

Total Financial Inclusion

– A Success Story

S.V. Hanumantha Rao*



India is basically an agrarian country where 65% of the population still lives in rural areas. 48% of the households do not have access to the banking services, the majority being rural population. With 26% of the population living below poverty line (BPL) and just 21% of the rural households

having access to bank credit, the banking system is able to meet only 20% of the credit needs of the rural poor. To obviate this situation, the Government of India directed the RBI to issue suitable instructions to the banks to bring in “*inclusive growth*”. Accordingly, the Reserve Bank of India advised all banks to provide facilities, such as “insurance, money transfer (remittances) social security, etc. under the umbrella of “Financial Inclusion”.

As a result, banks liberalized the norms to open “no-frills” accounts under which minimum balance amount was reduced / not insisted upon for savings accounts. KYC norms were also relaxed allowing accounts to be opened with ‘self declaration’ of address and introduction by an account-holder of the bank. As a part of ‘*financial inclusion*’, hassle-free credit up to Rs.25000/- is also granted to individual beneficiaries of rural households, depending upon the economic activity they undertake, under the newly introduced “General Purpose Credit Card (GCC)” scheme. Banks were instructed to achieve full (100%) *financial inclusion* in the identified districts by opening ‘no-frills’ accounts as also by way of issue of ‘GCC’. However, the approach to achieve *financial inclusion* seems to have generally ended up with opening of no-frills accounts and issuing a few General Purpose Credit Cards.

Total Financial Inclusion (TFI)

A question has, thus, arisen whether ‘*financial inclusion*’ means opening of an account with a bank, may be a GCC being issued; or does it mean anything more? In this context, Deccan Grameena Bank (DGB) thought of the concept of ‘*Total Financial Inclusion (TFI)*’. The bank firmly believes that opening of ‘no-frills’ account is not an end itself but a means to an end, the end being providing access to credit to meet the genuine financial needs of a rural family.

Financial Needs of a Rural Family

The financial needs of a rural family consist of (i) working capital for the existing activity, (ii) investment for additional income generation, and (iii) meeting consumption needs such as, expenses

towards marriage, health, house repair, children’s education, etc.

How These Expenses are Presently Met

The above needs of the rural poor family are mostly met through private sources. The sources include loans from (i) friends and relatives, (ii) micro finance institutions (MFIs), and (iii) local money lenders

* Chairman, Deccan Grameena Bank, Hyderabad

Category of Rural Households

On the basis of the financial status, the rural households can be categorized into poor, middle-class and rich. Some of them are dependent on non-farm sector while a majority depends upon the farm sector. Farm sector needs comprise finance for seeds, fertilizers, pesticides and some wages-component, besides for consumption purposes. By taking the financial category for the purpose of financial inclusion, it has been found that the "exclusion ratio" is much higher in poorer sections when compared to the middle class and the rich, both in terms of physical and financial spread. Further financial inclusion is more widespread in urban vis-à-vis rural areas, in non-poor vis-a vis poor, and whether farm or non-farm sector, the exclusion is very high in respect of the poor.

Coping Mechanism by the Poor Families

For ages, the rural poor have been depending upon external sources to meet their financial needs. The source of income for rural poor have been their own labour or from the assets, if any, owned by them. These two sources do not provide adequate funds for them to meet their needs. Since adequate credit is not forthcoming from the banking system, they are compelled to go to the money lenders or micro finance institutions who provide credit at a very high cost in order to meet their short term and emergency needs.

Self-Help Group (SHG) Approach

Andhra Pradesh has played a pioneering role in the formation of SHGs for over a decade. A large number of groups with concentration of the poor

(BPL) poorest of the poor (POP) representing the down trodden have been formed in all villages. As of now, only women are members in all the SHGs in the rural areas. Required capacities have been built-up in SHGs over a period of time and the concept of thrift and savings, around which the Self-Help movement revolves has stabilized. The rotation of savings / thrift among the members themselves demonstrated a sound financial discipline by way of recycling of funds. As a result, the bankers have come forward in a big way to provide credit-linkage to the SHGs. The 'SHG Model' has proved very successful as the bankers could consistently achieve 95% plus recovery. Through this model, the poor have been able to access the bank finance for taking up economic activities apart from fulfilling their social and health needs.

An Effective Tool

Because of the success the SHG movement, the same model has been selected to launch "Total financial inclusion" (TFI) concept by the DGB. The following hypothesis has been made in this regard:

- i) Since the 'exclusion' is more widespread and deeper in the poor sections, the TFI model will presently be limited to the rural poor.
- ii) Priority will be given to the poorest of the poor.
- iii) Total credit needs of the poor including the consumption and health should be met through this model.
- iv) Dependence on money lenders or micro finance institutions should be totally eliminated through this model.

Piloting the Model

To give a kick-start, the model has been implemented in one Service Area village in each branch of the Deccan Grameena Bank (DGB) during the year 2006-07.

Assessing the Needs of Each Member of the SHG

The credit needs of each of the SHG member is identified and a 'Micro Credit Plan' (MCP) for that group prepared. The MCP included the following: (i) working capital needs of the existing economic activity, (ii) requirement for investment in income-generating asset, (iii) swapping of the outstanding debt of the member with the money-lender or MFI borrowed at a very high cost, (iv) social needs like health, education, house repairs / construction; marriage purposes, etc.

Preparatory Work

Several steps precede implementing the model for any SHG, as enlisted hereunder:

(i). **Capacity Building:** An important pre-requisite to take up the MCP based credit linkage is the capacity building of individual members of SHG. The group members should be sensitized of their role and responsibilities. For this purpose, the members are trained individually and as a group in (i) mobilising weekly savings, (ii) conducting weekly meetings, (iii) recording the minutes, (iv) recycling of funds (loaning among the members), (v) the maintenance of books and updation of accounts. One or two members of each group who are literates will be picked up to provide extensive training in the above matters so that there is continuity of efforts.

(ii) Meetings : Group leaders are to meet at regular periodicity for the exchange of information and ideas.

(iii) Preparation of Draft MCP: Each member is asked to spell out the financial needs of her family which is jotted down. Priorities are identified in respect of each member's requirements. The entire group's requirements are collected in the same way. The group itself validates the requirements of each member towards fixing individual member's limit. The aggregate of the individual limits thus arrived at, forms the draft MCP. The presence of the branch manager / field officer of the bank is essential in the entire process as an "observer". They do not interfere with the members' deliberations and the whole process is conducted in a free and frank atmosphere.

(iv) Validation of the MCP: The draft MCP, thus, prepared is presented to the branch manager. The branch manager validates the same through discussions with the group members and group leaders, after which it becomes an acceptable plan for extending the bank finance.

Features of MCP

- i) Both short term and long term requirements of the members are considered,
- ii) Credit limit is sanctioned to the SHG, while the members get multiple small loans (for their different needs),
- iii) Amount of debt - swapping (replacement of high-cost loans with the money lender /MFI) is restricted to 50% of the MCP,
- iv) MCP itself is restricted to an amount of Rs.5.00 lakh for

extending collateral-free loan,

- v) Loan carries a repayment of 5 years,
- vi) There is a differential repayment periods between the member to the SHG and SHG to the bank,
- vii) While the member to SHG repayment is shorter (say 48 months) SHG to the financing bank is longer (say 60 months),
- viii) Surplus, thus, generated is recycled among the members to meet their contingencies / emergency needs before a fresh loan is sanctioned by the bank after repayment of the loan availed.

CC Pally Pilot

The model was implemented for the first time in a remote village of Karimnagar district which had concentration of the BPL and POP population. The total debt of 201 families in the village was Rs.29.00 lakh, of which, the share of the money lenders was 87%, the share of the bank was 11%, and others 2%.

Initiation of the Model

A team of bank staff and DRDA wing looking after the SHG matters, spent about 3 weeks in building up the capacities, sensitizing the members and keeping in-place proper mechanism to ensure weekly savings by the members, weekly meetings, book-keeping, etc. which are essential for the implementation of TFI. Thereafter, the groups prepared draft MCP, which was vetted by the bank as per the procedure. Finally, 17 SHGs covering 194 beneficiaries were sanctioned an aggregate credit limit of Rs.58.55 lakh, of which, Rs.24.58 lakh (about 42%) was

for debt-swapping. The Model was launched on 27th December, 2006 in the presence of the top management of the sponsor bank (SBH), DGB and senior IAS officers of the Government of Andhra Pradesh, and DRDA.

Appreciation from the Government of Andhra Pradesh

The initiative taken by the Deccan Grameena Bank came up for discussions in the State Level Banker's Committee (SLBC) meeting conducted in December, 2006. Shri Y.S. Rajashekar Reddy, the Chief Minister of AP, who presided over the meeting, lauded the initiative taken by the bank and desired the 'model' be implemented by all banks in the State. The SLBC, in their subsequent meeting, approved the model and communicated to all banks for implementation at all their rural branches in the State.

Evaluation

The evaluation studies conducted after two months by the bank as well as the "Society for the Elimination of Rural Poverty (SERP)" of the Government of AP revealed that the TFI model implemented in CC Pally village (as also a few other villages in other districts) have made tremendous impact on the economic conditions of the beneficiaries who could get rid of the crushing interest burden on account of their earlier loans with the money lenders. They were able to live in peaceful atmosphere conducting the income generation activity for which loan was extended by the bank. Deccan Grameena Bank considers this as a very satisfying experience. It is a real success story of the bank which will have a long lasting impact on the rural population. ■