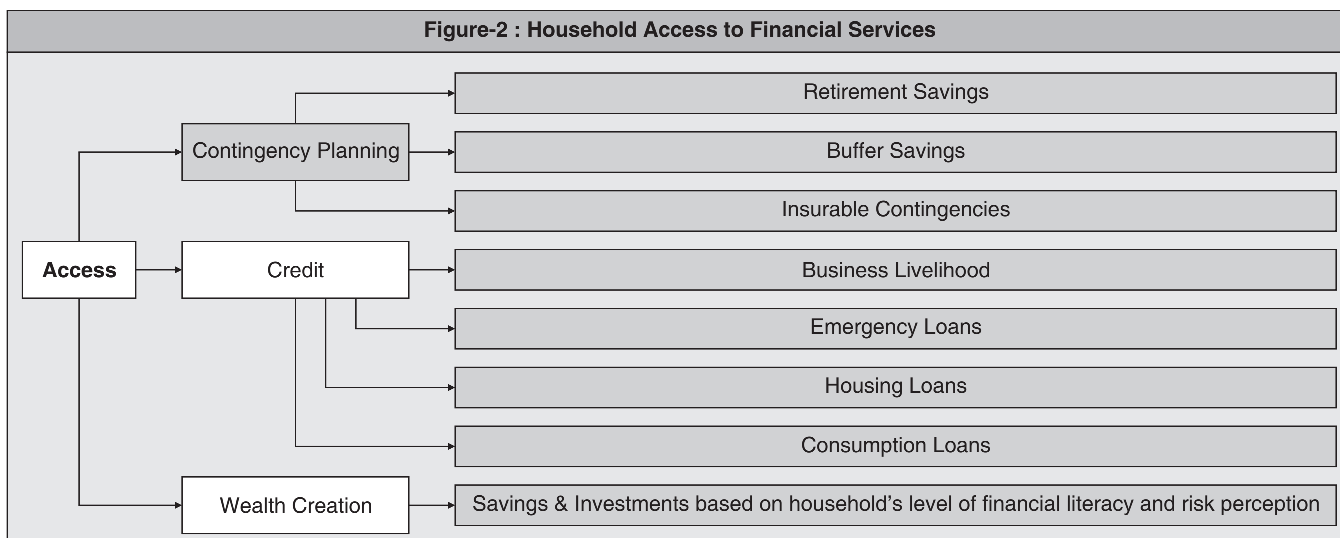
Farm households not accessing credit from formal sources as a proportion to total farm households was especially high at 95.9%, 81.3% and 77.6% in the North Eastern, Eastern and Central Regions of India respectively, all of which have lower per capita income than the all India average.

The Economic Census, 2005 reported that there were 42.1 million enterprises functioning in India in 2005. Yet there were only 23.6 million non-individuals deposits accounts (BSR March 2005). Thus there were only 56 deposit accounts for every 100 enterprises. In fact some of these may be non-individual accounts pertaining to crop production or plantation or entities engaged in non-economic activities.

The Economic Census, 2005 reported that only 14.3 per cent of enterprises engaged in non-agricultural activities availed credit facilities from the scheduled commercial banks.

Financial inclusion, broadly defined, refers to universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products (see Figure-2).

Figure-2 : Household Access to Financial Services



Source : IISS, 2007.

Households need access to finance for several purposes, the most important being for contingency planning and risk mitigation. Households build buffer savings, allocate savings for retirement (for example via pension plans) and purchase insurance and hedging products for insurable contingencies. Once these needs are met, households typically need access to credit for livelihood creation as well as consumption and emergencies (in the event that they do not have savings / insurance to fund them). Finally, wealth creation is another area where financial services are required. Households require a range of savings and investment products for the purpose of wealth creation depending on their level of financial literacy as well as their risk perception.

If access is important, then it needs to be measured

We can measure access to financial services from the demand side, based on sample surveys of individuals, households, farms and enterprises, to understand the nature and extent of demand for different kinds of financial services (transaction banking, savings, credit, insurance, remittances, pensions, mutual funds, commodity price, hedging, etc,) and their usage from formal sources.

One can also get information on the supply of financial services from banks, insurance companies and other financial intermediaries. By comparing the two, we can measure the gap between demand and supply. We can also identify the specific types of financial services gaps for different segments of the society in different geographies. We can also get a sense of the demand supply gap from the extent to which informal alternatives or higher-priced alternatives are being used.

Measuring Access from the Demand side

The best possible way to assess financial access from the demand side is household surveys with representation from different segments of the society and parts of the country. In India, in order to study the access to credit by households, the Reserve Bank of India (RBI) conducted the 'All-India Rural Credit Survey' in 1951-52. Information on assets, economic activities, particulars of credit operations and the incidence of “indebtedness” was collected in the survey to assess the demand for rural credit. This was followed up with 'All-India Rural Debt and Investment Survey' in 1961-62 by the RBI. The scope of the survey was extended to include capital expenditure in the household sector and other associated indicators of the rural economy.

All India Debt and Investment Survey (AIDIS)

The responsibility of conducting the third such survey was given to the National Sample Survey Organization (NSSO). The NSSO undertook the All India Debt and Investment Survey (AIDIS), in its 26th round survey during July 1971-September 1972. During this survey, for the first time the scope was extended to urban areas as well. Since then, NSSO is regularly conducting AIDIS once in ten years in both rural and urban areas.

In the most recent round of AIDIS (2002-03), about 130,000 households were surveyed; 89,718 from rural and 49,321 from urban areas respectively, were surveyed from 1st July 2002 to 30th June 2003. The major states that were considered in the report were those with population of ten million or more in respect of rural or urban sector separately. The survey was canvassed in a sample of 14 households selected randomly in each village / block. In order to reduce recall errors, particulars relating to the entire agricultural year 2002-03 were collected by visiting each sample household twice during the survey period. The first visit to the sample households was made during the first eight months of the survey period, while the second visit was made during the next four months.

The AIDIS report gives details of all financial transactions, particularly those of cash borrowings and repayments during the year 2002-03. The report highlights the borrowings and repayments by the households describing mainly the incidence of borrowing and incidence of repayment, state level variations, detail by credit agencies, different types of security against which borrowings were made, purpose of borrowings etc. The data was analysed separately for rural and urban households. Further analysis was by occupation and asset ownership. The occupation for rural area was divided into cultivators and non-cultivators and for urban, into self-employed and others. The households were divided into 10 classes with asset holding less than Rs.15,000 as the lowest and Rs.800,000 and above as the highest.

Following are some highlights from the NSS 59th round report describing the magnitude, incidence, state level variations, credit agencies, different types of security, purpose etc., highlighting the borrowings and repayments to give us some understanding about its relevance to measure the demand side of the credit on the basis of household survey in India.

- The aggregate amount of cash borrowings by the household sector during 2002-03 was Rs.89,300 crore, of which rural households accounted for 62 per cent.
- The percentage of households reporting cash borrowings in rural and urban areas was 21 and 15 percent respectively in 2002 and 2003.
- The average amount of cash borrowings per rural household was Rs.3726/- and Rs.6162/- for an urban household.
- The average amount of borrowing of a household belonging to the highest asset holding class in rural areas was Rs.17909/- which was about 27 times of the average borrowing by the lowest assets holding class.
- Tamil Nadu, Kerala and Andhra Pradesh were the three top states, in the order of ranks, where the proportion of households reporting cash borrowings varied between 42 to 33 per cent in rural and between 35 to 30 per cent in urban areas. In contrast, in Jammu and Kashmir, Uttaranchal, Delhi and Jharkhand, the incidence of borrowings ranged from 3 to 6 per cent.
- Non-institutional credit agencies accounted for 87 per cent of the total borrowings among households in the lowest asset ownership, while institutional credit agencies accounted for about 90 per cent of

the total borrowings among households in the top asset holding class.

- In the rural areas, among different types of security, highest proportion of households who borrowed, did it against personal security (49 per cent).
- During 2002-03, among rural households, borrowings for purposes of 'expenditure in farm business' and 'household expenditure' accounted for the highest proportions viz., 38 and 36.6 per cent, respectively of total cash borrowings.

From the above highlights it is clear that the survey is comprehensive in nature in terms of its geographical, rural-urban, rich-poor variations. Though it provides a lot of data on credit usage, it does not provide any clear picture on the credit demand by different segments. Usage is often supply-constrained and is not necessarily a good surrogate for demand.

Invest India Incomes and Savings Survey (IISS), 2007

In India, research related to household investment behaviour has traditionally focused on the higher income segments. Equal attention is needed regarding the cross market financial behavior of the millions of households at the middle and lower end of the income distribution. In an effort to overcome the data gaps in household financial behavior, IIMS Dataworks and Invest India Economic Foundation (IIEF) commissioned the Invest India Incomes and Savings Survey 2007 (IISS 2007). Based on in-depth interviews with 100,000 respondents aged 18 to 59 years with cash incomes, drawn from a household listing sample of one million households, the Survey is the largest-ever privately financed study of its kind in the world. The fieldwork for this survey with a stratified random sample of urban and rural households was completed in July 2007.

This survey generated a unique integrated database which directly links the incomes, savings, investment portfolios, retirement preparations and outlook, insurance and credit positions, labor market characteristics and demography of over 321 million paid members of the Indian workforce as well other individuals with incomes. This survey report explains mainly three broad categories like income distribution, retail penetration of different financial services and attitudinal pre-disposition of Indian earners regarding finance, keeping variations in terms of rural-urban, with four different types of urban places, fourteen different categories of occupation, 27 different states, etc. Following are some of the highlights from the IISS 2007 report :

- 88% of rural households in India earned less than Rs.50,000 annually.
- Agriculture wage labourers earned Rs.21,295 per year in contrast to the self employed professionals earning more than Rs.3,19,555 per year.
- 31% of earners had taken loans from money lenders in the previous two years, as compared to 24.7% from banks and co-operatives.

Though the sample size for both AIDIS and IISS is almost the same, the focus of the two surveys is different. For instance AIDIS is more focused on the borrowings and repayments, while IISS is more focused on analyzing a wider range of financial services like savings, insurance and mutual funds. But both the surveys have proven the ability to collect and process large amount of data from different parts of the country.

Measuring Access from the Supply Side

On the supply side, the largest source of data on financial access is RBI reports, based on returns filed by banks in terms of deposits and credit. Post offices also provide information mainly on savings and money orders. The “Handbook on Indian Insurance Statistics” by the Insurance Regulatory and Development Authority (IRDA) highlights mainly performance of the Indian insurance companies in life and non-life insurance in terms of business and aggregated penetration in different geographies.

RBI data

The Basic Statistical Returns of Scheduled Commercial Banks in India, is an annual publication since 1972, based on data collected through Basic Statistical Returns (BSR) 1 and 2. As on March 31, 2007, it covered 73,199 offices of scheduled commercial banks including regional rural banks. The report focuses mainly on credit and aggregate deposit keeping the population group, states, and occupation (sector) as variables. As RBI is conducting this survey since 1972, one can see the trend of credit and deposit over a period of time. It gives the

number of accounts and amount of loan or deposit outstanding.

Data is divided mainly into rural, semi-urban, urban and metropolitan. The occupation variable for credit is under the categories - agriculture, industry, transport operators, professional and other services, personal loans, trade and finance. It also gives details on bank group wise distribution. Keeping the above variables in mind following are some of the highlights from the report which gives some picture of financial inclusion from the supply side.

- The number of deposit accounts increased by 7.0 per cent to 519.1 million from about 485 million in March 2006.
- Nationalised banks continued to have a major share in aggregate bank deposits at 48.5 per cent in 2007.
- The number of borrower accounts increased by 10.5 per cent to 94.4 million in 2007 compared to 85.4 million in 2006.
- The growth of bank credit to agriculture was 33.3 per cent in 2007 as against 38.8 per cent in the preceding year.
- The number of small borrower accounts (with credit limit up to Rs.200,000) contributed 89.3 percent of total number of accounts, while the share of outstanding credit of small borrower accounts was 14.4 per cent of the total bank credit.
- The share of credit to co-operative sector declined to 4.5 per cent in 2007 as compared to 5.2 per cent in 2006.
- Credit data is also available by district and within each district by various major purposes like agriculture, small industry, transport, etc.

Post Office data - on savings, money orders

India has the largest postal network in the world with over 1,55,204 post offices of which 89% are in rural areas. On an average, a post office serves an area of 21.2 sq. km and population of 7,166 persons. Post offices also cater to financial services mainly savings deposits and money orders. Recently they have started offering a onestop shop for providing a range of banking and insurance services like term deposits, mutual funds, pension, insurance services (Rural Postal Life Insurance), especially health insurance etc. The annual report provides some aggregated information on deposits and money orders.

Table-1 : Savings Scheme: Profile (As On 31.03.2007)

Name of Scheme	Number of Accounts	Total Amount Deposited (Rs. in Million)
Saving Accounts	64,342,873	185,648.7
RD Accounts	67,027,234	602,300.4
TD Accounts	12,429,827	367,124.6
MIS Accounts	24,921,140	1,894,389.7
NSS Accounts (87 & 92)	812,853	48,607.6
PPF Accounts	2,111,082	194,563.2
Sr. Citizen Savings Scheme (SCSS)	752,260	222,843.0
Total	**172,397,269**	**3,515,477.2**

Table-2 : Money order traffic and value

	2005-06	2006-07	Increase / Decrease (in %age)
Money Order traffic (in Million)	95.79	99.10	(+) 3.46%
Value of MOs transmitted (Rs. in Million)	71834.3	77567.06	(+) 7.98%

Source : India Post Annual Report 2007-08

Some short but in-depth studies in India

Surveys based on a large number of respondents improve the credibility and quality of the findings. In India there are some studies attempted by researchers with small number of samples on financial inclusion which actually are very rich in depth of the subject matter and are highly valuable. For example study on “Financial Flows of Rural Poor in Dungarpur, Rajasthan” (Prof. M. S. Sriram and Shaswati Ghose) was designed to understand the financial flows and financial behaviour of the rural poor. The study team undertook a detailed household survey amongst 416 households that were classified as being below poverty line in two blocks of Dungarpur. It was also intended to help the supply side (financial service provider) to design their products according to the need of the poor.

The other study “Financial Services for the Rural Poor and Women in India : Access and Sustainability” (Vijay Mahajan and Bharti Gupta Ramola) commissioned by the World Bank, reviewed the performance of Indian

financial institutions in providing services to the rural poor and examined the key issues faced by policy makers and institutions. The study posits two sets of causal variables for institutional performance : (i) Internal Practices Attitudes (IPA's); and (ii) Mechanisms for client interface that either enhance or thwart access by the rural poor and women (MEAs). The study sought to identify changes in these variables that could improve access to financial services by the rural poor. It covered a range of financial service providers (banks, co-operatives, insurance companies, private financiers, moneylenders, self-help groups, NGOs, etc.) with coverage of 60 villages in which about 600 rural poor individuals (300 men and 300 women) and 110 rural branch officers were canvassed using structured questionnaires. An in- depth analysis was carried out of over 600 loan records and 750 deposit accounts. This was supplemented by a review of available published material and analysis of financials of NCBs and a number of RRBs and co-operative institutions.

During 1999-2000, Orlanda Ruthven carried out a survey “Indian Financial Diaries” study. The Financial Diaries survey traced the daily income, expenditure and financial device usage for 40 households over the course of one year. The study argues, "Many microfinance initiatives assumed that poor people had little or no financial life other than being exploited by wicked moneylenders. The Financial Diaries were designed to examine whether or not poor people have active financial lives, and if so, what form they take and what the reasons behind them are." One might assume that, because they are away from formal financial services, the rural poor might use less financial instruments. However, the study found that they tend to use as many financial instruments as urban households and also more informal instruments than formal.

The Rural Finance Access Survey, 2003 (RFAS-2003) conducted jointly by the World Bank and the National Council of Applied Economic Research, India (NCAER) highlights inadequacies in rural access to formal finance and the extortionary terms of informal finance, which provide a strong need and ample space for innovative microfinance approaches - that combine the safety and reliability of formal finance with the convenience and flexibility of informal financeto serve the financial needs of India's rural poor. The survey covered 6,000 households and micro-enterprises (households that rely on non-farm income for more than 50 percent of their income) in two states, AP and UP. The sampling framework methodology for the survey used random sampling techniques including stratified random sampling. RFAS 2003 reveals that 70 percent of marginal / landless farmers do not have a bank account and 87 percent have no access to credit from a formal source.

There are other studies done by different institutions and researchers from time to time in India. Though all of them were not intended to be large studies but depth wise, they give pointers to work by both civil society, government and market players in understanding the issues of access to financial services by poor household.

What more can be done to measure access and financial inclusion?

Multi-Country Data Sources

The Consultative Group to Assist the Poor (CGAP) is the international apex body for microfinance and inclusive financial services. It has commissioned a multi-country study on financial access. A recent CGAP working paper “Multi-Country Data Sources for Access to Finance”, Christoph Kneiding, Edward Al-Hussayni, and Ignacio Mas (February 2009) review various data sources that have a bearing on microfinance, or access to finance more broadly, and discusses their relevance. The paper was restricted to sources that achieve some level of comparability of data. In the annexure, the paper presents a comprehensive summary of different surveys and data sources being conducted mainly in six broad categories with a comparative analysis in eleven parameters ranging from coverage, number of relevant financial questions, frequency, and methodology to scope of the survey.

1. **Household Data Sources** (LSMS, LSMS Phase IV Financial Module, FinScope, MECOVI, Financial Diaries etc.)
2. **Enterprise Data Sources** (Investment Climate Enterprise Surveys, World Business Environment Survey, Business Environment and Enterprise Performance Survey)

3. **General Opinion Data Sources** (Afrobarometer, Eurobarometer, Latinobarometro, World Values Surveys; Gallup World Poll)
4. **Financial Intermediary Data Sources** (MIX Market, MBB, BankScope, Beck et al. (2006) and Kumar (2008), ADB Country Studies, WSBI, MFC State of Microfinance in EECA, WOCCU Credit Union Coverage, IDB “Data Update”, Micro credit Summit Report, SendMoneyHome.org, Remittance Prices Worldwide)
5. **Regulatory / Policy Data Sources** (Doing Business, Financial Sector Development Indicators, Payments Systems Worldwide, IDB LAC Microscope, CGAP Resource Center on Regulation and Supervision, Bank Regulation and Supervision)
6. **Funder Data Sources** (CGAP Microfinance Funder Survey, FIRST Initiative, MIX Market, OECD DAC, PLAID)

It is quite clear that supply side surveys are more in number. The paper also shows that the survey conducted by World Bank, “Living Standard Measures Survey (LSMS)” was first of its kind since 1980. Later on it was upgraded to “LSMS Phase IV Financial Module” in terms of increasing the number of relevant questions, frequency of the survey, using standard survey instruments, etc.

Learning from FinScope Survey of South Africa

In the present paper we explore the importance of demand side household based surveys to suggest a comprehensive demand side survey for India to measure access to different financial services. We found that the FinScope survey implemented by “FinMark Trust” in 15 countries (14 in Sub-Saharan Africa, plus Pakistan) with 30 to 40 relevant finance questions which is conducted every year, is the most comprehensive household based survey.

FinScope™ is a national household sample survey of financial services, needs and usage among all South Africans. Underwritten and co-ordinated by FinMark Trust and participating syndicate members, the FinScope Research Programme was initiated to achieve a measure and understanding of consumer demand within the financial services arena. Furthermore, the study gives insight into people's awareness and understanding of these products and can assist in determining where communication channels or service providers are failing and how best to address these issues. It is designed to establish credible benchmarks and highlight opportunities for innovation in products and delivery.

FinScope was piloted in 2002 with 1000 households in urban areas. The pilot was followed by full scale surveys across 3000 households in urban and rural areas in 2003 and 2004 and, 2005-08, across 3900 households. The survey tracks the changing landscape of access to financial services across all the main product categories transaction banking, savings, credit and insurance, emphasizing the market needs and attitudes to both informal and formal financial offerings and product usage. It highlights the barriers poor people experience in their lives and in accessing financial services particularly. The findings of the study assist policy makers in both the public and private sector to remove or reduce the barriers and to come up with innovative market offerings.

The sampling methodology was designed and compiled by Professor Stoker of Statistics South Africa, using the statistical frame of the Census 2001. The enumerator area mapping, field work, data processing, analysis and report writing was executed by Research Surveys from 2003 to date. The survey is conducted annually to fuel dynamic financial market development, by affording focus to drive product and service innovation.

Respondent Profile :

- South African residents 16+ years
- 49% male and 51% female
- 65% non-metropolitan and 35% metropolitan

Sampling Methods :

- Sample drawn systematically with Probability Proportional to Size (PPS)
- Nationally representative sample (weighted and benchmarked to Census 2007 mid-year estimate information)

- Sample design stratification and multistage sampling procedure
- Selection of individual respondent per household by Kish Table method (random selection, those 16+ yrs of age)

Coverage and Methodology :

- 3 900 face-to-face interviews
- Representative sample at a national level, drawn from 89000 Enumerator Areas
- Stratification and multi-stage sampling using GIS
- Fieldwork : September / October / November
- Key elements of questionnaire translated into vernacular languages
- Uses Financial Services Measure (FSM) and displays data using the Access Strand (see explanation of these terms below).

Financial Service Measures (FSM) a new way of segmentation

Traditional surveys segmented households on the basis of Living Standard Measures (LSM). The LSM 1-10 categories were used extensively by marketers and advertisers as a means to segment the population. It is a crude proxy for wealth, with the lower LSM groups comprising the most impoverished end of the spectrum. FinScope came up with a new segmentation model the Financial Services Measures or "FSM" which offers valuable new insights into consumer behavior and, additionally, can be used in conjunction with LSM. The FSM is designed to segment the market not only on what household items people have or on what people earn, but on key psychological elements. This is to provide an overall and holistic understanding of individuals in the financial services arena.

There are a few key structural differences that warrant mentioning. LSM is calculated at a household level, FSM at an individual level. LSM is highly correlated with household income and measures assets that people have whereas FSM is not necessarily correlated with personal income as it measures people's perceptions as well as the products they have. Essentially, LSM is a "here and now" measure; FSM looks to the future and takes into account potential future take-up in the financial sector. The model includes the combination of five broad components :

- Financial penetration
- Physical access to banks
- Financial discipline
- Financial knowledge and control
- Connectedness and optimism

The FSM measure classifies people into eight tiers based on a variety of measures. FSM1 and FSM8 are the lowest and highest respectively in the scale. FinScope indicates how much of the total population comes under which tier of FSM. For instance 13% of the total population South African category comes under FSM1 category which is the lowest banked category. FinScope details each tier in terms of race, gender, age, banking level, living standard, personal monthly income, geographical distribution etc. For instance of all those who come under FSM1, 88% are black, 43% reported no income, 80% never banked, etc.

Access Strand - A Graphic Representation of Financial Access

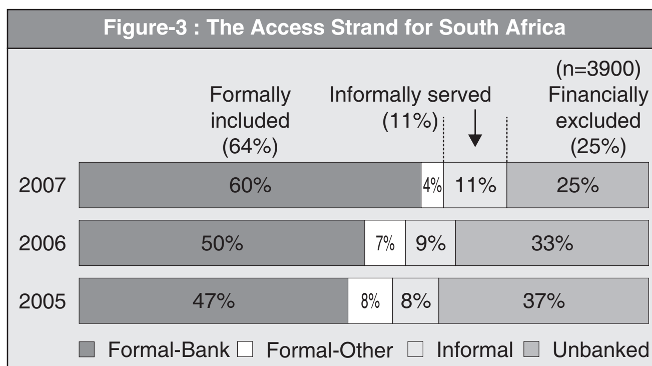
The Access Strand is a representation of the financial inclusion or exclusion of the population. It is segmented into three broad segments as formally included, informally served and financially excluded.

1. *Formally Included :* "Formal" products supplied by institutions which are governed by a legal covenant of any type e.g. : cheque account or funeral policy. Adults who use at least one or more of these products are included in this segment. This is not exclusive usage, as they can also use "informal" products. This is again divided into two sub segments - traditional banking products supplied by a financial institution; and other formal products not supplied by a financial institution, e.g. : funeral policy or store account.
2. *Informally Served :* "Informal" products that operate without legal governance that would be recognized e.g. a burial society or smaller savings club. Respondents who currently use one or more of these "informal" products are included in this segment. This is an exclusive usage set the respondents in this segment do not use any "formal products".

3. *Financially Excluded :* Neither holders of “formal” nor “informal” products. Any respondent who is not using any of these products is included in this segment and is said to be “unbanked”.

Using this three fold classification, a horizontal bar is drawn in three colours and this graphic is dubbed the Access Strand. This Access Strand can be drawn for any disaggregate - by race, age-group, gender, decades or years, income group, living standard, urban-rural, etc. For instance the Figure 3 below is a representation of the Access Strand for three different years in South Africa from 2005 to 2007.

Figure-3 : The Access Strand for South Africa



Need for a FinScope type of Survey in India

In India presently the supply side information is the only source to measure the total number of citizens who come under some sort of financial inclusion availing some or the other form of financial services. But India's banks, post offices and insurance companies serve a fraction of the population. Hence supply side information does not give a clear picture of the measurement of the financial inclusion or exclusion as comprehensively as a FinScope type of survey can.

The demand side survey in India AIDIS conducted by NSSO is not comprehensive in nature. It talks only about credit and repayment. Moreover it is conducted only once in ten years. Though the private IISS 2007 had a wider scope it has had one round only. Moreover it is not focused on the un-banked and underserved category as in case of Finscope.

Hence to assess the demand at this level we need a comprehensive survey in place taking FinScope as a model. It should be done frequently, say, once in two years. The survey should primarily focus on :

- The lower income segment as it represents the majority of the Indian population. It should focus on assessing the demand by different segment of the population for financial services;
- Study the access to financial services by individuals, not just households as women have much lower access, which gets muffled in household data;
- Include physical access to the point of service, convenience of the process to access, total time required to access, etc;
- Gauge that whether access to all financial services is available from one point, how much technology is presently used to ease the access, etc.

IND-FLINT

We propose a once-in-two-years large-scale national sample survey to measure financial access in India. This can be called the “Indian Index of Financial Literacy, Inclusion and Transactions (IND-FLINT)”. It will consider three major parameters as the name suggests :

A. Financial Literacy - Level of awareness of various financial services and products offered by various service providers.

B. Financial Inclusion - Physical proximity to financial service outlets, likelihood of being able to fulfill conditions for use (such as address proof for bank account and age proof in case of life insurance); suitability of products; transaction cost etc.

C. Financial Transaction - Level of user-ship in terms of actual volumes, frequency and number of products / services; repeat purchase and long usage.

A comprehensive national survey on financial access namely IND-FLINT, will provide information to policy makers. It can also be used by the media and consumer groups to create pressure on the system to act towards inclusion. This will then lead to regulatory changes as well generate institutional incentives for offering new products and services and innovative delivery channels, leading to greater financial inclusion and inclusive growth. Thus IND-FLINT is a worthwhile public investment.

IND-FLINT needs to be creatively documented so that it can be easily understood by all sections and

disseminated to a large number of institutions and concerned individuals who are working towards financial inclusion and economic development.

Conclusion

For inclusive growth, financial inclusion is a necessary, though not sufficient condition. Inclusion is not just a one time exercise and certainly does not begin and end with opening a no-frills bank account. The access to financial services, particularly by lower income segments, needs to be constantly measured. This will require periodic, large scale sample surveys like IND-FLINT.

Only doing surveys is not enough, however. We need to see the influence the process of these surveys on the financial inclusion. To do that, surveys need to be properly analyzed and indicate the point of immediate and long term interventions. It may work in terms of changing some policies and regulations and also helping in developing innovative products and channels to achieve financial inclusion.

Financial regulators like the RBI, IRDA, SEBI and NABARD must emphasize access to financial services by the excluded segments, occupations and geographies. Their reports on this issue must be tabled in the Parliament and the Standing Committee on Finance should review progress on financial inclusion. It is only when the issue acquires political salience that it will be addressed comprehensively.

Pros and Cons of Various Technologies

Connectivity	Pros	Cons
Short Message Service (SMS)	1. Easier to build applications 2. Already a popular medium to communicate 3. Billing activities can be automated by tight integration with operator's systems	1. Still unreliable - delivery of message is not guaranteed 2. Requires user to remember codes / keywords 3. Data size per message is restricted to 160 characters 4. Multiple SMS based transactions can cause user resistance
General Packet Radio Service (GPRS) / Code Division Multiple Access (CDMA)	1. Provides ability to build advanced features 2. User interacts with a well designed user interface (UI) and does not require training 3. Can integrate seamlessly with e-commerce scenarios 4. Development skillset for GPRS are widely available	1. GPRS / CDMA still not popular 2. GPRS in particular requires separate hardware and is not present wherever GSM connectivity is available 3. Both in turn do not have a pan India presence 4. CDMA requires specialised skillset which is not widely available
Handset Technologies		
Subscriber Identity Module (SIM) Toolkit	1. Ensure availability of application as and when customer buys a new SIM card 2. Operator is closely associated with the mobile banking project and hence the task delivery of service is easy	1. Requires operator's assistance in replacing existing SIM cards 2. Operator lock-in for banks 3. Technology may not be inter-operable in multiple operator scenarios
Mobile Application Development	1. Operator independent 2. Development skillset is widely present for GPRS 3. Ability to design and deliver better features and user interface	1. Development skillset is rare for CDMA 2. Data security is a concern
Emerging Technology		
Near Field Communication (NFC)	1. Ease of use 2. Experience similar to credit card usage	1. Still in nascent stages, various pilots being conducted across the world 2. Mobile phones still costly
Mobile Phone as a device	1. Round the clock availability with customer 2. Always on and always connected 3. More handsets, than bank accounts 4. Telecom operators already have sophisticated billing systems and can deliver banking services independent of banks.	1. Not built for mobile transactions 2. Compared to Point of Sale (PoS) / Automated Teller Machine (ATM) devices which are built and certified for banking activities 3. Primarily Personal Identification Number (PIN) based authentication, concerns on ability to remember pin numbers (Efforts are on to integrate biometric scanners with phones)

Source : Report on Currency and Finance 2006-08, Vol. II - The Banking Sector in India : Emerging Issues and Challenges

Microfinance *

Introduction

Micro finance is the provision of thrift, credit and other financial services and products of very small amounts to the poor for enabling them to raise their income levels and improve their living standards. It has been recognised that micro finance helps the poor people meet their needs for small credit and other financial services. The informal and flexible services offered to low-income borrowers for meeting their modest consumption and livelihood needs have not only made micro finance movement grow at a rapid pace across the world, but in turn has also impacted the lives of millions of poor positively.

In the case of India, the banking sector witnessed large scale branch expansion after the nationalisation of banks in 1969, which facilitated a shift in focus of banking from class banking to mass banking. It was, however, realised that, notwithstanding the wide spread of formal financial institutions, these institutions were not able to cater completely to the small and frequent credit needs of most of the poor. This led to a search for alternative policies and reforms for reaching out to the poor to satisfy their credit needs.

The beginning of the micro finance movement in India could be traced to the selfhelp group (SHG) - bank linkage programme (SBLP) started as a pilot project in 1992 by National Bank for Agricultural and Rural Development (NABARD). This programme not only proved to be very successful, but has also emerged as the most popular model of micro finance in India. Other approaches like micro finance institutions (MFIs) also emerged subsequently in the country.

Recognising the potential of micro finance to positively influence the development of the poor, the Reserve Bank, NABARD and Small Industries Development Bank of India (SIDBI) have taken several initiatives over the years to give a further fillip to the micro finance movement in India.

The Chapter traces the evolution of micro finance movement in India, the supporting policies and current status in this regard. The Chapter is orgainsed into five Sections. Section 2 discusses various micro finance delivery models in India. Section 3 discusses the various policy initiatives undertaken by Reserve Bank, NABARD and SIDBI in the context of micro finance movement in India. Section 4 evaluates the progress of micro finance in India and Section 5 discusses impact of micro finance movement in India.

Micro Finance Delivery Models in India

The non-availability of credit and banking facilities to the poor and underprivileged segments of the society has always been a major concern in India. Accordingly, both the Government and the Reserve Bank have taken several initiatives, from time to time, such as nationalisation of banks, prescription of priority sector lending norms and concessional interest rate for the weaker sections. It was, however, realised that further direct efforts were required to address the credit needs of poor. In response to this requirement, the micro finance movement started in India with the introduction of SHGbank linkage programme (SBLP) in the early 1990s. At present, there are two models of micro finance delivery in India: the SBLP model and the MFI model. The SBLP model has emerged as the dominant model in terms of number of borrowers and loans outstanding. In terms of coverage, this model is considered to be the largest micro finance programme in the world. The Reserve Bank, NABARD and SIDBI have also taken a

* ***Source : Report on Trends and Progress 2007-08, Resrve Bank of India.***

range of initiatives to provide a momentum to the micro finance movement in India. The developments relating to evolution of various models of the micro finance movement are detailed in the present section.

SHG-Bank Linkage Programme

The micro finance sector started getting recognition in India after the launch of the SBLP. Internationally however, a lot of groundwork and consultative efforts had been in progress since the 1980s, which set a backdrop for micro finance efforts in India. The field of micro finance is diverse and still evolving. There is no single approach or model that fits in all the circumstances. The concept of micro finance implies informal and flexible approach to the credit needs of the poor. As such, each model has to be tailored according to the circumstances and the local needs. It is in this context that a study of different models of micro finance developed internationally becomes interesting. One of the oldest and most successful models internationally has been the Grameen Bank Model in Bangladesh (Box-1).

As early as December 1984, the Fifth General Assembly of the Asia Pacific Regional Agricultural Credit Association (APRACA) held at Bangkok exhorted the agricultural and rural development finance institutions in the region to mobilise savings from the rural areas with the objective of providing loanable funds for agriculture and rural development. The experience in some of the countries where informal self help groups (SHGs) of rural people which promoted savings among members and used these resources for meeting their credit needs, were considered useful innovations. Further, the Third Consultation on the Scheme for Agricultural Credit Development (SACRED) held at Rome in 1985 called for active promotion of linkages between banking institutions and SHGs as a mean of improving the access of low income group to banking services. The Executive Committee Session of APRACA held at Seoul in October 1985 approved the holding of a South-East Asian sub-regional workshop to devise ways and means of improving such linkages. The APRACA Regional

Box-1 : The Grameen Bank Model in Bangladesh

The Grameen Bank (GB) was launched as a project in a village of Bangladesh in 1976 to assist the poor families by providing credit to help them overcome poverty. In 1983, it was transformed into a formal bank under a special law passed for its creation. It is owned by the poor borrowers of the bank who are mostly women. GB has reversed conventional banking practice by obviating the need for collateral. It has created a banking system based on mutual trust, accountability, participation and creativity. It offers credit for creating self-employment, incomegenerating activities and housing for the poor, as opposed to consumption. It provides service at the doorstep of the poor based on the principle that the people should not go to the bank, but the bank should go to the people. In order to obtain loans, a borrower must join a group of borrowers. Although each borrower must belong to a five member group, the group is not required to give any guarantee for a loan to its member. The repayment responsibility solely rests on the individual borrower, while the group and the centre / branch oversee that everyone behaves in a responsible way and none gets into repayment problem. There is no form of joint liability, i.e., group members are not responsible to pay on behalf of a defaulting member. Loans can be received in a continuous sequence. New loan becomes available to a borrower if her previous loan is repaid. All loans are to be paid back in instalments (weekly or fortnightly). The GB initially focussed on providing credit facilities and paid little attention to voluntary deposit mobilisation.

This policy was changed in 2000, with increased emphasis on deposit mobilisation. GB currently offers four kinds of savings, namely personal savings account, special savings account, Grameen pension savings and credit-life insurance savings fund. After operating group lending for 25 years, the GB switched to individual lending recognising that with repeated loan cycles and greater credit exposure, homogeneity of the group would weaken as loan requirements vary with variation in the levels of upliftment attained. Thus, the more flexible Grameen II is more appropriate for reaching the poor because its products can be conveniently used for everyday money management as well as for microenterprises. GB II dispensed with the general loans, seasonal loans, family loans, and more than a dozen other types of loans. It also gave up the group fund; the branchwise and zone-wise loan ceiling; fixed size weekly instalment; the rule to borrow for one whole year, even when the borrower needed the loan only for three months.

The Government of Bangladesh has fixed interest rate for government-run micro credit programmes at 11 per cent at flat rate, which amounts to about 22 per cent on a declining balance basis. The interest rate charged by the Grameen Bank is lower than that fixed by the Government of Bangladesh. There are four interest rates for loans from Grameen Bank: 20 per cent (declining balance basis) for income generating loans, 8 per cent for housing loans, 5 per cent for student loans, and 0 per cent (interest-free) loans for struggling members (beggars). All interests are simple interest, calculated on declining balance method. This implies an annual interest rate of 10 per cent for income-generating loan which is less than that (11 per cent) fixed by the Government of Bangladesh. GB offers attractive rates for deposits ranging from 8.5 per cent to 12 per cent. As of end-March 2008, it had 7.46 million borrowers, 97 per cent of whom were women. With 2,504 branches, GB provides services in 81,574 villages, covering more than 97 per cent of the total villages in Bangladesh.

References : Website of Grameen Bank; www.grameen-info.org., Reserve Bank of India, Report on Currency and Finance, 2006-08.

Workshop held at Nanjing, China in May 1986 recommended national level consultation and organisation of national surveys of SHGs in collaboration with APRACA and other agencies.

The Sixth General Assembly of APRACA held at Kathmandu, Nepal in December 1986 considered a project proposal on 'promotion of linkages between banking institutions and SHGs in rural savings mobilisation and credit delivery to the rural poor'. It was decided that each member country would form a Task Force to conduct a survey of SHGs and thereafter, formulate suitable national level programmes. Consequent upon this, a Task Force was set up in India in the Ministry of Agriculture, to identify the existing SHGs, undertake a survey of the groups and draw a plan of action for channeling the flow of savings and credit between the rural poor and banks through SHGs and identify concrete projects for action research in this field. Accordingly, in February 1987, it was decided that a study team led by NABARD and comprising of representatives from various financial institutions, should be constituted to undertake the survey. The survey was undertaken in September 1987 and the report discussed at the 18th Executive Committee Session and 10th Foundation Anniversary of APRACA held at New Delhi in November 1987. This survey report laid the foundation of the SHG-bank linkage programme in India launched as a pilot project in 1992.

The pilot project was launched by NABARD after extensive consultations with Reserve Bank, commercial banks and non-Governmental Organisations (NGOs) with the following objectives : (i) to evolve supplementary credit strategies for meeting the credit needs of the poor by combining the flexibility, sensitivity and responsiveness of the informal credit system with the strength of technical and administrative capabilities and financial resources of the formal credit institutions; (ii) to build mutual trust and confidence between the bankers and the rural poor; and (iii) to encourage banking activity, both on the thrift as well as on credit sides, in a segment of the population that the formal financial institutions usually find difficult to cover.

The SHGs were expected to facilitate collective decision making by the poor and provide 'doorstep banking', the banks as wholesalers of credit, were to provide the resources, while the NGOs were to act as agencies to organise the poor, build their capacities and facilitate the process of empowering them. It was expected that the pilot project would prove advantageous to both banks as well as the SHGs. The banks would gain by a way of reduction in their transaction costs due to reduction in work relating to appraisal, supervision and monitoring of loans. The SHGs would benefit by getting access to a larger quantum of resources, as compared to their meager corpus generated through thrift. The banks were expected to provide credit in bulk to the group and the group, in turn, would undertake on-lending to the members. The quantum of credit given to the group by the bank would be in proportion to the savings mobilised by the group and could vary from 1:1 to 1:4. It was prescribed that the purposes for which the group would lend to its members should be left to the common wisdom of the group. The rate of interest to be charged by the SHG to its members was also left to the group to decide. The pilot project envisaged linking of only 500 SHGs to banks. By the end of March 1993, 225 SHGs were actually linked. With the figure reaching 620 at the end of March 1994, the pilot project was a success.

The programme has since come a long way from the pilot project of financing 500 SHGs across the country. It has proved its efficacy as a mainstream programme for banking with the poor, who mainly comprise the marginal farmers, landless labourers, artisans and craftsmen and others engaged in small businesses such as hawking and vending in the rural areas. The main advantages of the programme are timely repayment of loans to banks, reduction in transaction costs both to the poor and the banks, doorstep “saving and credit” facility for the poor and exploitation of the untapped business potential of the rural areas. The programme, which started as an outreach programme has not only aimed at promoting thrift and credit, but also contributed immensely towards the empowerment of the rural women.

Under the SBLP, the following three different models have emerged :

- Model I : SHGs promoted, guided and financed by banks.

- Model II : SHGs promoted by NGOs / Government agencies and financed by banks.
- Model III: SHGs promoted by NGOs and financed by banks using NGOs / formal agencies as financial intermediaries.

Model II has emerged as the most popular model under the SBLP programme. Commercial banks, co-operative banks and the regional rural banks have been actively participating in the SBLP.

Micro Finance Institution Approach

While the SBLP model remains the most widely used model of micro finance in India, the MFI model has also gained momentum in the recent past. The MFI model in India is characterised by a diversity of institutional and legal forms. MFIs in India exist in a variety of forms like trusts registered under the Indian Trust Act, 1882/Public Trust Act, 1920; societies registered under the Societies Registration Act, 1860; Co-operatives registered under the Mutually Aided Cooperative Societies Acts of the States; and non-banking financial companies (NBFC)-MFIs, which are registered under Section 25 of the Companies Act, 1956 or NBFCs registered with the Reserve Bank. These MFIs are scattered across the country and due to the multiplicity of registering authorities, there is no reliable estimate of the number of MFIs. The most frequently used estimate is that their number is likely to be around 800. Attempts have been made by some of the associations of MFIs like Sa-Dhan to capture the business volume of the MFI sector. As per the Bharat Micro Finance Report of Sa-Dhan, in March 2008, the 223 member MFIs of Sa-Dhan had an outreach of 14.1 million clients with an outstanding micro finance portfolio of Rs.5,954 crore.

Bank Partnership Model

Banks can use MFIs as their agent for handling credit, monitoring, supervision and recovery. In this model, the bank is the lender and the MFI acts as an agent for handling items of work relating to credit monitoring, supervision and recovery, while the borrower is the individual. The MFI acts as an agent - it takes care of all relationships with the client, from first contact through final repayment.

Another variation of this model is where the MFI, an NBFC, holds the individual loans on its books for a while, before securitising them and selling them to the bank. Such refinancing through securitisation enables the MFIs a greater funding access.

Banking Correspondents

In January 2006, the Reserve Bank permitted banks to utilise the services of NGOs, MFIs (other than NBFCs) and other civil society organisations as intermediaries in providing financial and banking services through the use of business facilitator and business correspondent (BC) models. The BC model allows banks to do 'cash in - cash out' transactions at a location much closer to the rural population, thus addressing the last mile problem. The BC model uses the MFI's ability to get close to poor clients - a necessity for savings mobilisation from the poor - while relying on the financial strength of the bank to safeguard the deposits. Pursuant to the announcement made by the Union Finance Minister in the Union Budget 2008-09, banks were permitted to engage retired bank employees, ex-servicemen and retired government employees as business correspondents (BCs) with effect from April 24, 2008, in addition to entities already permitted earlier, subject to appropriate due diligence.

Policy Initiatives in India

Several initiatives have been taken by the Reserve Bank, NABARD and also SIDBI with a view to giving a further fillip to the micro finance movement in India. A summary of major initiatives is presented in the present section.

Policy Initiatives by the Reserve Bank

In January 1993, SHGs, registered or unregistered were allowed by the Reserve Bank to open savings bank account with banks. Further, to study the potential of the micro finance movement, the Reserve Bank constituted in 1994 a 'Working Group on NGOs and SHGs' (Chairman : Shri S. K. Kalia). Based on its recommendations, banks were advised, *inter alia*, that financing of SHGs should be included by them as part of their lending to the weaker sections and that SHG lending should be reviewed at the State level banker's committee (SLBC) level and by the banks at regular intervals.

To further promote the SHG momentum in the country, banks were advised by the Reserve Bank in 1998 that SHGs which were engaged in promoting the savings habits among their members would be eligible to open savings bank accounts and that such SHGs need not necessarily have availed of credit facilities from banks before opening savings bank accounts. Subsequent to the Monetary and Credit Policy announcement for the year 1999-2000, banks were also advised that interest rates applicable to loans given by banks to micro credit organisations or by the micro credit organisations to SHGs / member beneficiaries, would be left to their discretion.

A Task Force on Supportive Policy and Regulatory Framework for micro finance was set up by NABARD in 1999 of which the Reserve Bank was a member. The Task Force looked into the entire gamut of issues related to micro finance, particularly regulatory issues. Recognising the growing importance of micro finance, the Reserve Bank constituted a micro credit special cell in the Bank in 1999 to suggest measures for mainstreaming micro credit and accelerating flow of credit to MFIs. The special cell has since been converted into a micro finance and financial inclusion division in the Reserve Bank.

Several non-banking finance companies (NBFCs) and residuary nonbanking companies (RNBCs) also started entering the micro finance sector, gradually recognising the potential in the sector. In order to further facilitate the process, in January 2000, all NBFCs and RNBCs were advised by the Reserve Bank that those NBFCs which were engaged in micro financing activities, licensed under Section 25 of the Companies Act, 1956, and which were not accepting public deposits were exempted from the purview of Sections 45-IA (registration), 45-IB (maintenance of liquid assets) and 45-IC (transfer of a portion of profits to Reserve Fund) of the Reserve Bank of India Act, 1934.

Based on the reports of the special cell constituted in the Reserve Bank and the Task Force on Supportive Policy and Regulatory Framework, the Reserve Bank issued comprehensive guidelines to banks in February 2000 for mainstreaming micro credit and enhancing the outreach of micro credit providers. These guidelines, *inter alia*, stipulated that micro credit extended by banks to individual borrowers directly, or through any intermediary, would from then onwards be reckoned as part of their priority sector lending. Banks were given freedom to formulate their own model/s or choose any conduit / intermediary for extending micro credit. Banks were also permitted to prescribe their own lending norms so as to provide maximum flexibility with regard to micro lending. Such credit was to cover not only consumption and production loans for various farm and non-farm activities of the poor, but also include their other credit needs. Banks were asked to delegate adequate sanctioning powers to branch managers and to keep the loan procedures and documents simple for providing prompt and hassle free micro credit.

The rapid development of the sector necessitated addressing the various issues associated with the sector. In October 2002, the Reserve Bank set up four informal groups to look into issues relating to : (i) structure and sustainability; (ii) funding; (iii) regulations; and (iv) capacity building of micro finance institutions. Taking into consideration the recommendations of the groups, banks were advised that they should provide adequate incentives to their branches for financing the SHGs and that the group dynamics of working of the SHGs should be left to them.

Based on the recommendations of the Advisory Committee on Flow of Credit to Agriculture and Related Activities from the Banking System (Chairman : Prof. V. S. Vyas), which submitted its final report in June 2004, it was announced in the Annual Policy Statement for the year 2004-05 that in view of the need to protect the interest of depositors, MFIs would not be permitted to accept public deposits unless they complied with the extant regulatory framework of the Reserve Bank. However, as an additional channel for resource mobilisation, the Reserve Bank in April 2005 enabled NGOs engaged in micro finance activities to access the external commercial borrowings (ECBs) up to US $5 million during a financial year for permitted end use, under the automatic route.

In order to examine issues relating to rural credit and micro finance, an internal group (Chairman : Shri H. R. Khan) was set up in 2005. Based on the

recommendations of the group and with the objective of ensuring greater financial inclusion and increasing the outreach of the banking sector, banks were permitted in January 2006 to use the services of NGOs / SHGs, MFIs (other than NBFCs) and other civil society organisations as intermediaries in providing financial and banking services through business facilitator and business correspondent models.

All Regional Directors of the Reserve Bank were advised in April 2006 that whenever issues relating to micro finance were noticed in the areas under their jurisdiction, they may offer to constitute a coordination forum comprising representatives of SLBC convenor banks, NABARD, SIDBI, State Government officials, and representatives of MFIs (including NBFCs) and NGOs / SHGs to facilitate discussion on the issues affecting the operations in the sector and find local solutions to the local problems.

In May 2006, a joint fact-finding study was conducted by Reserve Bank and a few major banks. It was observed during the study that some of the MFIs financed by banks or acting as their intermediaries / partners were focussing on relatively better banked areas and trying to reach out to the same set of poor, resulting in multiple lending and overburdening of rural households. Further, many MFIs supported by banks were not engaging themselves in capacity building and empowerment of the groups to the desired extent and banks did not appear to be engaging them with regard to their systems, practices and lending policies with a view to ensuring better transparency and adherence to best practices. Guidelines were, therefore, issued to banks in November 2006, advising them to take appropriate corrective action.

The Union Budget for the year 2008-09 announced that banks would be encouraged to embrace the concept of total financial inclusion. The Government would request all scheduled commercial banks to follow the example set by some public sector banks and meet the entire credit requirements of SHG members, namely : (a) income generation activities; (b) social needs like housing, education, marriage: and (c) debt swapping.

Consequent upon this, in April 2008, banks were advised by the Reserve Bank to meet the entire credit requirements of SHG members, as envisaged in the Union Budget.

Recent Initiatives by NABARD

NABARD has been playing a crucial developmental role for the micro finance sector in India. NABARD has been organizing / sponsoring training programmes and exposure visits for the benefit of bank officials, NGOs, SHGs and Government agencies to enhance their effectiveness in the field of micro finance. The best practices and innovations with respect to the sector are widely circulated among Government agencies, banks and NGOs. NABARD also provides support for capacity building, exposure and awareness building of the SHGs and NGOs.

NABARD launched the 'Micro - Enterprise Development Programme' (MEDP) for skill development in March 2006. The basic objective was to enhance the capacities of matured SHGs to take up micro enterprises through appropriate skill upgradation. The programme envisaged development of enterprise management skills in existing or new livelihood activities, both in farm and nonfarm sectors. The duration of training can vary between 3 to 13 days depending upon the objective and the nature of training. During the year 2007-08, 394 MEDPs were conducted covering 9,182 SHG members on activities like bee-keeping, mushroom cultivation, horticulture and floriculture, vermi-compost / organic manure preparation and dairy. As on March 31, 2008, 674 MEDPs had been conducted covering 16,761 participants.

In 2005-06, a pilot project for 'promotion of micro-enterprises' was launched among members of matured SHGs. This is being implemented by 14 NGOs acting as 'micro-enterprise promotion agency' (MEPA) in nine districts, viz., Ajmer (Rajasthan), Chandrapur (Maharashtra), Kangra (Himachal Pradesh), Madurai (Tamil Nadu), Mysore (Karnataka), Panchmahal (Gujarat), 24 North Pargana (West Bengal), Puri (Orissa) and Rae Bareli (Uttar Pradesh). The project is being implemented by each NGO in two blocks in each of the selected district. As on March 31, 2008, 2,759 micro-enterprises were established under the project involving bank credit of Rs.238 lakh.

NABARD also provides marketing support to the SHGs for exhibiting their products. During the year 2007-08, NABARD supported three exhibitions of products prepared by various SHGs at Bhopal, Chennai and Navi Mumbai involving grant of Rs.3.8 lakh. In addition, NABARD also provides promotional grant support to NGOs, RRBs, DCCBs, farmer's clubs and individual volunteers and assists in developing capacity building of various partner agencies. NABARD has been making efforts to increase the number of partner institutions as self-help promoting institutions (SHPIs).

NABARD launched a pilot project in December 2003 to link post-offices with the SHGs with the objective of examining the feasibility of utilising the vast network of post offices in rural areas for disbursement of credit to rural poor on an agency basis (Box-2).

Box-2 : SHG-Post office Linkage Programme

A pilot SHG-post office linkage programme was launched by NABARD in December 2003. This programme envisaged credit linking 200 SHGs in select 5 districts, viz., Sivaganga, Pudukottai, Tiruvannamalai, Tanjavur and Tiruvarur districts of Tamil Nadu. The objectives of the pilot programme were to (i) examine the feasibility of utilising the vast network of post offices in rural areas for disbursement of credit to rural poor on agency basis; and (ii) to test the efficacy of Department of Posts in providing micro finance services to rural clientele. The salient features of the scheme are :

(i) Post offices open savings accounts in the name of SHGs promoted by identified NGOs.

(ii) The SHGs with savings accounts in the post office and which are six months old are provided loan by the post office, in multiples of their savings, based on the rating exercise on the lines of those adopted by banks.

(iii) Post offices provide term loans to SHGs repayable within two years in 24 monthly installments.

(iv) Post offices charge an interest of 9 per cent per annum on the loans given to SHGs using a reducing balance method.

(v) Post offices do not collect any loan processing charges or any other charges from SHGs.

(vi) Project Implementation and Monitoring Committee (PIMCs) at district and State level are constituted by the post office.

(vii) The district PIMC is responsible for smooth grounding of the project, sorting out operational issues and identification of appropriate NGOs. The PIMC meets on a quarterly basis.

(viii) State level PIMCs review overall implementation of the project, suggest new initiatives and recommend release of funds by NABARD to the Department of Posts.

(ix) Department of Posts maintain separate books of accounts for all transactions relating to utilization and operations of Revolving Fund Assistance (RFA) from NABARD.

Under the project, NABARD would provide financial support for capacity building programmes of postal officials. While loans are given at interest rates of 9 per cent per annum to SHGs by post offices, post offices would be allowed to retain an interest margin of 3 per cent. The amount of actual interest collected from the SHGs would be shared between NABARD and post offices in the ratio of 2:1.

As at end-March 2008, an aggregate of 1,963 branch post offices / sub post offices in the identified districts are implementing the project. A total of Rs.100 lakh has been sanctioned as RFA to the post offices by NABARD. So far 1,142 postal staff have been given training and Rs.49 lakh has been released as loans to SHGs as of March 2008. Roll out of the pilot project in a few other States is under consideration.

The SHG Federations are emerging as important players in nurturing SHG, increasing the bargaining power of group members and livelihood promotion. The features and functions of SHG federation models promoted in the country vary, depending on the promoting agencies. Recognising the growing role of the SHG Federations and their value addition to SHG functioning, NABARD, during the year 2007-08 decided to support the Federations on a model neutral basis. Support is extended to the Federation by way of grant assistance for training, capacity building and exposure visits of SHG members. NABARD has also formulated the broad norms for deciding the grant of financial assistance to SHG Federations. During the year 2007-08, grant assistance amounting to Rs.10 lakhs was sanctioned to two federations.

Recognising the role played by MFIs, in extending micro finance services in the unbanked areas, NABARD extends support to these institutions through grant and loan based assistance. NABARD has been selectively supporting MFIs for experimenting with various micro finance models such as replication of Grameen Model, NGO networking (bigger NGOs supporting smaller NGOs), credit unions and SHGs federations, among others, to meet credit requirements of the unreached poor. NABARD provides loan funds in the form of revolving fund assistance (RFA) on a selective basis to MFIs to be used by them for on-lending to SHGs or individuals. This loan has to be repaid along with service charge, within a period of 5 to 6 years. During the year 2007-08, RFA amounting to Rs.8 crore was sanctioned to six agencies taking the cumulative credit sanctioned to Rs.36 crore covering 35 agencies.

In order to identify, classify and rate MFIs, NABARD introduced a scheme for commercial banks and RRBs to enable them to avail the services of accredited rating agencies for rating of MFIs. Banks can avail the services of credit rating agencies like CRISIL, M-CRIL, ICRA, CARE and Planet Finance for rating of MFIs and avail financial assistance by way of grant to the extent of 100 per cent of the total professional fees of the credit rating agency, subject to a maximum of Rs.1 lakh. The assistance is available for the first rating of MFIs with a minimum loan outstanding of Rs.50 lakh and maximum loan outstanding of Rs.500 lakh. During the year 2007-08, rating support amounting to Rs.3 lakh to four agencies was provided.

Recognising the need for upscaling the micro finance intervention in the country, the Union Finance Minister, in the budget for the year 2000-01, announced creation of a Micro Finance Development Fund (MFDF). The objective of the MFDF is to facilitate and support the orderly growth of the micro finance sector through diverse modalities for enlarging the flow of financial services to the poor, particularly for women and vulnerable sections of society, consistent with sustainability. Consequently MFDF with a corpus of Rs.100 crore was established in NABARD. The Reserve Bank and NABARD contributed Rs.40 crore each to the fund, while the balance was contributed by eleven select public sector banks.

As per the Union Budget announcement for the year 2005-06, the MFDF was re-designated as 'Micro Finance Development and Equity Fund' (MFDEF) with an increased corpus of Rs.200 crore. The fund is being managed by a board consisting of representatives of NABARD, commercial banks and professionals with domain knowledge. The Reserve Bank is a member of the Advisory Committee of the MFDEF.

The MFDEF maintained by NABARD is used for promotion of micro finance through scaling-up of the SHG-bank linkage programme, extending RFA and capital support to MFIs and undertake various promotional initiatives. During 2007-08, Rs.27 crore was utilised from the fund towards micro finance related activities (Box-3).

The North-Eastern Council (NEC), Shillong parked a fund of Rs.50 lakh with NABARD during the year 2007-08 for facilitating miscellaneous training programmes involving Government / bank officials, NGOs, SHGs from States in the NER and Sikkim. During the year 2007-08, 73 programmes were sanctioned out of the fund involving a total grant assistance of Rs.45 lakh.

Box-3 : Micro Finance Development and Equity Fund (MFDEF)

The objective of the MFDEF, which was set up following the announcement in the Union Budget 2005-06, is to facilitate and support the orderly growth of the micro finance sector through diverse modalities for enlarging the flow of financial services to the poor, particularly to women and vulnerable sections of the society consistent with sustainability.

Activities to be Supported Out of the MFDEF

The Fund would be utilised to support interventions to eligible institutions and stakeholders. The components of assistance will include, inter alia, the following purposes :

Capacity Building

(i) Training of SHGs and other groups for livelihood, skill upgradation and micro enterprise development.

(ii) Capacity building of staff of institutions involved in micro finance promotion such as banks, NGOs, government departments, NABARD, among others.

(iii) Capacity building of MFIs.

Funding Support

(i) Contributing equity / other forms of capital support to MFIs and service providers, among others.

(ii) Providing financial support for start-up and onlending for micro finance activities.

(iii) Supporting self help promotion initiatives (SHPI) of banks and other SHPIs.

(iv) Meeting on a selective basis the operational deficit of financial intermediary NGOs / MFIs at the start up stage.

(v) Rating of MFIs and self regulation.

Management Information Services (MIS)

(i) Supporting systems management with regard to MIS, accounting, internal controls, audits and impact assessment.

(ii) Building an appropriate data base and supporting development thereof.

Regulatory and Supervisory Framework

Recommending regulatory and supervisory framework based on an on-going review.

Studies and Publications

(i) Commissioning studies, consultancies, action research, evaluation studies, etc., relating to the sector.

(ii) Promoting seminars, conferences and other mechanisms for discussion and dissemination.

(iii) Granting support for research

(iv) Documentation, publication and dissemination of micro finance literature.

Others

Any other activities recommended by the Advisory Board to Fund.

Eligible Institutions

The following types of structures, community based organisations and institutions, would be eligible for support from the Fund :

(i) *Training :* SHGs, community based organizations (CBOs), NGOs, banks, MFIs, NABARD, training establishments, networks and service providers.

(ii) *Funding Support :* NGOs, CBOs, MFIs, Banks.

(iii) *MIS :* SHGs, NGOs/voluntary associations (VAs), Banks, MFIs, NABARD.

(iv) *Regulatory and Supervisory Framework :* Banks, MFIs, Self Regulatory Organisation (SROs), NGOs, MFI Networks, NABARD.

(v) *Studies and Publications :* Banks, MFIs, NABARD, training and research organisations, academic institutions and universities

(vi) Any other organisation as may be decided by the Advisory Board from time to time.

Mode of Assistance

Mode of assistance from the Fund would include the following :

(i) Promotional support for training and other promotional measures.

(ii) Loans and advances including soft loans.

(iii) Revolving Fund Assistance (RFA) to NGOs / MFIs.

(iv) Equity and quasi equity support to MFIs.

(v) Administrative subsidies and grants.

(vi) Administering Charges.

Management of Fund

The Fund is being managed and administered by NABARD. The interest accrued / income earned from the fund is ploughed back to the fund. The administrative charges incurred by NABARD in conduct of Advisory Board meeting and salaries, allowances of the NABARD staff involved in micro finance programmes will be met out of the Fund on such basis as may be determined from time to time. As per extant practice, meetings of the banks contributing to the MFDEF will be convened from time to time in which they will be informed regarding the status and utilisation of fund.

Advisory Body to MFDEF

The Advisory Board guides and renders advice on the various aspects relating to the micro finance sector. The Board determines its own procedures for day-to-day working, including constitution of committees and task forces, among others, for examination of various issues. The Advisory Board meets at such intervals as deemed necessary but in any case once in a quarter to review the status and progress of outflow and to render policy advice for orderly growth and development of the sector.

Micro Finance Initiatives by SIDBI

SIDBI launched its micro finance programme in February 1994 on a pilot basis. The programme provided small doses of credit funds to the NGOs all across the country. NGOs acted as financial intermediaries and on-lent funds to their clients. Limited amount of capacity building grant was also provided to the NGOs.

With a view to reducing the procedural bottlenecks, expanding the outreach, meeting the huge unmet demand of the sector and striving towards its formalisation, SIDBI reoriented its policy and approach to create a sustainable micro finance model that would significantly increase the flow of credit to the sector. To take the agenda forward, the SIDBI Foundation for Micro Credit (SFMC) was created in January 1999. SFMC's mission is “to create a national network of strong, viable and sustainable Micro Finance Institutions from the informal and formal financial sector to provide micro finance services to the poor, especially women".

SIDBI was one of the first institutions that identified and recognised NGO / MFI route as an effective delivery channel for reaching financial services to those segments of the population not reached by the formal banking network. As a result of bulk lending funds provided, coupled with intensive capacity building support to the entire micro finance sector, it has come to occupy a significant position in the Indian micro finance sector. Today, SIDBI is one of the largest providers of micro finance through the MFIs.

SIDBI's pilot programme of 1994 brought out one of the major shortcomings in micro finance lending programme. It showed that collateral-based lending does not work in-so-far as micro finance is concerned. NGOs / MFIs acting as financial intermediaries do not have tangible collateral to offer as security for the loans. Doing away with collateral-based lending in MF necessitated that a mechanism be developed which would minimise the risks associated with lending. With a view to catering to this objective, SIDBI pioneered the concept of capacity assessment rating (CAR) for the MFIs. As part of its developmental agenda, SIDBI encouraged a private sector development consulting firm to develop a rating tool for the MFIs which was rolled out in 1999. Today, rating is a widely accepted tool in this sector. SIDBI has also succeeded in developing a market for rating services. Two mainstream rating agencies, viz., CRISIL and CARE have also started undertaking micro finance ratings, besides M-CRIL. SIDBI has also adopted the institutional capacity assessment tool (I-CAT) of access development services (ADS), a private sector consulting organisation, for rating of start-up / small and mid-sized MFIs.

SIDBI introduced a product called 'transformation loan' in 2003 to enable the MFIs to transform themselves from an informal set up to more formal entities. This loan is a quasi-equity product with longer repayment period and features for conversion into equity at a later date, when the MFI decides to convert itself into a corporate entity. Consequently, a number of MFIs went ahead with the transformation and some of them have now grown significantly and are serving millions of clients across several states. Recognising the need to offer the MFIs equity capital so as to adequately capitalize them, SIDBI set up a fund of Rs.50 crore which was christened as SIDBI Growth Fund for MFIs. The fund takes care of equity investment in large corporate MFIs, as also equity capital in start-up / smaller institutions, along with quasi-equity support for MFIs on the verge of transformation.

SIDBI also supports incubation of potential local community based organizations through two-tier / umbrella NGOs / MFIs. The approach not only helps SIDBI to increase its outreach through double intermediation but also enables it to channelise finance to smaller NGOs that otherwise may not meet the criteria for availing direct assistance from SIDBI. SIDBI has also been able to nurture and develop a few new intermediaries set up by experienced professionals. Another approach in this direction involves incubation of new start-up MFIs promoted by first-generation development / micro finance professionals. The incubation support is either given through well-reputed management institutes or through institutions specialising in capacity building and technical support services.

As at March 31, 2008, the SIDBI had 58 partners in the underserved States, out of its total partner base of 104.

The increased thrust on development of underserved States has also resulted in the share of these States going up from 19 per cent (Rs.38 crore) in the total outstanding micro finance portfolio of SIDBI in the financial year 2005 to over 31 per cent (Rs.299 crore) in the financial year 2007-08.

Substantial growth of the micro finance sector would be possible only if the capacities of all stakeholders are built up adequately. SIDBI has taken some initiatives in this direction. One such initiative has been in the area of human resources where SIDBI has tried to address the issue both from the demand and supply side factors. On the demand side, MFIs are encouraged to hire young management / accounting graduates from reputed institutes through campus placement and SIDBI provides partial salary support for these young professionals (YPs) for a period of two years. Additionally, MFIs are also provided grant funds for hiring trained and experienced professionals as second line managers. This helps in bringing and retaining the talent in the micro finance sector. On the supply side, some of the management training institutes have been provided support in the form of training and exposure visit of their faculty members to reputed national and international training programmes and other MFIs across the world. Besides, SIDBI was instrumental in bringing international experts to lend support to these institutes for developing a course on micro finance that has been incorporated as an elective in their rural management courses.

Other major initiatives towards capacity building of the sector comprised developing the capacities of consultants and technical service providers (TSPs), developing a common chart of accounts for the sector, creating gender and environment awareness, promoting innovations and action research on emerging concepts.

Regulation of Micro Finance Institutions

The rapid growth of the micro finance sector and varied number of micro finance providers influencing the lives of millions of clients have necessitated the need for regulating the sector. In India, micro finance is provided by a variety of entities. These include banks (including commercial banks RRBs and co-operative banks), primary agricultural credit societies, SHGs linked to banks and MFIs that include NBFCs, Section 25 companies, trusts and societies as also co-operatives (under MACS). Currently, banks and NBFCs fall under the regulatory purview of the Reserve Bank. Other entities are covered in varying degrees of regulation under the respective State legislations. There is no single regulator for this sector. In this context, for the orderly growth and development of the sector, the Government of India has proposed a legislation and formulated a Micro Financial Sector (Development and Regulation Bill), 2007 which is under consideration of the Parliament. The Bill envisages NABARD to be the regulator and provides that all micro finance organisations desirous of offering thrift services may get registered with NABARD.The legislation, however, is yet to be enacted.

In the meantime, formulation of a code of ethics has been formulated by Sa-Dhan in 2007, to be followed by their member institutions (Box-4).

Microfinance

Social security in the form of micro insurance can be a boon for the poor, when the income raising ability of the bread winner is impaired. In India, the micro insurance schemes are mostly implemented by the MFIs as a compulsory element along with the micro credit provided. Micro insurance schemes can be considered as a stepping stone to social protection. One of the best examples of micro insurance scheme is the one which is linked to the Grameen Bank scheme in Bangladesh. Grameen established a separate organisation called Grameen Kalyan (village welfare) which uses the women groups for the collection of annual premiums for micro insurance.

With the recent arrival of a number of private insurance companies in India, there has been significant innovation in new product development, as well as delivery in the insurance sector. Several MFIs are entering the domain of micro insurance. However, the sector is still in its early days and evolving rapidly. More than half of the 83 MFIs that responded to a Sa-Dhan study in 2005 were offering insurance, with life insurance being more widespread than nonlife insurance. Insurance Regulatory Development Agency (IRDA)'s micro insurance regulations of November 2005 formally recognised NGOs, SHGs and MFIs as "micro

insurance agents" for acting as intermediaries between insurance companies and beneficiaries. The Committee on Financial Inclusion (Chairman: Dr. C. Rangarajan), which submitted its report in January 2008, highlighted the importance of micro insurance and made wide ranging recommendations in this regard (Box-5).

Generally, micro insurance schemes cover health care, life, accident expenses, maternity protection and disability. Both the public sector and private sector insurance companies have tied up with various MFIs in the country to offer micro insurance schemes. One of the difficulties in the implemention of micro insurance scheme is that poor have a lesser understanding of risk pooling and are often reluctant to join schemes where payments have to be made with no immediate returns.

Progress of Micro Finance in India

The micro finance movement has come a long way since its inception in the early 1990s and has assumed enormous significance in the delivery of credit to the hitherto excluded sections of the population. While the SBLP has emerged as the most dominant model, the MFI model has also been gaining importance.

Box-4 : Sa-Dhan's Voluntary Mutual Code of Conduct for its Member Institutions

In January 2007, Sa-Dhan issued a voluntary mutual code of conduct applicable to all the categories of member micro finance institutions.

Objectives

The member institutions agree to promote and strengthen the micro finance movement in the country by bringing the low income clients to the mainstream financial sector. They also agree to build progressive, sustainable and clientcentric micro finance institutions in the country to provide integrated financial services to the clients. Their aim should be to promote co-operation and co-ordination among micro finance institutions and other agencies to achieve higher operating standards and avoid unethical competition in order to serve the clients better.

Integrity

The member institutions agree to :

i) Act honestly, fairly and reasonably in conducting micro finance activities.
ii) Conduct micro finance activities by means of fair competition, not seeking competitive advantages through illegal or unethical micro finance practices. No officer, employee, agent or other person acting on their behalf shall take unfair advantage of anyone by manipulation, concealment, abuse of privileged information, misrepresentation of material facts or any other unfair practice.
iii) Prominently display the core values and code of conduct on the notice board of head office and all branches and put systems in place to ensure compliance.
iv) Ensure that their staff and all persons acting for them or on their behalf, are trained or oriented to put these values into practice.

Transparency

The member institutions agree to :

i) Disclose to clients all the terms and conditions of the financial services offered in the language understood by the client.
ii) Disclose the source of funds, costs of funds and use of surpluses to provide truthful information to clients.
iii) Provide information to clients on the rate of interest levied on the loan, calculation of interest (monthly / quarterly / half-yearly), terms of repayment and any other information related to interest rates and other charges.
iv) Provide information to clients on the rate of interest offered on the thrift services provided.
v) Provide information to clients related to the premium and other fees being charged on insurance and pension services offered as intermediaries.
vi) Provide periodical statements of the MFI's accounts to the clients.

Fair Practices

Member institutions are committed to follow fair practices built on dignity, respect, fair treatment, persuasion and courtesy to clients. Member institutions agreed to :

i) Provide micro finance services to low income clients irrespective of gender, race, caste, religion or language.
ii) Ensure that the services are provided using the most efficient methods possible to enable access to financial services by low income households at reasonable cost.
iii) Recognise their responsibility to provide financial services to clients based upon their needs and repayment capacity.
iv) Promise that, in case of loans to individual clients below Rs.25,000, the clients shall not be asked to hand over original land titles, house pattas, ration cards, etc., as collateral security for loans, except when obtaining copies of these for fulfilling "know your customers" norms of the Reserve Bank. Only in case of loan to individual clients of Rs.25,000 and above can obtain land titles, house pattas, vehicle RC books, as collateral security.
v) Interact with the clients in an acceptable language and dignified manner and spare no efforts in fostering clients' confidence and long-term relationship.
vi) Maintain decency and decorum during the visit to the clients' place for collection of dues.

Continue...

...Continue

vii) Avoid inappropriate occasions such as bereavement in the family or such other calamitous occasions for making calls / visits to collect dues.

viii) Avoid any demeanour that would suggest any kind of threat or violence.

ix) Emphasise using social collateral which includes various forms of peer assurance such as lending through groups and group guarantees at the village, hamlet or neighbourhood level, or guarantees by relatives, friends, neighbours or business associates; and explain clearly to clients what the obligations of social collateral are.

Governance

i) Observe high standards of governance, ensuring fairness, integrity and transparency by inducting persons with good and sound reputation, as members of board of directors. The MFI should ensure that the majority of the directors are independent directors and / or duly elected representatives of the community served, and that the board would be involved in all policy formulation and other important decisions.

ii) Ensure transparency in the maintenance of books of accounts and reporting / presentation and disclosure of financial statements by qualified auditor/s.

iii) Put in the best efforts to follow the Audit and Assurance Standards issued by the Institute of Chartered Accountants of India (ICAI).

iv) Place before the board of directors, a compliance report indicating the extent of compliance with this voluntary mutual code of conduct, specifically indicating any deviations and reasons therefore, at the end of every half financial year.

Feedback / Grievance Mechanisms

i) Establish effective and efficient feedback mechanism.

ii) Take steps to correct any errors and handle complaints speedily and efficiently.

Wherever a complainant is not satisfied with the outcome of the investigation into her complaint, she should be notified of her right to refer the matter to the Ethics and Grievance Redressal Committee constituted by Sa-Dhan.

Reference : Sa-Dhan, 2007. Core Values and Voluntary Mutual Code of Conduct for Micro Finance Institutions, available on www.sa-dhan.net / Resources / corevalues.pdf

Box-5 : Recommendations of Rangarajan Committee on Micro Insurance

The Committee on Financial Inclusion (Chairman : Dr. C. Rangarajan), which submitted its report in January 2008, observed in its report that micro insurance should provide greater economic and psychological security to the poor as it reduces exposure to multiple risks and cushions the impact of a disaster. Micro insurance in conjunction with micro savings and micro credit could go a long way in keeping this segment away from the poverty trap and would truly be an integral component of financial inclusion.

The Committee suggested that in order to economise on costs and to increase the outreach of micro insurance to the poor, the insurers need to utilise existing Government organisations and NGOs, having greater acceptability among the financially excluded. In the opinion of the Committee, there is a need to emphasise linking of micro credit with micro insurance. Further, as it helps in bringing down the inherent risk cost of lending, NABARD should be regularly involved in issues relating to rural and micro insurance to leverage on its experience of being a catalyst in the field of micro credit. The Committee suggested that the technology platforms being envisaged to facilitate financial inclusion should enable micro insurance transactions also. Towards this end, according to the Committee, there is a need to integrate the various modules - savings, credit, insurance, etc. - into the technology framework so that holistic inclusive efforts are possible in the rural areas.

The Committee observed that there are a large number of group life and health insurance schemes which are run by various central ministries and State Governments. The level of actual coverage in terms of claims preferred and settled in such schemes is disturbingly low. These schemes should be reviewed by an expert group set up by the Insurance Regulatory and Development Authority (IRDA).

Making specific recommendations about various insurance schemes available, the Committee observed that a wide range of products are available in life insurance category but penetration is really limited in rural areas. The procedural requirements at the time of entry and in case of claims settlement are cumbersome. The commission structure for agents is also heavily weighed in favour of getting new policies with very little incentive to service existing policies. In this regard, Micro Insurance Guidelines (MIG) 2005 issued by IRDA has provided for equal commission throughout the life of a policy and this will now remove the disincentive in servicing existing policy holders.

As far as health insurance is concerned, the Committee observed that its penetration level was even much lower than life insurance. The two categories viz., critical illness and hospitalisation are the main product segments. Some State Governments have developed health insurance schemes which are still in very early stages. The Committee has recommended mutual health insurance models as a better alternative to the take care of existing situation.

As regards crop insurance, the committee recommended that policies be evolved to make crop insurance universal, viz., applicable to all crops / regions and pricing actuarial.

About asset insurance the Committee again recommended that involving local NGOs, MFIs and SHGs, among others, as distribution channels as well as facilitators of claims settlements would be quite useful.

Reference : Rangarajan, C. 2008. Report of the Committee on Financial Inclusion, available on www.nabard.org/report_comfinancial.asp

Table-1: SHG-Bank Linkage Programme*						
(Amount in Rs. crore)						
Year	Total SHGs financed by banks (in '000)		Bank Loans		Refinance	
	During the year	Cumulative	During the year	Cumulative	During the year	Cumulative
1	2	3	4	5	6	7
1992-99	33	33	57	57	52	52
1999-00	82 (147.9)	115 (247.9)	136 (138.1)	193 (238.1)	98 (88.5)	150 (188.5)
2000-01	149 (82.3)	264 (129.9)	288 (112.0)	481 (149.2)	244 (149.0)	394 (162.7)
2001-02	198 (32.6)	461 (74.9)	545 (89.0)	1,026 (113.4)	395 (61.9)	790 (100.5)
2002-03	256 (29.5)	717 (55.4)	1,022 (87.0)	2,049 (99.6)	622 (57.2)	1,412 (78.7)
2003-04	362 (41.4)	1,079 (50.4)	1,856 (81.0)	3,904 (90.6)	705 (13.3)	2,118 (50.0)
2004-05	539 (49.1)	1,618 (50.0)	2,994 (61.0)	6,898 (76.7)	968 (37.3)	3,086 (45.7)
2005-06	620 (15.0)	2,239 (38.3)	4,499 (50.3)	11,398 (65.2)	1,068 (10.3)	4,153 (34.6)
2006-07	1,106	–	6,570	–	1,293	5,446
2007-08 P	740	–	4,228	–	1,616	7,062

P : Provisional. –: Not Available

** : Relating to Commercial banks, RRBs and Co-operative banks.*

Note : 1. From 2006-07 onwards, data on number of SHGs financed by banks and bank loans are inclusive of 'Swarnjayanti Gram Swarozgar Yojna' (SGSY) SHGs and existing groups receiving repeat loans. Owing to this change, NABARD discontinued the publication of data on a cumulative basis from 2006-07. As such data for 2006-07 onwards are not comparable with the data in the previous years.

2. Figures in parentheses indicate percentage variations over the year.

Source : NABARD.

SHG-Bank Linkage Programme Approach

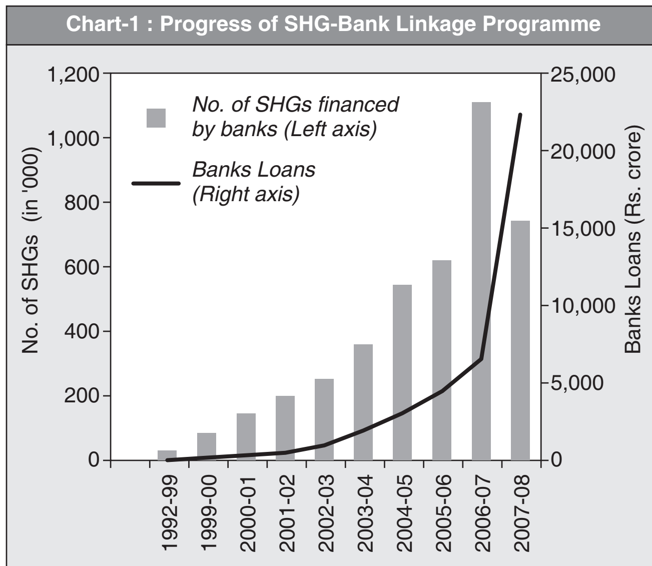
The SBLP has made considerable progress since its inception in the early 1990s, both in terms of the number of SHGs credit linked with banks as also the bank loans disbursed by SHGs. The cumulative number of SHGs credit linked with banks increased sharply from 33,000 in 1992-99 to 264,000 in 2000-01 and further to 2,239,000 in 2005-06. During the above period, the cumulative bank loans disbursed to SHGs also witnessed a sharp increase from Rs.57 crore in 1992-99 to Rs.481 crore in 2000-01 and further to Rs.11,398 crore in 2005-06 (Table-1 and Chart-1).

The provisional data available so far indicates that during the year 2007-08, 552,992 new SHGs were provided with bank loan and 186,883 existing SHGs with repeat loans. Total bank loans disbursed during the year were at Rs.4,228 crore, of which repeat bank loans to existing SHGs were at Rs.1,686 crore. The growth of number of SHGs has decelerated in recent years, particularly in the southern region, where rapid progress was made earlier. The scheme is catching up slowly in the northern region. The MFIs have also expanded their operations, which might have impacted the growth of the SBLP to some extent.

In terms of relative shares of different agencies, commercial banks continued to account for the largest share, both in terms of number of SHGs credit linked and bank loans disbursed, followed by regional rural banks and co-operative banks (Table-2). Among the commercial banks, public sector banks accounted for the largest share of loans disbursed to SHG sector

(88.8 per cent) in 2006-07. Out of the total loans disbursed by the commercial banks, 86.9 per cent of the loans were disbursed exclusively to women SHGs (Appendix-1).

Chart-1 : Progress of SHG-Bank Linkage Programme



Under the SBLP, as on March 31, 2007, 2.9 million SHGs had outstanding bank loans of Rs.12,366 crore (Table-3).

Table-2 : Agency-wise SHG -Bank Linkage Position

(Amount in Rs. crore)

Agency	SHGs Credit Linked (in '000)		Bank Loan Disbursed	
	2006-07	2007-08P	2006-07	2007-08P
1	2	3	4	5
Commercial Banks	572 (52)	312 (42)	3,919 (60)	2,043 (48)
RRBs	381 (34)	241 (33)	2,053 (31)	1,599 (38)
Co-operative Banks	153 (14)	187 (25)	599 (09)	586 (14)
Total	**1,106**	**740**	**6,570**	**4,228**

P : Provisional data.

Note : 1) Figures in parentheses are percentage shares in the respective total.

Source : NABARD.

Of the three models under the SBLP, the Model II, viz., SHGs promoted by NGOs / Government agencies and financed by banks has emerged as the most dominant model in the case of India (Table-4).

Table-3 : Bank Loans Outstanding under SBLP (as at end-March 2007)

(Amount in Rs. crore)

Agency	No. of SHGs	Loans Outstanding
1	2	3
Commercial Banks	1,893,016 (65.4)	8,760 (70.8)
Regional Rural Banks	729,255 (25.2)	2,802 (22.7)
Co-operative Banks	272,234 (9.4)	804 (6.5)
Total	**2,894,505 (100.0)**	**12,366 (100.0)**

Note : Figures in parentheses are percentages to the respective totals.

Source : NABARD.

The region-wise pattern of SHGs linked to banks showed greater concentration in the southern region, although the spatial disparity has declined in the last few years with some increase in the share of other regions, particularly the eastern region (Table-5).

In order to scale up efforts and reduce the regional imbalances in outreach, 13 non-south Indian States (Assam, Bihar, Jharkhand, Gujarat, Himachal Pradesh, Maharashtra, Madhya Pradesh, Chattisgarh, Orissa, Rajasthan, Uttar Pradesh, Uttaranchal and West Bengal) with high incidence of rural poverty and where the micro finance movement had not taken roots were identified by NABARD. Special efforts by NABARD resulted in an increase in the number of SHGs credit linked in these States from 100 thousand as on March 31, 2002 to 1.4 million as on March 31, 2007. Thus, the spread of the programme in the 13 States led to a significant decline in the share of the southern States in SHGs linked to banks.

As on March 31, 2007, the number of SHGs maintaining savings bank accounts with the banking sector was 4.2 million with outstanding savings of Rs.3,513 crore, thereby covering more than 58 million poor households under the programme. Commercial banks had the maximum share of the SHG's savings (53.9 per cent), followed by RRBs (32.9 per cent) and co-operative banks (13.2 per cent) (Table-6). Among the commercial banks, the public sector banks accounted for the largest share of savings (95.9 per cent), while private sector

Table-4 : Model-wise Cumulative Linkage Position (as at end-March)						
Model Type	2004		2005		2006	
	No. of SHGs ('000)	Bank Loans (Rs. crore)	No. of SHGs ('000)	Bank Loans (Rs. crore)	No. of SHGs ('000)	Bank Loans (Rs. crore)
1	2	3	4	5	6	7
(i) Model I- SHGs promoted, guided and financed by banks	218 (20.0)	550 (14.0)	343 (21.2)	1,013 (14.7)	449 (20.1)	1,637 (14.4)
(ii) Model II- SHGs promoted by NGOs / Government agencies and financed by banks	777 (72.0)	3,165 (81.0)	1,158 (71.6)	5,529 (80.2)	1,646 (73.5)	9,200 (80.7)
(iii) Model III- SHGs promoted by NGOs and financed by banks using NGOs / formal agencies as financial intermediaries	84 (8.0)	189 (5.0)	117 (7.2)	356 (5.2)	143 (6.4)	561 (4.9)
Total (i+ii+iii)	**1,079**	**3,904**	**1,618**	**6,898**	**2,239**	**11,398**

Note : 1. NABARD has changed the data reporting format since 2006-07 and now does not publish model-wise cumulative figures relating to SHG Bank Linkage Programme.

2. Figures in parentheses are percentages to the respective total.

Source : NABARD.

banks accounted for marginal share (4.1 per cent). It is noteworthy that around 87.3 per cent of the savings were by exclusive women SHGs (Appendix-2).

Table-5 : Regional Pattern of SBLP (as at end-March)						
(Per cent to total)						
Region	2001	2002	2003	2004	2005	2006
1	2	3	4	5	6	7
Northern	3.4	4.2	4.9	4.9	5.3	5.9
North-Eastern	0.2	0.3	0.6	1.1	2.1	2.8
Eastern	8.4	9.9	12.7	14.7	16.4	17.6
Central	10.9	10.4	11.4	11.8	12.2	12.0
Western	5.9	6.4	5.9	5.1	5.9	7.4
Southern	71.1	68.8	64.6	62.5	58.0	54.3
All-India	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source : NABARD.

About 37 per cent of banks reported recovery of above 95 per cent under the programme, 36 per cent banks reported recovery in the range of 80-94 per cent and another 20 per cent banks reported recovery in the range of 50-79 per cent. Some differences were observed in recovery rates of commercial banks, co-operative banks and regional rural banks (Table-7). While the recovery rate of public sector banks varied between 52 per cent and 99 per cent, the same of private sector banks varied between 60 per cent and 100 per cent. Out of the 26 private sector banks, the recovery rate of four banks was 100 per cent (Appendix-3).

Table-6: Savings of SHGs with Banks (as at end-March 2007)				
(Amount in Rs. crore)				
Agency	Total Savings		Exclusive Women SHGs	
	No. of SHGs	Amount of Outstanding Savings	No. of SHGs	Amount of Outstanding Savings
1	2	3	4	5
Commercial Banks	2,293,771 (55.1)	1,892 (53.9)	1,794,720 (54.9)	1,651 (54.6)
Regional Rural Banks	1,183,065 (28.4)	1,158 (32.9)	974,811 (29.8)	1,043 (34.5)
Co-operative Banks	683,748 (16.4)	462 (13.2)	501,708 (15.3)	331 (10.9)
Total	**4,160,584 (100.0)**	**3,513 (100.0)**	**3,271,239 (100.0)**	**3,025 (100.0)**

Note : Figures in parentheses are percentages to the respective totals.

Source : NABARD

Many groups promoted under various Government sponsored programmes also constituted a part of the SBLP. As on March 31, 2007, the number of SHGs having outstanding bank loans under the Swarnjayanti Gram Swarozgar Yojana (SGSY) were at 700 thousand constituting 23.7 per cent of the total SHGs under the SBLP. The loan amount outstanding under these SGSY loans were Rs.3,273 crore which constituted 26.5 per cent of the total amount outstanding under the SBLP.

Table-7: Recovery Performance of Bank Loans to SHGs (as at end-March 2007)					
					(No of banks)
Agency	Total No. of Reporting Banks	Recovery Performance of Bank Loans to SHGs			
		95 per cent and above	80-94 per cent	50-79 per cent	less than 50 per cent
1	2	3	4	5	6
Commercial Banks	36	11 (30.6)	15 (41.7)	10 (27.8)	0 (0.0)
Regional Rural Banks	73	20 (27.4)	35 (47.9)	13 (17.8)	5 (6.8)
Co-operative Banks	181	76 (42.0)	55 (30.4)	35 (19.3)	15 (8.3)
Total	290	107 (36.9)	105 (36.2)	58 (20.0)	20 (6.9)

Note : Figures in parentheses indicate percentage shares in agency-wise totals.
Source : NABARD

MFI Approach

The emerging role of MFIs as institutions other than banks engaged in providing financial services to the poor is being recognised and the banking sector has been extending loans to MFIs for on-lending to SHGs. During the year 2006-07, bank loans amounting Rs.1,152 crore were disbursed to 334 MFIs, taking the total loans outstanding to Rs.1,584 crore to 550 MFIs as on March 31, 2007 (Table-8).

Table-8 : Bank Loans Provided to MFIs (as at end-March 2007)				
				(Amount in Rs. crore)
Agency	Loans Disbursed by Banks MFIs during 2006-07		Outstanding Bank to Loans to MFIs as on March 31,2007	
	No. of MFIs	Amount	No. of MFIs	Amount
1	2	3	4	5
Commercial Banks	327	1,151	541	1,584
Regional Rural Banks	7	0.2	8	0.2
Co-operative Banks	–	–	1	0.01
Total	**334**	**1,152**	**550**	**1,584**

– : Nil / Negligible.
Note: 1) Figures may not add up to their respective total due to rounding off.
2) The actual number of MFIs would be less as some MFIs have availed loans from more than one bank.
Source : NABARD.

The Reserve Bank carried out a survey of MFIs in 2007, which revealed that most of the MFIs have a good recovery rate. Commercial banks remained the most important source of funds for almost all the MFIs. Even though some complaints regarding high interest rates and forcible loan recovery were registered in some parts of the country, most of the borrowers reported that it was easy or very easy to get a loan from MFIs (Box-6).

Micro Finance in India - Impact

There are several instances of experiments of SHGs that have made a positive impact on the income and employment situation of the poor (Box-7).

A few assessment studies have been carried out on the impact of the SBLP in India at the grassroot level. Puhazhendi and Satyasai (2000)[1] observed a shift towards higher income slabs between pre and post-SHG situation. About 74 per cent of the sample households were below an annual income level of Rs.22,500 during pre-SHG situation. The proportion declined to 57 per cent in the post-SHG situation indicating increased income levels. Further, involvement in the group significantly contributed to improving the self-confidence of the members. The communication with other group members also improved after association with the SHGs. The members were relatively more assertive in confronting with social evils and problematic situations.

1. *Puhazhendi, V. and K. J. S. Satyasai, 2000, Microfinance for Rural People: An Impact Evaluation, NABARD*

In another assessment, Puhazhendi and Badatya (2002)[2] found that availing loans from moneylenders and other informal sources with higher interest rates were significantly reduced due to SHG intervention. It was also observed that consumption oriented loans were replaced by production oriented loans during post-SHG situation.

Some studies have also indicated that the size of the loans is small and is often not sufficient to take up income generating activities. As a result, the loans are utilized for consumption purposes or for taking up subsistence-income generating activities.

The study conducted by EDA Rural Systems and APMAS (2006) brought out that a significant proportion of sampled groups (40 per cent) had a weak record of account keeping. The study pointed out that financial statements are not being regularly prepared by the SHGs. Only 28 per cent of the SHGs (22 per cent in the South and 35 per cent in the North) prepared an income and expenditure statement and an equal number of SHGs prepared a balance sheet and portfolio information. While members were usually able to provide approximate figures of total savings and total SHG loans outstanding, they were not able to provide information about profits earned or loan outstanding to banks. Further, the SHGs do not have a clear policy on how to deal with defaults or with dropouts, which formed about 10 per cent of membership.

Box-6 : Reserve Bank Survey on MFIs

In order to have a better understanding of the working of MFIs, regional offices of the Reserve Bank carried out a survey of MFIs operating in their areas of jurisdiction in November-December 2007. The objective of the study was to gain an insight into the activities of MFIs, especially in rural areas, to assess the financial services needs of the rural households and the informal products and processes that currently meet these needs. The study was aimed at gaining a better understanding of the operations of the MFIs and explore the possibility of linkages with banks resulting in extending banking outreach to the poor. In all, 77 MFIs were surveyed in the States of Karnataka, Orissa, Andhra Pradesh, Madhya Pradesh, Bihar, West Bengal, Kerala, Maharashtra, Rajasthan and Tamil Nadu. The survey was carried out through the lead district officers (LDOs) who held discussions with officials of district administration, branch managers, borrowers and MFIs.

The survey revealed that MFIs were adopting various models for micro finance such as through the SHGs, Grameen model / joint liability groups (JLGs) model, individuals as well as through cluster associations of the SHGs. The loan range varied widely across MFIs and across states. The loan range also varied across individuals and across SHGs. For individuals the loans ranged from as low as Rs.1,000 to Rs.20,000. For the SHGs, the range was between Rs.30,000 to Rs.2 lakh.

The number of clients served by the MFIs varied significantly across the States and ranged from as low as 79 to more than 100,000. The average loan range per client was between Rs.4,000 to Rs.5,000 for individuals and between Rs.60,000 to Rs.1.3 lakh for the SHGs.

Majority of the loans given by the MFIs in the surveyed States were for work or occupation related purposes. Occupation related loans ranged from 46 to 100 per cent of the total loans in most of the states. This was followed by other purposes like consumption, social events, health, travel and education.

The duration of the loans ranged from 6 to 20 months. The interest rates charged by the MFIs were not uniform and varied widely across MFIs and across states. While some MFIs charged flat rates of interest, others charged diminishing rates. The flat rates ranged between 10-14 per cent and the diminishing rates ranged between 10-27 per cent. Besides, many MFIs charged flat processing fee in the rage of 1 to 1.5 per cent.

Apart from the loans, some of the MFIs offered other services such as health insurance and life insurance. In many cases, asset insurance was compulsory, especially when it related to loans for animal husbandary.

Almost all the MFIs reported good recovery percentage of the loans, i.e., more than 90 per cent. Most of the borrowers also reported that the MFIs adopted fair practices for recovery. The MFIs have a close monitoring system which ensures that there are minimum defaults.

Only a few MFIs were providing performance related incentives to their staff. Some of the parameters used for providing the incentives were (i) business turnover; (ii) maintenance of clientele (low customer drop out rate); (iii) reaching the annual target about number of customers; (iv) recovery performance; (v) percentage of insurance coverage; and (vi) loan utilisation.

Only in the States of Karnataka and Andhra Pradesh, MFIs reported that the money lending legislations were applicable to them. In other States the MFIs reported that they were not bound by the money lending legislations.

Continue...

2. *Puhazhendi, V. and K. C. Badatya, 2002, SHG Bank Linkage Programme for Rural Poor-An Impact Assessment, available on www.microfinancegateway.org*

...Continue

Almost in all States surveyed, the enforceability of money lending legislation was very poor. Commercial banks remained the most important source of funds for almost all the MFIs. Some of the MFIs also received funds from other financial and developmental institutions and donor agencies.

The survey attempted to find out what additional support the MFIs expected from banks. Some of the suggestions and expectations were (i) low interest loans; (ii) loans for operational and infrastructure expenses; (iii) flexible banking products; (iv) continuous lending support; (v) better customer service; (vi) simplified access; (vii) capacity building by banks; (viii) IT and EDP support; (ix) sharing establishment costs; and (x) training.

Almost all the MFIs were willing to work as business correspondents (BC) of banks. One MFI however suggested that it was unwilling to work as a BC because it would lose focus on its core activity. Another MFI was unwilling to work as a BC because of the stringent conditions stipulated by banks for their BCs.

In most of the States surveyed, district administration was not maintaining the details of MFIs in the district as it was not compulsory. Furthermore, there were only very few complaints against the MFIs received by the district administration. In Krishna district in Andhra Pradesh there were complaints against MFIs for charging high rates of interest and forcible loan recovery. In Madhya Pradesh also there were some complaints pertaining to high interest rates.

The survey also attempted to obtain the response of clients with respect to the ease of availing loans from MFIs. Most of the borrowers surveyed reported that it was easy or a easy to get a loan from MFIs.

Almost all the bank branch managers opined that MFIs were good customers of banks and they could be used as business facilitators or correspondents.

Box-7 : Innovative Approaches of SHGs

The self help group movement in India has gained momentum in recent years and it has been responsible for bringing in a qualitative change in the lives of thousands of people. Some of the innovative experiments in this regard are:

Sheetal SHG, Saharanpur, is an excellent example of people who have brought transformation in their socioeconomic status by determinative and collective efforts.

This SHG was formed in September 2006 with the joint motivation of the Punjab National Bank and a social organisation named “SANKALP” which has been working for mainstreaming the disabled and their families.

Fourteen Dalit women had volunteered to become members of this SHG, of which two were disabled. They started saving Rs.100 every month and opened their bank account with bank's branch in October 2006. NABARD helped in providing 30 days of vocational training in commercial candle making with exposure to market for purchases and sales. They were also given training for making dhoop battis and agarbattis.

Four members of this group have now started a candle making unit with the help of loan from the bank. The women now work in their spare times and are earning additional income for their families. They have become self-dependent and are confidently meeting the bank and Government officials and also travelling independently for the business requirements. The SHG has now multiplied into eight women SHGs and have recently formed a 'Mahila Manch', which is exclusively working for the economic and social upliftment of their families.

Annapurna SHG of Tidhara village in Navsari tehsil in Gujarat supported by Bank of Baroda consists of eleven women members from below poverty line. They were working as daily wage labourers in the village and started saving from their little earnings and opened an account with the bank branch. The group after managing to save a decent corpus of fund started catering service in the village with guidance from the bank branch. The group opened a canteen at the village panchayat office with a loan of Rs. One lakh from the bank. They also gained additional income by extending their services to various ceremonies and other occasions in the village and neighbouring areas.

The group has gained popularity in the area for providing tasty and hygienic food to the locals and each group member earns a minimum of Rs.2,500 per month. Pragathi Mahila Sakthi Sangham of Kurakapalli village in East Godavari district of Andhra Pradesh comprises members who worked as agricultural labours. The members took an initial loan of Rs.25,000 from Bank of Baroda which was used for internal loaning purposes. The members then ventured into agriculture with another loan of Rs.1,80,000 after repaying the earlier loan. They took agriculture land on lease and prospered by cultivating and distributing the profits among themselves. The group has become a role model for other landless agriculture labourers in the village.

Source : Punjab National Bank

Bank of Baroda.

The study also observed that 30 per cent of SHGs in the sample were involved in community actions. These involved improving community services (43 per cent of the total actions, including water supply, education, health care, veterinary care, village road), trying to stop alcohol sale and consumption (31 per cent), contributing finance and labour for new infrastructure (12 per cent), protecting natural resources and acts of charity (to non-members). The most common type of action taken up by SHGs was the attempt to close down local liquor outlets.

The study also pointed out that such community actions inculcated a new boldness and confidence amongst women, often putting pressure on the authorities (panchayat, district officers and police) to do their jobs, whether through petitions or by staging rallies and blockades.

Some of the States like Andhra Pradesh are trying to implement various developmental and poverty alleviation schemes through SHGs.

To sum up, micro finance has come of age in India. Although it is not a panacea for the poor, it has now developed into an important delivery mechanism for reaching the poor and achieving financial inclusion. Studies have brought out the positive impact of micro finance on participating clients. As such, its role in enhancing human capital in the long-term would be considerable. It has particularly helped women to become owners of assets, have an increased say in decision making and take up leadership positions. The challenges facing the sector are being addressed on a continuing basis, in consultation with all stakeholders.

Appendix Table-1 : Bank Loans Disbursed to SHGs by Commercial Banks During 2006-07 (Continued) (Amount in Rs. lakh)

Sr. No.	Name of the Bank	Total Loans Disbursed		Out of Total-Exclusive Women SHGs	
		No. of SHGs	Amount	No. of SHGs	Amount
1	2	3	4	5	6
	PUBLIC SECTOR BANKS				
1.	Allahabad Bank	6,492	31.42	3,122	12.29
2.	Andhra Bank	57,188	414.14	54,328	393.43
3.	Bank of Baroda	11,756	86.53	4,295	31.54
4.	Bank of India	14,129	104.83	10,126	79.59
5.	Bank of Maharashtra	8,858	53.00	6,263	39.11
6.	Canara Bank	17,429	119.29	15,259	113.46
7.	Corporation Bank	4,318	31.87	4,094	29.78
8.	Central Bank of India	16,159	109.91	14,382	91.83
9.	Dena Bank	3,000	18.47	1,220	7.48
10.	IDBI Bank	164	1.02	104	0.63
11.	Indian Bank	61,469	503.07	58,703	467.84
12.	Indian Overseas Bank	45,838	312.08	45,382	308.96
13.	Oriental Bank of Commerce	538	6.89	290	3.79
14.	Punjab and Sind Bank	497	3.68	292	2.05
15.	Punjab National Bank	13,235	59.51	7,962	28.46
16.	State Bank of India	170,350	936.48	147,919	764.24
17.	State Bank of Bikaner and Jaipur	5,123	25.56	4,648	22.44
18.	State Bank of Hyderabad	27,435	201.97	25,818	190.28
19.	State Bank of Indore	559	3.35	196	2.21
20.	State Bank of Mysore	23,126	167.96	21,970	159.56
21.	State Bank of Patiala	118	0.19	96	0.15
22.	State Bank of Saurashtra	28	0.42	8	0.09
23.	State Bank of Travancore	6,516	39.82	2,517	15.12
24.	Syndicate Bank	13,490	122.90	12,565	115.521
25.	Union Bank of India	3,159	15.59	2,683	14.35
26.	United Bank of India	7,807	14.82	6,724	NA
27.	UCO Bank	12,607	51.96	9,690	39.79
28.	Vijaya Bank	6,020	42.42	5,662	39.75
	Sub-Total-Public Sector Banks	**537,228**	**3,479.13**	**466,318**	**2.973.74**

Appendix Table-I: Bank Loans Disbursed to SHGs by Commercial Banks During 2006-07 (Concluded) (Amount in Rs. lakh)					
Sr. No.	Name of the Bank	Total Loans Disbursed		Out of Total-Exclusive Women SHGs	
		No. of SHGs	Amount	No. of SHGs	Amount
1	2	3	4	5	6
	PRIVATE SECTOR BANKS				
1.	Bank of Rajasthan	516	2.22	434	1.59
2.	Bharat Overseas Bank	NA	NA	NA	NA
3.	Catholic Syrian Bank	136	0.70	127	0.65
4.	Centurion Bank of Punjab	-	-	-	-
5.	City Union Bank	332	1.79	332	1.79
6.	Dhanalakshmi Bank	1.155	5.89	869	4.05
7.	Development Credit Bank	-	-	-	-
8.	Federal Bank	2.207	11.08	1.673	9.40
9.	Ganesh Bank of Kurundwad	NA	NA	NA	NA
10.	HDFC Bank	7,621	91.70	7,621	91.70
11.	ICICI Bank	18,082	296.15	18,082	296.15
12.	1NG Vysya Bank	1,864	11.93	1,630	11.04
13.	Induslnd Bank	NA	NA	NA	NA
14.	Jammu & Kashmir Bank	103	0.85	-	-
15.	Karnataka Bank	767	4.14	680	3.56
16.	Karur Vysya Bank	134	2.70	129	2.68
17.	Kotak Mahindra Bank	-	-	-	-
18.	Lakshmi Vilas Bank	247	1.04	239	0.95
19.	Lord Krishna Bank	37	0.26	14	0.11
20.	Nainital Bank	82	1.09	2	0.01
21.	Ratnakar Bank	31	0.28	31	0.28
22.	SBI Commercial & International Bank	-	-	-	-
23.	South Indian Bank	133	0.46	127	0.48
24.	Tamilnad Mercantile Bank	909	7.36	760	6.14
25.	Axis Bank	52	0.17	52	0.17
26.	Yes Bank	NA	NA	NA	NA
	Sub-Total-Private Sector Banks	**34,408**	**439.81**	**32,802**	**430.74**
	Total - Commercial Banks	**571,636**	**3,918.94**	**499,120**	**3,404.48**

-. Nil / negligible.

NA : Not Available / Not Reported

Source : NABARD

Appendix Table-2 : Savings of SHGs with Commercial Banks as on March 31, 2007 (Continued) (Amount in Rs. lakh)					
Sr. No.	Name of the Bank	Total Loans Disbursed		Out of Total-Exclusive Women SHGs	
		No. of SHGs	Amount	No. of SHGs	Amount of Savings
1	2	3	4	5	6
	PUBLIC SECTOR BANKS				
1.	Allahabad Bank	46,228	24.97	28,615	14.12
2.	Andhra Bank	114,301	121.01	108,585	114.96
3.	Bank of Baroda	69,195	28.38	39,415	15.95
4.	Bank of India	93,117	49.93	75,115	91.80
5.	Bank of Maharashtra	36,719	14.18	23,996	8.05
6.	Canara Bank	150,078	179.31	126,216	165.90
7.	Central Bank of India	73,846	60.31	15,720	30.03
8.	Corporation Bank	17,296	31.49	56,221	49.25
9.	Dena Bank	13,026	7.54	5,918	3.57
10.	IDBI Bank	1,929	0.70	982	0.36
11.	Indian Bank	97,408	122.65	90,179	114.051
12.	Indian Overseas Bank	111,022	55.12	109,911	52.34
13.	Oriental Bank of Commerce	7,107	8.54	5,649	5.72
14.	Punjab and Sind Bank	3,616	4.11	1,064	2.17
15.	Punjab National Bank	127,009	55.90	71,387	31.07
16.	State Bank of Bikaner and Jaipur	24,224	9.82	607,292	533.86
17.	State Bank of Hyderabad	46,376	101.21	16,450	5.28
18.	State Bank of India	798,686	599.52	45,022	99.131
19.	State Bank of Indore	14,412	8.23	8,647	3.20
20.	State Bank of Mysore	23,250	93.00	21,500	86.00
21.	State Bank of Patiala	3,389	1.65	2,695	1.46
22.	State Bank of Saurashtra	2,286	1.91	1,157	0.96
23.	State Bank of Travancore	60,203	79.46	37,325	49.27
24.	Syndicate Bank	78,833	37.72	68,301	31.33
25.	UCO Bank	43,550	41.56	66,232	28.78
26.	Union Bank of India	91,296	41.80	30,378	NA
27.	United Bank of India	35,421	18.10	33,900	29.55
28.	Vijaya Bank	22,512	16.89	20,765	14.68
	Sub Total-Public Sector Banks	**2,206,335**	**1,815.00**	**17,186**	**1,582.86**

Appendix Table-2 : Savings of SHGs with Commercial Banks as on March 31, 2007 (Concluded) (Amount In Rs. lakh)					
Sr. No.	Name of the Bank	Total Loans Disbursed		Out of Total-Exclusive Women SHGs	
		No. of SHGs	Amount	No. of SHGs	Amount
1	2	3	4	5	6
	PRIVATE SECTOR BANKS				
1.	Axis Bank	52	0.17	52	0.17
2.	Bank of Rajasthan	2,795	2.34	2,014	1.62
3.	Bharat Overseas Bank	NA	NA	NA	NA
4.	Catholic Syrian Bank	1,336	0.67	1,114	0.60
5.	Centurion Bank of Punjab	-	-	-	-
6.	City Union Bank	2,397	1.15	2,397	1.15
7.	Development Credit Bank	-	-		
8.	Dhanalakshmi Bank	15,431	32.99	13,776	29.1 7
9.	Federal Bank	11,749	8.56	9,364	8.19
10.	Ganesh Bank of Kurundwad	NA	NA	NA	NA
11.	HDFC Bank	7,621	3.81	7,621	3.81
12.	ICICI Bank	22,476	1.86	22,476	1.86
13.	Induslnd Bank	NA	NA	NA	NA
14.	ING Vysya Bank	8,359	5.53	7,525	5.35
15.	Jammu & Kashmir Bank	1,007	NA	160	NA
16.	Karnataka Bank	4,116	13.55	3,282	12.79
17.	Karur Vysya Bank	418	0.52	109	0.05
18.	Kotak Mahindra Bank	-	-.	-	-
19.	Lakshmi Vilas Bank	1,295	0.38	1,221	0.35
20.	Lord Krishna Bank	546	0.27	385	0.23
21.	Nainital Bank	510	0.36	2	0.01
22.	Ratnakar Bank	476	0.31	278	0.09
23.	SBI Commercial & International Bank	-	-	-	-
24.	South Indian Bank	2,472	1.18	1,939	1.06
25.	Tamilnad Mercantile Bank	4,380	3.76	2,368	2.12
26.	Yes Bank	NA	NA	NA	NA
	Sub Total-Private Sector Banks	**87,436**	**77.42**	**76,083**	**68.61**
	Total-Commercial Banks	**2,293,771**	**1,892.41**	**1,794,720**	**1,651.47**

-. Nil / negligible.
NA : Not Available / Not Reported
Source : NABARD

Appendix Table-3: Recovery Performance of Bank Loans to SHGs - Position as on March 31,2007					
Sr. No.	**Name of the Bank**	**Percentage of Recovery ***	**Sr. No.**	**Name of the Bank**	**Percentage of Recovery ***
1	2	3	1	2	3
	PUBLIC SECTOR BANKS			**PRIVATE SECTOR BANKS**	
1	Allahabad Bank	NA	1	Bank of Raj as than	94.5
2	Andhra Bank	97.0	2	Bharat Overseas Bank	NA
3	Bank of Baroda	80.8	3	Catholic Syrian Bank	NA
4	Bank of India	77.0	4	Centurion Bank of Punjab	NA
5	Bank of Maharashtra	88.0	5	City Union Bank	NA
6	Canara Bank	NA	6	Dhanalakshmi Bank	100.0
7	Corporation Bank	95.0	7	Development Credit Bank	NA
8	Central Bank of India	51.5	8	Federal Bank	95.3
9	Dena Bank	93.0	9	Ganesh Bank of Kumndwad	NA
10	IDBI Bank	53.7	10	HDFC Bank	100.0
11	Indian Bank	98.7	1 1	ICICI Bank	86.9
12	Indian Overseas Bank	99.0	12	Induslnd Bank	NA
13	Oriental Bank of Commerce	79.0	13	ING Vysya Bank	90.0
14	Punjab and Sind Bank	89.9	14	Jammu & Kashmir Bank	88.0
15	Punjab National Bank	NA	15	Karnataka Bank	NA
16	State Bank of India	72.0	16	Karur Vysya Bank	98.9
17	State Bank of Bikaner and Jaipur	NA	17	Kotak Mahindra Bank	NA
18	State Bank of Hyderabad	92.0	18	Lakshmi Vilas Bank	85.6
19	State Bank of Indore	56.0	19	Lord Krishna Bank	NA
20	State Bank of Mysore	95.0	20	Nainital Bank	90.0
21	State Bank of Patiala	73.5	21	Ratnakar Bank	60.0
22	Stale Bank of Saurashtra	77.1	22	SBI Commercial & Internatinal Bank	NA
23	Slate Bank of Travancore	94.5	23	South Indian Bank	93.3
24	Syndicate Bank	94.0	24	Tamilnad Mercantile Bank	100.0
25	Union Bank of India	NA	25	Axis Bank	100.0
26	United Bank of India	92.0	26	Yes Bank	NA
27	UCO Bank	72.5			
28	Vijaya Bank	NA			

**: Percentage of recovery to demand of bank loans to SHGs (for all SHGs)*

Source: NABARD

BOOK REVIEW

Name of Book : CORPORATE GOVERNANCE - Challenges & Necessity for Emerging India

Author : Bimal R. Bhatt

Published by : Hitakakadi Inc.

No. of Pages : 512

Price : Rs.695/-

Reviewed by : Prof. R. D. Pandya

In the modern world the concept of Corporate Governance has assumed great importance. If we refer to any Annual Report of any Company, there is always a chapter on Management Discussion, Analysis and Corporate Governance.

What is Corporate Governance, how it is relevant to the Stakeholders of Company, what it implies and conveys to shareholders are relevant issues discussed and debated nowadays.

Shri Bimal R. Bhatt, a leading Chartered Accountant with rich professional experience, has explained the concept of Corporate Governance in this book with particular reference to challenges and necessities for emerging India. The concept of Corporate Governance and issues relating to it are explained in great depth with particular reference to the current as well as changing economic scenario, both within the domestic market and global economy. The term Corporate Governance has been defined and explained by several leading industrialists and management experts such as Shri Ratan Tata, Shri N. R. Narayana Murthy, Shri Azim Premji, Shri Kumar Mangalam Birla, Shri Deepak Parekh and several other foreign experts.

Corporate Governance actually shows the accountability of management to the stakeholders. What is important is not Corporate Governance for the sake of governance but it must be able to provide confidence to the shareholders in management, leadership and their practices. In other words, what is important is how Corporate Governance is practised and implemented by the corporate entities.

Shri Bimal R. Bhatt has contributed to the understanding of Corporate Governance in 22 chapters. In this book the author deals with character, ethics, values, trust and principles in leadership which implements the basic principles of Corporate Governance in Corporate Management. Apart from defining the concept and objectives of Corporate governance, author explains the philosophy of Indian corporates. He also deals with the functioning of Board of Directors, Audit Committee, Remuneration Committee and also tries to explain Corporate Social Responsibility (CSR). While doing so he raises several practical and relevant questions for stakeholders and provides accurate answers.

The book under review is not merely theoretical in approach but practical based on the studies of Corporate Governance practices in India; it contains the analysis of Corporate Governance practices of numerous companies such as Infosys, Wipro, Tata Motors, Tata Steel, Asian Paints, HDFC, Reliance, ICICI Bank, ITC, Ranbaxy, Satyam, Ambuja Cement, Bajaj Auto, Thermax, Cadila, Torrent, Arvind and many more. It is analytical, based on research and serious study of the dynamics of good governance practices across the Corporate sector in India.

This book is relevant not only to the students of corporate finance in general but also to Chartered Accountants, Company Secretaries, Professional Bankers and all those who are involved in the management of Corporate entities.

Shri Bimal R. Bhatt has put in tremendous efforts to collect the relevant data in regard to Corporate Governance practices in India to provide a deep insight into the perspective of Corporate Governance. He richly deserves sincere compliments for bringing out such a thought provoking, research based publication on "Corporate Governance" .

BOOK REVIEW

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4.	Check Your Knowledge in Mutual Fund	Sudip Kar Purkayastha	Skylark Publications, 2009
5.	Commodities & Commodity Derivatives : Modeling & Pricing for Agriculturals, Metals & Energy	Helyette Geman	John Wiley & Sons, 2005
6.	Conquest of Happiness	Bertrand Russell	Routledge, 2008
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10.	Finance	BPP Learning Media	Viva Books, 2009
11.	Financial Intelligence : a Manager's Guide to Knowing what the Numbers Really Mean	Karen Berman & Joe Knight	Harvard Business School Press, 2006
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13.	Global Economic & Financial Crisis : Essays from Economic & Political Weekly	Economic & Political Weekly	Orient Blackswan, 2009
14.	Handbook on Lending to Micro, Small & Medium Enterprises (a Practical Guide)	D. P. Sarda	Govind Prakashan, 2009
15.	How to have a Beautiful Mind	Edward De Bono	Random House, 2004
16.	India & the Global Financial Crisis : Managing Money & Finance	Y. V. Reddy	Orient Blackswan, 2009
17.	India 2009 : A Reference Annual, 53rd Edn.	Govt. of India / Ministry of Information & Broadcasting	Govt. of India / Ministry of Information & Broadcasting
18.	Indian Banking Today	Dalip Mehra	Arvind Vivek Prakashan, 2009
19.	Leadership in the Era of Economic Uncertainty : the New Rules for Getting the Right Things Done in Difficult Times	Ram Charan	Tata McGraw Hill, 2009
20.	Leading by Example	Lessons Learned Series	Harvard Business School Press, 2007
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