# Impact Assessment Study of JICA Assisted Forestry Projects (States of Rajasthan, Gujarat and Odisha)

## Final Report - Part B

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Japan International Cooperation Agency (JICA)

All State Financial Services Private Limited
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**Study Team**

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**Study Team**

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## Acronyms

| | |
|---|---|
| AEPS | Aadhaar-Enabled Payment Systems |
| APBS | Aadhaar Payments Bridge System |
| APY | Atal Pension Yojana |
| ATM | Automated Teller Machine |
| BASIX | BASIX Consulting and Technology Services Ltd. |
| BC | Banking Correspondent |
| BF | Business Facilitator |
| BPL | Below Poverty Line |
| BRAC | Bangladesh Rural Advancement Committee |
| CARE | Credit Analysis & Research |
| CBT | Capacity Building Team |
| CCL | Convenient Consumer Loan |
| CEO | Chief Executive Officer |
| CFI | Centre for Financial Inclusion |
| CGAP | Consultative Group to Assist the Poor |
| CIF | Community Investment Fund |
| CSR | Corporate Social Responsibility |
| DAC | Development Assistance Committee |
| DAY-NRLM | Deen Dayal Antyodaya Yojana |
| DBT | Direct Benefit Transfers |
| DFS | Digital Financial Services |
| DMU | District Management Unit |
| DPSA | Diversified Portfolio for Subsistence Activities |
| EC | Executive Committee |
| ECS | Electronic Clearing Service |
| EDC | Eco Development Committee |
| EPA | Entry Point Activity |
| FD | Forest Department |
| FGD | Focus Group Discussion |
| FIF | Financial Inclusion Fund |
| FITF | Financial Inclusion Technology Fund |
| FLDG | First Loss Default Guarantee |
| FMU | Field Management Unit |
| FSP | Financial Service Provider |
| GFDP | Gujarat Forest Department Project |
| GIS | Geographic Information System |
| GJ | Gujarat |
| GLPC | Gujarat Livelihood Promotion Company |
| HFD | Haryana Forest Department |
| HH | Household |
| HR | Human Resource |
| IAS | Indian Administrative Service |

| | |
|---|---|
| ICDS | Integrated Child Development Services |
| ICT | Information and Communication Technology |
| ID | Identity |
| IEC | Information Education Communication |
| IGA | Income Generation Activities |
| INR | Indian Rupee |
| IPPB | India Post Payments Bank |
| IT | Information Technology |
| JDY | Pradhan Mantri Jan-Dhan Yojana |
| JFM | Joint Forest Management |
| JFMC | Joint Forest Management Committee |
| JICA | Japan International Cooperation Agency |
| JLG | Joint Liability Group |
| KCC | Kissan Credit Card |
| KYC | Know Your Customer |
| LAMPS | Large-sized Adivasi Multipurpose Cooperative Societies |
| LET | Livelihood Enhancement Team |
| LFA | Logical Framework Approach |
| LFS | Livelihood Financial Services |
| LH | Livelihood |
| MFI | Microfinance Institution |
| MFIN | Microfinance Institutions Network |
| MGNREGA | Mahatma Gandhi National Rural Employment Guarantee Act |
| MIS | Management Information System |
| MNRE | Ministry of New and Renewable Energy |
| MP | Madhya Pradesh |
| MSME | Micro, Small & Medium Enterprises |
| MUDRA | Micro Units Development and Refinance Agency |
| MYRADA | Mysore Resettlement and Development Agency |
| NA | Not Applicable |
| NABARD | National Bank of Agriculture and Rural Development |
| NEFT | National Electronic Funds Transfer |
| NGO | Non-Government Organization |
| NPA | Non-Performing Asset |
| NPCI | National Payments Corporation of India |
| NREGS | National Rural Employment Guarantee Scheme |
| NRLM | National Rural Livelihood Mission |
| NTFP | Non Timber Forest Product |
| OB | Operational Body |
| OBC | Other Backward Class |
| ODA | Japanese Official Development Assistance |
| OECD | Organisation for Economic Co-operation and Development |
| OR | Odisha |
| PACS | Primary Agriculture Cooperative Societies |

| | |
|---|---|
| PBL | Problem-based learning |
| PDS | Public Distribution System |
| PIN | Personal identification Number |
| PIP | Participatory Identification of Poor |
| PL | Poverty Line |
| PMC | Project Management Consultant |
| PMJDY | Pradhan Mantri Jan-Dhan Yojana |
| PMJJBY | Pradhan Mantri Jeevan Jyoti Bima Yojana |
| PMSBY | Pradhan Mantri Suraksha Bima Yojana |
| PMU | Project Management Unit |
| POS | Point of Sales |
| PPI | Pre-paid Payment System |
| PRA | Participatory Rural Appraisal |
| PRI | Panchayati Raj Institutions |
| PWR | Poverty Wealth Ranking |
| QCBS | Quality- and Cost-Based Selection |
| RBI | Reserve Bank Of India |
| RBL | Ratnakar Bank Ltd. |
| RF | Revolving Fund |
| RFBP | Rajasthan Forestry and Biodiversity Project |
| RFMC | Revolving Fund Management Committee |
| RJ | Rajasthan |
| RO | Resource Organisation |
| RP | Resource Person |
| SBI | State Bank Of India |
| SC | Schedule Caste |
| SEA | Sector Expert Agency |
| SFDC | Social Forestry Development Committee |
| SGSY | Swarnajayanti Gram Swarozgar Yojana |
| SHG | Self Help Group |
| SHPI | Self Help Promoting Institutes |
| SIDBI | Small Industries Development Bank of India |
| SLDG | Second Loss Default Guarantee |
| SRLM | State Rural Livelihood Mission |
| SSA | Sarva Shiksha Abhiyan |
| ST | Schedule Tribe |
| TAP | Tamil Nadu Afforestation Project |
| TN | Tamil Nadu |
| TSC | The Smart Campaign |
| TSGB | Telangana State Grameena Bank |
| TV | Television |
| UCO | United Commercial Bank |
| UNCDF | United Nations Capital Development Fund |
| UNDP | United Nations Development Programme |

| | |
|---|---|
| UP | Uttar Pradesh |
| UPPFMPAP | Uttar Pradesh Participatory Forest Management and Poverty Alleviation Project |
| VBK | Village Book Keeper |
| VFC | Village Forest Committee |
| VFMPC | Village Forest Management & Protection Committee |
| VFPMC | Village Forest Protection & Management Committee |
| VO | Village Organization |
| VRF | Vulnerability Reduction Fund |
| VSS | Vana Surakshya Samiti |
| WB | World Bank |
| WBR | Wealth Based Ranking |
| WEC | Women Empowerment Committee |

## Executive Summary

**Background:** The First and Second Generation of JICA Projects have largely been successful, in terms of timely and effective achievement of physical and financial targets. But there are still several challenges that need to be overcome. The biggest challenge is that of achieving project sustainability, including that of the community institutions (VFCs/SHGs) created under the programme. Therefore, it becomes JICA's highest priority to explore, identify, and put into effect appropriate mechanisms for achieving the sustainability of project impacts.
JICA's impact assessment study carried out during 2014-15 indicated that a good percentage of individuals (Tamil Nadu 98%; Karnataka 61% and Uttar Pradesh 77%) have been brought into the financial mainstream by opening their accounts with formal financial institutions (banks), and some of them are using the same for undertaking financial transactions. On the other hand, the study finds deteriorating situation of existing revolving funds due to poor repayment by Self Help Groups (SHGs) to Village Forest Committee (VFC). This provided the rationale for the current study.

**Rationale**: Given this background and rationale, JICA wanted to examine possibilities to transform the existing Revolving Fund (RF) mechanism into an alternate sustainable and market oriented financial inclusion through the participation of formal financial institutions.

**Source of Data**: This study is based on the secondary data as well as on the detailed literature review of the principles of sustainable financial inclusion, extant guidelines, research findings and policy papers, recommendations of committees in this regard, as well as findings of primary survey undertaken by the Study Team in the states of Odisha, Rajasthan and Gujarat. In addition the Study Team interacted with a range of stakeholders including officials of Forest Department, key institutions, banks, microfinance institutions (MFIs), NRLM, World Bank, MUDRA Bank, MFIN, NGOs, etc. to gain insight into the current financial inclusion scenario.

**Role of Revolving Fund**: For protection of forest and afforestation it is important to reduce dependency on forest of forest dependants living in fringe areas. Thus to reduce their dependency creating alternate source of income is important. Formation of SHGs and RF is important step in this direction. Entry Point Activities (EPA) and RF support are considered as activities to build bridge between forest department and community, to motivate them (community) for participation in forest management activities and ensure their support for forest rejuvenation. EPA has provided the base to build the institution (VFC) in the village. RF support is also a tool maintaining constant relationship among community, VFC and forest department to protect forest.

**Present Status on Revolving Fund**: Below is the snapshot of Revolving Fund (RF) and credit linkages of SHGs:

| RF for IGA | Odisha | Rajasthan | Gujarat |
|---|---|---|---|
| Avg. SHGs per VFC | 3.37 | 1.6 | 2 |
| Avg. age of SHG (years) | 7.62 | 1.61 | 4.18 |
| SHG grading (A, B, C) | 56%, 31%, 13% | 10%, 16%, 74% | 8%, 10%, 82% |
| RF available with VFC (INR) | 2,50,000 | 1,50,000 | 30,000 |
| RF Loan per SHG by VFC (INR) | 20,000-30,000 | 50,000 | 15,000 |
| Grant per SHG by VFC (INR) | NA | NA | 15,000 |
| % SHGs received loan from VFC RF | 90% | 30% | 87% |
| Average Loan period of (VFCs to SHG) in Months | 6-12 | 12 | 12 |
| Rate of Interest p.a. (VFCs to SHG) | 6.85% | Up to 12% | Up to 12% |
| Repayment Rate to VFC by SHG | 38% | 15% | 34% |
| SHGs Credit Linkages with FSPs | 34% | 0% | 16% |

**Participation of Formal Financial Institutions has commenced**: The table shows that except to some extent in Odisha, the quality of SHGs is not good, this is also reflected by low repayment rate of RF Loan by SHGs to VFCs.In Rajasthan only 30% SHGs have received RF funds which is fair enough considering the average age of SHGs is only 1.61 years and only 10%/16% of SHGs are under category A/B respectively. This implies most SHGs have not yet matured and not ready to utilize the present RF since it is only meant to be used for IGA loan. Thus they are requiring more capacity building and handholding support. Some SHGs have availed loans through Bank linkages, MFIs, etc. but not in large numbers. Only good SHGs (i.e. 'A' graded) are getting support of market players like Banks and this process has been successfully facilitated by FD or NGOs or by banks themselves. What FD/ VFC has to do now is to get their remaining SHGs ('B' and 'C' graded) market- ready so that they also qualify for bank or MFI finance and the financial ecosystem is supporting good SHGs.

**Major Weaknesses and Improvement Areas of the Present Revolving Fund Mechanism:** Under the current projects, VFC/ EDC have a role to provide Revolving Fund support for Income Generating Activities to SHGs (mainly credit) and SHGs in turn finance their members. The study indicates that the present RF mechanism has following major weaknesses:

1. Process and clear guidelines for identification of SHG members from marginalised families dependent on forest for livelihood.
2. Identification of potential sustainable IGAs with adequate market as per available skills and resources of the community. Inadequate support to ensure technical feasibility, product marketing, technical assistance and handholding.
3. Revolving fund is treated as IGA loan rather than seed finance to help the SHG members to seek loans from formal financial institutions. In some projects revolving fund size is not adequate; the fund allocation varies from state to state.
4. Terms of loan, interest and repayment are not clear, understood and communicated to SHGs. Thereby effecting the repayment of loans. RF loan is also being used for consumption purpose.
5. Lack of monitoring and regular grading of SHGs on a standardised grading tool delays identification of defaulting/weak SHGs in time to provide requisite support.
6. SHGs formed under the project lack entrepreneurial training and institutional development support as there is a target-oriented approach on creating number of SHGs instead of focus on outcomes i.e. performance of SHGs.
7. There is no scope at present to provide additional funds to those IGAs which have achieved some success and require stepped up funding.
8. There is a lack of professional approach for promoting livelihoods due limited involvement of expert livelihood agencies.
9. There is no long term sustainability evaluation process in place for livelihood activities being undertaken by SHGs.

*[please refer sub-chapters 3.2. and 3.3.]*

**Financial Inclusion is slow**: Financial Inclusion (FI) is a protracted process, especially in remote rural and forest fringe areas where access to financial products and services are constrained by demand and supply side bottlenecks. These bottlenecks have been identified by the study team during the course of not only the present study/discussions in Odisha, Rajasthan & Gujarat but also by drawing from the learnings of earlier studies undertaken in the states of Tamil Nadu, Karnataka, Uttar Pradesh and Haryana and they are as under:

**Demand Side Bottlenecks**

1. Low disposable income of community
2. Locational aspects like lack of permanent address, migration etc.
3. Lack of awareness of financial services available in the market
4. Wrong perception of financial products
5. Lack of social capital in terms of approaching formal financial institution by SC/ST
6. Micro/small transactions or/and lack of timely assistance
7. High levels of informality throughout economy
8. Fear of losing relationship with traditional village money lenders
9. Complicated procedure and formalities
10. Lack of financial literacy
11. High transaction cost
12. Lack of collateral security

**Supply Side Bottlenecks**

1. Digital connectivity issues which prevent mobile banking in fringe areas surrounding forests.
2. Unawareness about Joint Forest Management (JFM) Projects and about the livelihood component therein.
3. Standardised financial products which are beyond the comprehension of the poor and the downtrodden.
4. Unfriendly/indifferent attitude of the service providers.
5. Lack of use of vernacular languages.
6. Highly priced financial products.
7. Stringent rules which act as a barrier.
8. Lack of connectivity with the community.
9. Absence of awareness programme and proper advertisements.
10. Lack of staff in branches and many un-productive / zero balance accounts.
11. Prior experience of Banks – Poor repayment of SGSY / other Govt Project SHGs.
12. Bankers are interested in high value secured credit and more focused on branch profitability (current).
13. High transaction costs in relation to size of deposits and loans - large number of small accounts.
14. Inability to evaluate and monitor cash flow cycles of various rural IGAs and repayment capacities of poor.
15. Lack of banking habit and credit culture in certain villages.
16. High cost of recoveries in case of over dues.

**The Study Team observed the following gaps which need to be filled up as projects go forward:**

1. The gap between SHGs/ individuals and the financial institutions like banks/ MFIs/ PACs/ RRBs is still huge notwithstanding the serious efforts made by the government and banks to bridge this gap.
2. The gap is not only on account of distance that is supply side issues but also because the banks/ MFIs are not very keen to finance SHGs or their members.
3. The gap also exists as the demand side has not yet evolved; for instance livelihood potential has not been mapped, IGAs which would succeed in the project areas have not been identified, SHGs/ members have not been trained to become entrepreneurs, etc.

4. However, efforts are on to bridge this gap by NRLM/ SRLM/ BCs/ Banks/ MFIs/ Skill Ministry/ Child and Women Welfare departments, Tribal Development departments, etc. and hopefully this will lead one day to include all the SHGs/ their members.
5. Till then Forest Department (FD) will have to continue handholding and mentoring their SHGs/ members directly or with the help of the NGOs/experts.

Recommendations -The study team has examined possibilities to transform the existing revolving fund mechanism into a sustainable and market oriented financial inclusion through the participation of formal financial institutions. Thus, the study team has recommended to transform /diversifying RF and its loan product's features as per the need of SHGs/target community with Vulnerability Reduction Finance, Livelihood Finance and General Purpose Finance. Also it is suggested that JICA/FD should adopt a holistic approach to address the above gaps by leveraging benefits of the financial inclusion programmes/schemes being implemented by Central and State governments.

### 1. Recommendations for good-performing SHGs and VFCs

The study team, to begin with, recommends adopting standard criteria and performance indicators for SHGs and VFCs separately, so as to know which SHGs/ VFCs are suitable for financial sector linkages.

There is a need to bifurcate the entire SHG promotion and linkage efforts into two stages.

- The first stage may be limited to promotion, nurturing and inculcating habit of financial management through savings and internal lending ,
- The second stage should be specifically designed to develop the entrepreneurial skills of the SHG members so that the majority of them become independent entrepreneurs/ self-employed. The remaining are given some skill training so that they able to get a secure job.

Criteria and indicators for assessment

- SHG Assessment - NABARD has developed a scorecard which holistically assesses the institutional, financial and social aspects of SHGs. The study team has used this scorecard to assess SHGs in all the three states. NABARD SHG rating tool is also being used by all banks in India for SHG bank linkage program for last two decades. It is recommended that this scorecard should be used by all the current as well as future projects for SHG assessment.
- VFC Assessment – The study team has recommended various criteria for performance assessment of VFCs in managing a Revolving Fund (RF), based on which VFCs should also be categorised.

### 1.1. Savings Mobilisation with Formal Service Providers

After the good SHGs have been identified, PMU should encourage the members to move savings from SHG in cash to formal accounts of financial service providers (FSPs) for regular savings, remittances and other facilities like credit, insurance, pension, etc. The NGOs and FD need to facilitate the following interventions for saving mobilisation at formal financial institution to build saving history of SHGs and thereby making them eligible for higher loan for IGA and other household requirement:

a) Financial literacy and awareness building
b) Leveraging services of BCs
c) Leveraging Unified Payments Interface
d) From saving and credit to broader financial Inclusion

e) Higher banking practices and services
f) SHGs' savings accumulation

### 1.2. Measures, actions and steps to be taken to have access to and use formal financial products and services

Some of the JICA assisted SHGs have been graded 'A' and these have succeeded in obtaining finance from market led institutions. Good SHGs are getting support of market players like Banks and this process has been successfully facilitated by FD or NGOs or by banks themselves. All that FD/ VFC have to do now is to get their remaining SHGs market-ready so that they also qualify for bank or MFI finance. The process of promoting good SHGs by FSPs is already on and it has now to be continued with greater vigour and zeal.

Further following measures, actions and steps are recommended to have better and continuous access to formal financial products and services:

a. Introduce a self-rating mechanism for SHGs based on NABARD guidelines as it is necessary that 'A' Grade SHGs maintain their grade 'A' category.
b. PMU should source SHG-level Business Facilitators (Auditors) from amongst 'A' category SHG members or NGOs or other agencies, which promote SHGs, or existing BCs of the bank to enable the audit process in SHGs.
c. All SHGs should be evaluated by PMU on periodical basis atleast once in a year to identify any weakness, shortcoming or handholding support required for corrective actions.
d. User friendly mobile application for SHG MIS should be developed and piloted for the maintenance and collection of SHG records (meetings, savings, internal lending, IGA, bank linkages, etc).
e. Introduce Joint Liability Groups (JLGs) within SHGs.
f. VFCs should encourage good SHGs/ JLGs/ individuals to take credit facilities from formal financial institutions.
g. VFCs with the help of NGOs should identify/ select good Income Generating Activities in their project areas and then help their SHG members to select their IGA from amongst these potentially good IGA options. Thereafter, VFCs/ NGOs should try to prepare business plan for their members and on the basis of these plans secure for them bank finance.
h. Loans by VFCs should have clearly defined interest rate and repayment terms with predefined short instalments collection period (weekly/fortnightly/monthly) to reduce defaults and maintain continuous contact with SHGs.
i. Good VFCs should be provided with additional financial assistance to meet their operating expenditures and for capacity building of such 'A' category SHGs/ members.
j. Such 'A' Grade SHGs/ members should be helped by Convergence Cell of PMU for availing benefits of various government schemes.
k. They could also be trained as micro insurance agents by going for a tie up with insurance companies.

### 1.3. Improving the Financial Capability

Successful financial inclusion requires improvement in financial capability of the SHGs, VFCs and their members. This shift requires more inputs than just financial literacy and bank loans and thus the recommendations are as under:

a. Behavioural Change – to bring about financial behavioural change, the study team advises equipping the SHG members through practical interventions so that they build up confidence and improve their financial capability like financial planning, budgeting, cash management principles, book keeping and accounting, entrepreneurial skills enhancement, financial education, motivation, etc. They could be taken on exposure visits for seeing best practices in the same space they operate/ work.
b. Leveraging Business Correspondents and Micro-insurance Agents to build financial capabilities. BCs and micro-insurance agents should create awareness and knowledge among the SHGs, VFCs and community about various financial practices and banking rules, regulations and code of conduct.
c. Financial Education and Product Knowledge– At the inception of the project tie-up with NABARD /Banks /SRLM for intensive financial literacy and deepening financial inclusion should be ensured by PMU and State Government. Convergence Cell of PMU should facilitate in imparting financial product/ services knowledge.
d. Motivation– Category 'A' SHGs as well as good VFCs should be motivated to maintain financial discipline and financial soundness so that they do not default in repayments of loans, continue generating profits and maintaining healthy cash balances; also they adhere to good governance standards and be tax compliant.
e. Ability to Understand and Mitigate Risk – Micro-insurance agents should introduce products relevant to local community to mitigate risks, be it insurance for covering health, life, livestock, enterprise, crop, etc. They should conduct programs to create the ability to understand and increase awareness with the help of their VFC for SHG members and other community members. FSPs can provide suitable support and literature in vernacular language for such activities.
f. Use of Technology for better reach and lower product delivery cost like mobile banking, BCs, UPI, etc.
g. Peer counselling techniques should be used through SHGs and VFCs for regular review, updating knowledge and for helping them to leverage the benefits of various FSPs' products and Government schemes.

**2. Recommendations for other VFCs and SHGs**

For other SHGs, PMU should consider upgrading them to 'A' category by analysing their performance, finding the weak spots and taking remedial measures to make SHGs and their members market ready. An honest categorisation will identify weak SHGs at right time for suitable intervention and capacity building which would bring overall good results in long term for sustainability and project.

SHGs should use e-learning modules to learn about best practices and build their capacities to improve their SHGs' attendance/ meeting deliberations and minutes/ savings record/ loan repayment record/ etc.PMU/ VFCs could also introduce suitable the mobile applications specifically developed for easy and transparent record keeping practice which would also help them for self-rating.

Awareness should be created for various schemes available relating to savings/deposits, loans, insurance etc. DMU/FMUs should ensure localized financial literacy programmes in collaboration with local service area bank branches.

The VFCs should be incentivized with extra revolving funds if their SHGs achieve high ratings, establish linkage with mainstream financial services, Government schemes, etc.

### 2.1. Improving Financial Literacy

At the inception of the Project, PMU should tie-up with NABARD/Banks /SRLM for intensive financial literacy, skill enhancement and financial inclusion.

Financial literacy needs customization, based on the stages of the life cycle of an individual/household. This requires high expertise to provide suitable and intensive trainings. Such tie-ups should also aim to leverage the benefits of various financial inclusion schemes available.

The project should also ensure convergence at PMU as well as at VFC level with the National Digital Literacy Mission that is tasked with IT training. IT network and digital literacy will enable opportunities for community to help understand financial products and services available in the market.

### 2.2. Promotion of Savings Mobilisation

The FD/ NGO team of project should facilitate for savings mobilization in formal accounts at financial service providers (FSPs) by following methods:

- Leveraging services of BCs to facilitate and enhance the financial inclusion in project areas.
- Leveraging Unified Payments Interface for collection of savings, instalments, remittances and internal lending.
- Enhancing members' confidence in their SHGs.
- The SHG members should be provided text 'reinforcement' messages offering reminders.

## 3. Measures, actions and steps to be taken to have access to and use formal financial products and services

### 3.1. Capacity Building

It is not a onetime event rather a continuous process. NGOs/Expert organisations should be selected more carefully based on their team quality and experience. For continuous capacity building and training, tie ups should be done with institutions, who can help SHGs/ members to build their capacities and also in linking them to market players.

### 3.2. Supporting Access to Government Schemes

Holistic planning should be done for identifying various Financial Inclusion schemes available and convergence with them for the benefit of community in general as well as achieving the objectives of the project. Convergence Cell of PMU should clearly list State and Central Government schemes at their website. Also educate SHGs and VFCs through resource persons/NGOs about the benefits, cost, premium and process of such schemes to avail coverage.

### 3.3. Strengthening the existing RF mechanism

While the Revolving Fund (RF) component of JICA's project is a positive intervention in terms of people's participation in JFM programme, women empowerment and financial inclusion. There is a need for facilitating community towards sustainable livelihoods and accessing the mainstream financial markets. The project therefore needs to have strong monitoring systems in place so that the RF mechanism correctly targets the identified vulnerable sections of the community and there should be effective monitoring system for loan applications, disbursement process, funds utilization and recovery.

### 3.4. Diversifying the use of Revolving Fund

Apart from strengthening the present RF mechanism, it is recommended instead of using the funds to promote income generating activities [IGAs] only, it should be diversified to suit the needs of remaining SHG members who cannot undertake IGA since only a few are capable of undertaking IGA because of the inherent skill or cultural profile. The VFCs may provide loans to them,out of their revolving fund for vulnerability reduction, livelihood and general purpose.

### 3.5. Joint Liability Groups (JLG) for credit Linkage

The discussion with banks, NABARD and review of the secondary literature reflects that JLG is another institutional alternate channel for credit linkage in remote villages where the possibility of forming SHGs is difficult due to scattered population like in some remote areas of Rajasthan. Also where the SHGs are not doing enough or are not strong, a subgroup of such SHGs could be persuaded to form JLGs. In such cases also the project can facilitate the formation of JLGs and then arrange credit linkage for them by taking the following steps:

- Identifying the economically active poor, household with common interest/ activity i.e. those who are engaged in small level of livelihood activity.
- Forming a JLG of members who have common interest and are willing to provide social collateral support to the other members of JLG.
- The RF support can be provided to these households by initiating these JLGs into IGA and
- Later they can be linked with a bank for further funding.

### 3.6. Supporting replication of BC in project area

The Business Correspondent (BC) model has shown a lot of promise so far and it should be incorporated in the future projects to bridge the gap between Bank branches and the forest dependent community. NGO/FD should identify young rural entrepreneur and support them under RF for establishing BC and also train members from 'A' grade SHGs for acting as BC. BC training should be provided through online training material backed by iterative testing and certification.

### 3.7. Supporting the Extension of Micro-insurance Agent Network

The insurance outreach and awareness in operational village is very weak due to poor insurance agent network mainly for micro-insurance products. However, many poor households are involved in activities of small or micro scale but are facing higher degree of risk and uncertainty;hence prone to financial and income risks. The project should adopt micro insurance as one of the essential financial inclusion products to be pushed and facilitate establishing insurance network agents to enhance access of market led insurance products.

### 3.8. Intensive financial and digital literacy classes

Both the digital literacy and financial literacy are required and need special attention/focus in the project for better outcomes. NABARD, Banks and a few others, are pursuing this with great enthusiasm and energy and PMU need to invite them to cover their SHGs.

### 3.9. Supporting Mobile based financial inclusion

For banking the unbanked, mobile shall be a tool/channel for financial inclusion. Smart phones and virtual wallets are already in use. Unified Payments Interface UPI, launched by the National Payments Corporation of India with the Reserve Bank of India (RBI), is set to revolutionize digital banking, which enables hassle-free online instant payments. Small amounts would also be now very easy to transfer as UPI's instant transfer mechanism will seamlessly enable that. This would encourage easy and hassle free instant remittances, payments and deposits bringing many to mainstream formal FSPs.

## 4. Recommendations to PMU and FSPs

### 4.1. Supporting replication of BC model in project area by PMU and FSPs

The Business Correspondent (BC) model is a part of India's financial inclusion strategy to ensure delivery of banking services across the length and breadth of the country. The BC Model is considered as a major flag bearer for achieving financial inclusion of the un-banked populace in India. This surely should be facilitated by the Project Team.

### 4.2. Collaboration with New Payment Banks and Small Finance Banks

Formal arrangements shall be required to collaborate with new payment banks and small finance banks for better serving the social objectives of the projects. They will endeavour to provide micro credit support to particularly micro, small and medium enterprises, largely in rural areas, and thereby usher in more livelihood opportunities for those living in remote and far flung areas.

### 4.3. Supporting the Extension of Insurance Agent Network (IAN) *(already discussed under point 2.3.7)*

### 4.4. Recommendations on FSPs including Policy Matters

The financial landscape of the country today is evolving. The Government of India, the central bank and the banking as well as the microfinance sectors are very proactive in the financial sector and livelihoods promotion space and suitable policies have been introduced by the governments for developing the financial inclusion eco-system. In fact the Study Team submits that the extant policy and the emerging rural eco-system are very conducive in supporting the SHGs as well as enabling them to become sustainable; so JICA India along with the FD of all concerned states are requested to start conversations with NRLM/ SRLM/ World Bank/ Mudra Bank/ Credible NGOs/ etc. and take their support to strengthen/ activate their SHGs in achieving social outcomes that the forestry projects have set out to achieve. This is the right time for them to grab this opportunity that the Policy Makers and Financial Market Players have created. To conclude, since so much is happening in the financial sector space the study team is of the considered view that right kind of policies are already in place. It's just a matter of time before the outcomes become visible.

## 5. Other Recommendations to Support Interventions

In order to support interventions as aforementioned the project should have the following:

### 5.1. Efficient Planning, Monitoring and Evaluation System

The study team strongly recommends that each project component should have efficient planning, monitoring and evaluation mechanism. The study emphasised that MIS should be developed and made operational as a starting point for a project for enabling better and effective monitoring. Also the monitoring should be more focused on outcomes rather than output. The outputs as well as outcomes (village wise) should be measured. Simple monitoring tools should be developed and upgraded on continuous basis using mobile applications (Mobile Apps). There should be a three tier focused monitoring (baseline, midterm and end-term) for the financial inclusion and livelihood component of the project.

### 5.2. Training and capacity buildings across levels

Focused trainings and capacity building program are required regularly at village level. As expert trainers cannot be physically present at all the villages multiple times, it is recommended that trainings should be provided through smart classes. These classes can be broadcasted on LED TV through internet. Recorded sessions can be replayed and provided to VFCs/SHGs for viewing at convenient hours. Further such classes can also be broadcasted through National or regional TV channels. This would revolutionise the delivery of trainings, knowledge enhancement and learning opportunities for the villagers and that too at low cost. A pilot action research project can be initiated for modelling and testing the efficacy.

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# 1. Introduction

## 1.1. Background

In 1991, assistance to the forestry sector through Japanese Official Development Assistance (ODA) Loans started in Rajasthan. These Japan International Cooperation Agency (JICA) assisted forestry projects, in the 1990s, primarily focused on afforestation and included components such as soil and water conservation, training, extension, and procurement of equipment. That time the Joint Forest Management (JFM) initiative was in the stage of evolution.

In 2000, a study was instituted by JICA to review the 'Forestry Sector Policy Issues' wherein all the ongoing projects at that time were examined in terms of design, implementation, effectiveness and sustainability. The findings and recommendations were first discussed with each Executing Agency and the Ministry of Environment and Forests, Government of India and were later incorporated in future projects.

During the period 1998-2002, JICA introspected on the forestry policy that was being pursued; a third party assessment was taken up, which covered all the ongoing projects (as none of the projects had been completed till that time). The broad outcome indicated the following:

- Projects need to be comprehensive and holistic in content
- Ecological restoration combined with livelihood improvement measures make projects more transparent, effective, socio-economically productive and sustainable
- Poverty Alleviation, one of the focal areas for JICA's ODA strategy, needs greater emphasis
- Forestry projects are good means for initiating poverty alleviation measures to trigger the process of overall development in project villages

The Second Generation projects, which commenced from 2002 onwards, were formulated based on JICA's experience of completed and ongoing projects and also by taking into consideration the findings of the third party assessment. Thus the second generation projects were more focused on participatory management and had larger allocation of funds for undertaking activities for poverty alleviation activities under the component of "JFM Consolidation Activities". Strong capacity building initiatives for all stakeholders were built into the project design and greater emphasis was put on inter-sectoral linkages for widening the ambit of socio-economic development of the project area. Empowerment of women through formation of Self Help Group (SHGs) Activities by meaningful and structured involvement of NGOs was focused upon.

With the 12$^{th}$ Five-Year Plan (2013 - 2018), being implemented now, several components received emphasis from the Government of India's side i.e. forest productivity and sustainable management of biodiversity, livelihood development, capacity building of VFCs, technology-based monitoring, eco-tourism development, pasture development, etc. The 12$^{th}$ Five-Year Plan also put an emphasis on the sustainability of SHGs by linking them to financial institutions. From JICA's perspective, almost all activities proposed under the 12$^{th}$Five-Year Plan were/are already a part of the past/ongoing JICA funded projects.

The First and Second Generations of JICA projects has been largely successful, in terms of timely and effective achievement of physical and financial targets, there are several challenges that still need to be overcome. The biggest challenge is that of achieving project sustainability, including that of the community institutions (VFCs/ SHGs) created under programme. Therefore, it becomes JICA's highest priority to explore, identify, and put into effect suitable mechanisms for achieving sustainability of project impacts.

### 1.2. Rationale for the Study

JICA's impact assessment study carried out during 2014-15 indicated that a good percentage of individuals (Tamil Nadu 98%; Karnataka 61% and Uttar Pradesh 77%) have been brought into the financial mainstream by opening of accounts with a formal financial institution (banks), some of them entirely using the same for financial transactions. On the other hand, the study finds deteriorating situation of existing revolving funds due to poor repayment from SHGs to VFC. This can be seen from the undernoted status report on revolving fund, loan size, and repayment rate.

**Table 1: Snapshot of Revolving Fund Loans**

| Indicator | Haryana[1] | Tamil Nadu[2] | Uttar Pradesh[3] | Karnataka[4] | Rajasthan | Gujarat | Odisha |
|---|---|---|---|---|---|---|---|
| RF allocation to VFC (in INR Lakh) | 2.00 | 4.00 to 7.50 | 3.00 | 1.00 to 2.00 | 1.50 | 0.60 | 2.50 |
| Loan allocated per SHG (in INR Lakh) | 1.00 | 2.00 | 1.00 | 0.5 | 0.50 | 0.30 | 0.50 - 1.00 |
| Repayment rate (in %) | 56% | 60% | 10% | 54% | 15% | 34% | 38% |

In the JICA Impact Assessment Study Report of Forestry Projects in the States of Uttar Pradesh, Tamil Nadu, and Karnataka the following suggestion was made:

"As the livelihood pressures of people living in the forest fringe villages is one of the main causes of degradation of forest, increased financial allocation for Entry Point Activity and Income Generation Activity similar to those in TAP II, should form integral part of future forestry projects to be funded by JICA. IGA need not be done through SHG alone. **In fact the delivery channel of IGA loans should not be a critical factor in disbursing loans. Be it the Individual mode, the SHG mode or the more recent Joint Liability Group (JLG) mode, appropriate appraisal systems and recovery mechanisms need to be in place for effective microfinance through IGA.**" (Emphasis added)

The above paragraph provides the rationale for this study. As the ToR indicates the Study is to be informed by the general principles of the Development Assistance Committee (DAC) of the OECD countries, which are: (i) relevance, (ii) efficiency, (iii) effectiveness, (iv) impact and (v) sustainability, for all components.

Thus the sustainability of the institution of "Village Forest Committees" (VFC) including their financial sustainability as an ongoing source of credit for individual households for income generating activities (IGA) is the key concern. As has been clearly stated below the SHG was just one mode of financing IGAs and other modalities like the joint liability group lending from MFIs or individual lending from Banks need to be explored.

[1]Evaluation on Functioning of VFCs and SHGs under Integrated Natural Resources Management and Poverty Reduction Project in Haryana, India - (ID-P158)
[2]Impact Assessment Study of JICA Assisted Forestry Projects in the States of Tamil Nadu, Karnataka and Uttar Pradesh.
[3] Ibid.
[4] Ibid.

Thus this study was asked to look at the demand for such credit for IGAs on one side and the supply for such credit on the other from Microfinance Institutions (MFI) and banks of all types including the commercial banks, regional rural banks, and the newly established small finance banks and the MUDRA Bank.

The institution of "Village Forest Committee" (VFC[5]) had been created as an instrument to implement Joint Forest Management (JFM). JFM has to build partnerships in forest management involving both the state forest departments and local communities. The VFC and the Forest Department enter into an agreement whereby villagers agree to assist in safeguarding the forest resources through protection from fire, grazing, and illegal harvesting in exchange for which they receive non-timber forest products (NTFP) and a share in the revenue from the sale of timber products.

Further these VFCs were tasked to form smaller homogeneous groups of the poorer and marginalised villagers usually with village women members, into Self Help Groups (SHGs). Forest department and resource NGOs are involved in supporting VFCs in SHG formation and strengthening. SHGs were proposed to aim at improving household economy of poor forest dependents, providing alternate sources of income by IGA and enhancing the participation of women and socially weaker groups into VFC's decision making activities and reducing dependency on forest.

The purpose of creating legal entities like VFCs and SHGs is to enable financial and bank transactions which are a key to JFM activities[6].VFC is the institution through which money is transferred to SHGs to engage in "Income Generation Activities" (IGA).The funds for IGA were proposed to be parked with VFC as a revolving fund and placed in the account of the VFCs. The Revolving Fund (RF) was introduced so that VFCs could give the same to SHGs to increase their corpus fund, so as to enable more number of SHG members to avail loans from their SHG. The Revolving Fund was also to impart credit discipline and financial management skills to the members so that they become credit worthy and can access loans from formal financial institutions.

### 1.3. Objective and Scope

Given the above background and rationale, JICA would like to examine possibilities to transform the existing Revolving Fund mechanism into an alternate sustainable and market oriented financial inclusion through the participation of formal financial institutions.

**Accordingly the scope of work for study, as given by JICA, is as following:**

- Review the following literature and conduct interviews with key informants:
    - Literature regarding the principles of sustainable financial inclusion
    - Guidelines/ policy papers on the website of the Consultative Group to Assist the Poor (CGAP) (e.g. Key Principle of Micro Finance 2004)
    - Other documents such as research papers on sustainable financial services provision
    - The progress of financial inclusion policies in India
    - Key informant interviews with (i) International Researchers, including CGAP Staff

[5]In this report we used VFC as a common terminology for all type of JFMCs irrespective of different name used in different state- Odisha- VSS and EDC, Gujarat-JFMCs, SFDCs and EDC and in Rajasthan-Village Forest Protection and Management Committee ("VFPMC") or Eco-Development Committee ("EDC").
[6]From Haryana Report " Findings – Village Forest Committee (VFC)

and (ii) policy makers in India

- Conduct a field level survey in the selected project villages to examine the accounts opened, savings made, loans given, repayment rate and status of income generation activities.
- Conduct a field level survey on capacity development activities for financial management in the selected project.
- Coordinate with Part A for clarity on roles and functions of Revolving Fund for SHG's original purpose, and analyse impact "the poor Revolving Fund" has on the IGAs of SHGs.
- Conduct field level demand side analysis for financial services (SHGs and members).
- Conduct field level supply side analysis (Rural Banks, commercial banks, Micro Finance Institutions including informal financial service providers etc.) including business enabling environment.
- Identify bottlenecks towards sustainable financial inclusion.
- Clarify the mechanisms to attain sustainable financial inclusion.
- Provide Recommendations on the following headings:
  - Recommendations for stakeholders of on-going or completed projects. This includes study finding and recommendations that fall in the area of policy issues and need to be addressed by policy makers.
  - Recommendations for future JICA assisted forestry and community based natural resource management projects.

### 1.4. Methodology for Study

The study team adopted following process to undertake the assignment:

i. **Detailed literature review was first undertaken on** the principles of sustainable financial inclusion, guidelines/ policy papers on the website of the Consultative Group to Assist the Poor (CGAP) (e.g. Key Principle of Micro Finance 2004), financial inclusion policies in India, recommendations of the C. Rangarajan Committee on Financial Inclusion, internal reports and studies done by BASIX for microfinance, micro-credit and micro-insurance for national and international organisations like UNDP, CARE, PLAN, Barclays Bank etc. and reports on financial inclusion by Sa-Dhan (The Association of Community Development Finance Institutions). Also other documents such as research papers on sustainable financial services provision have been reviewed.

ii. **Financial Institutions Mapping:** As part of the forestry project, community institutions (SHGs/ VFCs/EDCs) were formed. The various aspects of their formation, governance, operations, human resources, services, impact, growth, financial sustainability, MIS, transparency and accountability, risks, overall sustainability, capacity development, etc. have been studied at the institutional level for transforming or linking these institutions with formal financial institutions for facilitating their growth and sustainability.

iii. **Field Level Survey:** Study team under the guidance of Microfinance Expert collected data through verification of financial records and Focused Group Discussions(FGDs)[7] for understanding financial habits of SHGs and their members to examine various aspects of financial inclusion and status of IGAs. The team also captured the credit disbursement data as it is an important

[7]FGD –24 VFC/EDC in each of the 3 state (i.e. 24x3=72) along with on an average 2 SHGs in each sample village of 3 states covered i.e.(2x24x3=144) will be covered

indicator to assess the understanding of members about the essence and functioning of SHGs. The team also studied and discussed the project documents and policies adopted by PMU/FD for participatory financial management system. Study team evaluated the demand and credit availability system at village level for bringing the current seed/revolving money credit system to link with formal micro finance institutions to achieve long term sustainability of IGA activities for bringing economically viable livelihood to village communities. With the idea of formalization of the Revolving Fund, the study verified the following points:

- How to connect Revolving Funds assisted SHGs to Financial Service Providers (Commercial Banks, MFIs) and their services (savings, credit, etc.)
- If it's difficult, what are the bottlenecks?
- What kind of solutions are available/ are being suggested by stakeholders ( in government, as well as those from supply side and demand side)

iv. **Stakeholders Analysis:** The study team interviewed and interacted with various players in microfinance field. Interviews/ interactions were held with microfinance institutions, Rural Banks, even with some Commercial Banks which were now realising the potential of rural financing and thus want to explore ways and means to enter this segment of microfinance. The key institution covered as NRLM, GLPC, MFIN, Bandhan Bank, RBL Bank, SIDBI, Mudra Bank, SBI, and other field branches of banks. List of persons met is attached as annexure 1

v. **Possibilities of Convergence:** Study team explored schemes of Government of India initiated as various financial inclusion programmes such as Pradhan Mantri Jan Dhan Yojana (PMJDY), Pradhan Mantri Suraksha Bima Yojana (PMSBY), Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY), Mudra Bank Yojana, etc. The team discussed in detail the perspective and possibility of convergence and linkage of JICA project supported SHGs and VFCs for linkage with formal mainstream financial institutions for meeting various financial needs of rural households.

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## 2. Literature Review

This chapter of the report presents the findings, learning and take ways based on literature review. This review has been covered under the following heads:

- Principles of Sustainable Financial Inclusion
- International Best practices on Financial Inclusion
- Financial Inclusion Policies and initiatives in India
- Financial Exclusion: Factors

### 2.1. Principles of Sustainable Financial Inclusion


**Figure 1: Essential Content of Financial Inclusion**
Source: Rangarajan Committee Report

Financial inclusion has been defined by several authors and institutions as follows:

"Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost" (The Committee on Financial Inclusion, Chairman: Dr. C. Rangarajan).

"Full financial inclusion is a state in which all people who can use them have access to a suite of quality financial services, provided at affordable prices, in a convenient manner, and with dignity for the clients. Financial services are delivered by a range of providers, most of them private, and reach every one who can use them, including disabled, poor and rural populations". (By Anita Gardeva and Elisabeth Rhyne @Centre for Financial Inclusion [CFI] @ACCION International. July, 2011)

Financial Inclusion is "a combination of financial awareness, knowledge, skills, attitude and behaviours necessary to make sound financial decisions and ultimately achieve individual financial wellbeing." - OECD.

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 (report on the Committee on Financial Sector Reforms, Chairman: Dr. Raghuram G. Rajan).

Household access to financial services is depicted in figure below.

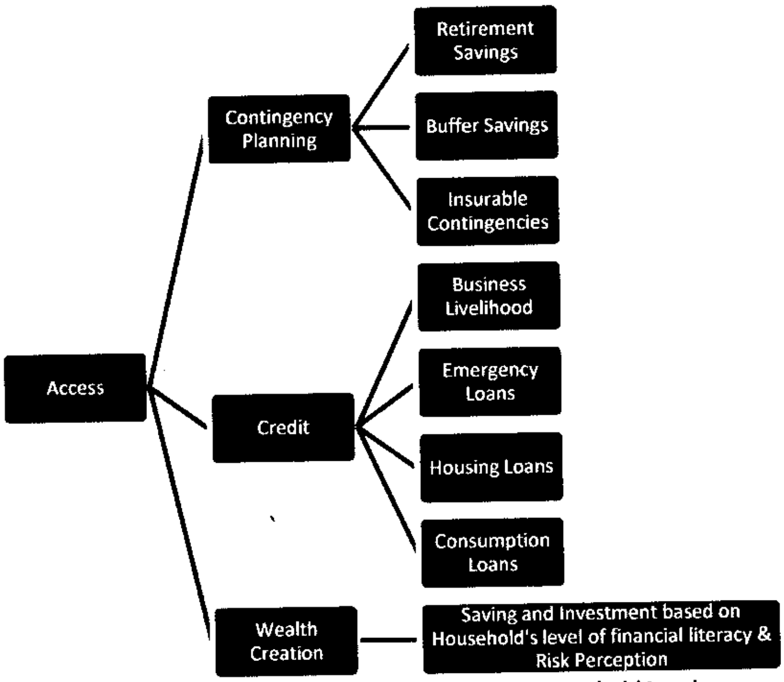


**Figure 2: Financial Products required at Household Level**

## 2.2. International Best Practices on Financial Inclusion

### 2.2.1. World Bank approach to Financial Inclusion

As a catalyst for poverty reduction and for shared prosperity, financial inclusion is a key to achieving the World Bank Group's goals of eliminating extreme poverty by 2030 and boosting shared prosperity. As per World Bank, financial inclusion is a basic right to use the formal financial system – for example, through debit cards or mobile money – which should be accessible to everyone and this can be achieved through determined country-led targets and reforms; through the use of technology, innovation and data to transform business models; and through public and private-sector initiatives to swiftly expand access to financial services.

The World Bank has a well-integrated and unified approach to achieving financial access and responsible financial inclusion. The World Bank has suggested the following steps for reforms in financial inclusion:

- Requiring the provision of basic accounts that are open to low-income and financially excluded people, and ensuring that the costs and identity requirements for opening such accounts are accessible,
- Allowing electronic-money and mobile-money products to be offered,

- Allowing entry of non-bank players, in order to introduce dynamism, innovation and lower-cost delivery mechanisms,
- Clarifying that agent networks can be used to extend the outreach of financial-services providers, helping them deliver products and services at lower costs,
- Shifting large payment flows – such as social benefits and wages – into accounts, instead of being paid in cash, and
- Ensuring that newly served consumers are well informed about the financial services now available to them, and that they are protected from market abuses.

### 2.2.2. CGAP approach to Financial Inclusion

The CGAP approach suggests the shift from provision of financial services to the poor by specialized service providers, to financial inclusion, a state where both individuals and businesses have opportunities to access, and the ability to use a diverse range of appropriate financial services that are responsibly and sustainably provided by formal financial institutions.

According to CGAP report[8], the poor and low-income people—particularly women, youth, and those living in rural areas—are the most excluded and must depend on less reliable and often more costly informal mechanisms to manage their financial needs. At the same time micro, small, and medium enterprises (MSMEs), many of which are part of the informal economy, are limited in their ability to sustain and grow their businesses due to a lack of working capital. Seventy percent of MSMEs in developing countries lack access to formal financial services. This leaves much work to be done toward achieving the vision for universal financial inclusion.

With recommendation of CGAP, most of the countries are implementing systematic change to enhance financial inclusion as:

- Funders should see their interventions as time-bound and facilitative, while understanding that market system change requires a longer timeframe to achieve.
- A facilitative approach involves finding solutions that change the way market actors behave so that they provide the missing or underperforming function(s) beyond the funder's support.
- Facilitation can be done by different types of organizations, as long as they have an in-depth understanding of the market system, possess the range of skills necessary to ensure dynamism, and are seen as trustworthy and independent partners.
- Program design and management arrangements should be sufficiently flexible to allow for adaptation to changes and opportunities that inevitably arise in a dynamic market context.
- One of the keys to successful market facilitation lies in the way that interventions engage, partner with, and support market actors to help them innovate and adapt new functions.
- Funders should plan to crowd-in other market actors beyond their initial partners from the design stage, even if they do not know in advance exactly how this will happen.

[8] https://www.cgap.org/sites/default/files/Consensus-Guidelines-A-Market-Systems-Approach-to%20Financial-Inclusion-Sept-2015_0.pdf

### 2.2.3. CGAP Approach of Inclusive Growth

CGAP and the Ford Foundation launched the CGAP–Ford Foundation Graduation Program in 2006 to pilot test whether BRAC's model could be successfully adapted outside Bangladesh. The objective of the program is to understand how safety nets, livelihoods support, and microfinance can be sequenced to create pathways for the poorest out of extreme poverty.

Five building blocks - The graduation model is built on five core elements: targeting, consumption support, savings, skills training and regular coaching and an asset transfer (refer figure 3).

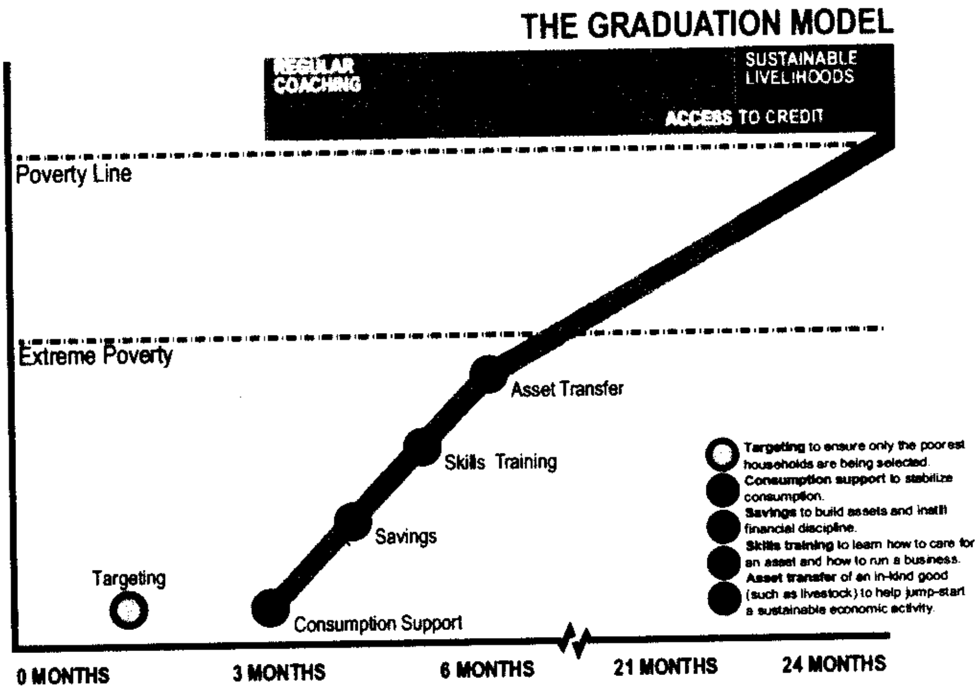


**Figure 3: CGAP – The Graduation Model**

1. ***Targeting*** - Deliberately targeting the poorest and excluding better off households is the first step to ensure the pilots truly reach the extreme poor.
   a. *Community input.* Communities are directly engaged in determining the criteria for extreme poverty. They first create a local map identifying each household. They then conduct a Poverty Wealth Ranking (PWR) to discuss household characteristics and reach consensus on who the poorest are and who should be included in the program.
   b. *Surveys.* The results of the PWRs are then typically verified through more traditional household means-tests conducted by program staff using a few easily verifiable indicators, such as family size, number of children attending school, and type of housing. Some pilots use poverty scorecards, such as the Progress out of Poverty Index.
   c. *Cross-verification.* In a final step to minimize selection errors, senior program staff visit all selected households to triangulate information from the community and the surveys.
2. ***Consumption support*** - A major premise of the graduation model is that food insecurity causes significant stress that reduces poor people's ability to take advantage of opportunities and plan for the future. The design of consumption support requires decisions on a range of issues—the form of support (cash or in-kind), the amount, frequency, and duration. Beyond improving food security, consumption support also has less tangible but important benefits.

3. ***Savings*** - Savings are at the core of the graduation model. Savings help poor people manage risks, build resilience, and reduce the likelihood of having to sell assets when faced with a shock. Although many poor people save informally, saving regularly in a formal way helps program participants build financial discipline and become familiar with financial service providers. Establish financial literacy programs.
4. ***Asset transfer*** - Transferring an asset to help participants jump-start a sustainable economic activity is a critical element of the graduation model. Options for viable livelihoods are developed through market studies that analyse demand constraints, infrastructure availability, value chains, and upstream and downstream linkages[9]. The goal is to match the right activity to the interest and skills sets of participants. A range of considerations must be factored in selecting the appropriate asset. The time, effort, and skills required for assets vary. Encourage households to engage in multiple livelihoods using a diversity of assets. Protecting assets and dealing with uncertainty around different livelihood options should be a priority.
5. ***Skills training and regular coaching*** – Regular monitoring and coaching provided by program staff are equally important. Skills training centred on managing assets and running a business is a must. Trainers should develop strong bonds with participants and become their mentors and provide informal coaching over the 18 to 24 months of the program. Monitor if the participants are on track to reach their goals by the end of the program and offer guidance on how to do so. Also include some social messaging on personal hygiene, safe drinking water, immunizations, contraception, and the importance of schooling for children.

The graduation model is structured around the careful sequencing of five core building blocks, with "graduation" out of extreme poverty and into sustainable livelihoods as the end goal. Achieving this goal typically takes between 18 and 36 months. The Graduation Program recognizes that not all participants want to take on credit. However, financial services do have a role in participants' trajectories beyond graduation.

[**Study Team Note**: This multi-actor driven multiple and simultaneous interventions are manifest in the 'Pathway out of Poverty' slide below which is based on inputs of CGAP and BRAC but which has been adapted to include interventions being pursued in India.]

[9] See, for example, the market analysis done for the pilot in Ethiopia at http://graduation.cgap.org/pilots/ethiopia-graduation-pilot/

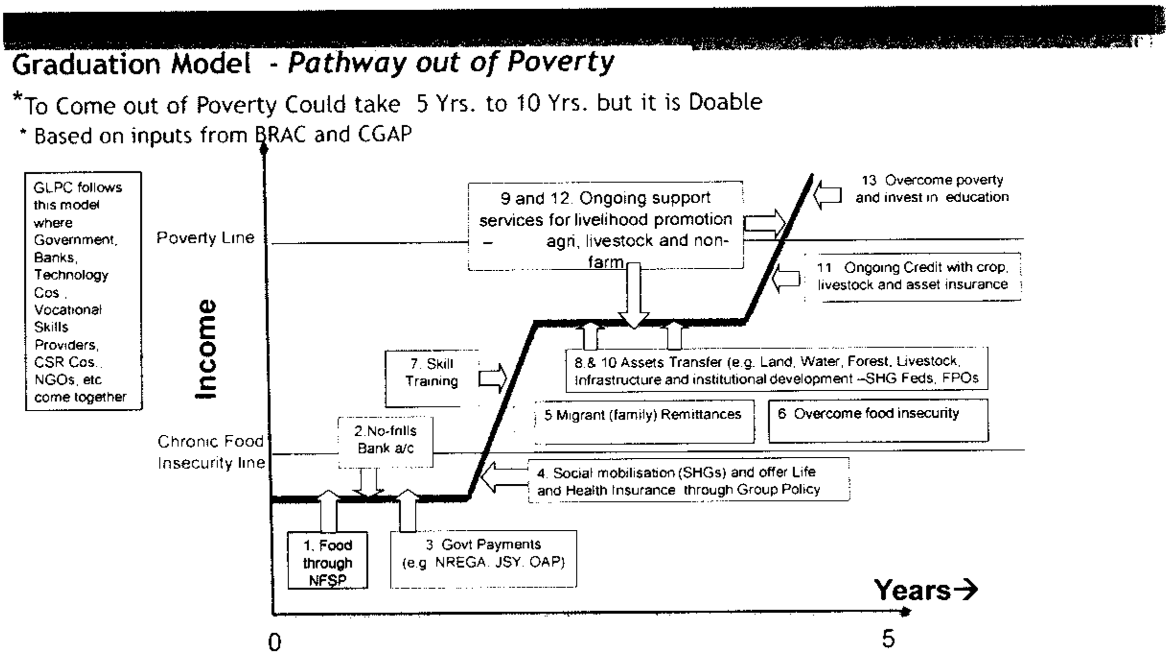


**Figure 4: Graduation Model - adapted in Indian context**

### 2.2.4. Graduation Model - India context

The CGAP graduation model based on the experience of BRAC, has been piloted in India by some of the NGOs as can be seen below (Box-1); the model has been tweaked to align with localized conditions and schemes; modified version for India is given in figure 4. The pilots have had positive results, however it needed an intensive support system and long term funding support to reach sustainability.

**Box 1: Some agencies who have implemented Graduation Model in India**

| |
|---|
| Project Name: Targeting the Hardcore Poor Program (India) |
| - Project implementer - Bandhan; Project partners - None; Location - West Bengal; Pilot Start date - 2007; Pilot end date -2009; Participants - 300 women |
| Project Name: Trickle Up Ultra Poor Program (India) |
| - Project implementer - Trickle Up Project; Partner - Human Development Centre; Location - West Bengal; Pilot start date - 2007; Pilot end date - 2010; Participants - 300 women |
| Project Name: Ultra Poor Program (India) |
| - Project implementer - SKS NGO; Project partners - Swiss Development Cooperation, NM Budharani Trust, and others; Location - Andhra Pradesh; Pilot start date - 2007; Pilot end date - 2010; Participants - 426 women |

### 2.2.5. A Market Systems Approach to Financial Inclusion[10]

A market systems approach seeks to develop and expand financial market systems that are inclusive, resilient and not reliant on external aid. This approach acknowledges that building strong financial service providers is an important element for expanding financial access, but insufficient for developing inclusive financial market systems that are self-sustaining and do not rely on external aid. Developing these systems will not be easy, as it requires addressing the fundamental causes that exclude poor people from benefiting from financial services. Rather than continuing to focus on building financial service providers – which is an important element for expanding financial access –

[10]Guidelines for Funders by Deena M. Burjorjee and Barbara Scolla @ CGAP. September, 2015 (some excerpts).

funders of financial inclusion need to take into account the broader market and address systemic limitations that obstruct poor community from accessing and using financial services.

1) Digital financial services have revolutionised how we think about financial access and product diversification, and early graduation programs have proven that even the poorest can be empowered to become active managers of their financial lives.
2) In other areas there is still much to be done: smallholder families around the world continue to search for financial services that meet their needs, new technology innovations challenge regulators and service providers who must adapt to the quickly changing landscape, and there is still a need to more consistently translate knowledge about poor clients into client-centric financial services that are resilient in times of crisis and meet the needs of particularly excluded groups, such as women and youth.
3) There is a global shift towards responsible financial inclusion where microfinance is one entry point among many [e.g. government-to-people payment schemes, small and medium enterprise finance, digital financial services (DFS), no-frills bank accounts, etc.] for achieving universal financial inclusion and its associated social and economic development goals.
4) There is still a substantial variation in the diversity, quality, and use of financial services available in the market, with two billion remaining without access.... this leaves much work to be done toward achieving the vision for universal financial inclusion.
5) Historically, the lack of institutional capacity to deliver financial services has been seen as the major bottleneck of access to finance for the poor. Therefore, funders have prioritized financial and technical assistance to support the creation and growth of Financial Services Providers (FSPs), with the largest share of funding earmarked for supporting portfolio growth.
6) Within this context there is a growing discourse about the relevance and applicability of a market systems approach to financial inclusion... with the aim to change the dynamics in this multifunction, multifactor system to benefit the poor.
7) Funders need to think of their role not as providers of missing services in the market but rather as facilitators who incentivise and enable market actors to provide these services by performing their market functions more effectively.
8) Facilitation involves a more flexible engagement than conventional development programming, as it attempts to catalyse change in a dynamic market context and requires working with a range of market actors to address the barriers of financial inclusion related to demand, supply, supporting functions, and rules and norms.

#### 2.2.6. Inclusive Finance for Inclusion Growth - UNCDF Approach

As per UNCDF, the Financial Inclusion is achieved when all individuals and businesses have access to and can effectively use a broad range of financial services that are provided responsibly, and at reasonable cost, by sustainable institutions in a well-regulated environment. There is a strong consensus that increased levels of financial inclusion – through the extension of savings, credit, insurance, and payment services – contributes significantly to sustainable economic growth.

UNCDF is supporting 31 Least Developed Countries (20 in sub-Saharan Africa and 11 in Asia), and serving 8 million active clients through the Financial Service Providers (FSPs) in which it invests. UNCDF has focused on supporting savings-led model, given the dual benefit of FSPs using local sources to fund growth and positive findings from client impact studies on the benefits of savings.

### 2.2.7. Client protection Principle initiated by The Smart Campaign (TSC)[11]

The Smart Campaign is a global effort to unite microfinance leaders around a common goal and to keep clients as the driving force of the industry. Protecting clients is not only the right thing to do; it's the smart thing to do. When microfinance institutions implement the Campaign's Client Protection Principles into their operations, they build strong, lasting relationships with clients, increase client retention, and reduce financial risk. Similarly, by incorporating client protection principles into their investment criteria and due diligence, microfinance investors can build a healthier, more client-focused industry that will foster a stronger portfolio and ensure healthy returns. The financial services should be fully transparent in the pricing, terms, and conditions for all financial products. The adopted principles are explained in Box-2.

**Box 2: Best practice from Smart Campaign – Client Protection Principle**

There is consensus within the microfinance industry that providers of financial services should adhere to these core principles.

1. <u>Appropriate product design and delivery</u>

Providers will take adequate care to design products and delivery channels in such a way that they do not cause clients harm. Products and delivery channels will be designed with client characteristics taken into account.

2. <u>Prevention of over-indebtedness</u>

Providers will take adequate care in all phases of their credit process to determine that clients have the capacity to repay without becoming over-indebted. In addition, providers will implement and monitor internal systems that support prevention of over indebtedness and will foster efforts to improve market level credit risk management (such as credit information sharing).

3. <u>Transparency</u>

Providers will communicate clear, sufficient and timely information in a manner and language clients can understand so that clients can make informed decisions. The need for transparent information on pricing, terms and conditions of products is highlighted.

4. <u>Responsible pricing</u>

Pricing, terms and conditions will be set in a way that is affordable to clients while allowing for financial institutions to be sustainable. Providers will strive to provide positive real returns on deposits.

5. <u>Fair and respectful treatment of clients</u>

Financial service providers and their agents will treat their clients fairly and respectfully. They will not discriminate. Providers will ensure adequate safeguards to detect and correct corruption as well as aggressive or abusive treatment by their staff and agents, particularly during the loan sales and debt collection processes.

6. <u>Privacy of client data</u>

The privacy of individual client data will be respected in accordance with the laws and regulations of individual jurisdictions. Such data will only be used for the purposes specified at the time the information is collected or as permitted by law, unless otherwise agreed with the client.

7. <u>Mechanisms for complaint resolution</u>

Providers will have in place timely and responsive mechanisms for complaints and problem resolution for their clients and will use these mechanisms both to resolve individual problems and to improve their products and services.

[11]Reference: http://www.smartcampaign.org/about/smart-microfinance-and-the-client-protection-principles

### 2.2.8. Code of conduct for Microfinance Institutions in India

Microfinance Institutions Network (MFIN), a self-regulatory organization of NBFC-MFIs was formed during 2009-10. MFIN aims to work with regulators to promote microfinance to achieve larger financial inclusion goals. The MFIN has developed and adopted the code of conduct (COC) of fair practice and client protection for its members. Jointly with SA-Dhan (Association of Community Development Finance Institutions), they have developed code of conduct mainly covering the Core Values of Microfinance, Code of Conduct for Microfinance Institutions (The Code), Client Protection Guidelines for MFIs and Institutional Conduct Guidelines. However there is a need for strong policy on client protection for all clients, especially those who are served by NGO-MFIs, cooperatives and banks.

### 2.3. Financial Inclusion Policies in India

The first major step taken to usher in Financial Inclusion was when the then Government nationalised the banks in 1969.

The next major step was in 2007 when the Business Correspondent Model was introduced in a phased manner. The Business Facilitator (BF)/Business Correspondent (BC) was an innovation, initially created by banks and then supported by RBI policy. The BC/BF model is a model based on information and communication technology (ICT): intermediaries or BC/BFs are technologically empowered by the banks to provide the last mile delivery of financial products and services. Since then the landscape of financial services in India has been changing rapidly.

In 2008, the **Rangarajan Committee** stated "that the essence of financial inclusion is in trying to ensure that a range of appropriate financial services is available to every individual and enabling them to understand and access those services". Later in 2014 the **RBI Governor Raghuram Rajan** elaborated this further by declaring that financial inclusion was about (i) the broadening of financial services to those who do not have access to financial services, (ii) the deepening of financial services for people who have minimal financial services and (iii) greater financial literacy and consumer protection".

From 2010 to 2013 the Government of India had initiated the **Swabhimaan program**. The idea was to ensure village-level presence /delivery of banking services. The initiative was to seek better financial inclusion within India by rolling out banking services in 20,000 villages where banking services were not available. Under this plan, Banks select business correspondents (bank saathi) who act as intermediaries between the rural people and the banks. The Government had targeted to cover at least 74,000 new habitations with a population of 2,000 and above and open at least 50 million new accounts by March 2012.

In 2013 a new scheme, as an extension of the BC Model and Swabhimaan, was launched under the name of **Pradhan Mantri Jan-Dhan Yojana** (JDY) with a view to reach each household. JDY program has six objectives that are scheduled to be achieved in two phases as under:

***Phase- I (15 August 2014 - 14 August 2015)***

- Universal access to banking facilities (within 5 km distance of each village);
- Providing basic banking accounts for saving and remittance and RuPay Debit Card with in-built accident insurance cover of INR 100,000;

- Financial Literacy Program

***Phase II (15 August 2015 - 15 August 2018)***

- Overdraft facility of up to INR 5000 after 6 months of satisfactory performance of saving/credit history (a credit guarantee fund would be created for coverage of defaults in overdraft accounts.);
- Micro-insurance;
- Special pension schemes like Swaalamban for unorganized sector that employ 90% of the workforce in India.

The Government of India has thus been the principal actor in the financial inclusion initiative, which has remained at the centre of the public priorities despite the change of government. As a result the discourse in India has been changing from rural finance to inclusive finance to responsible finance.

**The Jan-Suraksha Scheme** was announced in February 2015. It involves the creation of a universal social security system for all Indians, especially the poor and under-privileged through three key parts: Pradhan Mantri Suraksha Bima Yojana (accident insurance), Pradhan Mantri Jeevaan Jyoti Bima Yojana (life insurance) and Atal Pension Yojana (pension scheme).

**The Government of India has also put technology at the centre of its initiatives**, believing in its role to foster financial inclusion through mobile banking service and by setting up a retail payments platform owned/ managed by the National Payments Corporation of India. RuPay Cards has been introduced by NPCI which is a card payment scheme. The card is given to every bank account holder at a lower cost than Master Card or Visa. It aims to be an efficient domestic alternative to international product facilitators and to enable Indian banks and financial institutions to offer electronic payments facility.

**The Aadhaar-enabled payment systems (AEPS)** is now a banking product allowing on-line inter-operable financial inclusion transactions at the micro ATM or kiosk banking through Business Correspondents. The transactions include withdrawals and deposits along with funds transfers between Aadhaar-enabled card holders. The Aadhaar Payments Bridge System (APBS) enables the transfer of payments from government to Aadhaar-enabled accounts of beneficiaries at banks and post offices.

### 2.3.1. Direct Benefit Transfers (DBT) program

In January 2013, the GoI launched the DBT program to transform service delivery in India by transferring government benefits and subsidies directly into the hands of residents through the biometric based identification system (Aadhaar), speeding up payments, removing leakages and intermediaries, and enhancing financial inclusion. The government has since reviewed the scheme giving the possibility for the consumer to directly receive subsidy in his bank account without the use of an Aadhaar number.

RBI has relaxed a number of norms and dispensed with some documents to enable opening a bank account by people who plan to keep a balance lower than INR 50,000 and whose total credit in all the accounts together will not exceed INR 100,000 in a year (simplified KYC [Know Your Customer] form, June 2014). Similarly a simplified bank saving account opening has been put in place.

RBI has now permitted banks to open branches without taking authorization in tier 3 to 6 cities, towns and villages. RBI also asked banks to provide to all customers the material related to opening accounts, disclosures, etc. in their regional languages.

RBI has reinforced self-regulation in the microfinance sector, appointing Sa-dhan and MFIN as self-regulatory organizations.

### 2.3.2. Technology-based innovations

Over the past 10 years electronic payments received a big push with the development of a retail electronic payment system comprising of Electronic Clearing Service (ECS), National Electronic Fund Transfer (NEFT), Pre-paid Payment System (PPI), and Point of Sales (POS) Terminals/online transactions. Today banks are tying up partnerships with telecommunication companies to provide banking and financial services through mobile, which has, with other digital banking tools, an important potential in terms of financial inclusion, especially in remote areas and to isolated and poor population.

### 2.3.3. Unified Payments Interface (UPI)

It is architecture and a set of standard app APIs by RBI to facilitate the next generation online immediate payments leveraging trends such as increasing smart phone adoption and app downloads, Indian language interfaces, and universal access to Internet and data.[2] UPI was launched in August 2016 by National Payments Corporation of India with Reserve Bank of India's (RBI) vision of migrating towards a 'less-cash' and more digital society. NPCI has built on the Immediate Payment Service (IMPS) platform through which one could transfer money instantly by going online-by adding another layer that allows easy debit capability even on mobile phones.[3]

The UPI payments can be used for:[4]

- Paying by Cash on Deliveries.
- Merchant transactions at Physical/ e-commerce stores.
- Making IMPS alike payments without the need of knowing Bank A/c or IFSC's.
- .Allows merchants' cash-settlements in real-time.
- Pay utility Bills, insurance premiums.
- Transfer Money to friends and relatives

Now that the Bank Apps and Non-Bank Apps with UPI are launched, users simply have to register for UPI and generate a Unique Identifier. Those who use Mobile Banking will already have their M-PIN, the others will have to generate the M-PIN. The M-PIN will be the 2nd factor authentication for payments through UPI. To make a transaction, the payer will require the unique identifier of the payee and will require his/her M-Pin. UPI will eliminate the need of sharing long Bank account numbers and IFSC codes and making the payment hassle free. This should make payments/ remittances easier for illiterates and the poor.

### 2.3.4. Other Initiatives

The **Reserve Bank of India** has been very active in issuing licences to new commercial banks (2 licences), payment banks (11) and small finance banks (10). This again will lead to more intensive and extensive financial inclusion interventions.

In 2015-16 the Finance Minister announced the **MUDRA (Micro Units Development and Refinance Agency)** for 'funding the unfunded'. This was quickly set up and started giving three types of loan products based on maturity of the micro enterprise being funded. It has since been decided to convert this agency into MUDRA Bank. In the first year the disbursements by the Bank crossed the INR 1 lakh crore levels.

There has been a variety and evolving efforts by successive governments for improving access to microfinance and for reaching the unreached with a range of financial policies and schemes.

However there are gaps between policy and program focus and implementation. According to a report prepared by Nachiket Mor Committee in December 2013, around 60 per cent of India's population doesn't have functional bank accounts[12]. In view of the drive to open accounts under JDY more than 95% of the population have since opened accounts; but as much as 40% of these bank accounts in the 3 states studied, are dormant. Under pressure of hard targets, banks transmitted the pressure to local staff and banking correspondents (BCs, agents who represent a bank on the field). "Opening of multiple accounts has happened in an absolutely blatant manner," says the head of a BC company. Under the pressure of targets the norms on opening accounts only for the unbanked were disregarded"[13]. "According to the bankers, at least a fifth of the accounts opened under the scheme could be fake. People simply go to another bank and open an account.[14]

### 2.3.5. The National Bank for Agriculture and Rural Development (NABARD)

NABARD has played an important role and is still fully involved in the financial inclusion movement. The SHG – Bank Linkage Programme was started as an Action Research Project in 1989 which was an offshoot of a NABARD initiative during 1987 through sanctioning INR 10 lakh to MYRADA as seed money assistance for experimenting Credit Management Groups. In the same year the Ministry of Rural Development provided PRADAN with support to establish self-help groups in Rajasthan. The experiences of these early efforts led to the approval of a pilot project by NABARD in 1992. The pilot project was designed as a partnership model between three agencies, viz., the SHGs, banks and NGOs. This was reviewed by a working group in 1995 that led to the evolution of a streamlined set of RBI approved guidelines to banks to enable SHGs to open bank accounts, based on a simple "inter se" agreement.

This was coupled with a commitment by NABARD to provide refinance and promotional support to banks for the SHG - Bank Linkage Programme. Initially there was a slow progress in the programme up to 1999 as only 32,995 groups were credit linked during the period 1992 to 1999. Since then the programme has been growing rapidly and the number of SHGs financed increased from 81,780 in 1999-2000 to 16.43 lakh SHGs enjoying credit of INR 30,334 cr. by March 2015. Considering that in March 2015 there were 77.12 lakh savings –linked SHGs (total savings INR 11, 3076 cr), there is still much more left to be done by NABARD and Banks. The target of the National Rural Livelihoods Mission of Government of India now is to form/ support additional 37 lakh SHGs.

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[12] http://inclusion.skoch.in/story/334/will-jan-dhan-end-financial-untouchability
[13] Jan Dhan Yojana: Why impressive numbers don't mean much to financial inclusion drive - M. Rajshekhar, ET Bureau Nov 13, 2014
[14] Gyanendra Keshri, Executive Editor, INCLUSION, 04 Nov 2014 http://inclusion.skoch.in/story/334/will-jan-dhan-end-financial-untouchability

Generally, banks lend to SHG at about 9% and there is an interest subvention scheme by the Govt of India, to subsidise the cost of credit to SHGs so that they get it at a net cost of 7% pa; this could further reduce to 4% pa provided the amount is repaid in full as per the repayment schedule. Thus all women SHGs will be eligible for interest subvention on credit up to INR 3 lakhs at 7% per annum. SHG availing capital subsidy under SGSY in their existing credit outstanding will not be eligible for benefit under this scheme.

Recently updated guidelines "SHG 2" have been published by NABARD, including innovations meant to resolve the issues identified under the previous scheme.

The focus of SHG-2 would be on voluntary savings, cash credit as a preferred mode of lending, scope for multiple borrowings by SHG members in keeping with repaying capacity, avenues to meet higher credit requirements for livelihood creation, SHG Federations as non-financial intermediary, rating and audit of SHGs as part of risk mitigation system and strengthening monitoring mechanisms.

The Scheme aims to have Self Help Promoting Institutes (SHPI) promoting and enabling credit linkage of these groups with banks, but also serving as a banking/business facilitator (including tracking, monitoring these groups and being responsible for loan repayments). It is managed by NABARD through two of its major microfinance funds, namely Financial Inclusion Fund (FIF) and the Financial Inclusion Technology Fund (FITF), created following the recommendations of the report of the 2008 Rangarajan Committee on Financial Inclusion.

The Reserve Bank of India in November 2014, has considered the creation of JLGs (Joint Liability Group) consisting of members of one or more SHGs, wherein a few members of those SHGs can avail extra loans to undertake enterprise or livelihood activities. In such cases, other members may not like to stand as mutual guarantors for large sized loans availed by these members. The members of such JLGs will continue to remain as members of their respective SHGs and continue to participate in the activities of SHGs as earlier. RBI has directed the banks to encourage creation of such enterprise/livelihood based JLGs within SHGs and may finance these JLGs in addition to the credit limit extended to the SHGs.

### 2.3.6. IRDA Initiatives on Micro insurance

The Insurance Regulatory and Development Authority (IRDA) of India has formulated a draft regulation, IRDAI (Obligations of Insures to Rural and Social Sectors) Regulations, 2015, in pursuance of the amendments brought about under section 32B of the Insurance Laws (Amendment) Act, 2015. These regulations impose obligations on insurers towards providing insurance cover to the rural and economically weaker sections of the population.

The Government of India has launched two insurance schemes as announced in Union Budget 2015-16. The first is Pradhan Mantri Suraksha Bima Yojana (PMSBY), which is a Personal Accident Insurance Scheme. The second is Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY), which is the government's Life Insurance Scheme. Both the schemes offer basic insurance at minimal rates and can be easily availed of through various government agencies and private sector outlets.

IRDA also initiated Micro-insurance Awareness and Enrolment Mission (MAEM), to create awareness among the rural masses, to enrol them in various government-sponsored micro-insurance schemes, and to promote financial inclusion.

The critical gap in expansion of micro insurance are inefficient agent recruitment process which leads to high attrition amongst the agency managers and agents; it also leads to cost build up for recruitment, and training of this sales force. Some agents lack the skill to provide sound financial advice and accordingly, there is a lot of mis-selling that also happens in this channel.

The overall stickiness of this agent network needs to be increased to ensure a more sustainable model. Also the productivity of the agent needs to improve by trainings. The agents also need to work on building trust and credibility with his existing customers and increase his new customer base. Some agents who do not build rapport with the existing customer base find to their dismay that their customer is losing motivation and becoming inactive.

### 2.3.7. National Rural Livelihoods Mission [NRLM] approach to Livelihood Promotion and Financial Inclusion through SHGs

In 2012-13 Government of India also set up the **National Rural Livelihoods Mission [NRLM]** which in turn went about establishing the **State Rural Livelihoods Mission [SRLM]** for promotion of poor through development of SHGs and their federations as well as by implementing vigorously the **Mahatama Gandhi National Rural Employment Guarantee Act/ Scheme** across India which offered 100 days of employment to all those unemployed.

a. **Revolving Fund in NRLM**[15] - NRLM provides for a Revolving Fund (RF) support to SHGs in existence for a minimum period of 3/6 months and follow the norms of good SHGs, i.e. they follow 'Panchasutra' – regular meetings, regular savings, regular internal lending, regular recoveries and maintenance of proper books of accounts. Only such SHGs that have not received any RF earlier will be provided with RF, as corpus, with a minimum of INR. 10,000 and up to a maximum of INR. 15,000 per SHG. The purpose of RF is to strengthen their institutional and financial management capacity and build a good credit history within the group.
b. **Community Investment Fund (CIF)** - CIF will be provided to the SHGs in the intensive blocks, routed through the Village level/ Cluster level Federations, to be maintained in perpetuity by the Federations. The CIF will be used, by the Federations, to advance loans to the SHGs and/or to undertake the common/collective socio-economic activities.
   Introduction of Interest subvention - Deen Dayal Antyodaya Yojana (DAY-NRLM) has a provision for interest subvention, to cover the difference between the Lending Rate of the banks and 7%, on all credit from the banks/ financial institutions availed by women SHGs, for a maximum of ₹ 3, 00, 000 per SHG. This will be available across the country in two ways:
   i. In 150 identified districts, banks will lend to the women SHGs @7% up to an aggregated loan amount of ₹ 3, 00, 000/-.The SHGs will also get additional interest subvention of 3% on prompt payment, reducing the effective rate of interest to 4%.
   ii. In the remaining districts also, DAY-NRLM compliant women SHGs will be registered with SRLMs. These SHGs are eligible for interest subvention to the extent of difference between the lending rates and 7% for the loan up to INR 3 lakhs, subjected to the norms prescribed by the respective SRLMs. This part of the scheme will be operationalized by SRLMs.

[15] Primary sector Lending in SGSY and NRLM: https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=8075andMode=0
https://www.nabard.org/uploads/NRLM_Master_Circular_RBI_142.pdf

c. **Role of Banks under NRLM**

i. **Opening of Savings accounts:** The role of banks would commence with opening of accounts for all the Women SHGs, SHGs with members of Disability and the Federations of the SHGs. The 'Know Your Customer' (KYC) norms as specified from time to time by Reserve Bank of India are applicable for identification of the customers.

ii. **The eligibility criteria for the SHGs to avail loans from banks:**
   - SHG should be in active existence at least since the last 6 months as per the books of account of SHGs and not from the date of opening of S/B account.
   - SHG should be practicing *'Panchasutras'* i.e. Regular meetings; Regular savings; Regular inter-loaning; Timely repayment; and Up-to-date books of accounts;
   - Qualified as per grading norms fixed by NABARD. As and when the federations of the SHGs come to existence, the grading exercise can be done by the Federations to support the Banks.
   - The existing defunct SHGs are also eligible for credit if they are revived and continue to be active for a minimum period of three months.

iii. **Loan amount:** Emphasis is laid on the multiple doses of assistance under DAY-NRLM. This would mean assisting an SHG over a period of time, through repeat doses of credit, to enable them to access higher amounts of credit for taking up sustainable livelihoods and improve on the quality of life. The amount of various doses of credit should be as follows:
   - First dose: 4-8 times to the proposed corpus during the year or INR 50,000 whichever is higher.
   - Second dose: 5-10 times of existing corpus and proposed saving during the next twelve months or INR 1 lakh, whichever is higher.
   - Third dose: Minimum of INR 2 lakhs, based on the Micro credit plan prepared by the SHGs and appraised by the Federations /Support agency and the previous credit History.
   - Fourth dose onwards: Loan amount can be between INR 5-10 lakhs for fourth dose and/or higher in subsequent doses. The loan amount will be based on the Micro Credit Plans of the SHGs and their members.

   The loans may be used for meeting social needs, high cost debt swapping and taking up sustainable livelihoods by the individual members within the SHGs or to finance any viable common activity started by the SHGs.

   *(Corpus is inclusive of revolving funds, if any, received by that SHG, its own savings and funds from other sources in case of promotion by other institutes/NGOs.)*

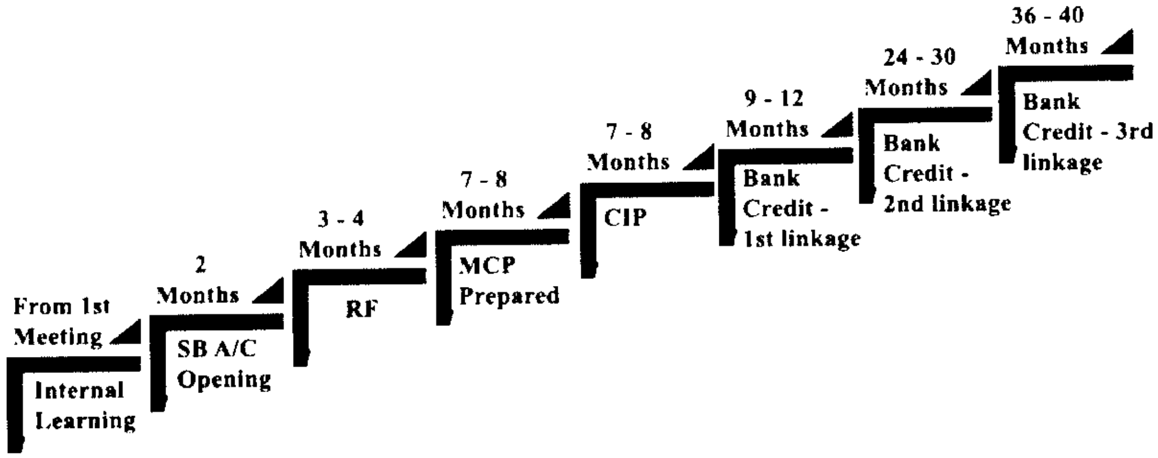
iv. **Type of facility:** SHGs can avail either Term loan or a Cash Credit loan or both based on the need. In case of need, additional loan can be sanctioned even though the previous loan is outstanding.

v. **Repayment schedule** (could be as follows):
   - The first dose of loan will be repaid in 6-12 installments.
   - Second dose of loan will be repaid in 12-24 months.
   - Third dose will be sanctioned based on the micro credit plans, the repayment has to be either monthly/quarterly /half yearly based on the cash flow and it has to be between 2 to 5 Years.
   - Fourth dose onwards: repayment has to be either monthly / quarterly / half yearly based on the cash flow and it has to be between 3 to 6 Years.

### 2.3.8. The National Rural Livelihoods Mission is playing a role in capitalizing the institutions of poor

## Making poor preferred clients of financial institutions

NRLM facilitates universal access to the affordable cost-effective reliable financial services to the poor. These include financial literacy, bank account, savings, credit, insurance, remittance, pension and counselling on financial services. The core of the NRLM financial inclusion and investment strategy is **"making poor the preferred clients of the banking system and mobilizing bank credit"**




**Capitalizing Institutions of the Poor**

Figure 5: NRLM Model - Revolving Fund and financial inclusion

NRLM also provides **Vulnerability Reduction Fund (VRF)** to **SHG Federations at Village level** to address vulnerabilities like food security, health security etc., and to meet the needs of the vulnerable persons in the village.

The Mid-term[16] assessment report of NRLM (March 2015) indicates that RF does make positive impact. As a result 33% of 6 month-old SHGs were enabled to assess the first dose of **bank loans.** This was due to intensive training and capacity building support provided by NRLM team and partner agencies.

The NRLM strategy, to strengthen the eco system for livelihood promotion, mobilizes resources and ensure convergence to help the SHGs, is depicted in the template shown hereunder.

[16] NRLM Mid-term assessment report: http://aajeevika.gov.in/sites/default/files/nrlp_repository/NRLP%20Mid-Term%20Assessment%20Report_31032015_latest.pdf

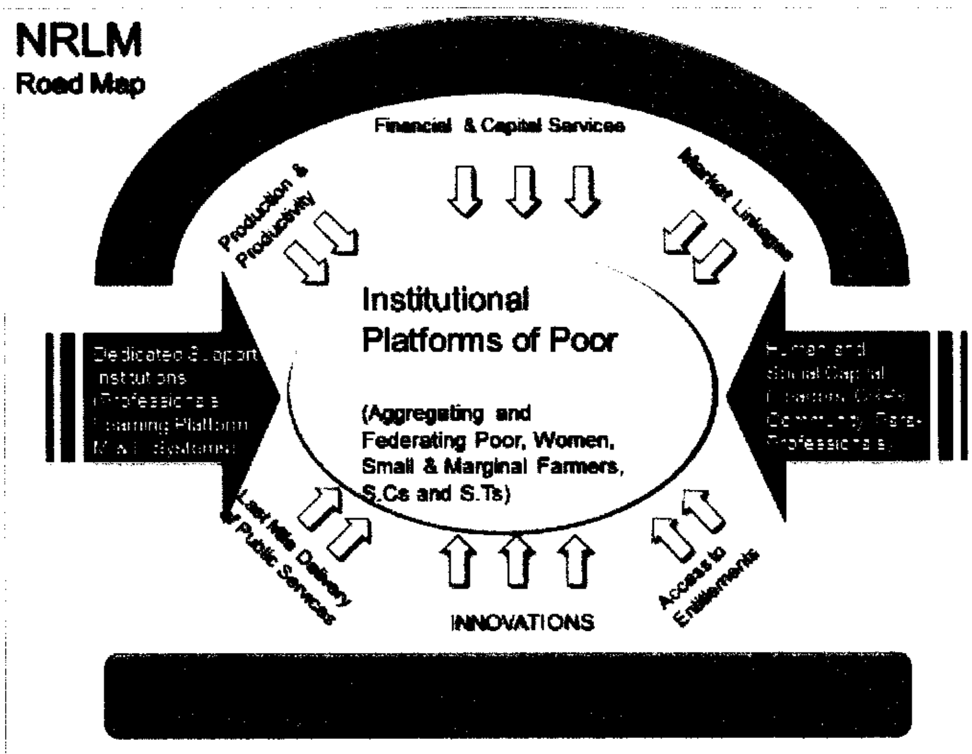



**Figure 6: NRLM Roadmap**

This then is one of the Ways Forward for the SHGs/ members to be mainstreamed i.e. JICA/ FD invite institutions like NRLM/ SRLM, who can play the role of facilitating inter sectoral convergence and helping SHGs/ members to obtain loans. This tie-up with SRLM is only possible for those SHGs who are graded A category.

The journey ahead for such SHGs is clearly spelt out in the following template being followed by one of the SRLMs i.e. in Gujarat.

Unfortunately State Rural Livelihood Missions are not working well in all the States, including in Gujarat. But study team's discussions in Delhi with NRLM indicate that they have identified National and State Level Support Agencies to strengthen the hands of SRLMs by engaging experts in Project Management, Financial Management, Supply Chain Management, NTFP Management, etc. The selection process of these experts is over and they will be positioned in the next two to three months.

### 2.4. Financial Exclusion: Factors

Financial exclusion describes the situation of people who cannot or do not access and use appropriate financial products and services. The term financial exclusion was first coined in 1993 by geographers who were concerned about limited physical access to banking services as a result of bank branch closures (Leyshon and Thrift, 1995[17]).It was in 1999, that the term financial exclusion seems first to have been used in a broader sense to refer to people who have constrained access to mainstream financial services (Kempson and Whyley, 1999[18]).

[17]Leyshon, A. and Thrift, N. (1995) 'Geographies of financial exclusion: financial abandonment in Britain and the United States', *Transactions of the Institute of British Geographers, New Series*, 20

[18]Kempson, E. and Whyley, C. (1999) *Kept Out or Opted Out? Understanding and Combating Financial Exclusion.*Bristol: Policy Press.

While exclusion and poverty are not technically the same, they are deeply connected. Indeed the grinding poverty for a large part of the developing world keeps them out of any formal financial activity. Poverty and [financial] exclusion are 'causal' - one causes the other and vice-versa. It is not just poverty but also the nature of populations, demographics, and opportunities that define [financial] exclusion.[19]

Financial exclusion is, however, a complex concept and the following key issues need to be considered:

- Exclusion from which financial services and institutions?
- Do we need to draw a distinction between *access* to financial services and usage of them?
- Are there degrees of financial exclusion and, if so, how to express these?
- For whom do we measure access: the individual, the family or the household?

Financial exclusion makes living on a low income more expensive, unstable and stressful. Financial exclusion can be intergenerational. Financial behaviour is strongly influenced by parents, families and friends, so poor access to financial services is one way that disadvantage is transmitted and sustained in communities.

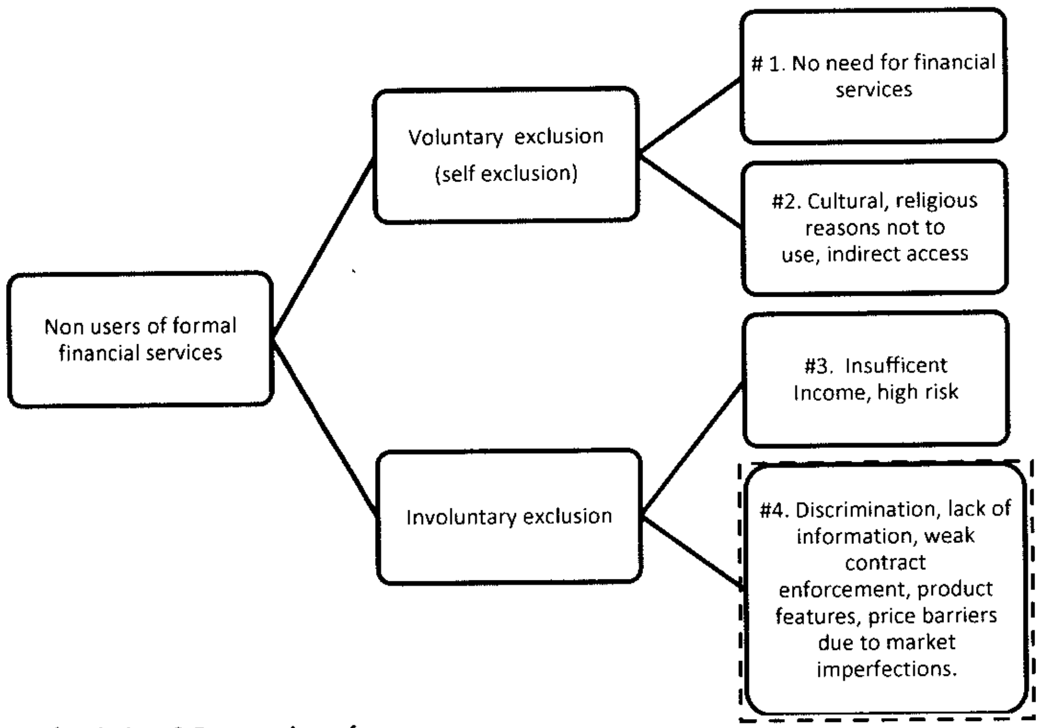



**Figure 7: Types of Exclusions & Reasons thereof**
Source: Adapted from World Bank (2014)
*Source: IMF Working Paper: Assessing Countries' Financial Inclusion Standing – A New Composite Index*

The earliest analysis of financial exclusion concluded that it involves "those processes that serve to prevent certain social groups and individuals from gaining access to the financial system" (Leyshon and Thrift, 1995[20]).

Speaking at a World Bank conference in 2006, Kempson[21], re-grouped the factors restricting access to financial services, separating supply and demand side factors as follows:

[19]Driving Financial Inclusion Initiatives Using Mobile Technologies – Mahindra Comviva (2015)
[20]Leyshon, A. and Thrift, N. (1995) 'Geographies of financial exclusion: financial abandonment in Britain and the United States', *Transactions of the Institute of British Geographers, New Series*, 20, pp.312-341

a. *Supply factors*
   - Refusal by financial service companies
   - Identity requirements
   - Terms and conditions
   - Charges
   - Physical access problems

b. *Demand factors*
   - Income considered too low
   - Fear of loss of control
   - Psychological barriers
   - Cultural barriers
   - Religious barriers

**Table 2: The causes of financial exclusion**[22]

| | Micro | Macro |
|---|---|---|
| **Supply** (institutions) | Product design and delivery | The way the financial services market works |
| **Demand** (individuals) | Financial capability | Poverty |

The nature and forms of exclusion and the factors responsible for it are varied and, thus, no single factor could explain the phenomenon. In countries with a large rural population like India, Financial Exclusion has a geographic dimension as well.

The extent of financial exclusion remains staggering. Out of 600,000 villages in the country, only about 30,000 have a commercial bank branch. Till recently, more than 50% of India's population did not have any bank account and more than half of the total farmer households did not seek credit from either institutional or non-institutional sources of any kind.[23]

In India, exclusion may also have resulted from a variety of structural factors such as unavailability of products suiting their requirements, stringent documentation and collateral requirements and increased competition in financial services. There has also been particular emphasis on socio-cultural factors that matter for an individual to access financial services.

In India, the financially excluded sections comprise largely marginal farmers, landless labourers, oral lessees, self-employed and unorganised sector enterprises, urban slum dwellers, migrants, ethnic minorities and socially excluded groups, senior citizens and women. Some of the important causes of relatively low extension of institutional credit in the rural areas are risk perception, cost of its assessment and management, lack of rural infrastructure, and vast geographical spread of the rural areas with more than half a million villages, some sparsely populated (Mohan, 2006[24]).

In the absence of appropriate enabling technology, reaching far flung areas of the country [India] without a brick and mortar structure, proved to a difficult ordeal.[25]

[21]Kempson, E (2006) 'Policy Level Response to Financial Exclusion in Developing Economies: Lessons for Developing Countries', Paper for *Access to Finance: Building Inclusive Financial Systems*, May 30-31 2006, World Bank, Washington DC
[22] "Short Changed - Financial exclusion - A guide for donors and funders" - Simon Blake & Esther de Jong (July 2008)
[23]The extent of India's financial exclusion is staggering - KL Khetarpaul, former executive director at the RBI (Updated: Aug 29, 2015) Hindustan Times
[24]Mohan, Rakesh (2006). Economic growth, financial deepening and financial inclusion, address at the annual bankers' conference, Hyderabad on November 3, 2006. http://rbidocs.rbi.org.in/rdocs/Speeches/PDFs/73697.pdf
[25] 'Financial Inclusion in India: Dimension of the Problem' – S. S. Mundra, Dy. Governor, RBI

In India the major reasons were/are Absence of Technology; Absence of reach and coverage; Absence of Viable Delivery Mechanism; not having an appropriate Business model.[26]

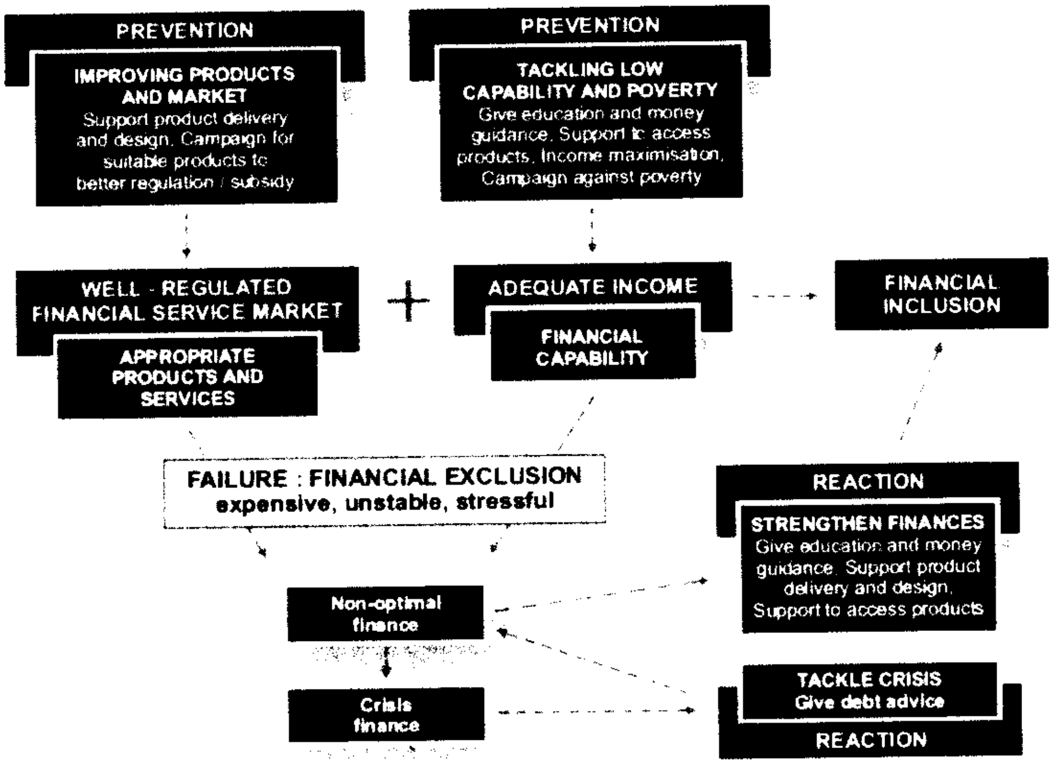



**Figure 8: Path to Financial Inclusion**
Source: "Financial exclusion: A guide for donors and funders July 2008" Simon Blake & Esther de Jong.

[26] Financial Exclusion to Inclusion in Indian Scenario: An Incessant Journey - Dr. Anshu Bansal Gupta (http://www.internationalseminar.org/XIV_AIS/TS%203/8.%20Anshu%20Bansal%20Gupta.pdf)

## 3. Primary Research Findings

### 3.1. Revolving Fund – Status and Importance

➢ **Banks Accounts – VFCs, SHGs, SHG members & community**

Each VFC is required to have an "account" in any nationalized bank, scheduled bank including Rural Bank, Cooperative Banks. All the VFCs in the sample villages of Odisha, Rajasthan and Gujarat are having bank accounts. Earlier VFCs have provided loans to SHGs directly in cash[27] but at present all VFCs are providing loans to SHGs through bank.

- Odisha - All the SHGs have bank accounts; 72.55% SHGs have opened their bank accounts with Scheduled Banks; SBI (35.29%), UCO (15.69%) and Utkal Grameen (13.73%) are the most preferred Banks. Moreover, 75% of SHG members are also having bank accounts at present.
- Rajasthan - 80% SHGs maintain bank accounts; 42% SHGs have their bank accounts with Scheduled Banks while others (58%) have with either Rural Banks or Cooperative Banks. Moreover, 84% of the SHG members are having individual bank accounts at present.
- Gujarat - All SHGs have opened bank accounts. The SHGs mostly have their bank accounts with State Bank of India (27%) and Bank of Baroda (22%). Moreover, 96% of the SHG members are maintaining individual bank accounts at present.

**In short, the community institutions and members have already been linked to formal financial institutions. The remaining few can be connected to the bank in the next six months to one year for which study team have suggested the way forward later in this report.**

➢ **Savings Habits and Recordkeeping amongst SHGs**

The members of the SHG are encouraged to save and internally lend, from the corpus so created, to members during times of need. SHGs (Odisha-78%, Rajasthan – 72%, Gujarat – 39%) are regular in their monthly savings. SHGs (Odisha - 84%, Rajasthan – 75%, Gujarat – 76%) maintain Savings Registers, though the study team in some cases could not access the records for the following reasons:

a) the custodian of saving register was not present in FGD or in the village;
b) the old saving registers are not available.

The details of savings of SHGs in sample villages are as under:

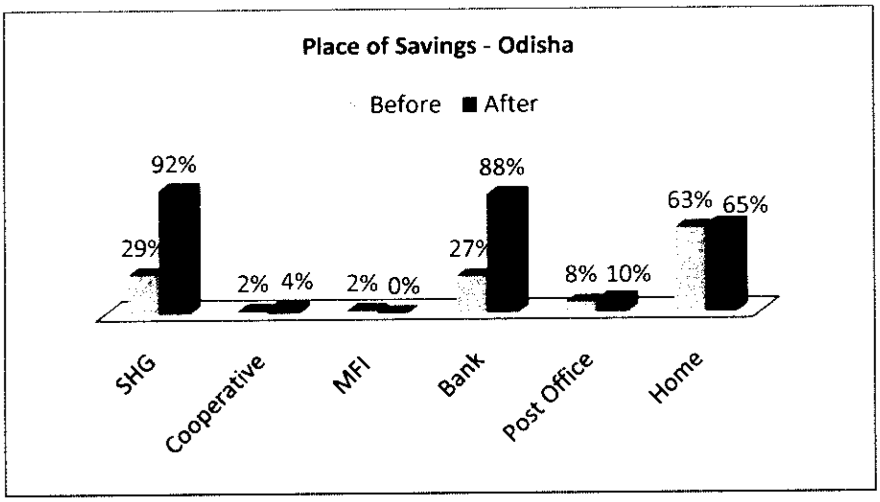
**Table 3: Snapshot of SHGs' Savings Statewise**

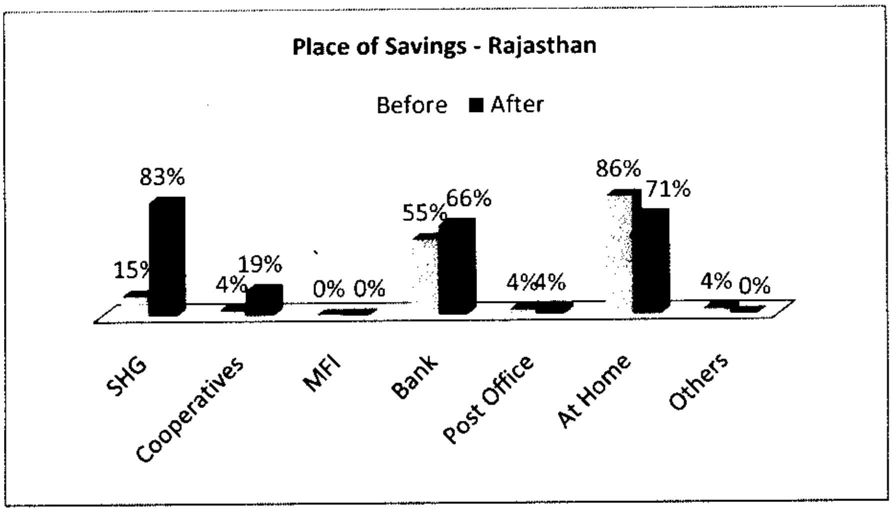
| Particulars | Odisha | Rajasthan | Gujarat |
|---|---|---|---|
| Total Average Savings - INR | 40,562 | 11,833 | 25,151 |
| Average age of SHG – Year | 7.62 | 1.61 | 4.18 |
| Average Annual Savings - INR | 5,323 | 7,350 | 6,017 |

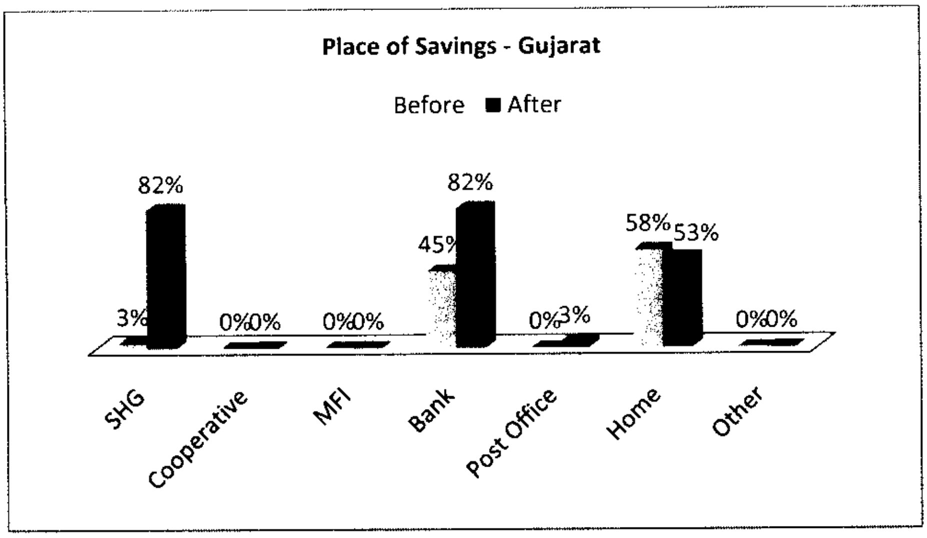
SHGs (OR-98%, RJ-93%, GJ-96%) have mentioned that their members are now in the habit of savings in comparison to (OR-59%, RJ-69%, GJ-60%) before the project. SHGs said they currently are saving with their SHGs (OR-92%, RJ-83%, GJ-82%) as well as at Bank (OR - 88%, RJ - 66%, GJ – 82%) and at home (OR-65%, RJ-71%, GJ-53%).

[27] Odisha - In 44% cases the loan funds are transferred through Bank. Whereas in 24% cases disbursement is done by Cash, while in 32% cases transfer is made through cash as well as bank.

During the projects, with the increase in saving habits, the SHGs members have discovered safer and better institutions for keeping savings. The details are shown in the following charts[28]:



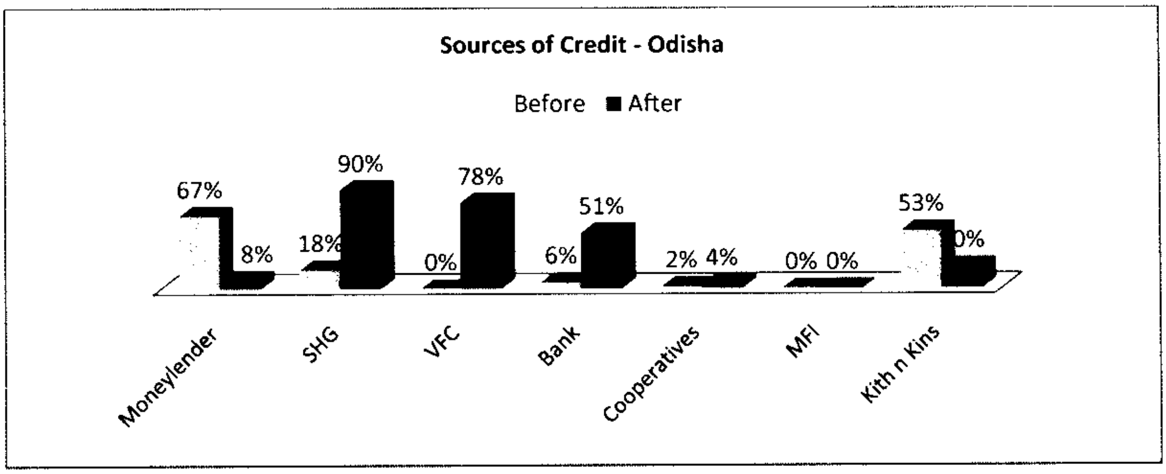



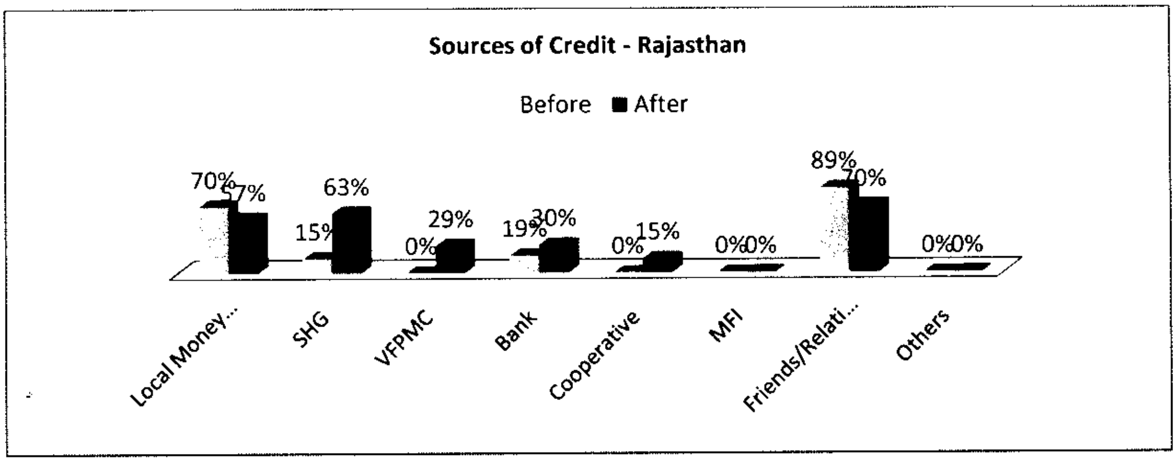

[28] Refer Annexure 5 for further bifurcation among category 'A' SHGs and other SHGs.

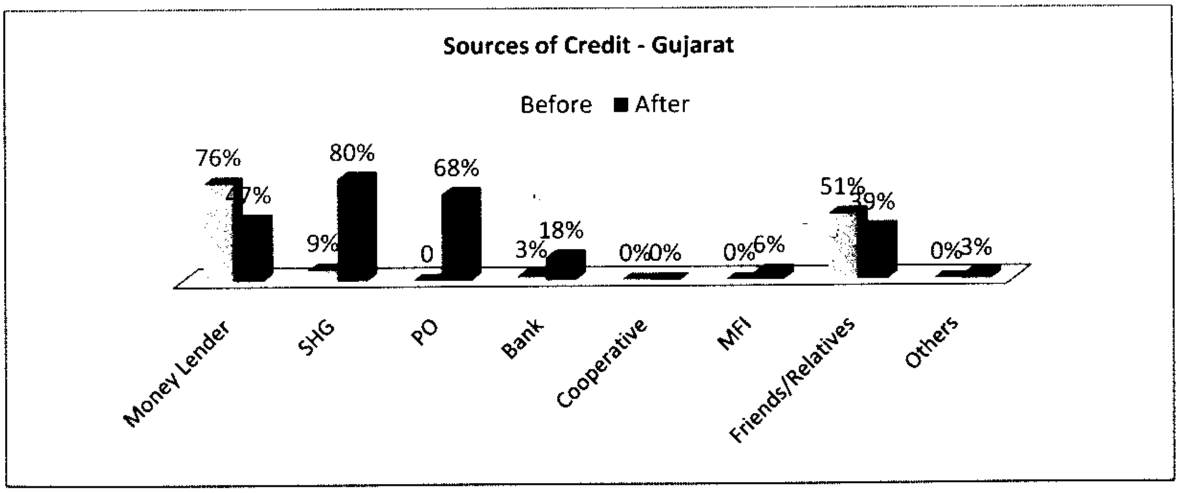
**As is obvious from the above, Savings Portfolio of the SHG members has improved largely because of the initiatives taken to enrol households under the various financial inclusion schemes of banks.**

- **Micro Credit being obtained from Various Sources**

Based on the observations and the information collected in FGDs with SHGs, the study team have tried to analyse the impact of the Project intervention with respect to Credit Source using Recall Method and the snapshot of each state is presented in the charts below[29]:




[29] Refer Annexure 5 for further bifurcation among category 'A' SHGs and other SHGs.

**In all three states dependence on money lenders have come down due to project interventions as SHGs and their members have accessed better sources of credit like internal lending, RF loans, bank linkages, etc.**

Internal Lending by SHGs - Besides loans from VFCs and other external sources, a good SHG should also revolve its own funds (savings + earnings) as credit among members. The SHGs rotated their savings by way of internal loans.

Revolving Fund by VFCs - One of the key strategies adopted in the Projects was to encourage and foster Income Generation Activities (IGAs) among the SHGs formed of the most marginalised and poorer community members. These IGAs are expected to diversify income sources and reduce the dependency of the community on the forest. A Revolving Fund (RF) is created at the VFC to promote IGAs in the project villages. VFCs have provided loans to SHGs in the villages. Due to low recovery of loans the rotation of RF remains a concern. Details are provided in the table below:

**Table 4: Snapshot of Revolving Fund by VFCs**

| RF for IGA | Odisha | Rajasthan | Gujarat |
|---|---|---|---|
| Avg. SHGs per VFC | 3.37 | 1.6 | 2^ |
| Avg. age of SHG (years) | 7.62 | 1.61 | 4.18 |
| SHG grading (A, B, C)** | 56%, 31%, 13% | 10%, 16%, 74% | 8%, 10%, 82% |
| RF available with VFC (INR) | 2,50,000 | 1,50,000* | 30,000 |
| RF Loan per SHG by VFC (INR) | 20,000-30,000 | 50,000 | 15,000 |
| Grant per SHG by VFC (INR) | NA | NA | 15,000 |
| % SHGs received loan from VFC RF | 90% | 30% | 87% |
| Average Loan period of (VFCs to SHG) in Months | 6-12 | 12 | 12 |
| Rate of Interest p.a. (VFCs to SHG) | 6.85% | Up to 12% | Up to 12% |
| Repayment Rate to VFC by SHG | 38% | 15% | 34% |
| SHGs Credit Linkages with FSPs | 34% | 0% | 16% |

*Note:* **Rajasthan: Figures are for RFBP-2. Few SHGs formed in RFBP-1 but no records at field or PMU were there.*
*^ Gujarat: The target for SFDC village was less at 380 in many of the 800 villages.*
*** Study Team used the Standard NABARD SHG Grading Tool to rate and categorise Good to Poor SHGs*

Table above also shows that except to some extent in Odisha, the quality of SHGs development is not good, this is also reflected by low repayment rate of RF Loan by SHGs to VFCs. In Rajasthan only 30% SHGs have received RF funds which is fair enough considering the average age of SHGs is only 1.61 years and only 10%/16% of SHGs are under category A/B respectively. This implies most SHGs have not yet matured and not ready to utilize the present RF since it is only meant to be used for IGA loan. Thus they are requiring more capacity building and handholding support.

Through Formal Financial Institutions - SHGs have availed loans though Bank linkages, MFIs, etc. but not in large numbers.

**a) Odisha**

In Odisha in 30 villages Study Team surveyed 50 SHGs. Out of these, 17 SHGs (34%) have availed loans from Banks. These SHGs are spread over the project area and are under the control of 8 DMU and located in 14 villages.

A summary of this data is captured hereunder:

**Table 5: Geographical Snapshot of SHG Credit Linkage - Odisha**

| S. No. | Particulars | SHG Credit Linkage – Num | Total - Num | % |
|---|---|---|---|---|
| 1 | SHGs | 17 | 50 | 34% |
| 2 | Villages | 14 | 30 | 47% |
| 3 | FMU | 14 | 21 | 67% |
| 4 | DMU | 8 | 11 | 73% |

Further, theses SHGs have for credit-linkage tapped different Banks as per appended list, maximum being State Bank of India (SBI) and Utkal Grameen Bank as reflected hereunder:.

**Table 6: Formal Sources of Credit explored by SHGs in Odisha**

| Source of Credit | Num. of loans | % loans |
|---|---|---|
| Andhra Bank | 1 | 3.45% |
| Balasore Bhadrak Central Cooperative Bank | 1 | 3.45% |
| Bank of Baroda | 1 | 3.45% |
| Kalinga Gramya Bank | 1 | 3.45% |
| Keonjhar Central Coop Bank Ltd | 1 | 3.45% |
| Neelanchal Gramya Bank | 5 | 17.24% |
| State Bank of India | 12 | 41.38% |
| Union Bank of India | 3 | 10.34% |
| Utkal Grameen Bank | 4 | 13.79% |
| **Total** | **29** | **100.00%** |

The SHG-Bank Linkage process has been facilitated by various organisations, primarily by NGOs and Banks. The list of facilitating agencies is given in the list below:

**Table 7: Facilitators for SHGs Credit Linkages in Odisha**

| Facilitator | Num. of loans | % Loans |
|---|---|---|
| Aganwadi | 5 | 17.24% |
| Bank | 8 | 27.59% |
| Forest Dept. | 3 | 10.34% |
| Fishery Dept. | 1 | 3.45% |
| NGO | 12 | 41.38% |
| **Total** | **29** | **100.00%** |

The credit-seeking process commenced as early as 2008 and these 17 SHGs have so far availed 29 loans as shown year-wise.

Table 8: Year-wise Snapshot of SHG Credit Linkages in Odisha

| Year of Credit | Num. Num. of loans | % Loans |
|---|---|---|
| 2008 | 2 | 6.90% |
| 2009 | 3 | 10.34% |
| 2010 | 2 | 6.90% |
| 2011 | 3 | 10.34% |
| 2012 | 2 | 6.90% |
| 2013 | 6 | 20.69% |
| 2014 | 2 | 6.90% |
| 2015 | 9 | 31.03% |
| **Total** | **29** | **100.00%** |

Maximum Loan availed by an SHG is INR 350,000 and the minimum is INR 3,000 as can be seen from Annexure 2. The average loan amount for these 17 SHGs works out to INR 126,448.This amount has been availed by generally 'A' category SHGs and that too after availing the Revolving Fund Support from the VFC. The rate of interest varies and this detail as well as other aspects of the loan can be seen from the aforesaid excel sheet. Some of the SHGs who were 'A' category at the time of obtaining bank finance have subsequently deteriorated and have become 'B' or 'C' category.

As can be concluded from the above data, good SHGs are getting support of market players like Banks and this process has been successfully facilitated by FD or NGOs or by banks themselves.

FD/ VFC have to do now is to get their remaining SHGs market- ready so that they also qualify for bank or MFI finance.

**b) Rajasthan**

No bank linkage has yet been undertaken in sample villages of Rajasthan. The study team came across the following reasons[30] for no credit linkages based on SHGs' perception:

a. age of SHG (32%) [average age of SHGs in sample villages is 1.61 years]
b. irregular/improper savings (28%)
c. distance of bank (24%)
d. difficult to get loan due to reasons like illiteracy, documentation (24%).

**c) Gujarat**

While in Gujarat, SHGs have also received loans from other sources, like through the direct SHG-bank linkage program or MFI or microcredit programs sponsored by the State Rural Livelihood Mission.

In Gujarat the Study Team surveyed 39 SHGs in 30 sample villages and identified only 6 SHGs (i.e. 15% of studied SHGs) in 4 villages working under 3 DMUs which have availed of bank finance as can be seen hereunder:

Table 9: Geographical Snapshot of SHG Credit Linkage - Gujarat

| S. No. | Particulars | SHG Credit Linkage – Num | Total - Num | % |
|---|---|---|---|---|
| 1 | SHGs | 6 | 39 | 15% |
| 2 | Villages | 4 | 30 | 13% |

[30] Please note these factors are not mutually exclusive.

| | | | | |
|---|---|---|---|---|
| 3 | FMU | 4 | 18 | 22% |
| 4 | DMU | 3 | 15 | 20% |

Six SHGs took bank finance from State Bank of India or Dena Bank; one SHG secured individual loans for each of its members from an MFI as it was working as a BC of Yes Bank.

**Table 10: Formal Sources of Credit explored by SHGs in Gujarat**

| Source of Credit | Sum of Count | % |
|---|---|---|
| State Bank of India | 4 | 57% |
| Dena Bank | 2 | 29% |
| Disha MFI – YES Bank* | 1 | 14% |
| **Total** | **7** | **100%** |

**Note: Loan provided individually to all SHG members in form of Joint Liability Group.*

The SHG-Bank Linkage process has been facilitated by LETs. These loans are availed in the years 2013 to 2015: single loan in 2013 while three loans each in 2014 and 2015 respectively.

➢ **Insurance**

As compared to inception of the project the SHG members are now better covered under insurance schemes (figure 9). The number is however still very small. Even though the community members are covered under PMSBY or other insurance schemes, they are unaware of the insurance services/benefits or the fact that they are actually covered under any insurance scheme which becomes a point of concern.

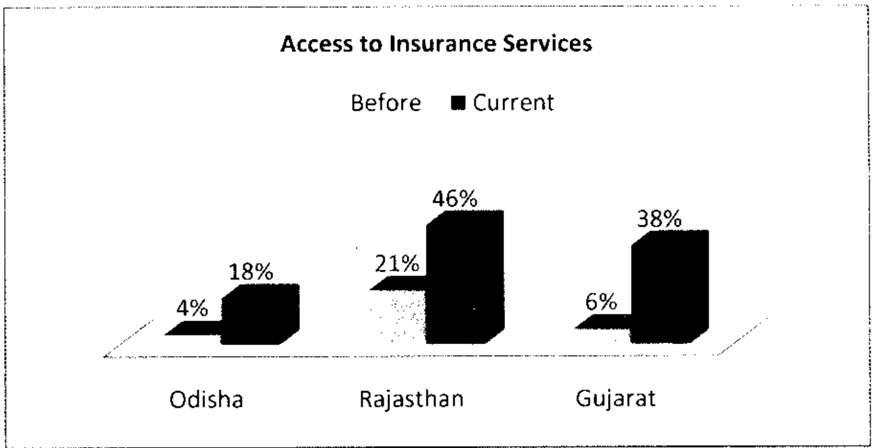



**Figure 9: Access to Insurance Services**

**<u>To sum up, the process of promoting good SHGs is already on and it has now to be continued with greater vigour and zeal.</u>** While Odisha has achieved more success than others it is largely because they took help of NGOs. Similarly Gujarat also has taken professional help. Rajasthan is now convinced that they too need to take professional partners. There are 4 options open to the Forest Departments for strengthening the SHGs and connecting them to market led institutions i.e. for clinching the objectives of Part B and these are discussed in greater detail at the end of this report.

### 3.2. Revolving Fund Management in the Project

The Revolving Fund (RF) management is at 3 levels i.e. the FD, NGO and VFC. Management of the RF involves objectivity and diligence for loan sanction, for assessing SHGs development, for assessing that the IGA is suitable and thereafter for ensuring repayment. The VFC by nature of its membership and role, is not likely to develop the objectivity or capacity required for this, unless mechanisms are put in place to enable this. RF also requires proper book- keeping like Loan registers, which they are often not able to maintain.

In Odisha, a lot of project investment went into for capacity building of community institutions and livelihood promotion. The support of NGOs of good calibre and competence was enlisted with clearly defined roles for NGOs. This has yielded positive outcomes for Part A, as well as specifically for Part B in microfinance and livelihood promotion of target community.

A less intensive and different strategy was followed in Rajasthan and Gujarat and the focus in these two states on RF management by the promoting agencies (be it the FD, NGOs, LET/CBT and VFC) or for obtaining microfinance and facilitating livelihood promotion of poor/forest dependent community is missing and/ or not manifest in the chosen sample villages.

In Rajasthan both in the Forest Department (FD) and the local people the concept of JFM, the institutional role and functioning of VFMPC is very weak as observed in the sample villages. The FD and community felt that NGOs lacked motivation and competence for community mobilization and institutional development and hence were found to be ineffective. About 71% VFPMC and 50% SHG members have conveyed that the trainings conducted were not adequate. The FD felt that the field staff of NGOs was not qualified enough and are not able to mobilize people much. Forest Department officials especially at FMU level lacked clarity and motivation for the purpose in view.

In Gujarat, Capacity Building Team (CBT) and Livelihood Enhancement Team (LET) model was adopted by the FD by contracting individuals but not NGOs. However the RO-LET have limited knowledge and experience, so they are not able to provide professional trainings on all the subjects. This has not helped for better management of RF by FD or the VFCs.

Further, not much effort by FD is seen in institutional development aspects of the JFMC/SFDC or SHG. This was particularly very poor in SFDC as there is no clarity or transparency in 75% of the SFDC membership. In SFDC areas, FD has limited land (4 ha) as well as control. There was thus lack of ownership of SFDC and its activities by the local people. JFMC is weak because often it is not recognized in the Panchayat since many JFMCs are doing interventions on grasslands that are under the control of other departments like Rural Development or Tribal Development departments. This in turn leads to poor ability of the SFDC/JFMC to manage the Part B component.

In Rajasthan and Gujarat many FD officers expressed that they would like to continue to retain and manage the RF activities, but they felt that they needed more capacity building as well as technical support to do this. There were many officers who were of the opinion that it is not a job that FD is suitable, capable or has the time for. This in turn gets reflected in the quality and working of the RF management by the JFMCs. There was even a view that SHGs are not required to be formed where there is no forest. Some officers felt the Loan component of the project is not the job of forest department. Loan for IGA should be availed from banks. However in all States, some officers felt that the significance of Forest Department's presence in remote areas where there is no other Govt. Dept. except FD has to be kept in mind for poverty alleviation activities. So FD is the only available department to undertake this activity in such fringe areas and so they need to be suitably trained and manned.

### 3.3. Capacity Development

In each of the projects various trainings were provided to the members of VFCs and SHGs on record keeping, awareness about the financial services and need for linkages to formal financial institutions like banks. Projects like RFBP – 2 and GFDP – 2 have thus been progressive considering that all funds related to works under the JFM mode, passes through the VFC account, thereby making the institution accountable for the receipts and payments made. The Member Secretary and the President of VFCs are jointly operating the bank account of VFCs. Nevertheless, the awareness of VFC Presidents regarding financial transactions is not adequate. On the other hand the SHG members particularly their President, Secretary & Cashier have taken the responsibility of SHG record keeping, collection of savings regularly, lending to members, ensuring recoveries and depositing the amounts in banks.

Areas of improvement for higher capacity development are as under:

i. Responsibilities of President or other office bearers should be well defined and communicated.
ii. VFCs should make payments in a transparent and open manner in the presence of some eminent person of the village or VFC other than the office bearers of the executive committee of the VFC.
iii. For transparency, all payments by or to VFCs should be done through account payee cheques or direct bank transfers.
iv. All the works done and works proposed should be communicated in a transparent manner to community at large by VFCs.
v. The financial records of VFCs like cash books, loan registers, periodical receipt and payment accounts, etc. should be regularly maintained and signed.
vi. The SHG records like saving's registers, internal lending registers, etc. should be properly maintained, checked and signed.
vii. SHG savings should be deposited in their bank on monthly basis and loans to SHG members should also be made through cheques.

### 3.4. Demand-side Analysis for Financial Services

➢ **Households Livelihood Profile**

Based on the primary study in sample villages of the 3 states, a comparative households' livelihood (LH) profile is summarised in the following table.

**Table 11: Comparative Households Livelihood Profile**

| LH Profile | Odisha | Rajasthan | Gujarat |
|---|---|---|---|
| **Social** | 61% average tribal population in the project villages; 76 % of the SHG members belong to ST and some to SC categories. | Tribal-29%<br>SC-14%<br>OBC-45% | 68 % of the population in the sample project villages is ST, 14 % belonged to OBC category, followed by SCs (12 %) and General (6 %). |
| **Land** | 15% landless, 68% less than 2.5 acres, 14% have 2.5 to 5 acres. | 10% Landless, 67% respondents are marginal farmers, and 17% Small farmers. | 14% households were landless labourers. 65% households are marginal farmers, 14 % households are small farmers, |

| | | | |
|---|---|---|---|
| | | | only 5 % are found to be big farmers. |
| **Livestock** | Ownership of a variety of livestock is seen amongst all Households. Currently, Ox, Cow, and Goat followed by Poultry Hen are the livestock owned. | Dairy animal (cow/buffalo) followed by Sheep/Goat is commonly owned asset with more than 30% households in each case. | Cow (51%) and buffalo (49%), and (22%) own goat. |
| **Primary income sources** | Agriculture on own land is the primary income for most households. For a large majority of Households, Agricultural Wage labour is almost as important a source of income especially where their income does not come from agriculture on own land or is not sufficient. | Agriculture (73.42%) is the primary income for most of the households. However, for a large majority of Households, Dairy Farming (44.9%) is also an important source of income especially where their income is insufficient and does not come from agriculture on own land. | Agriculture is the primary source of income for 67.25 % of the households. Further, up to 30 % HHs found to be engaged in livestock rearing & dairy farming as a second/third income source; therefore it also turns out to be an important livelihood option for total 54% of the households in current livelihood practice.<br>53 % engaged as agriculture labourer in their own villages. |
| **NTFP** | Major source of income and livelihood after agriculture (on own land) and agri labour. NTFP collection is predominant in the tribal villages – 55% of all project households. | NTFP gathering is the least source of income. It falls under fourth source which is 20 % only. The dependency of villagers on forest is less in Rajasthan in majority of the project areas. Forests of the Udaipur area offer support to livelihoods of poor families through various valuable NTFPs. | NTFP with 10.42% falls under the least source of income category. |
| **Other Sectors inc govt. wage work** | For over one-third of the households (38%), agricultural livelihoods is not the base (either on own land or from agri-labour). These are essentially non-agricultural livelihoods, derived from a combination of NTFP gathering, govt. wage labour and small livestock (mainly Poultry). | Further, agriculture wage labour (27.27 %) is another important source of income. | A large percentage of HHs (17.54) do Govt.'s Labour works under NREGAS as the **primary source** of income. It is also the second-most important income source for 41% HHs. |
| **Livelihood assets** | Around 65% households have 3 and more livelihood sources, indeed 35% of all households have 4 to 5 income and livelihood sources. This is quite typical of this socio-economic category i.e., rural, poor tribal households. It is a diversified portfolio of largely subsistence | Maximum households (83.02%) have two sources of income basically agriculture and then dairy farming. 67 % have one source of income. Only 3.14 % HHs have four sources of income. | For those HHs who have Public work as primary income, they have diversified livelihood with 3 significant sources including dairy. 20% HHs have a 4th livelihood source. |

| | | | |
|---|---|---|---|
| | livelihoods. | | |
| **Migration** | 17% HHs reported they have member(s) who migrate to far off States/Cities: Kolkota, Mumbai, Bengaluru, Kerala, Gujarat, Balasore for work. The average number of days of such migrations is around 200 per year. Most (56%) go for agri –labour and other casual labour work. | 21 % households, member(s) migrate to Mumbai, Gujarat, MP and other cities of Rajasthan for work. Most go for NREGA/ Public works (40%), private employment (19%), Casual employment in enterprise or Industry (14%). | 31 % of landless families migrate to Ahmedabad, Vadodara, Rajkot, Surat, Ankleshwar, etc. to work as a labourer at construction site. |

*Note: The household were selected from SHG members (2 no.), non-SHG members (2 no.) and VFC members (2 no.) to have cross section of various households across the sample villages. The analysis and findings below are based on 150-180 households surveyed in each State from project area.*

**Odisha**

1) Finding shows 61% average tribal population in the project villages – this is almost three times the State average. 76 % of the SHG members belong to ST and some to SC categories.
2) The majority of Agricultural landholding is in the small and marginal farmer category: 68% households have land less than 2.5 acres, 15% landless, and 14% have between 2.5 to 5 acres.
3) There is ownership of a variety of livestock distributed amongst all Households. Currently, Ox, Cow, and Goat followed by Poultry Hen are the livestock owned.
4) Agriculture on own land is the primary income for most households. However for a large majority of Households, Agricultural Wage labour is almost as important a source of income especially where their income does not come from agriculture on own land or is not sufficient.
5) NTFP gathering is the major source of income and livelihood after agriculture (on own land) and agri- labour. NTFP collection is predominant in the tribal villages – 55% of all project households.
6) For over one-third of the households (38%), agricultural livelihoods is not the base (either on own land or from agri-labour). These are essentially non-agricultural livelihoods, derived from a combination of NTFP gathering, govt. wage labour and small livestock (mainly Poultry).
7) Around 65% households have 3 and more livelihood sources, indeed 35% of all households have 4 to 5 income and livelihood sources. This is quite typical of this socio-economic category i.e., rural, poor tribal households. It is a diversified portfolio of largely subsistence livelihoods.
8) Only 17% HHs reported they have member(s) who migrate to far off States/Cities: Kolkata, Mumbai, Bengaluru, Kerala, Gujarat, Balasore for work. The average number of days of such migrations is around 200 per year. Most (56%) go for agri-labour and others for casual labour work.
9) Among SHG members, Village-level agriculture irrigation facilities, common resources for drinking water and water bodies are also expressed as a basic need in many cases. Some Households expressed linkage for Social Security support in the form of Pension, Housing, PDS and Health facilities.
10) A majority of the SHG and Household level respondents state that going forward, they needed financial support (loans) to develop or increase vegetable cultivation. Others – fewer in number, but still significant, looked for loan support for livestock rearing and sale business (mainly poultry, goat rearing) as well as NTFP primary processing procurement, storage and trade.

11) The loan amounts required individually are a minimum INR 10,000; but most commonly cited amounts range from INR 30,000 to 50,000. While most Households expressed need in the form of a loan individually, some of them expressed need for business development services also (market linkage, training) and for storage facilities.

**Rajasthan**

1) Household level landholding profile finding shows 10% Landless, 67% respondents being marginal farmers, and 17% Small farmers.
2) Livestock ownership of Dairy animal (cow/buffalo) followed by Sheep/Goat are commonly owned asset with more than 30% households in each case.
3) Agriculture (73.42%) is the primary income for most of the households. However, for a large majority of Households, Dairy Farming (44.9%) is also an important source of income especially where their income is insufficient and does not come from agriculture on own land. Further, agriculture wage labour (27.27 %) is another important source of income.
4) NTFP gathering is the least source of income. It falls under fourth source which is 20% only. The dependency of villagers on forest is less in Rajasthan in majority of the project area. Forests of the Udaipur area offer support to livelihood of poor families through various valuable NTFPs.
5) Maximum households (83.02%) have two sources of income basically agriculture and then dairy farming. 67 % have one source of income. Only 3.14 % HHs have four sources of income.
6) Only in 21 % households, member(s) migrate, to Mumbai, Gujarat, MP and other cities of Rajasthan for work. Most go for NREGA/ Public works (40%), private employment (19%), casual employment in another's enterprise or Industry (14%).
7) Availability of water is the primary requirement. Common resources for drinking water both for lives and livestock, water bodies are some of their priority needs as expressed by SHG members in many cases.

**Gujarat**

1) The household profile shows that maximum 68% of the population in the sample project villages is ST, 14 % belonged to OBC category, followed by SCs (12 %) and General (6 %).
2) Further the landholding profile shows that 65% households are marginal farmers, 14% households are small farmers, only 5% are found to be big farmers. Also, 14% households were landless labourers.
3) 20% households own dug well and 21% bore-well for irrigation purposes. However, most of the farmers are dependent on rain fed agriculture. Further, the households have livestock assets, cow (51%) and buffalo (49%), and (22%) own goat.
4) Main source of livelihood is agriculture supported by Animal Husbandry. Agriculture is the primary source of income for 67.25 % of the households. Further, up to 30 % HHs are found to be engaged in livestock rearing & dairy farming as a second/third income source; therefore it also turns out to be an important livelihood option for total 54% of the households in current livelihood practice.
5) Most of the families were dependent on agriculture. Due to this reason among the landless families, 53 % are engaged as agriculture labourer in their own villages. However, it is important to note that 31 % of landless families migrate to Ahmedabad, Vadodara, Rajkot, Surat, Ankleshwar, etc. to work as a labourer at construction site.

6) A large percentage of HHs (17.54) have Govt./ Public Labour works under NREGA as the primary source of income. It is also the second-most important income source for 41% HH. For those HHs who have Public Work as primary income, they have diversified livelihood with 3 significant sources including dairy. 20% HH have a 4th livelihood source.
7) NTFP with 10.42% falls under the least source of income category.

➢ **Household Financial Inclusion Profile**

**Table 12: Comparative Households' Financial Inclusion Profile**

| Financial inclusion Profile | Odisha | Rajasthan | Gujarat |
|---|---|---|---|
| HH with Bank account | 75% | 84% | 90% |
| Life Insurance | 23% | 31% | Max said No |
| Other Insurance (Livestock, Crop) with Bank/PACS | 1 HH (Livestock insurance with PACS) | 10% for Livestock & 13% for Crop (Bank & PACS) | Max. HH said No |
| NREGS availed | 87% | 75% | 35% |
| Pension | 13% | 23% | Data NA |
| Credit from Cooperative (PACS) | 4% | 7% | Data NA |
| Loan from Moneylender | Approx 2% (Only 3 HHs) | 60% | 75% |

Most households have a Savings Bank Account. However usage of the Bank account facility is not much. Other formal financial service providers like PACS, Cooperatives and financial Services like Credit, Insurance for Crop or livestock is prevalent in barely 10% households. Life Insurance is available for 20-30% households. Moneylender as a credit source is prevalent in 60-70% in Rajasthan and Gujarat, while it is negligent in Odisha.

A large share of HHs (75-85%) avail Livelihood/Social Security of NREGS in Odisha and Rajasthan while it is much lower at only 35% of households of Gujarat. However referring to data above on livelihood profile, we infer that for them, NREGS forms a very important part of the livelihood basket.

a. **Odisha** - All HHs surveyed have a bank account and 16% only have a Kissan Credit Card (KCC) account. Of all the 150 HHs who have accounts, 53% were opened in the 5 years from 2010-2014 and 18% in the single year 2015-16. The Bank, SHG and Home are important saving avenues as on today. The SHG credit service is more significant as compared to a savings service. Moneylender as a source for credit seems to have reduced. Only 3 out of 153 responding households said they have an active loan with a moneylender. The role of MFIs is non-existent in the area.
b. **Rajasthan** - Only 43% HHs are reported to have savings at home and 30% in bank. Most villagers are not saving money in bank as their accounts are not opened. No service from any MFI was reported.
c. **Gujarat** - 15% of HHs said that they have benefited from Jan Dhan Yojana (JDY). However 42% have not benefited from any of the social security schemes. For savings services, maximum (51% HHs) reported to have savings in bank and 40% at home. However, only 11% are doing savings through SHGs. 75% HH reported that they are dependent on money lenders to borrow

money in financial crises and their accessibility to avail loan services from bank schemes and SHGs is very limited.

**3.5. Concerns Associated with SHGs**

a. Improper/irregular working of SHGs
b. SHGs are not really working as a group for any economic activity; rather they just form groups for taking loans. Generally 2 to 4 active members of the group work and they get the loan from SHG
c. Low recovery; as much as 30/40% of loans become NPA; and this too is a conservative estimate
d. Diversion of loan funds for consumption needs is happening
e. Improper record keeping
f. Inactive members
g. Lack of monitoring
h. Focus should be on quality SHG formation instead of target approach.
i. Currently some SHGs have been provided loans even though they don't have sufficient savings or corpus and later they default on their loans. The quantum of loans to SHGs should be linked with the amount of group savings as generally banks do.
j. The quantum of loans to SHGs is not being linked with the amount of group savings which generally banks do.
k. Bulk of the SHGs are lacking in financial discipline/ strength, so banks will not extend financial assistance to them.

**3.6. Challenges in Livelihood Development and Financial Inclusion faced by Community**

a. Community lacks fund to earn their livelihood; local finance is available @ 2%-5% p.m. If they provide proper security then local money lender gives the funds @2% p.m.
b. Challenges that community face in their Income Generation Activities are:
    - They do not get working capital.
    - They do not get fair price for their produce.
    - Compliances of all rules and regulations is not possible.
c. For the rural community, especially for the farmers, there is a big 'Knowledge Gap' in financial literacy, better farming practices, technology adoption, diversification of opportunities, market linked prices, value addition services offered by various institutions, women empowerment and also for employment opportunities for rural youth.
d. Deficiencies/ ignorance about credit related repayment during distress situations.
e. Traditional IGAs are more successful; the new IGAs are not working on the ground.
f. Bank of Baroda, Ghatol Branch has successfully given loan to women SHG supported by an NGO. Their experience was only those SHGs can survive who have NGO support. Average Loan size for SHGs varies from INR 50,000 to 2,00,000 depending on their savings and grading as per NABARD guidelines. One of the constraints in SHG lending in their opinion was the unwillingness in giving loan by Bank officials.
g. Some who have availed of bank finance /micro-credit appear to have reduced their vulnerability to adverse circumstances, have increased their consumption and women feel empowered.
h. SHGs and their members don't really benefit from IGA loans as generally 2-4 active members of the group work and they get the loan from SHG.

i. The major spin-off of the micro-credit movement at the grass root level has been the fact that women have used this system to come out and join a mainstream activity in the village. But most Micro Finance Institutions prefer lending to Joint Liability Groups or to individuals.

**View of officials of various Banks, NFIs, NGOs and other institutions**

- **On SHG's Bank linkage in general:**

1) They had SHG accounts of which almost 50% - 60% were in default.
2) SHGs are linked by banks to meet target and the repayment of SHGs is poor below 60% in some districts.
3) The NGO - SURE, which is involved in RFBP-2 (2013- 2016) for VFMPC/SHG formation informed the Study Team about their activities. They have a SHG promotion and linkage program: Working with 500 women SHGs they have facilitated bank linkage for 350 SHGs in Barmer, Jaisalmer, Jaipur, Jalore and Jodhpur.
4) Ajeevika Bureau provides microfinance services for low income migrant workers they work with using their version of JLG [Joint Liability Group] model.
5) Bank is not interested in Banking with programmatic SHGs. SHGs are being opened under various Government programs like NRLM, SGSY etc. They have a subsidy component and when the subsidy is over the activity and loans go into default. Bank is more interested in dealing with individual entrepreneurs.
6) There is no coordination of Bank with the FD regarding SHGs formed by them. In any case, we can assume that even for SHGs formed under this Project, Banks may be reluctant and having the same approach and attitude as they have for programmatic SHGs.
7) The Odisha Livelihood Mission officer interviewed in one of the Districts did not know that FD was forming SHGs. However, the Horticulture Dept. Officer was aware of the same and in fact there was some success on inter-sectoral convergence. They had provided onion seed to these SHGs in collaboration with VSS / NGO team and provided technical training to vegetable growers. The general opinion of FD officers was that while the RF for IGA to SHGs is a good initiative, more needs to be done for financial, business and institutional sustainability.

- **On PMJDY:**

1) Thousands of accounts have been opened under JDY but 40 % are inactive. There is lack of awareness and no money. People are opening multiple accounts for more benefits.
2) RUPAY cards have been provided but there are some concerns like unawareness about PIN, lack of basic financial literacy, lack of adequate controls, etc.
3) On Insurance (PMSBY): Even though community members are covered under PMSBY, they are unaware of the insurance services or the fact that they are availing any insurance services - which becomes a point of concern.

- **On BC Model :**

1) The BC model was found operating in some sample villages.
2) Bank account opening, Pension Yojna, NREGA, Insurance, payments, deposits and state schemes are the variety of services provided and availed.
3) Many bank officials feel that individual BC of bank does not work as efficiently and dedicatedly as BCs of corporate do.
4) Also they advocated for introduction of new institutional arrangements such as BC conducting Financial Literacy Programs. BC have the advantage of being a local person and thus enjoy the

rapport and trust among the villagers. BCs work efficiently as most BC get transaction based payment.

5) Of late banks are taking help of BCs to extend micro-credit. There are two models for funding for liability of BC to identify right kind of customer and recovery process[31]:
   - First Loss Deficiency Guarantee (FLDG): 5% of the first default amount is guaranteed by the BC.
   - Second Loss Deficiency Guarantee (SLDG): 1% of the first default is guaranteed by Bank and next 5% by the BC
   - Currently most of the FLDG is being shifted to BC.
   - Cost of BC to the bank is 8% to 11% of loan portfolio and interest charged by banks is 24% p.a.

### 3.7. Bottlenecks towards Sustainable Financial Inclusion

Providing access to financial services has significant potential to help lift the poor out of the cycle of poverty. It is well known that financial inclusion promotes thrift and develops culture of saving and also enables efficient payment mechanism strengthening the resource base of the financial institution which benefits the economy as resources become available for efficient payment mechanism and allocation. But the poor community is typically more vulnerable to financial exclusion; this is simply because their major problems arise from the need for finances. Financial Inclusion is a long run phenomenon which cannot be achieved overnight, especially with regard to remote rural and forest fringe areas where the access to financial products and services are constrained by demand and supply side bottlenecks. Thus in the backdrop of findings of present study of Odisha, Rajasthan & Gujarat and earlier studies of JICA assisted forestry projects in the states of Tamil Nadu, Karnataka, Uttar Pradesh and Haryana along with the study team discussions with various officials of Forest Departments, NGO personnel, officials of Banks, MFIs, SRLM/NRLM, SIDBI, NABARD, World Bank, Research Institutions etc. the bottlenecks identified are presented hereunder:

#### Demand Side Bottlenecks

Though 80-90% of the Households are now having bank accounts, 45-70% of them are not using their bank accounts[32]. Mere opening of a/c is not sufficient for Financial Inclusion.

1. **Low disposable income**– In the previous sections, it is highlighted that the target community are ultra-poor and poor that are mainly landless or small and marginalised farmers. They have limited sources of income with high consumption expenses like medical expenses[33]. Savings or disposable income being directly proportional to income and inversely proportional to expenses tends to be low in the given economic conditions of remote rural and forest fringe areas.

2. **Locational aspects (lack of permanent address, temporary migration, etc.)** – Substantial number of households (OR- 17%, RJ-21%, GJ-31%) are migrating to urban areas or far off places for 5-9 months in a year. Such migrants attempting to open a savings bank account in a scheduled commercial banks face difficulties due to lack of permanent address proof.[34]

3. **Lack of awareness on financial services available in the market** – Financial inclusion, essentially, involves two elements, one of access and the other of awareness. During FGDs with

[31] Deputy Head – Micro Banking (North & Central India) RBL Bank
[32] Discussion with Bank Officials at various levels
[33] Various Branch Managers of Rural Branches
[34] Programme Manager, Microfinance, Aajeevika Bureau

SHGs and Household survey it is observed that there is very low or lack of awareness of financial services available in the market. For instance SHGs have not availed loans with banks due to unawareness as one of the major reason as accepted by 20% & 64% SHGs in Rajasthan and Gujarat respectively. Further, majority of community members at present are covered under PMSBY or such other insurance scheme but they are unaware of the insurance services/benefits or the fact that they are covered under any insurance services which becomes a point of concern[35]. For instance, regarding accessibility to financial and social services, the maximum households (44% to 63%) in sample villages of Gujarat reported that due to lack of information of product they are unable to avail benefits of services such as credit, life, crop, livestock insurance.

4. **Wrong perception of financial products**–Talking about death is cultural taboo particularly among rural illiterate community; thus financial products like life insurance are not considered even at lower costs[36].
5. **Lack of social capital in terms of approaching formal financial institution by SC/ST**– Due to factors like shyness, embarrassment due to cultural & social barriers; community members do not approach formal financial institutions.
6. **Micro/small transactions or/and lack of timely assistance** – On one hand demand is of micro/small transactions which involves proportionately higher processing costs. Further the needs, particularly credit, are immediate that requires liquid funds at odd times. Thus, due to proximity of money lenders credit is availed from them.
7. **High levels of informality throughout economy** with a pervasive and unregulated financial sector constituting the major source of borrowing. *(Dependence on Money Lender pre project – Rajasthan – 70%, Gujarat - 76%, Odisha - 67% and post project – Rajasthan – 57%, Gujarat 47% Odisha - 38%).* Migrants generally resort to informal routes of remitting the funds to their families; for instance funds are sent through bus drivers or conductors to their families, due to easy procedure and timely delivery of remittance.
8. **Fear of losing relations with traditional village money lenders** - Lack of trust and fear of losing the relationship with local money lender(s) and traders is one of the main reason due to which the community do not come forward to avail finance from banks or formal financial institutions[37]. Due to the same reason they are reluctant to deal with NGOs or Cooperatives etc.
9. **Complicated procedure and formalities**–Customers are required to provide verified KYC documents[38] to banks. Community believes that there were too many formalities when it comes to account opening or availing loan etc.; it's very time consuming, tedious and complicated. Also community face delays in withdrawal's due to lengthy procedure of getting the thumb impressions matched and/or that another person (a/c holder of the same branch) should verify the thumb impression.
10. **Lack of Financial Literacy** – Majority of socially excluded community living in forest fringe areas lack financial literacy and thus are unaware about the available products/services,

[35]Various Branch Managers of Rural Branches
[36]Branch Manager, Odisha Gramhya Bank, Nilgiri
[37]Samarthak Samiti, Jaipur – working with Tribal Communities
[38] Know Your Customer (KYC) - http://www.icicibank.com/rural/microbanking/shg.page

characteristics of the available financial products/services, including their risks and returns. Overall, levels of financial literacy are also poor which push workers into becoming victims of fraud and malpractice[39].

11. **Expensive (High transaction cost)** - One of the main reason of not utilising the banking services is that the banks are at a distance from villages and BCs penetration is not good enough, thus involving high access costs/ expenses such as travel costs, wage losses, incidental expenses.

**Supply Side Bottlenecks**

1. **Digital connectivity issues would prevent mobile banking** - So 'click banking' may not work to overcome 'brick banking' deficit. 'Currently only loans are being given by BC and not engaged in accepting savings deposits but collects loans instalments. Mainly because of poor connectivity 6 out of 10 transactions fail so control is difficult. Eventually once technology is strong they would move to accepting deposits too'[40].
2. **Unawareness about JFM Projects and Livelihood component therein** – Many of the stakeholders/ institutions, especially policy level officials at state & national level, the study team met had not heard about the SHGs promoted/ assisted by Forest Department under current JFM projects.
3. Standardised financial products which are beyond the comprehension of the poor and the downtrodden.
4. Unfriendly attitude of the service providers.
5. Lack of use of vernacular languages in promotion documents, policy document, etc.
6. Absence of awareness programme and proper advertisements.
7. Lack of staff in branches and many un-productive / zero balance accounts.
8. Prior experience of Banks – Poor repayment of SGSY / other Govt. Project SHGs.
9. Some of the bankers have perception that rural poor are un-bankable.
10. Bankers are interested in high value secured credit and more focused on branch profitability (current).
11. High transaction costs in relation to size of deposits and loans - large number of small accounts.
12. Inability to evaluate and monitor cash flow cycles of various rural IGAs and repayment capacities of poor.
13. Lack of banking habit and credit culture in certain villages.
14. High cost of recoveries in case of over dues.

**Technology for financial inclusion**- As a large number of the weaker and disadvantaged sections of rural society suffer from financial exclusion, there is a need to bring about financial literacy and inclusion using technological inputs, on a massive scale, over the next 5 years.

Efforts, therefore, must be in place for spreading awareness about the new developments in the field of banking and finance in terms of products and processes such that the desired benefit is achieved at the grass-root level. Currently the reach is not restricted, but only a small segment of the population who voluntarily takes interest in knowing and understanding the developments in these areas, are aware of the same. What is required is a large-scale financial literacy initiative so that more and more persons are able to participate in the financial sector and avail of the numerous facilities offered by the financial institutions.

[39] Ajeevika Bureau, Udaipur
[40] Deputy Head – Micro Banking (North & Central India) RBL Bank

The summary of the above findings are:

1. The gap between SHGs/ individuals and the financial institutions like banks/ MFIs/ PACs/ RRBs is still huge notwithstanding the serious efforts made by the government to bridge this gap.
2. The gap is not only on account of distance that is supply side issues but also because the banks/MFIs are not very keen to finance SHGs or their members.
3. The gap also exists as demand side has not yet evolved as livelihood potential has not been mapped, IGAs which would succeed in the project areas not identified, SHGs/ members not trained to become entrepreneurs, etc.
4. However efforts are on to bridge this gap by NRLM/ SRLM/ BCs/ Banks/ MFIs/ Skill Ministry/ Child and Women Welfare departments, tribal development departments, etc. and hopefully this will lead one day to include all the SHGs/ members of FD.
5. Till then FD will have to continue to handhold/ mentor their SHGs/ members directly or with the help of their partners.
6. Recommendations in the next chapter will cover how JICA/ FD should strategize/ proceed to achieve sustainability of their project as well as of the social institutions that they have created and of the members they have mobilized.

### 3.8. Findings from Discussions with Stakeholders

#### 3.8.1. Supporting Institutions: Financial Inclusion (MFIN, Sa-Dhan, NABARD etc.)

The Study Team met with various policy making and supporting institutions working on financial inclusion and a summary of their findings there from are as under:

- MFIN representative says that most of the MFIs are moving into urban areas as rural operations are high on cost and low on returns and so she was not sure how many MFIs would be keen to go to the remote forest areas where JICA assisted forestry projects' SHGs are located. But she said that she will try as there are still some MFIs who are keen to work in rural areas. As per MFIN quarterly report , the MFIs are presently working in 400 districts and so there may be scope for connecting some of them to projects' SHGs.
- However, the representative cautioned saying that the financial discipline imposed by MFIs on the SHGs would be much more severe than the Forest Department's Revolving Fund mechanism demands and so would projects' SHGs be comfortable to switch to the new culture. For instance, MFIN is now insisting on KYC/ Aadhaar Card/ Credit Bureau processes to be completed before extending micro credit.
- NABARD representatives said that in addition to SHG bank linkage programme, NABARD focus is now more on JLG and farmer club promotion for enhancing farm credit and financial inclusion; also that they are supporting NGOs for conducting financial literacy trainings.
- According to NABARD, the SHGs will now progressively be taken care of by SRLM in most of the states. SRLM is supporting all SHGs formed by Self Help Promoting Institutions (SHPI)/ Banks under SHG-Bank Linkage program.

#### 3.8.2. Service Providers (Bank /MFIs and Insurance)

The followings points were highlighted by the bankers on financial inclusion and its challenges in their area of operations:

- State Bank of India (SBI) said that they could provide Financial Literacy and Credit Counselling inputs to the SHGs even if the SHGs are located far away from their branches.
- SBI can also provide finance for MSME initiatives of the SHG members.

- SBI indicated that if JICA/FD would like to provide their funds support or cover the risk on loans to SHGs, then that could be discussed and worked out by the Bank.
- For instance, JICA could keep funds with the Banks so that banks could use those funds to finance JICA promoted SHGs. Also interest earned on those funds kept as fixed deposit in the Bank by JICA/ FD could be used to reduce the interest burden on loans given to their SHGs. This way the bank loans to JICA's SHGs would become cheaper.
- Simultaneously the same funds of JICA/ FD could be used as a First Loan Default Guarantee to protect the bank from losses.
- RBL Bank Ltd. said they are collaborating with microfinance partners who are already working in rural areas and so can easily extend financial assistance to deserving SHGs and their members. They too expressed their concern about the status of the JICA's SHGs and whether their members are credit worthy or not and have sustainable micro-enterprises to take their loans for. RBL Bank representative suggested that BC could be a good model for reaching the remote / forest fringe villages.
- RBL has good exposure in operating MFI- BC model, however currently only loans are being given by BC and they are not engaged in accepting deposits. Mainly because of poor connectivity, 6 out of 10 transactions fail; so servicing such deposit accounts and control over withdrawals is difficult. Eventually, once the technology becomes strong, then they would move to accepting deposits too.
- RBL Bank representative mentioned that SKDRP (an NGO) is one of their BC who is dealing only with SHGs in Maharashtra and has loan book amounting to INR 80-100 crores with almost 100% recovery rate. Therefore, JICA/ FD can look at their model for SHGs-based financial inclusion
- Bandhan Bank (BB) is a new Bank licensed by RBI in Sept 2015; it has 600 branches providing doorstep services through their microfinance network. The representative from Bandhan Bank said that the consumption needs are also addressed when appraising the IGA loans.
- Bandhan Bank has collaboration with Life Insurance Corporation of India and has covered for life all their women borrowers and their spouse as loan-linked insurance products.
- Bandhan Bank indicated that there is a huge gap in financial inclusion efforts in rural areas and much needs to be done in this space.
- Bank representatives mentioned that most of the Banks have established Financial Literacy Centres or FLCCs [Financial Literacy and Counselling Centres] across the country to take this aspect of Financial Inclusion forward. JICA/ FD can collaborate with such centres for providing financial literacy and credit related inputs to their members.
- Bank representative of BB indicated that the loan repayment rate of SHGs was poor; over dues ranged from 10% to 22% of the loans advanced. Banks are reluctant to finance SHGs in Rajasthan. He also indicated that the SHG Bank Linkage program in Rajasthan has not been attempted/ promoted seriously/ aggressively.
- Bank representative also indicated that with the PM Jan Dhan Yojana boosting Financial Inclusion efforts and giving Rupay card as well as cheaper tiny loans, the SHG based lending product is facing a challenge. The main IMPACT of micro-credit appear to be: reduced vulnerability of the poor to adverse circumstances, increased consumption in the same group, and empowerment of women.
- The major spin-off of the micro-credit movement at the grassroots level has been that women have used this system to come out to join a mainstream economic activity.

- Access to financial services is a key element in the process of socio-economic empowerment of the financially under-served sections of the society thus VFCs/EDCs/SHGs should be linked to banks.
- The quantum of loans to SHGs should be linked to the amount saved by the group as generally banks do. Currently some SHGs have been provided loans even though they don't have sufficient savings or corpus and later they default on their loans.
- Banks are there and they do have various services/products to offer as well but due to lack of awareness, the community are unable to access them.
- Most bankers suggested that since the community are into agricultural practices preferably agri-related IGAs should be promoted and appropriate products like KCC (Kissan Credit Card) and also insurance products of Agriculture Cooperation of India can be given. The Banks said that by pursuing targets many IGAs are promoted which do not work on the ground and so proper selection of IGA would help to protect investments.

**3.8.3. Summary of suggestion from Bankers:**

1. Suggestions to achieve Sustainable Financial Inclusion are:
    a. Introduction of new institutional arrangements such like BCs (BCs are effective).
    b. BCs are helpful in creating awareness and undertaking banking transactions.
    c. BC have the advantage of being a local person and thus enjoy the rapport and trust among the villagers.
    d. Capacity building of BCs; not possible without proper and continuous training.
    e. Conducting Financial Literacy Programs
    f. Developing financial capabilities and financial discipline
    g. Regular education & capacity building is required to change the mind-set.
2. For the rural community, especially for the farmers, there is a need to fill the **"Knowledge Gap"** in financial literacy, better farming practices, technology adoption, diversification of opportunities, market linked prices, value addition services offered by various institutions, women empowerment and also for employment opportunities for rural youth. In addition to this, the deficiencies/ ignorance about credit related repayment during distress situations call for credit counselling.
3. With a view to assist the rural community, one Bank has conceptualised "Baroda Grameen Paramarsh Kendra (BGPK)" and its implementation by the dedicated team, has helped build the confidence of the rural people.

    Activities being covered under BGPK are:
    a. Financial Education and Financial Inclusion
    b. Information sharing and problem solving on technical issues
    c. Credit counselling
    d. Synergy and liaison with other organisations and development activities
4. **Financial Education and Financial Inclusion** - Spreading "Financial Awareness" among rural masses through village level meetings and help them to choose suitable banking products.
5. **Information sharing and problem solving is important;** Interface sessions with the Subject Matter Specialists from Knowledge institutions like Agri. Universities, KVKs, NGOs, etc. will be helpful in this regard.
6. **Credit Counselling is essential** - Providing credit counselling on repayment pattern, rephasement, rescheduling and fresh credit during distress situations for rural people.

7. **Synergy and liaison with other organisations and development activities:**
   a. Synergy and liaison with Farmers Clubs, SHGs, NGOs, Rural Marketing agencies, Input suppliers, Rural markets, etc. for value addition services.
   b. Training the rural youth for self-employment, by many vocational training providers who are empanelled by the Skill Ministry and National Skill Development Corporation.
8. **Dedicated Team for financial inclusion** is required - managed by dedicated and experienced officers.
9. Community lack funds to earn their livelihood and local finance are available @ 2%-5% p.m. If the villagers have proper security to offer than local money lender provide them funds @2% p.m. Even this is very high for a poor villager to afford and so there is need for formal institutions to step in.
10. While micro credit is a necessary condition for poverty alleviation it is not a sufficient condition and so the village borrower has to be supported in a holistic way by suitable financial and non-financial interventions. Accordingly, there is a need to integrate the many interventions suggested above by the bank officials to achieve sustainable livelihoods. That leads us to suggest that the SRLM or NGOs be engaged as they are equipped to play this role of an integrator.

### 3.8.4. Livelihood Promoting Institutions:

1. Gujarat Livelihood Promotion Company (GLPC) has helped 252,000 SHGs in Gujarat become stronger and have connected them to banks, CSR Cos., NGO's of repute, NRLM, etc., skill the members and help them avail livelihood finance, initiate micro enterprises, undertake group level business activities like dairy, catering, tailoring, etc. to enhance incomes for their members. They will be willing to consider extending professional support to JICA/ FD promoted SHGs. Some SHGs of JICA/ FD have already been connected to them.
2. **JICA/ FD should consider talking to NRLM, SRLMs, and join hands with them for providing support to the SHGs promoted in and around their project areas.** Through these Missions SHGs would automatically get connected to World Bank/ Banks/ MFIs/ CSOs/ CSR Cos. / Skill Providers/ such players who are active in rural space.

# 4. Recommendations

The study team observed that Financial Inclusion has been a protracted process, especially in remote rural and forest fringe areas where access to financial products and services are constrained by demand and supply side bottlenecks. The bottlenecks have been identified by the study team during the course of not only the present study/discussions in Odisha, Rajasthan and Gujarat but also by drawing from the learnings of earlier studies undertaken in the states of Tamil Nadu, Karnataka, Uttar Pradesh and Haryana. Also it has been observed that though in the JICA assisted forestry projects there is revolving fund, the same has not enabled the forest dependent community to completely link to the formal financial institutions for sustainable financial inclusion. Accordingly the study team has examined possibilities to transform the existing revolving fund mechanism into a sustainable and market oriented financial inclusion through the participation of formal financial institutions.

The study team recommends having a holistic approach to enable the forest dependents, poor and vulnerable community's members to get linked to the FSPs. Thus following broad measures are recommended:

1. Diversifying RF and creating/building credit history of first time borrowers.
2. Introducing BC to create last mile connect in the project villages.
3. Introducing micro-insurance agents for broadening and strengthening the FI in project villages.
4. Use of information technology tools for better outreach, regular monitoring at lower cost.
5. Focused and institutionalized convergence for leveraging benefits of already existing government schemes of FI.
6. Focused regular training and capacity building program across all levels.

## 4.1. Recommendations on good-performing SHGs and VFCs

The VFCs and SHGs are important community institutions of JICA assisted Forestry Projects in India; some of them have been made effective and efficient by monitoring their performance regularly during the both the SHG promotion stage and convergence stage. The first stage was limited to promotion, nurturing and inculcating habit of financial management through savings and internal lending and during the second stage they were helped to develop the entrepreneurial skills of the SHG members so that some of them become either independent entrepreneurs or graduated into viable units.

### 4.1.1. Criteria and indicator for assessment of good SHGs

In India the SHG movement is now well established and NABARD has laid down the basic principles, norms for functioning and grading.[41]

NABARD has developed a scorecard for SHG performance and the study team has used this scorecard in all the three states. NABARD SHG rating tool is also being used by all banks in India for SHG bank linkage program for last two decades. It is recommended that this scorecard should be used by all the current as well as future projects for SHGs assessment.

[41] https://www.nabard.org/english/assessmentmethods.aspx

It has following 16 criteria for SHG assessment:

**Table 13: Criteria and Indicator for SHG assessment**

| S.N. | Criteria for SHG assessment | Assessment Indicators |
|---|---|---|
| 1 | Homogeneity/Solidarity | - Very Strong, Moderate and Not very much |
| 2 | Governance | - Awareness about objectives of Self Help Group Programme<br>- Awareness about rules and regulations of group functioning<br>- Leader responsibility sharing by group members<br>- Awareness about member-wise savings and loan position |
| 3 | Conducting Meeting | - Regularity of meetings |
| 4 | Meeting Attendance | - Average number of members attending meetings |
| 5 | Financial Transactions | - Fund collections, financial decisions and disbursement |
| 6 | Members' Financial Awareness | - Awareness about all financial transactions<br>- Average number of members aware |
| 7 | Regularity of Savings | - Average number of members regular in saving<br>- Regularity of savings |
| 8 | Internal Lending Pattern | - Need based loans<br>- Manner of distributions<br>- Members covered through internal lending |
| 9 | Internal Lending Velocity | - Rotation of corpus fund of SHG |
| 10 | Repayment Terms | - Repayment terms, frequency, terms documented or not. |
| 11 | Bank Linkage | - Approached any bank or not<br>- Bank provided loan<br>- Regularity in repayment of loan |
| 12 | Borrower Quality | - Number of members defaulting loans |
| 13 | Asset Quality | - Amount overdue for more than 3 months |
| 14 | Records Maintenance | - Adherence to the groups bye-laws<br>- Attendance at the meetings<br>- Financial decisions taken at the meeting<br>- Savings collection<br>- Loan disbursement<br>- Repayment performance<br>- Member-wise savings and loan portfolio |
| 15 | Usage of Group Physical Assets | - Common assets of SHG<br>- Utilisation thereof by members |
| 16 | Involvement in Village Issues | - Involvement of SHG and its members in social and other issues of the village<br>- How often they involved? |

The NABARD scorecard (refer annexure 3 for detailed scorecard for categorisation) is a holistic exercise to assess the institutional, financial and social aspects of SHGs.

> *"The SHGs have to be assessed in terms of Group dynamics like cohesion, vibrancy, goal-oriented action, participation of members, democratic decision and collective leadership. The appraiser has to see whether the group is functioning, actually as a group, why the members have come together, whether it is for obtaining loan from*

*bank or the group sees other purposes, what is the group discipline and whether it is sustainable." - NABARD*[42]

a. Those SHGs who score more than 70 points out of 100 are considered good quality SHG (i.e. A category) and are recommended for credit linkages and higher size loans.
b. Those who score in between 50 to 69 (i.e. B category), are considered the average groups and they need hand holding support before credit linkage.
c. Those who score less than 50 (i.e. C category), need intensive capacity building support and restructuring of group if required before credit linkage.

### 4.1.2. Criteria and indicator for assessment of good VFCs

The criteria for performance evaluation of VFCs in managing a Revolving Fund (RF) should be standardised and based on this VFCs should be categorised. They can be rated on the scale of 1 to 5 on each indicator.

**Table 14: Criteria and Indicator for VFC Assessment**

| SL | Criteria of a good performance in managing a RF | Indicator | Means of Verification |
|---|---|---|---|
| 1 | Institutional Capability | Representation of villagers<br>Women participation in Executive Committee<br>Democratic Selection of EC<br>RF Management Committee<br>Number of Trainings on RF management | Institutional assessment report by NGO/ FD on half yearly basis |
| 2 | Amount of RF mobilised | Amount mobilised by Forest Department<br>Enhanced RF through interest/ income<br>Enhanced RF through Convergence<br>Enhanced RF trough grant and other department/ CSR<br>Total amount per SHGs<br>Total amount per members | Quarterly MIS of the RF performance by VFCs with support from NGO |
| 3 | Rotation of Revolving Fund | Number of total families covered<br>Number of time RF Rotated (Old members)<br>Number of time RF Rotated (New members)<br>Repayment Rate of RF loan<br>Interest rate of RF loan to SHGs (close to market if good)<br>Number of SHGs covered | Monthly MIS of the RF performance by VFCs with support from NGO |
| 4 | Coverage of Poor / Vulnerable | Number of BPL families covered<br>Number of women covers<br>Number of financially excluded families covered | Monthly MIS of the RF performance by VFCs with support from NGO |
| 5 | Linkage with formal financial institutions | Number of Bank/ FI covered<br>Number of families linked<br>Number of financial product access | Bank data, MIS reports, SHG and members passbook |
| 6 | Convergence with other department and government financial | Number of department covered<br>Number of scheme covered<br>Number of families –linked | Monthly MIS of the RF performance by VFCs with support from NGO |

[42] https://www.nabard.org/english/assessmentmethods.aspx

| | | | |
|---|---|---|---|
| | inclusion schemes | | |
| 7 | Documentation, record keeping and Institutional complains | Update bank-passbook for RF account<br>Update loan document under RF<br>RF guideline and process document | Annual Audit Report (external)<br>Monthly Bank Data<br>Monthly Progress report of VFC<br>Annual internal audit reports |

#### 4.1.3. Savings Mobilisation by Financial Services Providers

Presently members save in SHGs and these are meagre savings which form the corpus for internal lending. Further the members are being linked to banks where they are provided savings and remittance facilities. The third avenue for savings is through the insurance products which the Government of India is pushing for vigorously. The fourth saving product is the New Pension Scheme which the Pension Fund Development and Regulatory Authority (PFDRA) is promoting.

The NGO and FD should facilitate through following interventions for mobilising savings in the above four channels by connecting the members to SHGs and financial services providers.

a. Financial Literacy and Awareness development - Financial literacy is in its infancy in villages. The members of SHGs should be trained on financial literacy and awareness should be created among them regarding the various financial inclusion schemes available. Government of India have initiated several financial inclusion schemes (attached as annexure 4) for poor and excluded families. They should be provided with Information Education and Communication (IEC) material in their vernacular language for awareness creation. Smart classes should be conducted at all VFCs using interactive modules for financial literacy and creating financial awareness.

b. Leveraging services of BCs – Current the major hurdles in availing banking services are distance to branch, conveyance cost and wage loss for the day. To overcome these hurdles BC is a solution being used by FSPs. NGO/ FD should identify young rural entrepreneur and support under RF for establishing BC –The project can identify the educated youth preferably a commerce graduate and provide RF through JLG or SHG for initial investment to purchase hardware/necessary equipment/ internet required for undertaking BC activities. The members from 'A' grade SHGs can also act as BC. The member should be trained to function as BCs to offer banking services at the doorstep of the financially excluded community particularly women and forest dependent households. These BC will facilitate and enhance the financial inclusion in project areas.

c. Leveraging Unified Payments Interface - Small amounts are not easy to transfer as related transaction cost is high both for customer and bank. Unified Payments Interface (UPI), launched by the National Payments Corporation of India (NPCI) with the Reserve Bank of India (RBI), has been initiated to overcome this shortcoming and is set to revolutionize digital banking, thereby enabling hassle-free payments. When it comes to mobile banking, the biggest challenge was to enable transfer of small amounts of money from one end to the other. And UPI's instant transfer mechanism seamlessly enables that. Category 'A' SHGs should be trained and encouraged to use UPI for collection of savings, instalments and internal lending. This will build their banking habit and record without visit to bank branch.

d. From Saving to Credit and broader financial Inclusion – The customers who maintain financial discipline in their account for six months are entitling to loans upto INR 5,000 under PMJDY. FD and NGO can facilitate this by guiding the SHG members to maintain their savings' accounts properly. Expanding saving and credit services, in the deeper pockets of the project areas, will lead to 100 percent financial inclusion of the SHG members. Further it is recommended to cover the community with micro insurance (life, health, livestock and enterprise) and micro-pension services to manage livelihood risk and ensure wealth during old age. Insurance coverage is important to ensure social security and mitigation of natural and other risks. Suitable schemes should be identified by Convergence Cell of PMU; benefits, cost and premium for availing coverage should be clearly listed at their website and communicated to SHGs & VFCs through resource persons/NGOs. One or two member from 'A' category SHGs should be trained and made responsible to ensure that benefits of such schemes are availed by the community.

e. Increase Usage of Bank Account - Total monthly savings should be mandatorily deposited in bank. Further, disbursement of internal loans and repayments thereof should also be done mandatorily through the accounts of SHGs' and their members'. Regular banking transactions will build trust among the members and also build their banking history for better as well as higher eligibility and access to formal financial services particularly micro credit.

f. SHG Savings' Accumulation – The surplus funds of SHGs instead of being kept in cash or in savings account should be deposited in fixed deposit account earning higher rate of interest. For short term requirements of SHG members SHGs may avail overdraft facility over such term deposits. This will enable them to avail higher interest income and create better banking history and track record.

#### 4.1.4. Measures, actions and steps to be taken to enhance access to and use formal financial products and services

Some of the JICA assisted SHGs have been graded 'A' and these have succeeded in obtaining finance from market led institutions. Good SHGs are getting support of market players like Banks and this process has been successfully facilitated by FD or NGOs or by banks themselves. All that FD/ JFMC/ VFC have to do now is to get their remaining SHGs market- ready so that they also qualify for bank or MFI finance. The process of promoting good SHGs is already on and it has now to be continued with greater vigour and zeal. The list of A graded SHGs which have been able to secure credit facilities from Formal Financial Institutions can be seen as Annexure 2.

Further following measures, actions and steps are recommended to have better and continuous access to formal financial products and services:

a. SHG members should also be trained to self-rate SHGs on the lines of NABARD scorecard. This would inform SHG members of their strengths, weaknesses and for initiating corrective action.

b. SHG members could also be trained to assess the performance of other SHGs through a cross audit process. Audit, *inter alia*, should cover aspects like regularity in meetings, savings, internal lending process, correctness of interest application, accounting for all receipts and payments, drawing out final accounts of SHGs, etc. The audit may be informal in nature, but be made compulsory which will help them to become stronger and eligible for credit linkage from formal financial institutions.

c. All SHGs should be evaluated by PMU on periodical basis at least once in a year. A mobile app should be developed by MIS Cell based on the NABARD Rating Tool to collect SHGs data. This will minimise the cost of evaluation, provide real time rating and enable quick and better decision making for corrective measures.

d. Formulate an Action Plan to facilitate graduation of majority of the group members to the entrepreneurship level within a prescribed time frame. This will require appraisal of SHGs as well as their members as individual entities taking into account their credit and training needs. For this purpose PMU could draw upon the vocational skill training agencies empanelled by National Skill Development Corporation of Ministry of Skill Development.

e. Joint Liability Groups (JLGs) within SHGs - A few members of an SHG may move fast to start or expand economic activities requiring much higher levels of loans than provided by SHGs. In such cases, the other members may not like to stand mutual guarantee for a few large sized loans. Hence a smaller "Joint Liability Group (JLG)" of SHGs members may be constituted. The members of JLG will continue to remain members of their respective SHGs and continue to participate in the activities of SHG.

f. Though the SHGs are not required to maintain the accounts in a professional manner to generate the balance sheets, profits and loss accounts, etc., but the books of accounts need to speak the details of receipts, disbursements, outstanding, up to date basis. In the absence of clear data on financial transactions members tend to default, dissuade and the SHG goes into defunct mode. User friendly mobile application for SHG MIS should be developed and piloted for the maintenance and collection of SHG records (meetings, savings, internal lending, IGA, repayments, interest, bank linkages, etc). Further, such application shall also be used as a medium for creating awareness (i.e. schemes of State and Central Government) among SHGs. Member Secretary of VFCs should be trained to use such application. This will create SHG MIS at Village, Range, Division, Circle and Project levels. This will be accessible to SHG members to check their accounting records and status of savings, loans, etc

g. The VFCs should encourage deserving individual/household to access credit directly for meeting larger working capital requirements based on their credit history with VFC and banks.

h. VFCs should encourage good SHGs to take credit facilities from formal financial institutions and return VFCs' loans so that such funds can be used for funding new/additional SHGs.

i. Loans by VFCs should have clearly defined interest rate and repayment terms with predefined instalments collection period (preferably[43] weekly/fortnightly or monthly as experience shows longer instalment periods tend to go in default) to reduce defaults and maintain continuous contact with SHGs. SHGs who are regular in instalments repayments may be incentivised by interest subvention say interest subvention of 20% on interest charged on last few instalments. This will be additional incentive to keep their account regular. Once terms of repayment are agreed, even web MIS can send automated reminders of instalments due on regular basis by SMS, messenger services like Whats App, Hike etc.

j. Good VFCs should be provided with additional financial assistance to meet their operating expenditures and for capacity building and to support collective activities related to SHGs, forest and village development and grant to vulnerable families.

k. Category 'A' SHGs should ensure that their unbanked members and villagers get Aadhaar linked bank accounts opened under PMJDY. Further those who already have bank accounts could be

[43] In exceptional cases like crop loans they may be linked with harvesting period.

linked to Aadhaar for direct electronic benefit transfers (DBTs) under various government schemes and programmes like MGNREGA, old age pensions, LPG subsidy, scholarship, etc.

l. SHG members, who are to be trained by Convergence Cell of PMU for availing benefits of various government schemes, should also be trained as micro insurance agents by a tie up with insurance companies. This will slowly lead to increased insurance penetration (Life Insurance, Health Insurance and Asset Insurance – Livestock, Weather & Microenterprise), in remote, rural and forest fringe areas. Further as micro insurance agents they will get to earn additional livelihood incomes.

**4.1.5. Improving the financial capability**

Post successful financial inclusion there is a need to build up financial capability of the SHGs, VFCs and their members. Financial capability relates to motivating and supporting consumers to make sound financial decisions that best suit the circumstances of one's life, within an enabling environment. Attention to financial capability is essential for attaining sustainable livelihoods. While simple financial literacy aims to help consumers improve their financial knowledge, the concept of financial capability extends beyond what a person knows to what the person does. This shift requires much more and thus the recommendations are as under:

a. Behavioural Change - What people choose to know and what they do with their knowledge may primarily depend on their intrinsic psychological attributes. Everyone faces problems in decision making, while for the poor, it is tougher. They are characterised with inadequate savings, high interest-cost borrowings, financial illiteracy, and even lack of adherence to lifesaving medications. These problems lead to short-sighted decisions, lack of self-control over decisions and landing in default/crises situation. Thus to bring about financial behavioural change the study team advises practical interventions that may particularly be effective in improving financial capability which entails financial education, motivation and peer pressure as explained in subsequent points.

b. Leveraging Business Correspondents and Microfinance Insurance Agent - Most banks officials recognize that governments and financial institutions are playing a key role in facilitating financial literacy and financial education in order to increase usage and trust, including agent and digital banking. It is to emphasize that providers should not be the only source, and that direct provision of education is not the only way providers can help advance financial capability. As recommended facilitating BCs and Microfinance Insurance agent within the project will add on to build financial capabilities. BCs and Microfinance Insurance agents should create awareness and knowledge among the SHG, VFC and community about various financial products.

c. Financial Education and Product Knowledge – At the inception of the projects tie-up with NABARD /Banks /SRLM for intensive financial literacy and deepening financial inclusion should be ensured by PMU and State Government. Convergence Cell of PMU should facilitate in creating financial product knowledge through financial literacy/awareness programs by involving scheduled & rural banks, microfinance institutions, civil societies, media, schools and other societal institutions.

d. Motivation – Feelings and fears influence financial decisions; proper motivation through peer counselling and positive social messages is required to overcome feelings and fear. Category 'A'

SHGs and good VFCs should be motivated for behavioural change towards enhancing financial capability so that they will in turn slowly and steadily percolate the positive vibes among the community.

e. Ability to Understand and Mitigate Risk – Micro Insurance agents' network should be developed. They should then conduct awareness programs to increase the ability of VFC, SHG members and village community to understand and mitigate risks. Insurance companies and financial service providers should support and encourage their Microfinance Insurance agents for such awareness programmes.

f. Use of Technology for Better Reach and Lower Product Delivery Cost – Technology offers exciting opportunities to give customers financial capability messages at large scale and low cost through diverse platforms such as mobile messages, MIS and mass media. Information technology should be used for enhancing financial capabilities. (As have been discussed under utilising mobiles, LED TV, wifi, UPI, etc. in other parts of the recommendations.)

g. Constant Perusal and Benefits Reminders – For building financial capabilities constant perusal is required. Moreover, benefit reminders should be regularly provided to the community by the financial service providers through mobile messages and mass media. Further, peer counselling techniques should be used through SHGs and VFCs for regular perusal and benefit reminders.

### 4.2. Recommendations for other VFCs and SHGs

#### 4.2.1. Performance Indicators and Grading Tools

The performance indicators and grading tools as already discussed (Point 4.1.1. & 4.1.2. above) earlier will also be applicable on other categories of SHGs and VFCs.

- Many SHGs promoted under the projects are not active and also the quality of all the SHGs is not the same. Project teams (PMU/DMU/FMU) should not shy from identifying SHGs weakness & failure under their administrative area for intervention, upgradation and capacity building which would bring overall good results in long term for sustainability and project. This should be reported on regular basis to identify causes, remedial actions and better design for future.
- The category 'B' and 'C' SHGs' capacities are required to be enhanced to reach 'A' rating category. This capacity building can be undertaken by a good Self Help Group Promoting Institution (SHPI). The category 'B' SHGs and if appropriate category 'C' SHGs as well should be provided vulnerability loans by their respective VFCs.
- Since there are already clear guidelines in current projects for accounting and book keeping in case of SHGs which are not being followed, there is no need to reinvent the wheel and produce yet another set of Guidelines. However, SHGs should use the mobile applications specifically developed for easy and transparent record keeping practice (attendance, meetings, monthly savings, installments, loans, elections, etc).
- Awareness should be created for various schemes available relating to savings/deposits, loans, insurance etc. DMU/FMUs should ensure localized financial literacy programs in collaboration with local service area bank branches and other FSPs.
- The VFCs should be incentivized with extra revolving funds if their SHGs achieve high rating, establish linkage with mainstream financial services, Government schemes, etc. have linked more number of families under mainstream financial services and able to support for IGA through a combination of RF and bank linkage.

#### 4.2.2. Improving Financial Literacy

As already discussed in 2nd and 3rd chapter of this report, due to financial illiteracy and unawareness about the financial products/services available in the market there are serious demand side bottlenecks; as a result the forest dependents are not able to leverage the optimal benefits of formal financial institutions. Both the digital literacy and financial literacy are the need of the hour. These require special attention/focus in the project for better market led financial inclusion.

During initial stages of the project, PMU should tie-up with NABARD/Banks /SRLM for intensive financial literacy, skill enhancement and financial inclusion. Financial literacy needs customization based on the stages of the life cycle of an individual/household. This requires high expertise to provide suitable and intensive trainings. Such tie-ups should also aim to leverage the benefits of various financial inclusion schemes available. Financial literacy initiatives would be similar to as discussed for 'A' category SHGs but they will require higher intensity and vigour for other SHGs.

Further, digital literacy should also be provided to empower the forest dependent and marginalised community. A strong digital literacy programme with an aim to achieve sustainable market led financial inclusion should be encouraged for rural youngsters to acquire more skills, which will eventually lead to an increase in overall awareness. Given the fact that all JICA assisted forestry projects have a major component of MIS-GIS, thus PMUs already have the basic IT infrastructure for linking the VFCs. Further, the project should also ensure convergence at PMU as well as at VFC level with the National Digital Literacy Mission that is tasked with IT training. IT network and digital literacy will enable opportunities for community to help understand financial products and services available in the market.

Smart classes should be conducted at all VFCs using interactive modules for financial literacy and creating financial awareness so that the visually attractive and interactive methods of training become appealing to community who are already struggling with the traditional methods. It will help the community by disbursal of information more effectively. Trainers with high level expertise can be hired and one single class can benefit large number of community members of various villages at the same time leading to time and cost efficiency with better quality. Financial literacy and training sessions can be recorded and made available through internet for repeated view at convenient time.

It is recommended to provide basic digital/IT infrastructure of LED TV, internet wifi connection and smart phones to VFC, SHG members and other socially excluded forest dependents. The details of this have been explained under Point 4.6.2.

#### 4.2.3. Promotion of Savings Mobilisation

Other than 'A' category SHGs, saving mobilization is poor due the bottleneck discussed in chapter 3 which are mainly: small amounts of saving, lack of trust in new and upcoming banks, earlier they (poor/villagers) have been cheated by chit fund companies, distance to branch, conveyance cost, wage loss for the day, etc. The FD/NGO team of project should facilitate for savings mobilization in formal accounts at financial services providers (FSPs) through the followings way:

a. <u>Leveraging services of BCs</u> [as already explained under point 4.1.3.(b)]
b. <u>Leveraging Unified Payments Interface</u> [as already explained under point 4.1.3.(c)]
c. <u>Enhancing members' confidence in SHGs</u> though exposure visits and addressing unhealthy practices (defaults, not attending meetings, non-democratic election, no records, cash collection

etc.) in the groups. VFC members should be trained on soft skills to address the unhealthy practices and grievances.

d. Text Reminders – The SHG members should be provided text 'reinforcement' messages offering reminders. These messages should also contain a variety of simple behavioural tips to encourage better savings habits. Text messages can also be sent through local area popular messaging services like Hike, Whats App etc.
e. Smart Classes – The SHG members should be provided interactive and motivational videos through VFC LED TV that will make them understand the benefits of savings mobilisation. (details are explained under 4.6.2)
f. Increased focus on using IT like mobile apps to bring more efficiency like easier maintenance of a number of records, which demand literacy and consume a lot of time for maintenance. SHGs should use the mobile applications specifically developed for easy and transparent record keeping practice (attendance, meetings, monthly savings, installments, loans, elections, etc).

### 4.3. Measures, actions and steps to be taken to have access to and use formal financial products and services

**a. Capacity Building**

PMU should facilitate building strong grass root institutions. For such institutions there is always a scope for continuous development and innovation to make it relevant to the needs of their members. Focus should be given on nurturing of SHGs through intensive capacity building by using partnership approach not as a one-off event but as continuous process.

The National Rural Livelihoods Mission.is playing a pivotal role in capitalizing the institutions of poor. As one of the ways forward for the SHGs/ members, the PMU should tie-up with organisations like NRLM/ SRLM, who can play the role of facilitating inter sectoral convergence and helping SHGs/ members for continuous capacity building and linking them to formal financial institutions.

Further NGOs/Expert Private Organisations should be selected considering the qualification and experience of the team of experts or key personnel. To ensure quality delivery of work, Quality-and Cost-Based Selection (QCBS) of NGO is recommended. Selection of NGOs should be based on a competitive process among short-listed NGOs by taking into account the quality of the proposal, team and the cost of the services in the selection of the successful firm. Significant weightage should be given to quality over cost say 80:20.

**b. Supporting Access to Government Schemes**

Government of India has initiated several financial inclusion schemes (attached as annexure 4) for poor and excluded families with the objective of broadening financial inclusion in India. Holistic planning is required for identifying various Financial Inclusion schemes available and converging them for the benefit of community in general as well as achieving the objectives of the project. Some of the flagship social security schemes for instance are PMSBY, PMJJBY, PMJDY, Sarva Shiksha Abhiyan (SSA), Atal Pension Yojana (APY), Suraksha Bandhan Scheme etc. This was done to make financial services such as banking, insurance, and others available to the Indian citizens especially from the low & middle class category at an affordable cost and make them financially secure. This will involve the following:

- **Dedicated Convergence Cell be created at PMU** and should clearly list at their website and communicate to SHGs and VFCs through resource persons and NGOs the eligibility, benefits, cost, premium and process for availing benefits of various schemes of governments.
- **Mapping of scheme as per eligibility criteria** – It is very important to identify the various schemes available for village communities for varied financial services and livelihood support. Based on village profile, schemes relevant to the community should be identified and mapped as per eligibility criteria. The VFCs and SHGs members should be trained to explain the benefits of the same to village community in systematic manner. Regular updates should also be provided to them for changes in schemes, new additions and eligibility criteria.
- **Localized IEC[44] material for awareness and process detail** – The localized IEC material should be well designed to be effective to create the desired impact. It should be the product for decision, supported by research, to deal with a specific livelihood concern including financial inclusion, and to be well received and convincing to the target community and in vernacular language. It should detail the process involved for registering under any program/schemes and availing the benefits thereof.

**c. Strengthening Current RF by: Building Capacities of VFCs and SHGs**

The Revolving Fund (RF) mechanism component is a positive intervention in terms of securing people's participation in JFM programme, empowerment of women and advancing financial inclusion. However, there are still gaps as the objective of sustainable livelihoods and access to mainstream market-led financial services has not been achieved.

Under the current mechanism of revolving fund, VFCs in the project villages provide loan to SHGs and further SHGs give loan to its members. Thus build track record to obtain credit from banks as well. Study reflects that all the 'A' grade SHGs desiring loans have got credit from banks (34 % in Odisha, 16% in Gujarat)[45]. These were 'A' grade as per NABARD Rating criteria. While other SHGs (i.e. grade 'B' or 'C') are not ready to access the credit, they require further strengthening and diversification.

- The project needs to have strong systems in place so that there is proper focus and optimal utilization of funds by the identified target community. VFC should strengthen present RF mechanism by better monitoring and evaluation, selection of right SHG/ individual, simple application, disbursement processes, effective recovery process, resort to peer pressure/ legal recourse to handle wilful defaulters.
- The project should consider constituting a Revolving Fund Management Committee (RFMC) in each village to administer and manage the RF. The Committee should include a trained personal from NGO/ Resource Organization, a FD representative and two members from the Executive Committee of VFC.

[44] IEC - Information, Education & Communication
[45] List of SHGs attached as Annexure 2

- The RFMC role should be to ensure that robust processes are followed from origination of application to closure of loan under RF as tabled below:

**Table 15: Practices Recommended for loan under RF**

| Process of RF disbursement | Current practices / Gap in Process (if any) | Recommended Steps |
|---|---|---|
| 1. Application origination | From SHG but Target Driven | From SHG but Demand Driven |
| 2. Appraisal of application | By NGO only | Jointly by EC and NGO personal |
| 3. Approval | By VFC-EC & FD Official (FMU) | By authorised committee comprising members from EC, FD, NGO and PRI (4-5 members) |
| 4. Disbursement | By Cash, Bearer Cheque, Account Payee Cheque or DBT | Account Payee Cheque or DBT |
| 5. Documentation | Documentation of loan sanctioned (i.e. loan agreement) only & lacking in documentation of monitoring of loan (i.e. loan register). | Both - Documentation of loan sanctioned (i.e. loan agreement) & documentation for monitoring of loan (i.e. loan register). |
| 6. Utilisation Check | Not in Practice | Should be done periodically with proper MIS documentation |
| 7. Repayment | No follow up | Proper follow up – use peer pressure |
| 8. Closure process | Lacks documentation | Formal documentation with repayment history |

- A process for SHG rating as already discussed should be implemented before the loan application to SHG under RF is considered.
- The RF fund should be released by VFCs based on the SHG rating. Again, the amount advanced to 'B' grade SHG should be less in comparison to the amount sanctioned to 'A' grade SHG. 'C' grade SHGs if considered suitable for support should also be funded from RF and provided support of SHPI to upgrade them.
- The target for FD should be that all 'B' grade SHGs become 'A' grade in six months and all 'C' grade morph into 'A' grade in one year. This is doable if focused and professional support is extended to them.
- The identification of SHG should take care of fundamental requirements like:
    - SHGs should have majority members from poor/vulnerable/forest dependent households,
    - SHGs should have genuine record of internal meeting, saving and intra-lending with good repayment track of its own internal fund.
- The FD and VFC should adopt competent mechanism and diligent processes in the formation stage of SHGs especially for identification of household, for right kind of communication on the purpose of mobilization and group formation. The initial period of 3-6 months for mobilisation and forming stage is critical. Once these fundamentals are put in place in this period, most other work that follows (lending, utilization, repayment, empowerment to participate with VFC, etc.) would happen much more effectively. Moreover, if these fundamentals are not in place, the SHGs would be weak and leveraging for linkage with mainstream financial and livelihood service providers will not happen.

- It is recommended that FD should focus more on monitoring. The focus should be relatively less on fund allocation for RF loans and more on quality SHG formation. Once a good SHG/Group is established, it paves the way to leverage a suite of products and services as under from several external agencies:
  - SHG-Bank Linkage loans
  - Bank loans to JLG formed among SHG members
  - Bank Loans to Individuals who are interested and capable (recommended by JLG or SHG)
  - Connecting with Business Correspondent for banking services
  - Connecting with MFI for micro credit, micro insurance, micro pension, etc.
  - Connecting with Cooperative Society (PACS/LAMPS, State Minor Forest Produce Federation)
- Linkage with Life Insurance, Crop Insurance, Livestock Insurance, Pension, Kissan Credit Card etc. All of these can be tapped by proper facilitation.

**d. Diversifying RF – Loan Product Features**

The current RF in sample villages was disbursed to SHGs as IGA loan; however the actual utilization of loan at member's level was generally for consumption purpose. This indicates that there is demand for consumption loan and so VFC can plan for same. The small amount of consumption loan (INR 3,000 to 5,000) and its timely repayment will build credit history of household and make them credit worthy and will help them to access the credit from banks/ mainstream financial institutions.

The objective of the diversified products under RF should be to help the first time borrowers (only for one time) who are poor, vulnerable and forest dependants so as to enable them to address their immediate needs and built credit score/history to make them acceptable to FSPs. The amount returned by such borrowers will then be utilized to fund the other SHGs/JLGs.

The following ways are suggested for diversifying the current RF:

- The present RF should be diversified as per the need of SHGs / target community of the selected project villages as all SHG/Individual can not undertake IGA or may not need funds for IGA as they lack the skill and/or the household's social and cultural profile does not permit them to undertake IGA and such household need credit support for consumption and other emergency needs.
- The purpose of SHG loan to the members is basically for enhancement of their IGA, in addition to Consumption Smoothening and Vulnerability Reduction. If the SHG stabilizes in about 12 months, IGA and Enterprise Loan can be availed from the mainstream financial players. RF cannot be used for scaling up IGA as it is only meant to be a start-up fund.
- So RF should not be associated only with IGA. RF's amount should be linked to the level of savings mobilized by the SHG. Maximum loan at initial stage to an SHG should be limited to INR 50,000 and later, on repayment of first loan VFC, can approve higher loan after having obtained the detailed Business Plan by SHG for IGA.
- The Study team also recommends to break up the SHG into three sub groups to qualify for VRF, LF and GPF as explained hereunder:
  - Earmark 20% of RF as Vulnerability Reduction Finance (VRF) and through Participatory Identification of Poor (PIP) ensures that most vulnerable get this fund directly from VFC. This will ease their consumption, help them to contribute to SHG and continue as member.

- Provide remaining 40% of it as Livelihood Finance[46] (LF) so that some individual members/ Joint Liability Groups can start/ continue with their micro enterprise. Livelihood finance refers to a larger size loan with long repayment duration aligned to the cash flow of the household. This can be achieved through a combination of RF, NREGS, convergence with other government schemes, and bank linkage.
- The SHG could provide General Purpose Finance (GPF) up to 40% of RF to SHG members to enable them to on-lend small loans, which members can repay in time; this will build their financial track record for accessing more loans later. Part of this could also be used as Green Finance for acquiring solar devices, energy efficient stoves, etc. or engaging in environmentally friendly practices or products (e.g. organic farming, agro-forestry or silvi-pasture, clean water, etc.)
- In case the SHG membership is homogeneous then SHGs can decide on case to case basis allocation of funds for VRF, LF, GPF or combination thereof.

- An indicative design framework for RF utilization has been suggested below. Individual loans of small amount are also included. This is keeping in mind the finding that there are areas which have low population density and small, dispersed settlements, where a typical SHG is difficult to form.

**Table 16: An Indicative RF Design Framework**

| Need/ Purpose / Population Segment | Channel | Indicative Limit (INR) per unit |
|---|---|---|
| 1.Vulnerability Reduction, Consumption Smoothening | -Individual | 3,000- 5,000 /individual |
| 2. General Purpose Loan as put up by SHG (traditional IGA enhancement and consumption) | -SHG | 25, 000-50, 000 linked to SHG Saving |
| 3.IGA / enterprise loan based on Business Plan | -JLG Group Loan<br>-Individual loan backed by social collateral of JLG or SHG | 2, 00, 000 to Group<br>50, 000 to Individual |

This is also the process followed by NRLM/SRLMs, CGAP Pathway out of Poverty model etc. and by other successful livelihood/microfinance promoting agencies.

- In case the above suggestion to diversify the RF is accepted, suitable loan product features/ interest rates/ repayment period/ eligibility criteria can be drawn up.
- The RF allocation to selected villages should be based on the population mix namely the number of PBL/SC/SC families based there and accordingly SHG should identify households to be supported under RF. VFC should oversee that SHGs are fair to all sub groups.
- The RF amount allocation per VFC in project, instead of being fixed may vary from INR two to six[47] lacs depending on the composition of poor / vulnerable / BPL households in the village and performance and grading of VFCs and SHGs.

[46] http://www.microfinancegateway.org/sites/default/files/mfg-en-paper-from-microcredit-to-livelihood-finance-2005_0.pdf
[47] Under TAP-2 of Tamil Nadu Forestry Project the amount allocated for RF to VFC was INR 7, 50, 000.

**e. Joint Liability Groups (JLG) for credit Linkage**

The discussion with banks, NABARD and review of the secondary literature reflects that JLG is another institutional alternate channel for credit linkage in remote villages where the possibility of forming SHGs is difficult like in Rajasthan. In such cases project can facilitate for forming JLG for credit linkage by:

- Identifying the economically active poor, household with common interest/ activity i.e. those who are engaged in small level of livelihood activity.
- The RF support can be provided to these households by forming of JLGs for IGA and later can be linked with a bank for further funding.

Another possibility is JLG formed by members of one or more SHGs where such members are more enterprising wish to come together and agree to provide social collateral.

**f. Credit linkage for Individuals**

However, if it is not possible to form a JLG than one could consider lending to individuals also.

**Box 3: JLG Model for Credit Linkage**

**NGO Ajeevika Bureau, Udaipur - Microfinance through JLG Model**

They offer individual loans with 2 guarantors @24% p.a. on reducing balance. They use the Joint Liability Group model of 3-5 women. For forming a JLG, a woman needs to be a member of Ujala Group (a social group of 15-25 women not to be confused with SHG).

1st loan – 7,500
2nd loan – 10,000
3rd loan – 15,000
4th loan – 20,000

The 1st loan is for household needs, 2nd loan for old debts and further for IGA.

65% of individual clients are males.

90% of their clients are ST (tribal) and they have repayment record of 94-95%.

**Reviving Defunct SHGs**

The Forest Department should endeavour to strengthen all weak SHGs with the help of a professional NGO and/or professional expert (SHPI). It has been observed that such concerted efforts have yielded results and brought a turnaround in just six months. Once an SHG is allowed to dis-integrate/close, it could set a bad precedent triggering a trend to write off more SHGs; this could be an easy way to get out of the responsibility to recover the revolving fund amount. Considering the effort, time and money spent on starting a SHG, this could be a huge financial loss as well as a setback to the livelihood promotion initiative. However, there is a need to invest selectively in ensuring that the efforts of the project results in long term impact for good SHGs, rather than investing in all the SHGs even if they are non-operational. "Reviving" defunct SHGs may not be an easy task and indeed might not be possible. If the defunct SHG members have no use for an institution to support their livelihood activities, revival with more loans may result in yet another round of failure. Discontinuing SHGs should only be considered as a last resort.

Vulnerability Reduction Fund and through Participatory Identification of Poor (PIP) will ensure that most vulnerable get this fund from RF. This will enable them to meet their consumption needs, help them to contribute to SHG & continue as its member and also access the social protection schemes of government specifically designed for vulnerable (BPL) families.

## 4.4. Recommendations to PMU and FSPs

### 4.4.1. Supporting replication of BC model in project area by PMU and FSPs

Business Correspondent acts as a bridge between Bank branches and the people in the area. BC is the first point of contact and front face of the bank branch to the people and they would help to open new accounts and make these accounts operational.

The Business Correspondent (BC) model is a part of India's financial inclusion strategy to ensure delivery of banking services across the length and breadth of the country. The BC Model is being seen as a major flag bearer for achieving financial inclusion to the un-banked populace in India and it should be facilitated by the Project Team in the following way:

i. Project Team first need to identify the villages which have no bank branch or BC outlet.
ii. Then they should look for a branch which is less than 30 kms. from the chosen identified village and ascertain from the branch officials that they will find it convenient to access the village. Once the bank branch has been mapped to the identified village then the project Team need to touch base with the Lead Bank Manager functioning in that Block and District in which the identified village is located.
iii. Before going to the Lead Bank Manager the NGO/FD official can prepare the basic data of the identified village such as total population, number of un-banked households and share this /meet with the district Lead Bank Manager. The LDM will provide the name of the Sub-Service Area (SSA) Bank assigned to the particular village by the Reserve Bank of India.
iv. The NGO/ FD can then contact the SSA Bank and share the village detail and discuss the feasibility of setting up a BC outlet in or nearby the village area.
v. The FD can also identify a corporate BC who is present in that area as they are more efficient and have in-house technology support system to support BC agents on regular basis.
vi. Alternatively, the FD or its NGO partner should identify a young rural entrepreneur (e.g. one who runs a retail shop, salon, micro enterprise) and support him/her under RF for establishing him/ her as BC. The project team can select an educated youth, preferably a graduate, and provide RF through JLG or SHG for initial investment to purchase hardware/necessary equipment/ internet required for undertaking BC activities.
vii. The members from 'A' grade SHGs can also act as BC- The member should be trained to function as BC to offer banking services at the doorstep of the financially excluded community particularly women and forest dependent households. Initially this should be piloted in some selected villages and the learning from the pilot should be studied for improvement.
viii. BC training should be provided by promoting self-learning through online training material backed by iterative testing and certification. This can also be supported through Interactive voice response (IVR) for clarifications.

BC will facilitate and enhance the financial inclusion in project areas.

**Box 4: Developing Business Case on BC Model in Project Villages for SHGs and their Members**

Business Correspondents can act as a bridge between Bank branches and the remote rural areas like forest fringe villages. BC is the first point of contact and front face of the bank branch to the community and they would help to open new accounts and make these accounts operational. Working as BC agents, the SHG members and young rural entrepreneurs should be trained to undertake the following in project village areas:

- Conducting survey of the villages/households Formulating customized credit plan for the customers
- Documenting which includes enrolment of customers and filling up of the forms
- Using technology i.e. handheld device to conduct financial transactions, biometric devices, laptops, scanners, etc.
- Understanding basic banking procedures, such as KYC, enrolling into a Recurring Deposit, and applying for an agricultural loan
- Knowledge of safe Cash Handling and efficient Cash Management
- Knowledge of the various financial products offered through them Debt management advising skill
- Raising community awareness about financial services
- Enrolling and facilitating transacting by customers
- Providing village community with a set of financial services i.e. savings accounts, deposit services, remittances, insurance, agricultural credit, other business credit and loans for purchasing solar lamps, water purifiers, cook stoves, etc.
- Addressing and handling of customers grievances

These will lead to improve the last-mile delivery of financial services in remote rural areas like forest fringe villages. So the Forest Department alongwith financial service providers should pilot leveraging the services of Business Correspondents in their project villages. The progress of pilot should be closely monitored, key performance indicators should be framed in consultation with FSPs. Impact on SHGs, their members and forest dependent community should be assessed and a business case be prepared.

### 4.4.2. Collaboration with New Payment Banks and Small Finance Banks

Payments banks came into being with the Reserve Bank of India's (RBI) push to ensure that the banking sector deliver a comprehensive set of financial services to the poor and the unbanked with the focus on purely payments, targeting the bottom of the pyramid and underserved segments. Formal arrangements shall be required to collaborate with new payment banks for better serving the social objectives of the projects.

Reserve Bank of India has issued 11 licenses for small finance banks last year and already some of them have started functioning. They will endeavour to provide micro credit support to particularly micro, small and medium enterprises, largely in rural areas, and thereby usher in many more livelihood opportunities for those living in remote and far flung areas.

**Box 5: India Post Payments Bank to be a reality**

India Post Payments Bank (IPPB) will be set up as a public limited company under the Department of Posts with 100 per cent government equity. The Cabinet approved a proposal in this respect on 1st June, 2016. The total corpus of the payments bank is of INR 800 crore, which will have INR 400-crore equity and INR 400-crore grant. India has 1, 54, 000 post offices, of which 1, 39, 000 are rural post offices. IPPB will obtain banking licence from the Reserve Bank of India (RBI) by March 2017 and by September 2017, all 650 branches of the postal payments bank would become operational. Its services will be available across the country through these 650 payments bank branches, linked post offices and alternative channels, riding on modern technology including mobiles, ATMs and simple digital payments.

*Source:* http://www.business-standard.com/article/economy-policy/india-post-payments-bank-to-be-a-reality-116060101947_1.html

### 4.4.3. Supporting the Extension of Insurance Agent Network (IAN)

The insurance outreach and awareness in remote village is very weak due to poor insurance agent network. However many poor households are engaged in micro-enterprises/ activities which are carrying higher degree of risk and uncertainty and hence prone to financial and income risks. The FSPs should more vigorously promote micro insurance as one of the financial inclusion initiative and facilitate establishing of insurance network agents to enhance access of market led insurance products by proceeding on the following lines:

1. IRDAI has come out with Micro Insurance regulations in which it has allowed Regional Rural Banks (RRB), Gramin Banks, Rural and Urban Cooperative Banks, District Cooperative Banks, Primary Agriculture Societies, Cooperative Societies, NGOs, Self Help Groups and Business Correspondents to act as micro insurance agents in rural areas in an effort to increase insurance penetration, particularly in remote un-explored areas.
2. Map the eligibility and processes of all available micro insurance schemes in the state and develop a compendium for micro insurance with detailed operational guideline.
3. The current RF can be linked with appropriate micro insurance products.

The process for appointing a Micro Insurance Agent in the forestry project area is described in the box below:

**Box 6: Process Note for Micro-insurance Agent**

A micro insurance agent can tie-up with only one life insurance and general insurance company. In addition, micro insurance agent can work with an Agriculture Insurance Company and a standalone health insurance company to distribute crop insurance and health insurance products respectively. That means, the insurance regulators has allowed micro insurance agents to have four tie ups.
These agents have to undergo training of at least 25 hours. IRDA has said that life insurers will have to train these agents in local vernacular language. The cost will be borne by the companies. Also, these agents have been instructed to undergo refresher training of 25 hours every three years.
Remuneration:
The insurance regulator has put a cap of 10% on the commission paid to micro insurance agents under single premium polices of life insurance products. However, a life insurance company can pay 20% commission for issuance of non-single premium policies.
Similarly, general insurers will have to shell out 15% of the premium amount towards commission.
Structure of micro insurance products
All micro insurance policies will have a lock-in period of five years.
Insurers can offer partial withdrawal facility to policyholders after second policy year. However, insurers have to maintain a minimum balance of at least one annual premium.
The maximum sum assured under life insurance and health insurance policies has to be INR 2 lakh. However, the maximum coverage can be increased to INR 2.5 lakh under family floater or group insurance schemes. Under non-life insurance, the maximum sum assured is INR 1 lakh. The annual premium should not exceed INR 6,000 per annum in micro variable insurance schemes.
Source: http://www.policyholder.gov.in/Micro_Insurance.aspx

### 4.4.4. Supporting Mobile based financial inclusion

For banking the unbanked, mobile shall be a tool/channel for financial inclusion. Smart phones and virtual wallets are already in use by taxi drivers and food delivery persons to receive payments particularly in semi urban and urban areas. UPI, launched by the National Payments Corporation of India with the Reserve Bank of India (RBI), is set to revolutionize digital banking, thereby enabling hassle-free payments. While India's population isn't "bank-savvy", the people surely are "mobile and internet savvy" and with the pace rural India is getting friendly to 'mobile technology'[48] and given the focus of Government of India on digitisation across the country, mobile shall be a tool/channel for financial inclusion.

Small amounts would be now very easy to transfer under UPI. When it comes to mobile banking, the biggest challenge was to enable transfer of small amounts of money from one end to the other. And UPI's instant transfer mechanism will seamlessly enable that. Just like small sachets of shampoo enabled deep penetration of FMCG products in rural hinterland of India, the ability to transfer small amounts of money will encourage mobile, digital and usage of technology in rural India.[49] With UPI it would be easier remittances are routed through Formal Banking channel, as transfer, utilisation and payments would not require visit to bank. This would encourage easy and hassle free instant remittances, payments and deposits bringing many to mainstream formal FSPs.

**Box 7: Newer & Better Payment Avenues with UPI**

- It will allow users to transfer money through a unique virtual address, or mobile number, or Aadhaar number
- With UPI, users need not know the payee's bank account details
- It will also facilitate payment

*Source:* **http://www.business-standard.com/article/finance**
UPI goes live with 21 banks: SBI to log on a month later Nupur Anand & Abhijit Lele| Mumbai, August 26, 2016

Further, the project should also ensure convergence with the National Digital Literacy Mission that is tasked with IT training for 52.5 million people or one person in every family.

### 4.5. Recommendations on FSPs including Policy Matters

The financial landscape of the country today is evolving as under:

1. Rural Penetration: The FSPs are already very active and the rural space is seeing increasing action. In fact when the Study Team met several financial services providers like banks, micro-finance institutions, Mudra Bank, World Bank, Regional Rural Banks, NRLM, SRLM, etc. they all expressed interest in collaborating with Forest Department and extending their support to the SHGs and their members. The banks are already racing to grab rural business, since many new players have been given licenses to open banks, like for Payment Banks and Small Finance Banks, with the condition that they will focus their operations more in rural India.
2. Micro- savings: Moreover, the Banks have taken the BC model very seriously and this is helping them achieve outreach [242.7 million accounts opened since 2014] as well mobilized substantial deposits [INR 425, 050 million in last two years]. The incentives/ commissions for the Business Correspondent agent have been made very attractive by the Government and agents are earning anything between INR 5, 000 to INR 25, 000 per month. Those who are handling Cash Benefit Transfers can earn in a month more than INR 1 lakh. As can be seen savings have

[48] India has over a billion mobile connections, with around 240 million smart phone users and is expected to grow to 520 million by 2020 (BCG estimates). The National Optical Fiber Network initiative will connect 250,000 gram panchayats across rural India and increase adoption of data services. The Pradhan Mantri Jan Dhan Yojana, through 226 million accounts and 183 million cards (as on 27 July 2016), has provided the infrastructure for universal access to banking. The issuing infrastructure is largely in place and the launch of UPI will provide a significant fillip in the proliferation of low-cost acquisition infrastructure by allowing smart phones to substitute costlier point of sale (PoS) devices. Banks such as Axis Bank, which have almost half of its branches in semi-urban and rural areas, are witnessing more than 50% of transactions through digital channels and are growing at over 30% every year. This shows that the customer is ready to go digital provided banks offer user-centric solutions." - Rajiv Anand, Executive Director at Axis Bank Ltd. http://www.livemint.com/Money/Cud7G1R7fhmQtrymtaGzEL/UPI-Indias-biggest-and-boldest-payments-interface-bet-yet.html

[49] http://trak.in/tags/business/2016/04/11/npci-upi-unified-payment-interface-launch/

registered good growth thanks to the expanding BC network. The financial inclusion efforts are now touching almost every household in the country and this almost 100% achievement is rated to be the present Government's biggest success story in its two years of existence.

3. Micro Credit: Moreover, the official of Ratnakar Bank Ltd., informed us that they have now engaged MFIs to boost their micro credit business. Yes Bank, United Bank of India, State Bank of India and others are also leveraging MFIs to expand their micro-credit portfolio. Considering that the credit off take by the small/ medium/ large industries sector as well as by housing/ personal banking sector is extremely poor, the banks know that their profitability depends on how their micro credit portfolio improves. Hence for banks micro credit has become the thrust area.
4. MFI Sector: The MFI sector is growing @ 40% plus for the past few years. Of late their focus has been urban and semi urban, but still there are quite a few who are concentrating on rural India. Now that the MFI sector has bounced back from the crisis they faced in 2010-14, the expansion of their operations is happening much faster than that of the banks in India. They are also attracting lot of investors and as a result they are flushed with funds unlike banks.
5. NGOs: Support agencies like NGOs promoting SHG activity are also gaining ground and strength. There are now 30 lakh NGOs and the Government is trying to improve their administrative control and discipline them.
6. NRLM/ SRLM: Besides, the endeavour of NRLM/ SRLM, i.e. national and state level actors, is not just to strengthen the SHGs but also to engage them in micro- enterprise promotion and supply chain management. This can be seen from the NRLM template under Recommendations for A Grade SHGs. Once the citizens are self–employed or well employed, the financial burden on Government on account of MGNREGA, which guarantees employment for 100 days in a year to unemployed, would reduce. According to NRLM officials they have to set up another 3.7 million SHGs in the next two years and so they wanted us to advise them where the FD assisted SHGs were so that they could touch base with them. For them the 25, 000 SHGs pan India of JICA/ FD would be a welcome addition, provided they are market-ready.
7. Micro-insurance: Similarly the insurance sector has come out with new policies which are affordable and specially targeted at various segments of the society/ rural populace. Today the radio/ TV/ print media is full of advertisements educating and motivating the people to go for their insurance products.
8. Pension: The Pension Fund Regulatory and Development Authority [PFRDA] have come out with new schemes which are being pushed vigorously.
9. Customer protection is also receiving considerable attention. Banks, MFIs and others are now governed by their respective Code of Conduct. For instance:
   a. Financial services providers are required to explain the terms and conditions of the products consumers are purchasing. However, these disclosures often appear as footnotes, and to protect their own interest, written in dense language which can be difficult to understand. While such disclosures may fulfil the provider's legal obligation, they can leave consumers without a clear picture of how the product works, resulting in costly fees and penalties. Additionally, without fully understanding the details of what is being offered, consumers have limited ability to compare their options and select the best product for their situation, a key component of financial capability. Despite continuing efforts to improve and simplify them, legal disclosure statements are still challenging for consumers.

b. In addition there are caps now on interest rates and service charges and they are being monitored since all micro-credit loans are now required to be advised to credit rating agencies and only when they give their clearance, are these loans disbursed. This is to ensure that multiple loans and excessive indebtedness are avoided.

c. Consumer Protection Website - The regulators (RBI, NABARD, IRDA, SEBI) should be persuaded to have a designated website and call centres that provides independent information to help rural and financially excluded community understand financial products, so community members can ask the right questions and make the right choices about their personal finances. The website should also endow with consumer rights, financial products comparisons, tools/calculators, complaint mechanism, product safety measures, etc. in Hindi, English and regional languages of India.

10. Financial Literacy and Credit Counselling inputs are being stepped up by Banks and so the customer tomorrow will be better aware of the products/ pricing/ customer protection aspects/ etc. to enable them to take informed decisions.
11. As Behavioural Microfinance helps to understand how the poor take their decision under given circumstances and how they react in utilising and repaying, a new field of science has emerged this integrates theoretical research in economics with empirical research in psychology. It examines how people actually behave in decision-making scenarios, as opposed to merely how they ought to behave. MFIs have both social and financial objectives, where the former is to serve the poor and the latter to sustain a healthy financial position for the benefit of the stakeholders. MFIs try to therefore strike a balance between its strategies and customise to cater to the poor by understanding their multiple needs. They must help beneficiaries in savings and financial planning by diversifying their portfolio because borrowing money can only be a partial solution. The success of behavioural microfinance requires strengthening of institutional capacity with good governance to provide better financial services to the poor. It must also significantly increase their outreach and achieve financial self-sufficiency. Behavioural microfinance is becoming a key factor for the success of MFIs. It is beyond doubt that if MFIs effectively work with the concept of behavioural microfinance they can usher in qualitative changes in the lives of the poor.
12. Leveraging Technology for delivering financial services: Mobile banking has already become a big success thanks to the connectivity and affordability challenge that has been successfully met in the past few years. Today there may be just 10% to 15% population which does not own or use mobiles.
13. Besides the National Payment Corporation's Unified Payment Interface and the Aadhaar card enablement platform have taken India's financial sector to new highs. With the National Optic Fibre Network [NOFN] being created each and every corner of India will soon have broadband connectivity.

As submitted above, the Government of India, the central bank and the banking as well as the microfinance sectors are very proactive in the financial sector and livelihoods promotion space and good policies have been introduced by the governments for developing the financial inclusion eco-system. In fact the Study Team submits that the extant policy and the emerging rural eco-system are very conducive to supporting the SHGs and enabling them to become sustainable and so JICA India and the FD of all concerned states are requested to start conversations with NRLM/ SRLM/ World Bank/ Mudra Bank/ Credible NGOs/ etc. and take their support to strengthen/ activate/ their SHGs and achieve social outcomes that the forestry project has set out to achieve. This is just the right time for them to grab this opportunity that the Policy Makers and Financial Market Players have created for them. To conclude, since so much is happening in the financial sector space the study team is of the considered view that right kind of policies are already in place. It's just a matter of time before the outcomes become visible.

**Development of Appropriate Financial Products and Services**

1. Products: It is worthwhile to appreciate the kind of financial support that is already being extended now to SHGs starting with the Revolving Fund, to higher doses of loans, to Community Investment Funds, to Vulnerability Reduction Fund. Today there is no dearth of products which have been specially designed for SHGs/ members. Even then the Study Team has suggested that RF should be designed to meet the specific needs of three sub groups (please refer Table 16).
2. Financial Services delivery: It's true the service delivery and access is still an issue. And that is why the Study Team recommends that FD promotes BCs in forestry project areas through SHG members as well as by requesting local entrepreneurs. (please refer Point 4.4.1.)
3. Convergence: Also it is suggested that FD seeks support of NGOs or SRLM to connect SHGs to financial institutions. Some FDs have already done this, particularly Odisha FD, and one can see how their SHGs are leveraging banks.
4. Pathway out of Poverty: The Way Forward for the JICA/ FD project to achieve good and visible results on the ground is to adopt the Pathway out of Poverty as designed by CGAP and BRAC, by taking suitable partners as presented above under the recommendations for A Grade SHGs. This is the multi actor/ multi- intervention approach which the NRLM/ SRLM have already adopted.
5. Corporate Social Responsibility: New players in the field are the companies who are into Corporate Social Responsibility and wish to make a difference to the community around them. They are a source of large funds [estimated to be INR 200,000 million] and VFCs can leverage these funds for specified activities. The Study Team has taken the initiative to introduce two such companies to the FDs and the prospects for their coming to an enabling arrangement and collaboration is good.

**Box 8: CSR - an Opportunity for Additional Funding**

**CSR – Bright Opportunity for Additional Funding**

Corporate Social Responsibility (CSR) is an opportunity that can be explored for additional funding for better accomplishment of objectives of VFCs. The salient features of CSR are as under:

- The section 135 of the Companies Act 2013, requires certain class of companies as part of CSR to spend on specified social welfare activities.
- Among the main CSR activities included in the Act are livelihood, women empowerment, ensuring environmental sustainability, ecological balance, afforestation, SMC, animal welfare, protection of flora and fauna agro forestry, conservation of natural resources etc. These are also the objectives of JICA projects.
- The Companies Act, 2013, requires companies having a net-worth of INR 500 crore or more; or a turnover of INR 1,000 crore or more; or a net profit of INR 5 crore or more to have a CSR spend of at least 2% of their average net profits of past three years.
- The easy route of donations or activities that would exclusively benefit their employees and families are specifically excluded.

For convergence a separate Cell should be created for attracting financial commitment and funds from corporate under CSR for VFCs.

Most VFCs qualify to take CSR funds and if proper handholding is provided they can carry out sustainable livelihood programs covered under the plan including afforestation, livelihood enhancement, promoting gender equality, empowering women and measures for reducing inequalities faced by socially and economically backward groups ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agro forestry, conservation of natural resources and maintaining quality of soil, air and water rural development projects.

1. There should be a **dedicated CSR Division & team for attracting** CSR funds for VFCs.
2. Young & Enthusiastic team members should be deputed to this cell.
3. PMU with support from **professional consultant should develop a plan** for CSR.
4. **Identify and create concrete business plans** as per CSR including fund requirement and such projects related to afforestation, SMC, women empowerment etc be displayed VFC-wise on the Dept./PMU website for sponsors of CSR to pick and choose.
5. Approach corporate with concrete CSR activities and take **short &long term commitments** from them **based on milestones.**
6. Convergence Cell of PMU can act as facilitator.

How to get CSR funds?

1. CSR Cell will identify the CSR projects on time to time basis like repair and maintenance of SMC structures, seedling distribution for agro/farm forestry etc.
2. Detailed CSR project documents shall be prepared specifying the necessary details including funds required.
3. Such CSR project documents shall be floated on dedicated CSR webpage on project website as invitation to CSR corporate and PSUs.
4. CSR webpage should have the option of registering CSR funding organisations, so that regular updates of CSR projects may be provided to them.
5. Training to be provided for CSR utilisation and reporting by the Donee for the donor.
6. Transparency should be maintained.

### 4.6. Other Recommendations to Support Interventions

#### 4.6.1. Efficient Planning, Monitoring and Evaluation System

a. Identification and Monitoring Performance Indicators – At the project design stage performance indicators [Objectively Verifiable Indicators (OVIs)] should be identified for financial inclusion, financial capability and livelihood sustainability. During implementation phase such indicators should be reconfirmed or revised. All the indicators should be monitored regularly on periodical basis and results thereof should be made available on MIS/web-portal to ensure adequate transparency at all level. More importantly, scientific methods of making periodic measurements of selected OVIs should be detailed in the Manual of Documents and Project Implementation/Operation Manual.

b. Uniform and Regular MIS is a Priority - MIS should be developed and made operational as a starting point for a project instead of continuing in its development till the project end. The other activities should start after MIS for M&E is operational.

c. Progress Monitoring (Outcome Based) – The progress monitoring should be more focused on outcomes rather than output. The outputs as well as outcomes of livelihood and financial inclusion components (village wise) should be measured against both the physical and financial targets for the yearly progress and progress made from the project start date, along with the reasons for the shortfall. For example, targets for linking the community to various livelihood supporting schemes as well as financial inclusion schemes and the outcome of linking the community with such schemes should also be monitored.

d. Real time Data Collection and Robust M&E Analytical Tools for Decision Making – Simple monitoring tools should be developed and upgraded on continuous basis using Android and iOS applications on mobile. The community institutions like VFCs and SHGs should be trained to feed the basic data like attendance, meetings, monthly savings, installments, loans, elections, etc.

e. Three Tier Monitoring - There should be a three tier focused monitoring (baseline, midterm and end-term) for each of the thematic subjects.

i. An external and independent Project M & E expert only focusing on Part B component needs to be introduced in the Project.
ii. Internal monitoring by PMU should be done on a regular basis.
iii. For both internal and external monitoring, indicators of progress and outcomes need to be made explicit.

#### 4.6.2. Training and capacity buildings across levels

Focused and regular training and capacity building program shall be required across the level irrespective of project implementation arrangement and thereafter oversees the same and ensures that their SHG and members get all the support of SRLM/ NGO.

Specific Trainings would be required for both the FD officials/NGOs and community. The following table depicts what type of training shall be required for whom.

**Table 17: Training to whom and purpose thereof**

| S. No. | Training to whom | Contents of Training |
|---|---|---|
| 1 | Field NGO/Field level FD Official/ Resource person | Fundamentals of Livelihood and financial inclusion, Institutional development approach, Monitoring and MIS and RF Appraisal & Management. |
| 2 | EC members of VFC/EDC | Governance and Leadership, identification of household and recommendation for RF support. |
| 3 | SHG/JLG and Community | Financial Literacy program<br>Financial Inclusion – schemes available & its benefits<br>Focused Livelihood Trainings |

Information technology (IT) shall be the key to effective, efficient and regular training & capacity building. It is recommended to provide basic digital/IT infrastructure and ideally it can be like this:

i. LED TV at all VFC/EDC meeting hall should be provided as Entry Point Activity (EPA) or through Community Development fund.
ii. Smart phones with wifi should be provided to VFC and SHG members. Smart phones can be given on instalments through RF or partly subsidised by bulk deal with the supplier, who would provide connections and instruments directly to avoid "free-rider" problem. This will also ensure connectivity even when their mobile service provider connection becomes dysfunctional.
iii. Computer and internet connection with wifi is provided at VFC office to connect LED TV and mobiles.
iv. Monthly internet connection costs can be borne under the project.
v. Router can be managed remotely from PMU's GIS-MIS cell giving wifi connectivity to mobiles of members of VFCs and SHGs to avoid abuse.
vi. Solar panel for providing electricity to run LED TVs (minimum 50 inches) can also be a part or EPA.

This would revolutionise the delivery of trainings, knowledge enhancement and opportunity for the villagers at low cost. A pilot action research project can be initiated for modelling and testing the efficacy. Through VFC 'LED TV with wifi' and mobile apps; inputs on financial inclusion schemes, their benefits and possible linkages should be provided. All the formal financial institutions are providing updates and creating awareness through text messages, mobile apps, internet, etc. This was well received during National Workshop held on 08th September, 2016 at New Delhi wherein Forest Department of Tamil Nadu offered to undertake a pilot.

To overcome the existing challenges of training & capacity building gap, the following could be implemented:

**a. Smart Classes via Internet**

i. Interactive, live, effective & efficient smart classes should be arranged to provide trainings by expert professionals at each village. These classes shall be broadcasted on their LED TV through internet. Or recorded sessions can be replayed and provided to VFCs/SHGs for viewing at convenient hours.

ii. Further such classes can also be broadcasted through National or regional TV channels.

iii. It will have mass coverage at low cost.

iv. PMU should ensure regularity and continuity in programs and maintain quality.

v. Also ensure feedback and its subsequent analysis/ follow-up action.

**b. Mobile Apps**

i. VFCs and SHGs should be trained to use user friendly mobile applications (Apps) for record keeping.

ii. Through VFC LED TV and mobile apps inputs on financial inclusion schemes their benefits and possible linkages shall be provided.

iii. Mobile Apps for community grievances redressal mechanism should be designed, developed and used.

iv. With smart phones and wifi VFCs and SHGs can feed in varied MIS data for self and PMU.

v. This would also ensure enhancement in knowledge of VFC & SHG members by surfing internet.

vi. Awareness, reminder, alert.... messages can also be sent by PMU to VFC and SHG members and vice versa through messaging services and groups.

The user friendly mobile applications will serve the following purpose and assist SHG/their members to get linked to FSPs:

1. Regular automated text/chat/notification messages and reminders will be sent to SHG members for monthly savings, this will lead to regularity in savings.
2. Periodical reminders for the SHG meeting.
3. Record the attendance of each member at SHG meetings.
4. Provide brief account of member's own saving with SHG and savings of others with SHG.
5. Total loan portfolio of SHG.
6. Highlight the defaulting members.
7. Regular automated text messages and reminders will be sent to SHG members for loan instalments, in order to have regular and timely repayment of loans. This will create credit history.
8. Maintain the log and create necessary SHG records, which will make them eligible for credit linkages from FSPs.
9. Will also provide text alerts and awareness messages relating to government FI schemes.
10. Android based mobile application shall also help creating data for MIS at PMU through collection of SHGs governance data, financial information and portrays them on online server to enable online access which, if supplemented with a DSS (Decision Support System), will lead to better and effective monitoring by PMU.
11. FD/PMU can broadcast messages to members on chat groups or by notifications.
12. Chats, notifications and recordkeeping with mobile apps. can be done in local language for better communication.

***Annexure***

## Annexure 1: List of stakeholders meets during the study

| S. No. | Date | Name | Designation | Department / Institutions | Place |
|---|---|---|---|---|---|
| 1 | 20-Feb-16 | Mr. Shankar Bhaqt | General Manager | Punjab National Bank | Bichtrapur |
| 2 | 20-Feb-16 | Mr. Biswaranjan Das | Branch Manager | UCO Bank | Bhadrak |
| 3 | 22-Feb-16 | Mr Kalicharan | FES | DMU, Keonjhar | Keonjhar |
| 4 | 22-Feb-16 | Mr TusharManalik | Technical officer | Odisha Livelihood Mission | Keonjhar |
| 5 | 22-Feb-16 | Mr SA Khan | District Development Manager | NABARD | Keonjhar |
| 6 | 22-Feb-16 | Mr. B Das | Lead District Manager, Bank Of India | Bank of India | Keonjhar |
| 7 | 06-04-16 | Mr. Prakash Chand Jain | Cluster Manager | Bandhan Bank | Jaipur |
| 8 | 06-04-16 | Mr.Dilip D. Nayak | Deputy General Manager | United Bank of India | Jaipur |
| 9 | 06-04-16 | Mr.Arun Kumar Vijay | Branch Manager | Allahabad Bank | Udaipur |
| 10 | 07-04-16 | Mr. Singh | Manager | Bank of Baroda | Bikaner |
| 11 | 08-04-16 | Mr. Chandra Kant Sharma | Chief Manager | SBBJ – Lead Bank | Bikaner |
| 12 | 13-04-16 | Mr. Pankaj Kumar Singh | Team Leader | Ambuja cement Foundation | Pali |
| 13 | 13-04-16 | Mr.Junesh Thomas | Programme Manager | Rajasthan GrameenAajeevika(RJAVP) | Jaipur |
| 14 | 17-04-16 | Mr.Prem Singh | Sr. Manager | The Jalore Central Cooperative Bank Limited | Jalore |
| 15 | 21-04-16 | Mr. Pankaj Nagda | Banking Correspondent | Allahabad Bank | Udaipur |
| 16 | 22-04-16 | Mr. Om Prakash | Branch Manager | Katumbi Branch, Bank of Baroda | Katumbi |
| 17 | 23-04-16 | Mr. G. Muralidhar | Lead, Capacity Building | NRLM, National office | Delhi |
| 18 | 23-04-16 | Mr. Ambalal Ninama | Banking Correspondent | ICICI, Dhanpur Branch | Kotabari |
| 19 | 23-04-16 | Mr.Behrow Singh | Supervisor | Manipal Business | Kotabari |
| 20 | 25-04-16 | Mr. Ghulam Mustufa | Branch Manager | SBBJ | Mandalgarh, Bhilwara |
| 21 | 25-04-16 | Mr. A K Chaudhari | Bank Manager | Bank of Baroda | Ghatol |
| 22 | 25-04-16 | Mr. Suresh Kumar Yadav | Agri-Officer | Bank of Baroda | Ghatol |
| 23 | 25-04-16 | Mr. Rajesh Tete | Program Manager | Foundation for ecological Security | Bhilwada |
| 24 | 18-04-16 | Mr.MithunLal | Coordinator | Foundation for Ecological Security | Bhilwada |

| S. No. | Date | Name | Designation | Department / Institutions | Place |
|---|---|---|---|---|---|
| 25 | 18-05-16 | Shri Surendra Srivastava | GM SIDBI and CFO Mudra Bank | SIDBI | Mumbai |
| 26 | 18-05-16 | Ms.SugandhSaxena | Head Advocacy, Strategic Alliance | Micro Finance Institutions Network [MFIN], | Gurgaon |
| 27 | 24-05-16 | Mr.Utpal Kumar Chakraborty | State Director, | PSIG, Programme SIDBI | Lucknow |
| 28 | 28-05-16 | Mr. Rahul N Prajapati | Deputy Manager | AMUL Dairy | Anand |
| 29 | 28-05-16 | Mr. Rahul N Prajapati | Deputy Manager | AMUL Dairy | Anand |
| 30 | 01-06-16 | Mr. R. S. Singh | Branch Head, Vav Branch, | Bank of Baroda | BanasKantha |
| 31 | 01-06-16 | Mr. Manoj Dwivedi | Head – Micro Banking (North & Central India) | RBL Bank | New Delhi |
| 32 | 13-06-16 | Mr.Natvar | Manager | Disha MFI | Punjpur |
| 33 | 05-07-16 | Mr. D.A. Satya (IAS) | Managing Director | Gujarat Livelihood Promotion Company | Gandhinagar |
| 34 | 05-07-16 | Mr. B S Sekhawat | Advisor | Gujarat Livelihood Promotion Company | Gandhinagar |
| 35 | 05-07-16 | Mr. Dinesh Dhabi | Manager, Micro Finance | Gujarat Livelihood Promotion Company | Gandhinagar |
| 36 | 05-07-16 | Mr. Sanjeev Nautiyal | Chief General Manager | SBI | Ahmedabad |
| 37 | 05-07-16 | Mr. M T Purohit | DGM, Outreach | SBI | Ahmedabad |
| 38 | 05-07-16 | Mrs. Uma Shanmukhi | DGM, MSME | SBI | Ahmedabad |
| 39 | 05-07-16 | Mr. Rishi Mehta | DGM, Agr. Bus. Unit | SBI | Ahmedabad |
| 40 | 19-07-16 | Mr. Sunil Shah | AGM, Outreach | SBI | Ahmedabad |
| 41 | 06-07-16 | Mr.Adarsh Kumar | Senior Agribusiness Specialist | World Bank -India Office | New Delhi |

**Annexure 2: Snapshot of SHGs' Credit Linkage from Formal Financial Institutions**

| S.N. | State | CIRCLE | DIVISION | RANGE | VILLAGE | Name of SHG | RF Recd | Loan from Mkt | Amount (in INR) | Year of Loan | Interest rate % | Term - months | Repayment Frequency | Transfer to | Mode of transfer | Interest Paid | Loan from | Facilitated by | SHG Category |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | | |
| 1 | Odisha | Angul | Angul | Purunagar | Badajharan | Maa Andhari | Yes | Yes | 100,000 | 2015 | 13 | 36 | 1 | SHG | 1 | Y | SBI | NGO | A |
| 2 | Odisha | Angul | Angul | Purunagar | Badajharan | | | Yes | 50,000 | 2015 | 12 | 18 | 1 | SHG | 1 | Y | SBI | NGO | A |
| 3 | Odisha | Angul | Angul | Talcher | Gurujang | Indra | Yes | Yes | 10,000 | 2013 | 8 | 12 | 1 | SHG | 1 | Y | NGB | Bank | A |
| 4 | Odisha | Angul | Angul | Talcher | Gurujang | | | Yes | 40,000 | 2014 | 9 | 12 | 1 | SHG | 1 | Y | NGB | Bank | A |
| 5 | Odisha | Angul | Angul | Talcher | Gurujang | | | Yes | 99,000 | 2015 | 12 | 36 | 1 | SHG | 1 | Y | NGB | Bank | A |
| 6 | Odisha | Angul | Angul | Talcher | Gurujang | | | Yes | 200,000 | 2013 | 13 | 60 | 1 | SHG | 1 | Y | NGB | Bank | A |
| 7 | Odisha | Angul | Angul | Talcher | Gurujang | Maa Gojabayani | Yes | Yes | 200,000 | 2013 | 12 | 60 | 1 | SHG | 1 | Y | NGB | Bank | A |
| 8 | Odisha | Barhumpur | Phulbani | Phulbani | Kaladi | Maa Laxmi | Yes | Yes | 350,000 | 2009 | 12 | 36 | 1 | SHG | 1 | N | SBI | Aganwadi | B |
| 9 | Odisha | Barhumpur | Phulbani | Phulbani | Kaladi | Singhaseni | Yes | Yes | 30,000 | 2011 | 12 | 12 | 1 | SHG | 1 | Y | AB | Aganwadi | A |
| 10 | Odisha | Baripada | Balasore | Kuldiha | Tenda | Baba Sankeshwar P M S Samiti | Yes | Yes | 200,000 | 2013 | 10 | 24 | 1 | SHG | 1 | Y | BBCCB | Fishery Dept | C |
| 11 | Odisha | Baripada | Balasore | Soro | Saralia | Maa Durga Shakti | Yes | Yes | 300,000 | 2013 | 12 | 36 | 1 | SHG | 1 | Y | UBI | NGO | A |
| 12 | Odisha | Berhampur | Phulbani | G. Udayagiri | Bhanjapadar | Basumati | Yes | Yes | 200,000 | 2009 | 12 | 36 | 3 | SHG | 1 | Y | UBI | Aganwadi | A |
| 13 | Odisha | Berhampur | Phulbani | G. Udayagiri | Bhanjapadar | | | Yes | 50,000 | 2008 | 12 | 36 | 3 | SHG | 1 | Y | UBI | FD | A |
| 14 | Odisha | Berhampur | Phulbani | G. Udayagiri | Bhanjapadar | | | Yes | 200,000 | 2008 | 12 | 36 | 4 | SHG | 1 | Y | SBI | FD | A |
| 15 | Odisha | Berhampur | Balliguda | Balliguda | Budulipadar | Maa Saraswati | Yes | Yes | 70,000 | 2015 | 13 | 18 | 1 | SHG | 1 | Y | UG | NGO | A |
| 16 | Odisha | Berhampur | Balliguda | Balliguda | Budulipadar | | | Yes | 70,000 | 2015 | 12 | 18 | 1 | SHG | 1 | Y | UG | NGO | A |
| 17 | Odisha | Berhampur | Balliguda | Balliguda | Budulipadar | | | Yes | 50,000 | 2015 | 12 | 12 | 1 | SHG | 1 | Y | UG | NGO | A |

| | | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 18 | Odisha | Berhampur | Balliguda | Tumudi bandha | Benerbahal | Maa Mahalaxmi | Yes | Yes | 50,000 | 2010 | 12 | 18 | 5 | SHG | 1 | Y | SBI | Aganwadi | A |
| 19 | Odisha | Bhubaneswar | Bhadrak | Chandabali | Gouraparasad | Santoshi Mata | Yes | Yes | 140,000 | 2012 | 12.5 | 24 | 1 | SHG | 1 | Y | SBI | NGO | A |
| 20 | Odisha | Bhubaneswar | Bhadrak | Chandabali | Gouraparasad | Ganga Mata | Yes | Yes | 225,000 | 2015 | 13 | 36 | 1 | SHG | 1 | Y | KGB | Bank | A |
| 21 | Odisha | Koraput | Rayagada | Muniguda | Bangana | Manikeswari | Yes | Yes | 30,000 | 2009 | 12 | 12 | 1 | SHG | 1 | Y | SBI | FD | A |
| 22 | Odisha | Koraput | Rayagada | Muniguda | Bangana | | | Yes | 70,000 | 2010 | 12 | 12 | 1 | SHG | 1 | Y | SBI | Aganwadi | A |
| 23 | Odisha | Koraput | Rayagada | Muniguda | Bangana | | | Yes | 200,000 | 2011 | 12 | 12 | 1 | SHG | 1 | Y | SBI | NGO | A |
| 24 | Odisha | Koraput | Rayagada | Muniguda | Bangana | | | Yes | 70,000 | 2012 | 12 | 12 | 1 | SHG | 1 | Y | SBI | NGO | A |
| 25 | Odisha | Koraput | Rayagada | Muniguda | Bangana | | | Yes | 60,000 | 2015 | 12 | 12 | 1 | SHG | 1 | Y | SBI | NGO | A |
| 26 | Odisha | Koraput | Rayagada | gunupur | Badisola | Majhighariani | Yes | Yes | 100,000 | 2014 | 10 | 36 | 1 | SHG | 1 | N | UG | NGO | A |
| 27 | Odisha | Koraput | Rayagada | Rayagada | Balingi | Maa Kasada | Yes | Yes | 150,000 | 2011 | 15 | 24 | 1 | SHG | 1 | Y | SBI | Bank | C |
| 28 | Odisha | Rourkela | Deogarh | Khamar | Nvagaon | Maa Tarini | Yes | Yes | 350,000 | 2013 | 11 | 36 | 1 | SHG | 1 | Y | BOB | NGO | A |
| 29 | Odisha | Rourkela | Keonjhar | Ghatgaon | Murgapahadi | Radhakrushna | Yes | Yes | 3,000 | 2015 | 12 | 6 | 1 | SHG | 1 | Y | KCCBL | Bank | A |
| 30 | Gujarat | Vadodara | Chhotaudepur | Pavijetpur | Zari | Laxmi Saw Sahath Juth | Yes | Yes | 50,000 | 2013 | 5 | 12 | 4 | SHG | 1 | Y | SBI | LET | C |
| 31 | Gujarat | Chhota Udepur | Chhota Udepur | Panvad | Rajavant | Jai jala ram SHG | Yes | Yes | 12,000 | 2014 | 9 | 12 | 1 | SHG | 1 | Y | SBI | LET | A |
| 32 | Gujarat | W.L. Gandhinagar | Banaskantha | Danta (West) | Punjpur | Jai Maa Bhawani | Yes | Yes | 100,000 | 2015 | 12 | 36 | 1 | SHG | 1 | Y | SBI | LET | C |
| 33 | Gujarat | W.L. Gandhinagar | Banaskantha | Danta (West) | Punjpur | Jai Santoshi Maa | Yes | Yes | 100,000 | 2014 | 12 | 36 | 1 | SHG | 1 | Y | SBI | LET | A |
| 34 | Gujarat | W.L. Gandhinagar | Banaskantha | Danta (West) | Punjpur | | | Yes | 250,000 | 2015 | 26 | 24 | 1 | Members | 1 | Y | Disha - YES Bank | LET | A |
| 35 | Gujarat | W.L. Gandhinagar | Banaskantha | Iqbalgadh | Iqbalgadh | Jai Shri Laxmi | Yes | Yes | 12,000 | 2014 | 9 | 12 | 1 | SHG | 1 | Y | Dena | LET | B |
| 36 | Gujarat | W.L. Gandhinagar | Banaskantha | Iqbalgadh | Iqbalgadh | Shree Muni maha Raj SHg | Yes | Yes | 12,000 | 2015 | 9 | 12 | 1 | SHG | 1 | Y | Dena | LET | C |

*Note: Repayment Frequency - 1-Monthly; 2-Quarterly; 3-Halfyearly; 4-Annually; 5-Not Fixed / Mode of transfer – 1-Bank; 2-Cash*
*Banks: SBI-State Bank of India; NGB- Neelanchal Gramya Bank; AB- Andhra bank; BBCCB- Balasore Bhadrak Central Cooperative Bank; UBI-Union Bank of India;UG- Utkal Grameen;KGB- Kalinga Gramya Bank; BOB-Bank of Baroda; KCCBL- Keonjhar Central Coop Bank Ltd*

## Annexure 3: NABARD SHG Rating Sheet

**SHG Rating Sheet**

| | | | |
|---|---|---|---|
| Name of the group: | | Village: | |
| Block: | District: | | State: |
| Details of Bank A/c (incl.name of Bank & Branch) | | Bank A/c No. | |
| *Jaankar* | No. of members in Group: | Male members: | Female members: |
| Name of Groups Leaders: | | Year of Group Formation: | |
| | | Savings Frequency (monthly, weekly, etc.): | |

| | |
|---|---|
| **1. FEELING OF HOMEGENEITY/SOLIDARITY** (as observed during interaction with group) | **4** |
| (a) very strong | 4 |
| (b) Moderate | 2 |
| ( c) Not very much | 1 |
| **2. GOVERNANCE ISSUES (additive value)** | **6** |
| (a) Awareness about objectives of Self Help Group Programme | 2 |
| (b) Awareness about rules and regulations of group functioning | 1 |
| ( c) Leader responsibility sharing by group members | 2 |
| (d) Awareness about member-wise savings and loan position | 1 |
| **3. CONDUCT OF MEETINGS (during last six months)** | **8** |
| (a) Meetings are held regularly on fixed date,time and place | 8 |
| (b) Meetings are held regularly once a month but at the convenience of all members | 6 |
| ( c) Meetings are not held regularly, but they are conducted on fixed date, time and place | 4 |
| (d) Meetings are irregular | 2 |
| **4. ATTENDANCE IN MEETING (during last six months)** | **8** |
| (a) Above 90% in all group ;meetings | 8 |
| (b) 70% to 90% in all group meetings | 6 |
| ( c) 50-70% in all group meetings | 4 |
| (d) Less than 50% in all group meetings | 0 |
| **5. FINANCIAL TRANSACTIONS IN THE GROUP** ( during last six months) | **8** |
| (a) All fund collections, financial decisions and disbursement of loans are made in meeting only | 8 |
| (b) All fund collections/financial decisions are made in meeting but loans are disbursed outside | 6 |
| (c ) Fund collections are made outside meeting but loan decisions are taken during the meeting | 5 |
| (d) Both fund collections and financial decisions are taken outside the meeting | 0 |
| **6. MEMBER AWARENESS ABOUT FINANCIAL TRANSACTIONS** | **8** |
| (a) All members are aware about all financial transactions | 8 |
| (b) Above 75%of the members are aware | 6 |
| ( c) Only few members are aware | 4 |
| (d) None are aware | 0 |
| **7. REGULARITY OF SAVINGS (during last six months)** | **6** |
| (a) 100% on time payment of savings by members | 6 |
| (b) 90% on time payment of savings by members | 4 |
| ( c) 70% -90% on time payment of savings by members | 3 |
| (d) Less than 70% on time payment of savings by members | 0 |
| **8. PATTERN OF INTERNAL LENDING** | **6** |
| (a) Need based loans availed by many members | 6 |
| (b) Need based loans availed by few members | 4 |
| ( c) Equal distribution of loans among all members | 2 |
| (d) Loans extended repeatedly to only a few members in the group | 0 |
| **9. VELOCITY OF INTERNAL LENDING** | **4** |
| Formula : Total loans disbursed / Corpus | |
| (a) Over 1.5 times | 4 |
| (b) Between 1-1.5 times | 2 |
| (c ) Less than 1 time | 1 |
| **10. REPAYMENT TERMS** | **4** |
| (a) Monthly Instalments | 4 |
| (b) Quarterly Instalments | 3 |
| ( c) Lumpsum Payment | 2 |
| (d) No specific term, case to case basis | 0 |
| **11. BANK LINKAGE** | **6** |
| (a) Banks have given loans which are being repaid regularly | 6 |
| (b) Banks have given loans but repayments are in arrears | 2 |
| (c) Have approached Banks for loans but were refused | 2 |
| (d) Have never approached Banks for loans, as loans are not required | 0 |
| (e) Have never approached Banks for fear of procedures | 0 |
| **12. BORROWER QUALITY (No.of defaulting members)** | **8** |
| (a) Less than 2 members | 8 |
| (b) Between 2-5 members | 4 |
| ( c) More than 5 members | 0 |
| **13. ASSET QUALITY** | **6** |
| Formula : Amount overdue for more than 3 months / Total loans outstanding | |
| (a) Less than 2% | 6 |
| (b) Between 2-5% | 4 |
| ( c) More than 5% | 0 |
| **14. UPTO DATE MAINTENANCE OF RECORDS (additive value)** | **10** |
| (a) Adherence to the groups bye-laws | 1 |
| (b) Attendance at the meetings | 1 |
| (c ) Financial decisions taken at the meeting | 2 |
| (d) Savings collection | 2 |
| (e) Loan disbursement | 1 |
| (f) Repayment performance | 1 |
| (g) Member-wise savings and loan portfolio | 2 |
| **15. USAGE OF GROUP PHYSICAL ASSETS** | **4** |
| (a) Group has common assets which are utilized by most members and are paid for | 4 |
| (b) Group has common assets whose benefits are cornered by a few | 2 |
| (c) Group had common assets which are no more usable or in the possession of the groups | 0 |
| (d) Group has no commonly owned assets | 0 |
| **16. INVOLVEMENT IN VILLAGE ISSUES** | **4** |
| (a) Group actively involves itself in social and other issues of the village | 4 |
| (b) Group has sometimes been involved in resolving issues in the village | 2 |
| (c) Group has never/rarely been involved in village issues | 0 |

Marks Scored ____________

Category ____________

| | |
|---|---|
| Category A More than 70 | Fairly good to good groups; may be loan worthy |
| Category B Between 50-70 | Poor to average groups, handholding required |
| Category C Less than 50 | Very Poor groups, need intensive capacity building |

Assessed By (name & signature): ____________________ Date of Assessment: ____________

## Annexure 4: List of Schemes of Government of India

| S. No. | Scheme | Product | Department | Details |
|---|---|---|---|---|
| 1 | Pradhan Mantri Jan Dhan Yojna | Saving-Zero Balance | Govt. and Bank | Interest on deposit.<br>Accidental insurance cover of INR1 lac<br>No minimum balance required.<br>The scheme provides life cover of INR 30,000 payable on death of the beneficiary, subject to fulfilment of the eligibility condition.<br>Easy Transfer of money across India<br>Beneficiaries of Government Schemes will get Direct Benefit Transfer in these accounts.<br>After satisfactory operation of the account for 6 months, an overdraft facility will be permitted<br>Access to Pension, insurance products. |
| 2 | Pradhan Mantri Suraksha BimaYojana | Insurance -Life | Bank | Accidental death cum disability insurance policy, Annual premium of just INR 12 only, Insurance cover of INR 2,00,000 for accidental death and INR 1,00,000 for partial disability |
| 3 | Pradhan Mantri Jeevan Jyoti Bima Yojana | Insurance -Life | Bank | Annual premium of INR 330, Insurance cover of INR 2,00,000, |
| 4 | Atal Pension Yojana | Micro-pension | Bank | Monthly/quarterly/half-yearly contribution and equal amount by GOI, With an option to prematurely exit before the age of 60 years, Pension amount INR 1,000 - INR 5,000 |
| 5 | Jeevan Suraksha Bandhan Yojana | Insurance-life | Bank | Brothers can gift social security schemes to their sisters by purchasing gift card worth INR 351 & deposit scheme worth INR 201, Will be used for making the premium payment for PMSBY& PMJJBY, Term deposit scheme worth INR 5,001 |
| 6 | Sukanya Samriddhi Yojana | Saving-term deposits | Bank | Small savings scheme for Girl Child, The interest rate offered is 9.2% in 2015-16 |
| 7 | PAHAL-Direct Benefits Transfer for LPG(DBTL) Consumers Scheme | Govt. Payment | Govt. and Bank | Consumers will need a bank account to join the scheme and receive LPG subsidy Consumers will also get one time permanent advance in their bank account prior to buying the first market priced LPG cylinder |
| 8 | RF to Women SHGs under SRLM | Micro-credit | Bank, SRLM | To reduce poverty through building strong grassroots institutions of the poor, RF support INR 1500/- per SHG |
| 9 | SHG - Bank Linkage | Micro-credit | NGO, Bank and NABARD | Formation of SHGs and linking them with Bank |

| | Programme | | | |
|---|---|---|---|---|
| 10 | Pradhan Mantri Mudra Yojna (PMMY) | Micro-credit | SIDBI and Bank | Loan size INR50K to 100K, No third party guarantee requirement. No Collateral Security requirement. OD & CC Limit – 12 months, repayable on demand. Term Loan-Up to 5 years. |
| 11 | Employment State Insurance Scheme (ESIS) | Insurance-Health | Govt. Labour Dept.s | provides comprehensive health care facilities for the Central Govt. employees and pensioners and their dependents residing in CGHS covered cities |
| 12 | Universal Health Insurance Scheme | Insurance-Health | Ministry of Labour and Employment | The scheme provides for reimbursement of medical expenses upto INR30,000/- towards hospitalization floated amongst the entire family, death cover due to an accident @ INR25,000/- to the earning head of the family and compensation due to loss of earning of the earning member @ INR50/- per day upto maximum of 15 days. The Universal Health Insurance Scheme (UHIS) has been redesigned targeting only the BPL families. The premium subsidy has been enhanced from INR100 to INR200 for an individual, INR300 for a family of five and INR 400 for a family of seven, without any reduction in benefits |
| **13** | Pradhan Mantri Jan-Dhan Yojna Overdraft upto Rs 5,000/- in PMJDY Accounts | Micro-credit | Bank | Basic Savings Bank Deposit Account (BSBD) accounts, which are operated satisfactorily for at least six months<br>b) Overdraft to be granted to the earning member of family, preferably women of the house.<br>c) There should be regular credits under DBT/ DBTL scheme/other verifiable sources<br>d) Account should be seeded with Aadhaar for avoiding duplicate benefit<br>e) BSBD account holder should not be maintaining any other SB account with any Bank/branch to ensure compliance with RBI directives.<br>f) Age of applicant between 18 years to 60 years.<br><br>Loan can be 4 times of Average monthly balance or, 50% of credit summations in account during the preceding 6 months or, Rs 5000/- whichever is lower. |

## Annexure 5 – State-wise Places of Savings and Sources of Credit

- Place of Savings

| Category of SHG | Savings | SHG | Cooperative | MFI | Bank | Post Office | Home |
|---|---|---|---|---|---|---|---|
| **Odisha** | | | | | | | |
| A | Before | 35% | 3% | 3% | 26% | 0% | 68% |
| | After | 97% | 3% | 0% | 94% | 3% | 68% |
| B & C | Before | 20% | 0% | 0% | 30% | 20% | 55% |
| | After | 85% | 5% | 0% | 80% | 20% | 60% |
| **Rajasthan** | | | | | | | |
| A | Before | 0% | 0% | 0% | 33% | 33% | 67% |
| | After | 100% | 67% | 0% | 67% | 33% | 67% |
| B & C | Before | 17% | 4% | 0% | 58% | 0% | 88% |
| | After | 81% | 13% | 0% | 65% | 0% | 72% |
| **Gujarat** | | | | | | | |
| A | Before | 0% | 0% | 0% | 67% | 0% | 33% |
| | After | 100% | 0% | 0% | 100% | 0% | 33% |
| B & C | Before | 3% | 0% | 0% | 43% | 0% | 60% |
| | After | 80% | 0% | 0% | 81% | 3% | 55% |

- Sources of Credit

| Category of SHG | Sources of Credit | Money lender | SHG | VFC | Bank | Cooper-atives | MFI | Friends/ Relatives |
|---|---|---|---|---|---|---|---|---|
| **Odisha** | | | | | | | | |
| A | Before | 71% | 23% | 0% | 3% | 0% | 0% | 61% |
| | After | 3% | 97% | 77% | 65% | 3% | 0% | 16% |
| B & C | Before | 60% | 10% | 0% | 10% | 5% | 0% | 40% |
| | After | 15% | 80% | 80% | 30% | 5% | 0% | 25% |
| **Rajasthan** | | | | | | | | |
| A | Before | 67% | 33% | 0% | 67% | 0% | 0% | 100% |
| | After | 67% | 67% | 33% | 67% | 67% | 0% | 33% |
| B & C | Before | 71% | 13% | 0% | 13% | 0% | 0% | 88% |
| | After | 56% | 63% | 28% | 25% | 8% | 0% | 75% |
| **Gujarat** | | | | | | | | |
| A | Before | 67% | 0% | 0 | 33% | 0% | 0% | 33% |
| | After | 0% | 100% | 67% | 100% | 0% | 33% | 0% |
| B & C | Before | 77% | 10% | 0 | 0% | 0% | 0% | 53% |
| | After | 52% | 78% | 68% | 10% | 0% | 3% | 43% |