

CHAPTER 8

**PRIORITY SECTOR LENDING THROUGH
FINANCIAL INCLUSION PROGRAMMES IN
SRIKAKULAM DISTRICT**

8.1 Financial Inclusion

8.2 Financial Inclusion in Srikakulam district

8.3 Financial Inclusion – Use of Business Facilitators/Business Correspondents

8.4 Financial Literacy and Credit Counselling

8.5 Self-Help Groups

8.1 FINANCIAL INCLUSION

Financial inclusion is the delivery of banking services to all the sections of the society at an affordable cost. Easy access to public goods and services is the sine qua non of an open and efficient society. As banking services are in the nature of public good, it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of the public policy.¹⁶²

Financial inclusion as in Fig.7.1 is not just limited to credit but involves a wide range of financial products and services like savings accounts, insurance, remittance and other facilities to the under-privileged and the poor in rural, semi-urban and urban areas.

8.1.1 Definition of Financial Inclusion¹⁶³:

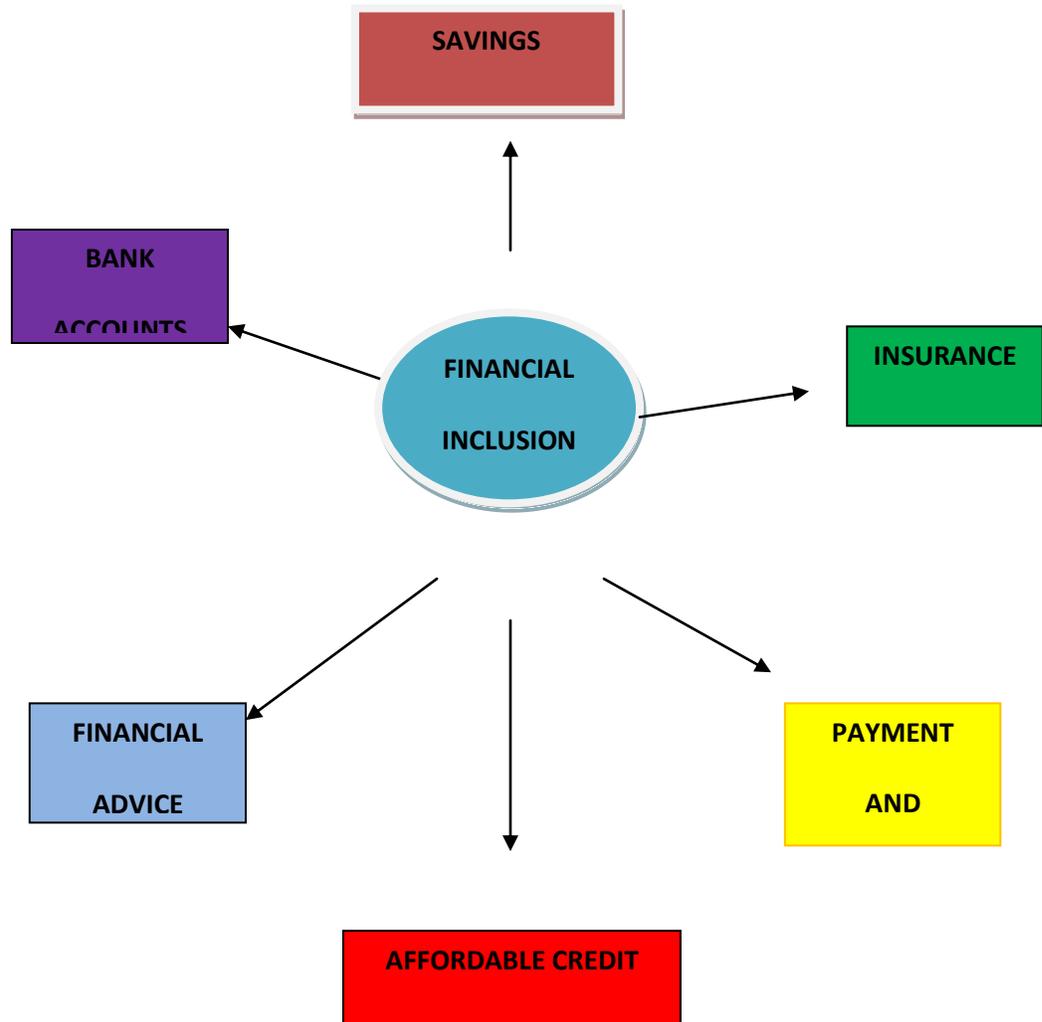
The definitions on financial inclusion vary with regard to dimensions such as focus, breadth and degree of inclusion and exclusion across the countries.

The Asian Development Bank (2000) defines inclusion ‘as the provision of a broad range of financial services such as deposits, loans, payment services, money transfers and insurance to the poor and low income households and their micro-enterprises’.

¹⁶² Leeladhar V, Taking banking services to the common man – Financial inclusion, RBI Bulletin, January 2006, pp-73

¹⁶³ Financial Inclusion, Chapter 7, Report on Currency and Finance, 2003-08 Vol. V pp. 297.

Figure: 8.1 Financial Inclusion



(Source: National Seminar on Launching a National initiative for Financial Inclusion, 2009)

The Treasury committee, House of Commons, U.K (2004) defines financial inclusion as the ‘ability of individuals to access appropriate financial products and services’.

The World Bank (2008) expresses financial inclusion as the broad access to financial services implying an absence of price and non-price barriers in the use of financial services; it is difficult to define and measure access because access has many dimensions.

The United Nations (2006 b) notes, 'a financial sector that provides 'access' to credit for all 'bankable' people and firms, to insurance for all insurable people and firms and to savings and payments services for everyone. Inclusive finance does not require that everyone who is eligible to use each of the services, but they should be able to choose to use them if desired'.

The Committee on Financial Inclusion in India (2008) indicates that financial inclusion implies '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 two important points that emerge from the different definitions are access to financial services and at an affordable cost.

8.1.2 Nature and Causes of Financial Exclusion

Government of India has taken several initiatives to provide formal financial services to the poor. However, more than half of the India's population is excluded from the formal financial services. The causes of financial exclusion may be attributed to low income, lack of awareness about the financial services, high transaction costs, small size transactions and procedures to open bank accounts etc.

According to Kempson and Whyley, 1999; Kempson *et al.*, 2000; Connolly and Hajaj, 2001, the critical dimensions of financial exclusion include:

- (i) Access exclusion – restriction of access through the process of risk management
- (ii) Condition exclusion – conditions attached to financial products which make them inappropriate for the needs of some segments of population
- (iii) Price exclusion – some people can only gain access to financial products at prices they cannot afford
- (iv) Marketing exclusion – some people are effectively excluded by targeted marketing and sales; and
- (v) Self-exclusion – people decide not to opt for a financial product because of the fear of refusal to access by the service providers.¹⁶⁴

A holistic approach is required to bring the financially excluded to the formal financial fold. Proper financial education and credit counselling and availability of credit at cheaper rates are some of the pre-requisites to make the excluded as included. Banks thus, emerge as the key players on the supply side and can enable the poor and the socially disadvantaged as well as the small and medium enterprise sector to gain access to formal sources of credit¹⁶⁵

¹⁶⁴ Ibid. pp- 299.

¹⁶⁵ Swathi Raju in Financial Inclusion: Enabling Inclusive Growth, The India Economy Review , Volume VII/quarterly issue 2010, www.iipmthinktank.com

8.1.3 Measures to promote Financial Inclusion

The scope of financial inclusion can be expanded in two ways¹⁶⁶.

- a) Through state-driven intervention by way of statutory enactments
- b) Through voluntary effort by the banking community itself for evolving various strategies to bring within the ambit of the banking sector the large strata of society.

The Government of India has taken several initiatives to distribute the benefits of banking to every individual and one of such initiatives was nationalization of banks. After nationalization, Indian banking sector has witnessed an enormous increase in terms of number of branches, deposits and advances. The number of banks increased from seventy three to two hundred and ninety three in 2002 but dropped to one hundred and sixty six in 2009 due to rationalization of Regional Rural Banks. The number of bank branches had gone up tenfold, the rural density increased reducing population served by a bank branch from 64000 to 14000.¹⁶⁷

Nationalization has brought radical changes in the operations of the commercial banks. The RBI has called the 1969 bank nationalization ‘the defining economic event of not just the 1960s but of the next few decades’. The rise of public sector banks and the 1:4 expansion policy which mandated four branches in unbanked areas for every new urban bank branch completely transformed the face of India’s financial landscape.¹⁶⁸

¹⁶⁶ Leeladhar V, Taking banking services to the common man – Financial inclusion, RBI Bulletin, January 2006, pp-73

¹⁶⁷ Dr. Srinivasa Rao.K, – Nationalization of banks-an anchor for financial inclusion, The Journal of Indian Institute of Banking and Finance, July-September 2010 p.p.18

¹⁶⁸ Nandan Neelekani, Financial inclusion have we reached the tipping point? The Journal of Indian Institute of Banking and Finance, October-December 2010, PP-6.

The branch expansion in rural areas allows millions of ordinary people to use institutional banking facilities. But the branch expansion and the present models of services rendered by banks are not suitable to the ordinary Indians for a variety of reasons. Hence, many Indians viewed banking as an alien, difficult experience.¹⁶⁹

However, theoretical knowledge and empirical evidence shows that access to financial services allows the poor to save money outside the house safely and prevents concentration of wealth. It also helps in protecting the poor from economic shocks. Hence, providing access to financial services to every individual has received the attention of policy makers and there is a need to perceive 'financial inclusion' as a 'quasi public good.'¹⁷⁰ Hence, there is an urgent need for extending the banking and financial services to every part of the country for achieving the inclusive growth. The term 'financial inclusion' was explicitly used for the first time in India in the Annual Policy Statement of 2005-06¹⁷¹.

Easy accessibility of credit from non-formal financial institutions has led to increase in rural indebtedness. The NSSO survey during January-December 2003 in its 59th Round revealed that access to formal credit declined for cultivator households during the period 1991-2002.

¹⁶⁹ Ibid. pp-6

¹⁷⁰ Nirupam Mehrotra et. al., Financial inclusion-An overview, Occasional paper-48, 2009
www.nabard.org, pp-ix

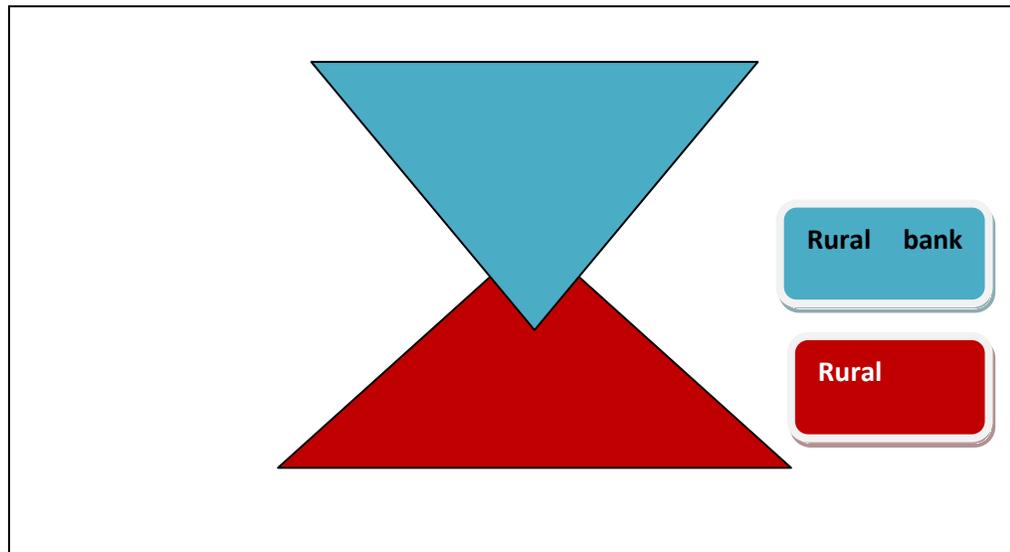
¹⁷¹ Trends and Progress of Banking in India 2010, www.rbi.org.in

The reasons could be attributed to the decline in the share of commercial banks.¹⁷²

This implies that the poorer sections of the rural areas have to increasingly depend on the informal sources for meeting their credit needs.

¹⁷² Nirupam Mehrotra et. al., op. cit., pp-x

Penetration of Banking Network



(Source: Banking with last, the lost and the least, 2009)

Figure: 8.2

Pyramid (Figure 8.2) shows that the rural branch network was trying to penetrate the population pyramid in an effort to reach to the bottom of the pyramid. However, it could succeed to some extent and there needs a lot to be done to reach the bottom.

The important findings of the research team comprising of officials of NABARD, banks, NIBM and IIM Ahmadabad in mid 80s, conveyed that the reasons for the poor penetration of rural bank branches were the systems and procedures of banks which were complicated, time consuming and costly.

An illustration for systems and procedures are – for opening a savings bank account, the application form has to be filled in capital letters-one letter in each small box and getting proof of identity and residence, photographs etc.¹⁷³

However in order to bring the financially excluded population into the institutional banking services fold, Reserve Bank of India appointed ‘Khan Committee’ in 2004 and based on the recommendations of this Committee, in its mid-term review of the monetary policy of 2005-06, for the first time announced several steps¹⁷⁴ for promotion of financial inclusion. They were:

1. Opening of ‘no frills account’ with low or no balance and minimum service charges which is known as basic banking account¹⁷⁵.
2. Simplified Know Your Customer (KYC) norms
3. Introduction of General Purpose Credit Cards to ensure hassle free revolving credit up to Rs.25000 to small borrowers in rural and semi-urban areas without collateral security, purpose and end-use of credit.
4. One Time Settlement (OTS) for all defaulter borrowers where the principal amount is less than Rs.25000/-.

In addition to the above, RBI had set up an internal group (Khan Committee) to study on micro finance and the Committee recommended to use the micro finance

¹⁷³ Dr.Prakash Bakshi, Banking with last, the lost and the least, The Journal of Indian Institute of Banking and Finance, July-September 2009 p.p.26

¹⁷⁴ RBI circular No. DBOD.No.Leg.BC.44/09.07.2005-06 dated 11th November,2005

¹⁷⁵ A basic account allows you draw money for your own personal use and pay bills that may arise. The bank may offer debit card but overdraft and cheque facilities are generally denied for basic account due to limited balance requirements.

institutions as business facilitators and correspondents to enable banks to increase their outreach and ensure greater financial inclusion. As a result, 3.30crore¹⁷⁶ new 'no frills' bank accounts were opened up to 31st March 2009 in the country. Figure 8.3 shows the initiatives of RBI to promote financial inclusion in a rapid manner.

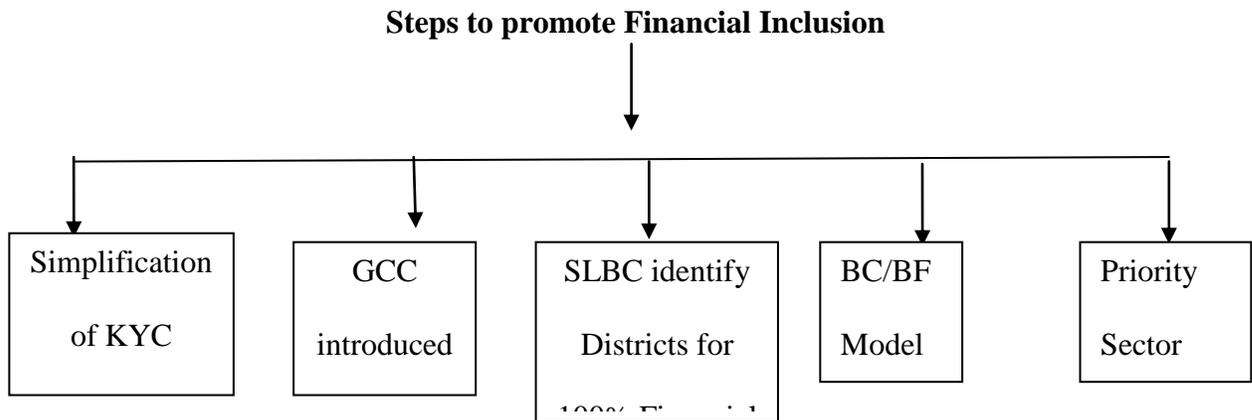


Figure: 8.3

Following the recommendations of the Committee on Financial Inclusion in its interim report, the Union Finance Minister in the union budget 2007-08 announced setting up of two funds of Rs. 5000 million each - Financial Inclusion Fund and Financial Inclusion Technology Fund with NABARD for using technology in providing services to the rural poor. In India, banks have adopted core banking solutions and adopting new delivery channels like ATMs, internet banking, smart card based products, mobile access etc. Still, a large number of people are waiting for the entry into the formal banking system.

The Rangarajan Report (2008)¹⁷⁷ states that

¹⁷⁶ Report on trends and progress of banking in India 2008-09, www.rbi.org.in

¹⁷⁷ Report on Currency and Finance, op. cit., pp-315

- Exclusion is most acute in Central, Eastern and North-Eastern regions of the country accounting for 64% of all financially excluded farmer households of the country.
- The overall indebtedness to formal sources of finance is only about 20% in the three regions(Central, Eastern and North-Eastern)
- 51.4% of farmer households are financially excluded from the both formal/informal sources and 73 per cent of farmer households do not access formal sources of credit.

However, the government's commitment to financial inclusion was well reflected in the Union Finance Minister's budget speech for 2008-09 wherein a recommendation was highlighted "to advise commercial banks, including Regional Rural Banks (RRBs) to add at least 250 rural household accounts every year at each of their rural and semi-urban branches".¹⁷⁸

The banking system in India today has the largest outreach for delivery of financial services. Apart from the traditional financial products viz. deposits, loans and money transfer, bank branches are also serving as an important conduit for delivery of mutual funds, other capital market and insurance products. The number of savings accounts with scheduled commercial banks in India stood at a little over 300 million in March 2005. Taking into account the number of households in the country this number certainly represents a significant coverage.¹⁷⁹

¹⁷⁸Dr.Swain B.K., A study report on Evaluation of Microfinance outreach through Financial Inclusion, Centre for Rural credit and Development Banking, NIRD, Hyderabad

¹⁷⁹ Usha Thorat, Treating Bank Customers Fairly – Regulatory Initiatives, inaugural address at the Financial Planning Standards Board India , May 2006

The RBI's broad approach to financial inclusion is to 'connect' people with the banking system in the country. Hence, banks have to change their present practices to achieve the objective of financial inclusion.

8.1.4 Financial Inclusion in Andhra Pradesh¹⁸⁰

In Andhra Pradesh, fourteen districts have declared 100% Financial Inclusion by way of opening No Frills Accounts. SLBC has taken a decision that where the districts have completed above 95% of coverage, the achievement is treated as 100% coverage of households by keeping in view of migration and other aspects.

The districts who have declared 100% financial inclusion were:

1. Adilabad 2. Anantapur 3.Chittoor 4.Guntur 5.Kadapa 6.Kurnool 7.Medak
8. Nellore 9. Nizamabad 10.Prakasham 11.Srikakulam 12.Vizianagaram
13. Warangal 14.Ranga Reddy

The following districts have achieved the financial inclusion in the range of 80 per cent to 95 per cent.

1. Karimnagar 2. Krishna 3.Mahabubnagar 4.Nalgonda 5.Visakhapatnam 6.Khammam
7. East Godavari and 8. West Godavari

Progress of Financial Inclusion in Andhra Pradesh (As at the end of March 2011)

S. No.	Particulars	Number	Amount in Cr.
1	No. of Villages covered under ICT based Financial Inclusion	20979	--
2	No. of No Frills accounts	62.47 lakhs	454.76

¹⁸⁰ Minutes of 174th meeting of the SLBC of AP 13.05.2011, www.slbc.ap.ac.in

3	Overdraft in No Frills accounts	17560	1.31
4	General Purpose Credit Cards	33611	27.29
5	Kisan Credit Cards	9058346	39016
6	Business Correspondents	12	--
7	Business Facilitators	2615	--
8	FLCCs	6	--
9	Smart Cards Issued (No. in Lakhs)	7530406	--
10	Smart Card transactions – Number & Volume	3327404	20.34

(Source: Report of 174th meeting of the Slbc of AP 13.05.2011)

Table: 8.1

8.2 FINANCIAL INCLUSION IN SRIKAKULAM DISTRICT

The Reserve Bank of India urged the banks in its midterm review in April 2005 to review their existing practices to align them with the objectives of financial inclusion.¹⁸¹

In order to speed up the process of financial inclusion in a stipulated time frame, banks were advised to devise a state specific approach under the guidance of State Level Bankers Committee (SLBC).

In the Annual Policy Statement for the year 2006-07, the RBI Governor announced that “SLBC Convenors in all States/Union Territories are advised to identify at least one district in their area for achieving 100 percent financial inclusion by

¹⁸¹ Trends and Progress of Banking in India 2007-08, www.rbi.org.in

providing “no frills” account and a “General Purpose Credit Card(GCC)” on the lines of the initiative taken in Pondicherry.¹⁸²

As a first step, State Level Bankers Committee (SLBC) of Andhra Pradesh has selected Srikakulam District for achieving 100% financial inclusion by providing “no frills” accounts in the first phase and later implemented other parameters like issuing General Purpose Credit Cards, Strengthening SHG financing, Micro Insurance etc. The Srikakulam District in Andhra Pradesh has claimed that it has completed 100% financial inclusion by 31st March 2007 in the SLBC meeting. Being a backward district with low per capita income, the achievement made by it in this perspective is significant. Hence, the progress of financial inclusion has been studied in two perspectives.

1. By observing the progress of no-frills accounts opened by commercial banks
2. By observing the progress of deposit accounts and credit account in the district.

8.2.1 Banking development in Srikakulam District to enhance financial inclusion

As financial Inclusion is a process of ensuring access to timely and adequate credit and financial services at affordable cost, banks play a vital role as service providers and their development is sine qua non for this.

As on 31.03.2011, 114 public sector bank branches, 11 private sector bank branches, 63 Regional Rural Bank branches and 13 District Co-operative Bank branches are operating in Srikakulam District.

Apart from the banks, two farmers’ co-operative societies are also operating in the district. As the public sector banks and Regional Rural Bank branches occupy 56% and

¹⁸² Dr. Ramakrishnan .K, Financial Inclusion and Financial Literacy : Andhra Bank’s Initiatives, CAB Calling July –September 2007.

31% (Fig: 8.4) share of the total banking system respectively, they played a crucial role in achieving the 100% financial inclusion.

Number of Bank Branches in Srikakulam District

Sl.No.	Name of the Bank	No. of Branches
1	Andhra Bank	34
2	State Bank of India	40
3	Indian Bank	4
4	Indian Overseas Bank	3
5	Syndicate Bank	3
6	State Bank of Hyderabad	12
7	Canara Bank	2
8	Vijaya Bank	1
9	Bank of India	2
10	Allahabad Bank	1
11	Union Bank of India	3
12	Central bank of India	3
13	Axis Bank	3
14	Corporation Bank	1
15	Punjab National Bank	1
16	HDFC	2
17	Bank of Baroda	1
18	ING Vysya Bank Ltd.,	2

19	Karur Vysya Bank	1
20	City Union bank limited	1
21	ICICI	2
22	IDBI	1
23	OBC	1
24	District co-operative central bank	13
25	A.P.G.V.B	63
26	UBI	1
	Total	201

Table: 8.2

Number of Branches in the district as on 31.03.2011

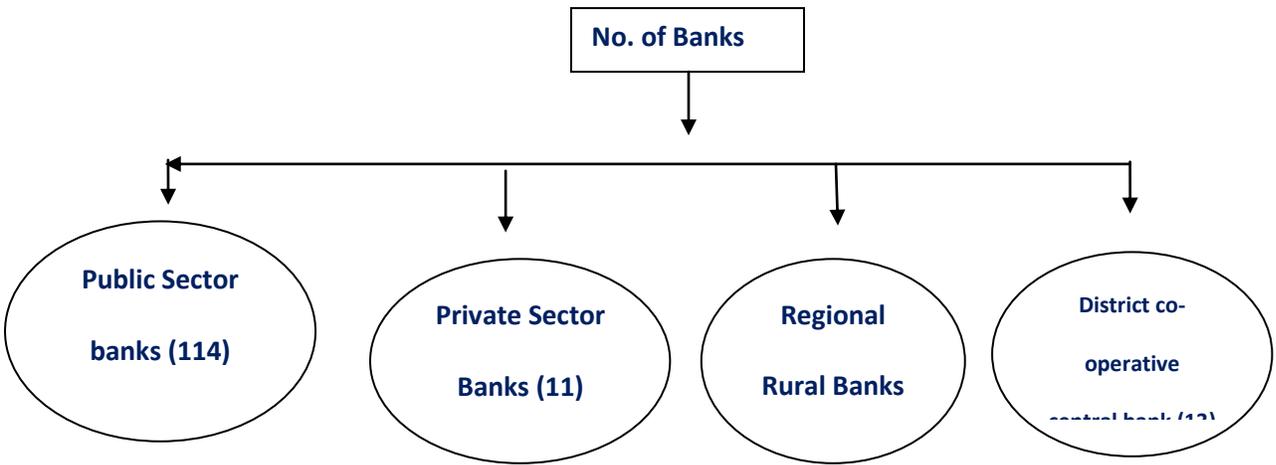


Figure: 8.4

Coverage of different Bank Groups in Srikakulam District

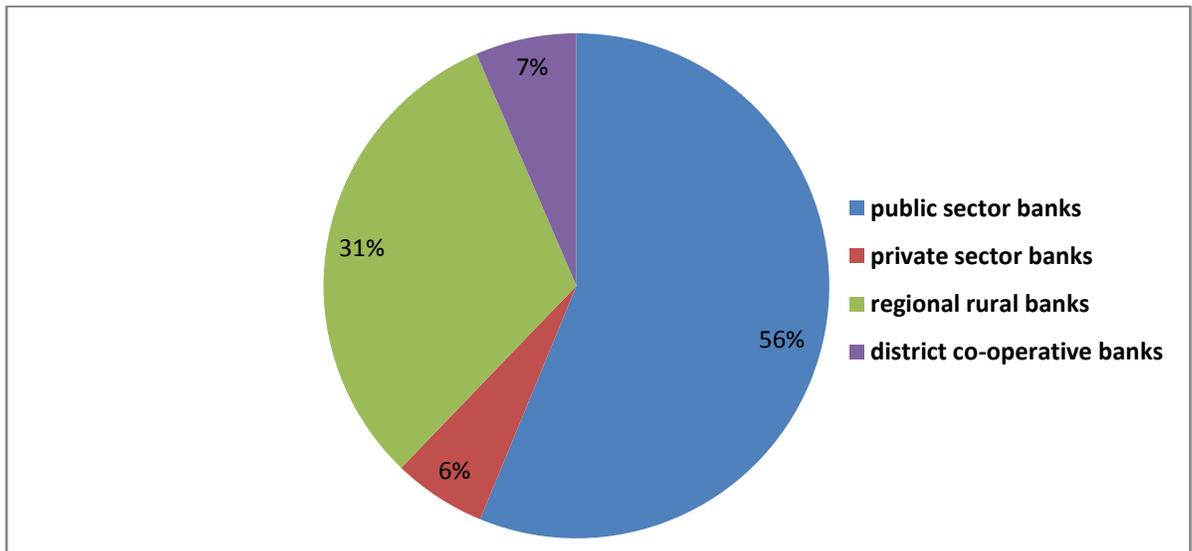


Figure: 8.5

Important Banking Indicators in Srikakulam District

Banking Indicator	2004	2005	2006	2007	2008	2009	2010	2011
No. of Banks	12	12	12	14	18	21	21	24
No. of branches	80	80	79	81	91	100	113	125
Average no. of villages covered per branch	24	24	24	24	21	20	17	16
Average population Per branch	31719	31719	31126	31328	27885	25380	22456	20300

(Source: Key economic indicators, Annual reports of Lead Bank, Srikakulam.)

Table: 8.3

Table No.8.3 highlights the key banking indicators of the district from 2004 to 2011. The average number of villages covered per branch was 24 by the end of March 2004 and it has remained the same till March end 2007. However, it has been observed that the number of banks and branches have increased year on year continuously and with this, the number of villages covered per branch also reduced.

The increase in number of branches has significant impact on the average population per branch also. Initially, average population per branch was 31719 by March 2004. Gradually, it has reduced to 20300 by the end of March 2011.

From the above data, it can be inferred that:

- a) The average population covered per branch and the number of villages covered per branch is much higher than the national average i.e. 14000 per branch.
- b) Branch expansion would lead to greater financial inclusion. Though banks have actively engaged in the financial inclusion job, the existing branches are not sufficient to cover the unbanked villages and hence there is a need to open more banking outlets to reduce the average population per branch. The outlets may not be of brick and mortar type, but by using business correspondents also.

8.2.2 Financial Inclusion – Progress of opening of no-frills accounts

Percentage of households having bank accounts before implementation of the pilot project

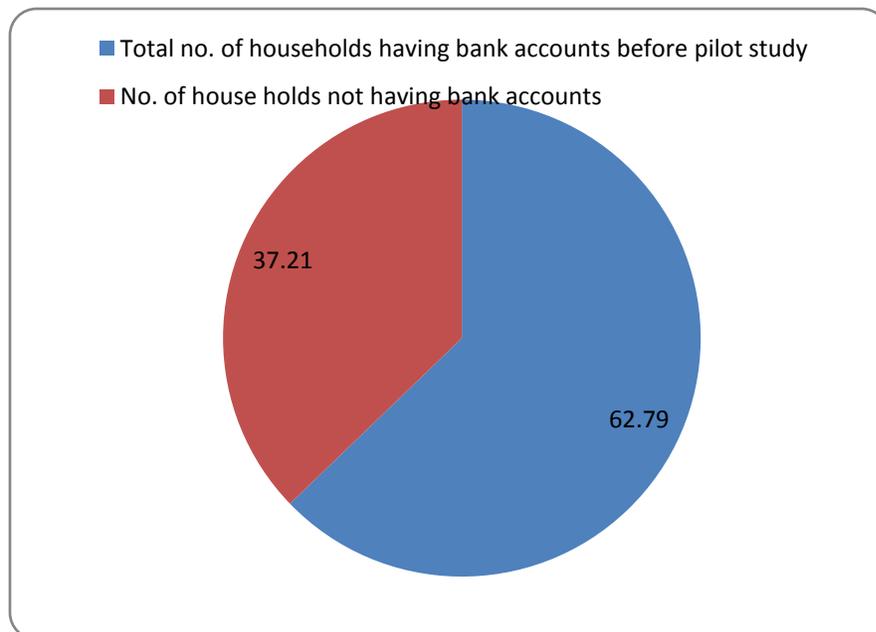


Figure 8.6

Figure 8.6 highlights the percentage of households having bank accounts before implementation of the pilot project was 62.79 per cent and the banks have to cover 37.21 per cent of households to achieve 100 percent financial inclusion in the district.

Table No.8.4 shows the status of financial inclusion in the district before implementation of the pilot project. The total number of households in the district are 5,82,377 and 79 commercial bank branches had already operating accounts of 203372 households covering 1010 service area villages. 216675 households are to be included into the banking fold by taking appropriate measures.

Status of Financial inclusion in the district before implementation of pilot project

S.No	Name of the bank	No. of branches in the district	No. of S/A villages	No. of households	Households already having a/cs before pilot project
01	Andhra bank	30	432	128595	78910
02	AP Gramin Vikas Bank	57	855	253530	162330
03	State bank of India	30	435	129877	81987
04	Allahabad bank	01	21	9675	7675
05	Bank of India	01	2	2596	996
06	Canara bank	01	1	2695	1195
07	Indian bank	04	43	12223	5723
08	Vijaya bank	01	-	2698	1498
09	Union bank of India	01	4	5296	3796
10	ING Vysya bank	02	6	5565	3065
11	SBH	02	3	5116	3116
12	IOB	03	28	11965	7365
13	Syndicate bank	03	35	12546	8046
	TOTAL	136	1865	582377	365702

(Source: Lead Bank Report)

Table: 8.4

The Srikakulam district has 582377 households with a population of 25, 37,593. The pilot project was introduced in the district in 2006. All the service area villages were covered by twelve commercial banks and one Regional Rural Bank to complete the job of financial inclusion.

The progress of Financial Inclusion project is shown in Table No.8.5 from 2006 to 2011.

Progress of Financial Inclusion in Srikakulam District

(Figures as on 31st March)

Particulars	Before implementing pilot scheme	2006	2007	2008	2009	2010	2011
No. of households in the district as per 2001 census	582377	582377	582377	582377	582377	582377	582377
Total no. of households having bank accounts before pilot study	365702	365702	365702	365702	365702	365702	365702
Total number of households to be covered (target)	--	216675	47843	20097	20097	20097	20097
Households covered during the year (achievement)	--	168832	27746	12356	12356	12356	12356
Cumulative number of 'no frills accounts' opened as on date	--	534534	562280	574636	574636	574636	574636
Households yet to be covered	--	47843	20097	7741	7741	7741	7741
Percentage of coverage of financial scheme	62.79%	91.7%	96.54%	98.67%	98.67%	98.67%	98.67%

(Source: Lead Bank Reports)

Table: 8.5

Andhra Bank, being the Lead Bank, was entrusted with 432 service area villages, State Bank of India was entrusted with 435 service area villages, and AP Grameena Vikas Bank which has wide coverage with 57 branches in the district was entrusted with 855 service area villages. Other commercial banks occupancy was very low as can be seen in Table 8.2 with one or two branches. Hence, they were entrusted with a few numbers of villages. The total households were to be serviced by the banks and targets have been fixed to individual banks basing on their branch net work and service area.

Progress of Financial Inclusion in Srikakulam District

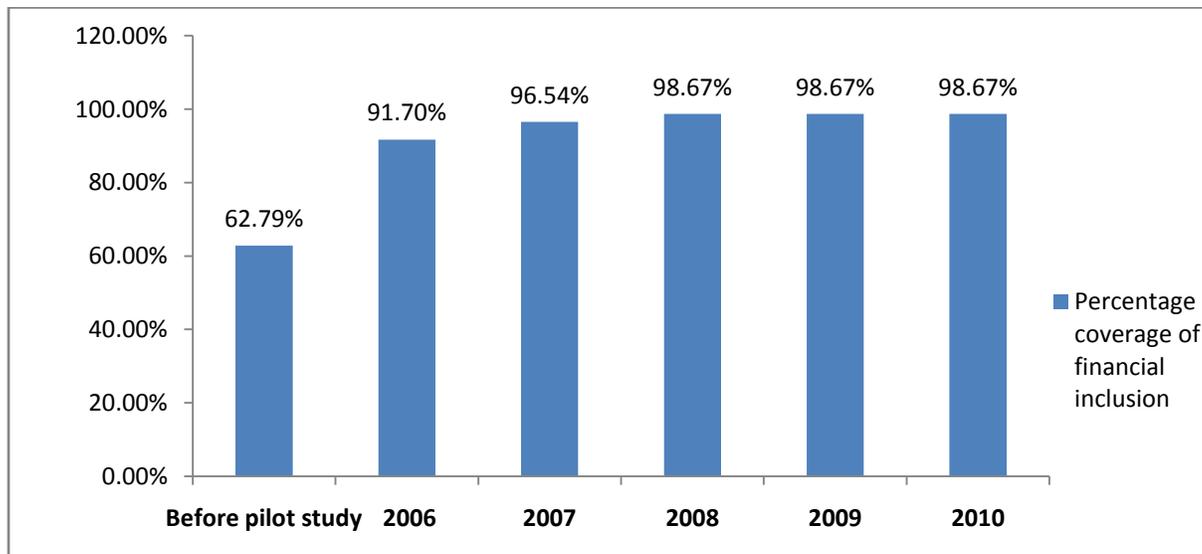


Figure: 8.7

Table 8.5 and figure 8.7 highlights the progress of financial inclusion during the reference period. Out of 582377 households, only 365702 households have banks

accounts which accounts for 62.79 per cent before implementation of the pilot project. Targets for Andhra Bank and State Bank of India which have maximum number of branches in the district were 49685 households and 47816 households respectively. Next to these banks, Indian Overseas Bank and Syndicate Bank were entrusted with 4600 and 4500 households as targets respectively. Targets for other banks were equal to or below 2000 households.

Banks conducted a household survey by engaging their own staff with the help of Village Committees to collect the data on households not having any account so far. A team of officials from the banks conducted account opening campaigns with a photographer. They have opened no frills /zero balance savings accounts to the eligible candidates. Electoral photo identity cards/ ration cards issued by the Government have been used as identity of the persons and verification of address was done with the help of neighbours. Andhra bank as the Lead Bank in the district took initiative to complete the process of opening the savings bank accounts.¹⁸³

Owing to the efforts of banks and government's support in executing the programme, Banks have opened 168832 accounts out of 216675 targeted households during the year 2006. The percentage of financial inclusion accounts for 91.7 per cent as in Fig.8.7 by March end 2006.

Out of the targeted households (47843), banks have opened accounts for 27746 households by **March end 2007 and the percentage of financial inclusion has reached to 96.54 per cent** during the same period. SLBC has taken a decision that where the

¹⁸³ Dr. Ramakrishnan K, op.cit.,31-34

districts have completed above 95% of coverage, the achievement is treated as 100% coverage of households by keeping in view of migration and other aspects.¹⁸⁴ In this context, Srikakulam district in Andhra Pradesh has claimed that it has completed 100% financial inclusion by 31st March 2007 in the SLBC meeting.¹⁸⁵ ***Is it correct?** The evaluation report of Dr. Swain B.K.¹⁸⁶ revealed that 43.05 per cent of BPL population is covered by bank accounts in the district. (Around half of BPL population was covered by bank accounts and other half of BPL population is still out of the purview of banking facilities). **About 79% of all those people desirous of having bank accounts were provided with banking facilities.**

By March end 2008, the percentage has gone up to 98.67 percent by covering 12356 households in the district. The cumulative number of households covered under the formal financial stream has now reached to 574636. The total number of households left to be covered was 7741.

Financial Inclusions as on 31.03.2011

¹⁸⁴ 174 SLBC meeting of Andhra Pradesh, SLBC of AP.ac.in

¹⁸⁵ Dr.K.Ramakrishnan op.cit.31-34

¹⁸⁶ Dr.Swain B.K., A study report on Evaluation of Microfinance outreach through Financial Inclusion, Centre for Rural credit and Development Banking, NIRD, Hyderabad

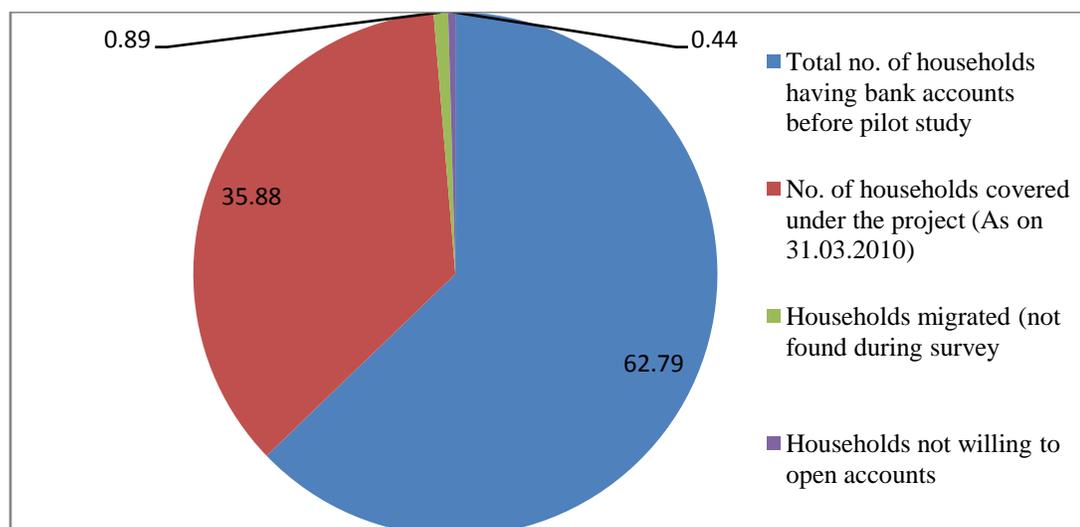


Figure: 8.8

Banks expressed their inability to cover these households due to migration of 5194 (0.89 percent) families and lack of interest in opening accounts by 2547 (0.44 per cent) households.

Figure 8.8 highlights the efforts of banks in opening bank accounts for the households in the district. The banks are successful by opening 208934 no-frills accounts till March end 2011 which accounts for 35.88 per cent. The cumulative percentage of coverage households reached to 98.67 per cent.¹⁸⁷ 0.89 percent of households migrated from the district and 0.44 per cent of households are not willing to open the bank accounts. It can be inferred that banks have played a key role in achieving the mission of financial inclusion.

¹⁸⁷ Dr.Swain B.K.- Evaluation report revealed that as per the bank record, 2,08,914 numbers of no-frills accounts are opened till 31st March 2009 in the district. This figure is questionable, as the no-frills accounts verified from 20% of the sample branches arrives at around 30,009 accounts which if extrapolated to 100%, comes to about 1,50,000 accounts. It is a certainty that till the completion of the survey, no-frills accounts were not opened as per the claim made in the record.

The outreach of banks in some of areas/mandals like Seethampeta still needs to be improved as the extent of coverage is considered less as compared to other areas in the district. The SLBC convenor urged the Banks to take the help of the government departments to visit these villages and open the no frills accounts.¹⁸⁸

¹⁸⁸ *ibid*

Status Of Financial Inclusion as on 31.03.2011 in Srikakulam District

1. Total number of households in the district	582377
2. No. of household already having bank accounts	3,65702
3. No. of households to be covered under the scheme	216675
4. Total No. of households covered	574636
5. % of Households covered	98.67%
6. Total number of no frills accounts opened	574636
7. Amount outstanding in No frills accounts (in lakhs)	28.72 lakhs
8. No. of no frills accounts having OD facility	5
9. Amount outstanding under OD facility	25,000
10. No. of GCC cards issued	92
11. Amount outstanding in GCC (in lakhs)	13.72
12. Total Revenue villages in the district	1954
13. Total No. of villages covered under financial inclusion	1892
14. No. of bank branches in the district	136
15. No. of ATMs available in the district	48

(Source: Report of Lead Bank, Srikakulam District)

Table: 8.6

Table No 8.6 highlights the amount outstanding in “no frills accounts’ was Rs.28.72 lakhs and five “no frills accounts” have overdraft facility. The report of Dr.Swain conveyed that the number of transactions in no frills accounts is significantly low. But as expressed by few satisfied account holders, no-frills banking will bring transformation among the intended beneficiaries.¹⁸⁹ The amount outstanding under OD facility was Rs.25,000. Number of General purpose Credit Cards (GCC) issued in the district during the same period was ninety two and amount outstanding was Rs.13.72 lakhs. Number of Automated Teller Machines available in the district is forty eight.



Bio-metric ATM by Andhra Bank



¹⁸⁹ Dr.Swain B.K, o.p. cit., PP-48.

Mobile banking by Andhra Bank

(Source: Financial Inclusion and Financial Literacy: Andhra Bank's Initiatives)

8.2.2(i) *Barriers to Financial Inclusion Project*¹⁹⁰:

The banks encountered several problems while implementing the financial project. Banking network, hours of operation of bank branches in rural areas, lack of information about the financial services and restrictions at banks are some of the problems faced by the banks as service providers on the supply side. Social and economic positions of villagers, unwillingness to reveal the necessary information, difficulty in identification or introduction are problems on the demand side. The local financial agencies like cooperative banks, micro-finance institutions and others have not strengthened their positions. Hence, financial inclusion of poor residing in remote areas is yet to be achieved.¹⁹¹

8.2.3 Financial Inclusion: Deposits

Financial inclusion can also be measured by considering the number of deposit accounts and loan accounts in the district.

Table 8.7 highlights the population group wise deposit accounts and amounts of commercial banks in Srikakulam District from March end 2006 to March end 2010.

The rural deposit accounts had increased from 404419 to 726633 during the reference period. A sudden decline from 24 per cent in 2007 to 11 per cent in 2008 in percentage increase in deposit accounts has been observed. However, gradually they

¹⁹⁰Dr.K.Ramakrishnan, op.cit. Pp-31

¹⁹¹ Dr.Swain B.K, o.p. cit., PP-48.

have increased to 15 percent by March 2010 over the previous year. Rural deposits had also increased from Rs.32363 lakhs to Rs.64316 lakhs. They had increased at an increasing rate till March end 2008 and increased at a decreasing rate from 2009 onwards.

The semi-urban deposit accounts had increased from 387750 to 661679 during the reference period. They have increased at an increasing rate till March end 2008 and thereafter increased at a decreasing rate.

The deposit amounts increased from Rs.48989 lakhs to Rs.101738 lakhs during the same period and their percentage increase also exhibited the same trend as in the case of deposit accounts.

The urban deposit accounts had increased from 163350 to 270297 during the period under reference. They have increased at an increasing rate till March 2009 (i.e., from 4 per cent to 26 per cent) and sharply declined to 9 per cent by March 2010.

The deposit amounts in urban areas had increased from Rs.40812 lakhs to Rs. 102418 lakhs from 2006 to 2010. The urban deposits have grown enormously from Rs.40812 lakhs to Rs.58493 lakhs showing an increase of 43 per cent by March end 2007. In the subsequent years, their growth rate shows volatility. However, a considerable increase in the average deposits had been observed in March 2009.

Population Group-wise number of Deposit Accounts and Deposit Amounts in Srikakulam District
(Rupees in lakhs)

Year ending March	Rural		Semi-Urban		Urban		Total	
	Deposit Accounts	Amount (Rs. in Lakhs)						
2006	404419	32363	387750	48989	163350	40812	955519	122164
2007	500812 (24%)	39023 (20.57%)	439462 (13%)	55682 (14%)	169544 (4%)	58493 (43%)	1109762 (16%)	153198 (25%)
2008	556652 (11%)	48091 (23%)	526269 (20%)	72542 (30%)	197818 (17%)	70135 (20%)	1280739 (15%)	190768 (25%)
2009	629475 (13%)	56566 (18%)	593605 (13%)	93529 (29%)	248805 (26%)	91993 (31%)	1471885 (15%)	242088 (27%)
2010	726633 (15%)	64316 (13.7%)	661679 (11%)	101738 (9%)	270297 (9%)	102418 (11%)	1658609 (13%)	268472 (11%)

(Figures in brackets indicate percentage increase in deposit accounts and deposit amounts collected by commercial banks)
(Source: Key banking indicators, Annual Credit Plans of Srikakulam District)

Table: 8.7

From the above analysis, it can be inferred that the rural, semi-urban and urban deposit accounts and deposit amounts are increasing at a decreasing rate. However, it indicates the willingness of more number of people to save money in formal financial institutions.

Share of Population group - wise Deposit Accounts to Total Deposit Accounts

(Figures as on 31st March)

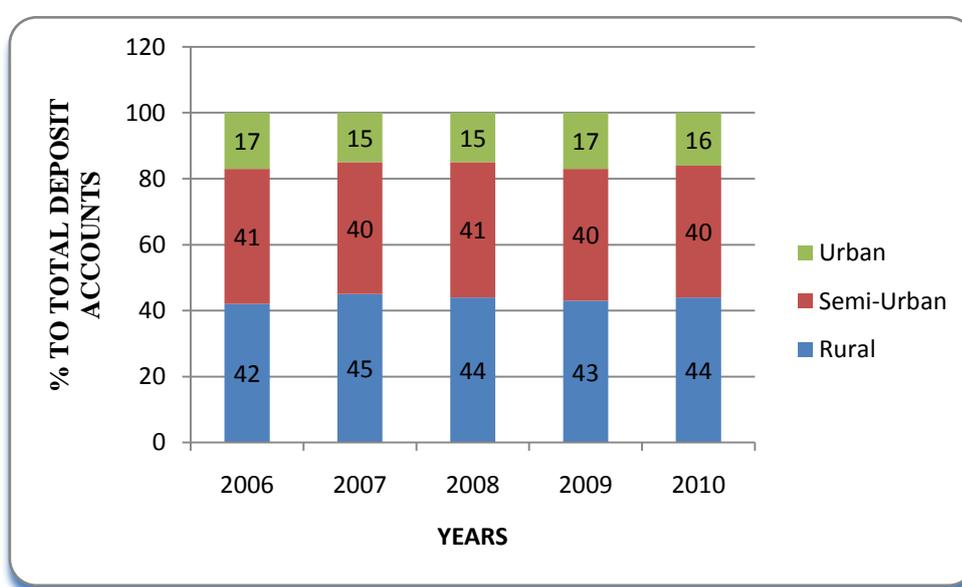


Figure: 8.9

Figure 8.9 highlights the share of population group wise deposit accounts in the district from 2006 to 2010. The rural deposits accounts constitute more than 40 per cent of total deposits in all the years and their share exceeded the semi-urban and urban deposit accounts. Semi-urban deposit accounts also constitute 40 per cent of the total deposit accounts, while the share of urban deposit accounts ranges from 15 to 17 per cent of the total deposit accounts.

Share of population group wise deposit amounts to total deposits in Srikakulam district

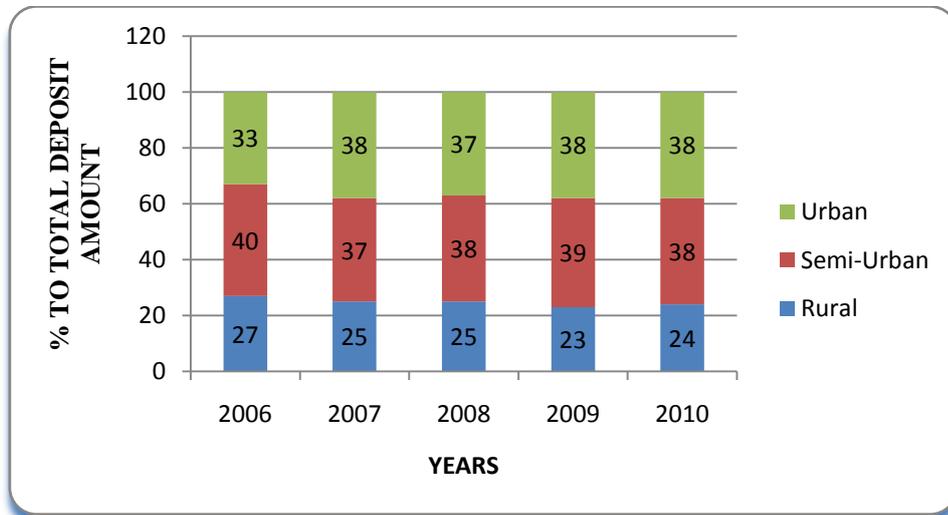


Figure: 8.10

Figure 8.10 highlights the share of population group wise deposit amounts of commercial banks in Srikakulam district from 2006 to 2010. Figure shows that the share of rural deposits ranges from 23 per cent to 27 per cent during the reference period. Their share had declined from 27 per cent in 2006 to 23 per cent in 2009 and further increased to 24 per cent in 2010. This shows a declining trend. The share of semi-urban deposit amounts ranges from 37 per cent to 40 per cent and exhibits the same trend as rural deposits. Urban deposits share ranges from 33 per cent to 38 per cent showing an increasing trend over the period

From the above data, we can infer that:

- a) Though the rural deposit accounts constitute above 40 per cent of the total accounts, their share of deposit amounts accounts for only 23 to 27 per cent due to small size of the transactions.

- b) Though urban deposit accounts constitute only 15 to 17 per cent of the total accounts, their share of deposit amounts accounts for 33 to 38 per cent implies the large size of transactions in urban areas.
- c) The semi-urban areas are mixture of rural and urban population, their share in deposit accounts and amounts reflects the same trend as in urban areas.
- d) The rural and semi-urban bank accounts and amount of deposits constitute **more than 60 per cent** of the banking business in the district.
- e) The share of rural and semi-urban deposit amounts exhibited a declining trend while the reverse is the case with urban deposits.

8.2.4 Financial Inclusion – Credit / Loans

Table No.8.8 highlights the loan accounts and amount of loans disbursed by commercial banks in Srikakulam District from 2006 to 2010.

Number of Loan accounts of Commercial banks in Srikakulam District

Year ending March	No. of loan accounts	Growth %
2006	143491	--
2007	196982	37
2008	212676	8
2009	257860	21
2010	289821	12

(Source: Lead Bank Annual Credit Plans and Basic Statistical Tables relating to Banks in India of various years.)

Table: 8.8

Loan accounts had increased from 143491 to 289821 and their growth rate varied between 8 per cent and 37 per cent. Highest growth rate of loan accounts was observed in 2007 (37%) and lowest growth rate was observed in 2008 (8%).

Population group-wise Loan disbursements in Srikakulam District (Rupees in Lakhs)

Year ending March	Rural	Semi-urban	Urban	Total
-------------------------	-------	------------	-------	-------

2006	22626	37459	21653	81738
2007	46823	44343	32026	123192
2008	58485	55709	41778	155972
2009	63482	64725	50289	178496
2010	78177	77628	63660	219465

(Source: Same as above)

Table: 8.9

Share of Loan disbursements in Commercial Banks in Srikakulam District

(Population group-wise)

Year ending March	Rural	Semi-urban	Urban
2006	28	46	26
2007	38	36	26
2008	37	36	27
2009	36	36	28
2010	36	35	29

(Source: Compiled from Table No. 8.9)

Table: 8.10

Share of Loan disbursements in Commercial Banks in Srikakulam District

(Population group-wise)

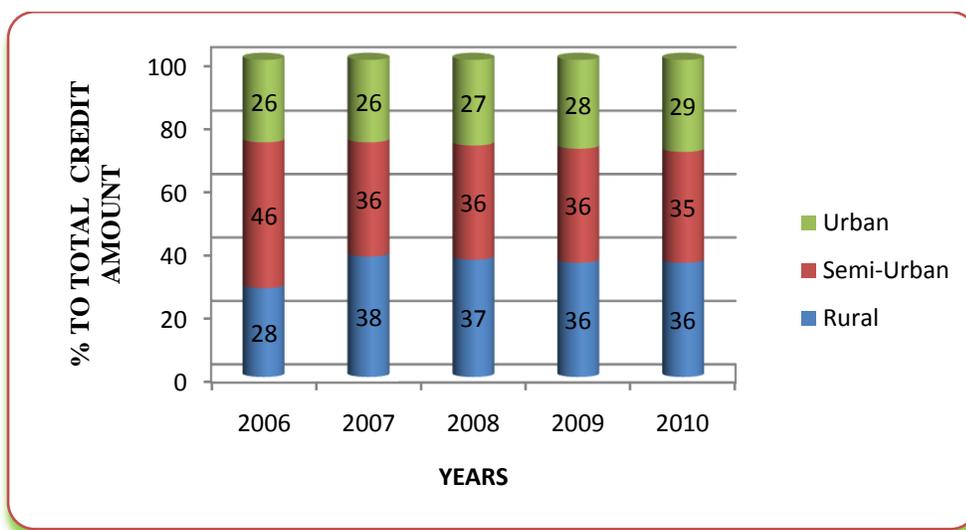


Figure: 8.11

Table No.8.10 exhibits the population group wise share of loans disbursed by commercial banks from 2006 to 2010.

Share of loans to rural population varied between 28 per cent and 38 per cent during the period under reference. Lowest share has been observed in 2006 (28%) and a sudden hike was observed by March end 2007 as the share of loans increased by 10 percent over the previous year. In the subsequent years, there was no much difference in its share.

Figure No.8.11 exhibits the semi-urban population's share ranges between 35 per cent and 46 per cent during the reference period. The share of Semi-urban loans was the maximum in 2006 i.e.46% and witnessed a sudden fall of 10%, by March end 2007 (It has come down from 36 per cent to 46 per cent). However, its share remained the same for the next three years also. Semi-urban loans occupied a major share in Banks' loan portfolio when compared to rural and urban areas. Urban area's share ranges

between 26 per cent and 29 per cent only. Slow growth has been observed in the share of urban loans.

From the above analysis, it can be inferred that banks have concentrated their business in rural and semi-urban areas of the district as their share was high and next position occupied by urban segment. Increase in number of loans accounts over the period and increase in amount of loans disbursed to rural and semi-urban areas indicates a good sign of promoting financial inclusion.

8.3 FINANCIAL INCLUSION – USE OF BUSINESS FACILITATORS AND BUSINESS CORRESPONDENTS (BCS):

Reserve Bank of India permitted the banks to use the services of business facilitators and business correspondents to extend the banking facilities in areas where they cannot open and run their branches. Business correspondents perform banking activities with the help of smart cards.

8.3.1 Objectives of engaging the services of Business Facilitators/Business Correspondents:¹⁹²

- ✓ To provide comprehensive financial services like savings, credit, remittance, insurance and pension products in a cost effective manner, in the untapped/unbanked areas.
- ✓ To improve the efficiency and to reduce transaction costs.
- ✓ To provide linkages between the existing network of bank branches on the one side and informal and formal agencies engaged with the poor on the other side.

¹⁹² Annual Credit Plan of Visakhapatnam District.

- ✓ To accelerate the process of financial inclusion.
- ✓ To increase rural business base and market share.
- ✓ To market various financial products of the banks including insurance and mutual funds across the nation.
- ✓ To extend Micro Finance services for uplifting the poor.

8.3.2 Business Facilitator

The business facilitator model envisages the use of intermediate entities/individuals to provide support services for non financial services of the Bank. These services are not intended to involve the conduct of banking business by Business Facilitators.

8.3.3 Business Correspondents (BCs)

The Business Correspondent model envisages the use of identified institutions/ Agents/Organisations and other entities, for supporting the Bank in extending financial services, operating from different locations away from the bank branches. These services involve the conduct of banking business by Business Correspondents.

8.3.4 Functions of Business Facilitators

- Conducting only non financial business activities i.e. no cash transaction/handling.
- Identification of potential customers and activities.
- Collection and preliminary processing of loan applications/account opening forms including verification of primary information/data.

- Processing and submission of loan application/account opening forms to the Banks
- Cross-selling of other financial products like insurance/mutual fund products/pension products/any other third party product
- Post-sanction monitoring and follow-up for recovery
- Promoting and nurturing Self Help Groups (SHGs)/Joint Liability Groups (JLGs)
- Creating awareness about savings and other products and education and advice on managing money and debt counselling

8.3.5 Functions of Business Correspondents

In addition to the activities listed under the Business Facilitators model, the scope of activities to be undertaken by the Business Correspondents will include:

- Opening of deposit accounts
- Collection and payment of small value deposits and withdrawals(not exceeding Rs.10,000/- in each case)
- Disbursal of small value loans (not exceeding Rs.10,000/- in each case) and obtaining prescribed documents
- Receipt and delivery of small value remittances/other payments instruments(not exceeding Rs.10,000/- in each case)
- Payment/Receipt in respect of e-governance activity(not exceeding Rs.10,000/- in each case)
- Furnishing of mini account statements and other information related to account.
- Recovery of principal/collection of interest in respect of borrowal accounts.

- Railway ticketing.
- Any other service on behalf of the Bank, duly authorized by the appropriate authority.
- The activities to be undertaken by the Business Correspondents would be within the normal course of the Bank's banking business, but conducted through and by the entities at places other than the bank's premises. The Business Correspondents will be linked to an identified branch.

8.3.6 Eligible entities for Business Facilitator Model:¹⁹³

- NGOs
- Farmer's Clubs
- Functional cooperatives
- Community based organizations
- I.T.enabled rural outlets of corporate entities
- Well functioning Panchayats
- Rural Multipurpose Kiosks/Village knowledge centres
- Krishi Vigyan kendras
- Agri Clinics/Agri Business Centres
- KVIC/KVIN units
- Post Offices
- Insurance Agents
- Social Organisations

¹⁹³ RBI circular no.DBOD.NO.BL.BC.58/22.01.001/2005-06 DATED 25.01.2006, www.rbi.org.in

- Any other entity, as may be specified by RBI from time to time. However, it would be desirable to identify such entities which have presence and activity throughout the Circle/State.

8.3.7 Eligible entities to act as Business Correspondents

- NGOs/MFIs set up under the Indian Societies/Trust Acts
- Societies registered under Mutually Aided Cooperative Societies Act or the Cooperative Societies Acts of States
- Section 25 companies
- Post offices

RBI permitted¹⁹⁴ the banks to appoint the following entities as BCs, in addition to the entities presently permitted. They are:

- Individual Kirana/ Medical / Fair Price Shop owners
- Individual Public Call Office (PCO) operators
- Agents of Small Savings Schemes of Government of India/Insurance
- Companies
- Individuals who own Petrol Pumps
- Retired teachers and
- Authorised Functionaries of well run Self Help Groups (SHGs) linked to banks.

¹⁹⁴ RBI circular no.DBOD.NO.BL.BC.58/22.01.001/2005-06 DATED 25.01.2006, www.rbi.org.in

Reserve Bank of India, with a view to ensuring the viability of the BC model, banks (and not BCs) are permitted to collect reasonable service charges from the customer, in a transparent manner under a Board-approved policy

8.3.8 Business Correspondents for banks in Srikakulam District

RBI advised commercial banks to draw a road map by the end of March 2010 for ensuring that all villages with a population of over 2000 will have access to financial services through a banking outlet, not necessarily a bank branch, by 2012.¹⁹⁵

As can be seen in table 8.11, that there are fifteen villages which are having population above five thousand and banks have to open their branches in those villages to provide banking facilities in those areas. In this context, State Bank of India opened a branch at Chilakapalem of Etcherla Mandal.

Number of villages having more than 5000 population without bank

Mandal Name	Village Name	Population
1.Amadalavalasa	Korlakota	5530
2.Etcherla	Chilakapalem	5201
3.Etcherla	Koyyam	5269
4.Etcherla	Muddada	7194
5.Etcherla	Ponnada	5030
6.Gara	Ampolu	8885
7.Gara	Thondangi	5160

¹⁹⁵ Dr. Subbarao Duvvuri, Governor of Reserve Bank of India, Financial Education : Worthy and Worthwhile, RBI monthly bulletin, April 2010 pp-724.

8.Itchapuram	Edupuram	6468
9.Polaki	Koduru	5998
10.Ponduru	Rapaka	6052
11.Rajam	Pogiri	5253
12.Rajam	Saradhi	6483
13.Srikakulam	Ippili	5131
14.Srikakulam	Peddapadu	6473
15.Vajrapukotturu	LD Peta	5611

(Source: Lead Bank Report)

Table: 8.11

Road Map for Appointing Business Correspondents

Name of the bank	No. of Business Correspondents required
1. Allahabad Bank	1
2. Andhra bank	53
3. APGVB	118
4. Indian Bank	2
5. Indian overseas bank	2
6. State Bank of India	56
7. Syndicate Bank	3
TOTAL	235

(Source: Lead Bank Report)

Table: 8.12

The road map for appointing business correspondents is shown in Table No.8.12. There are 235 villages having population in between 2000 to 5000 in the district. Hence, it is proposed to appoint business correspondents in 235 villages on the basis of service area of the villages.

Smart Card Project for EBT Payment Status as on 30.04.2010

Total Mandals	38
Gram Panchayats	1101
Total beneficiaries	686722
Total No. of beneficiaries enrolled	411900
No. of cards distributed	277945

(Source: Reports of Lead Bank)

Table: 8.13

8.4 FINANCIAL LITERACY AND CREDIT COUNSELLING

8.4.1 Financial Literacy

Financial literacy means awareness about financial services and products. Financial education and credit counseling are important tools to enable people to overcome indebtedness.¹⁹⁶ Financial literacy refers to the ability to take right decisions regarding the use and management of money. It can broadly be defined as the capacity to have familiarity with and understanding of financial market products, especially rewards and risks in order to make informed choices.¹⁹⁷ Due to lack of awareness, people are hesitant to use the facilities offered by formal financial institutions.

8.4.2 Credit Counseling

¹⁹⁶ Swathi Raju, Financial Inclusion: Enabling Inclusive Growth, The India Economy Review, 2010, Vol 7- www.IIPMthinktank.com pp-48

¹⁹⁷ Chakrabarty K.C, Furthering Financial Inclusion through Financial Literacy and Credit Counselling, RBI Monthly Bulletin December ,2009, p.p.No.2362

Credit counseling can be defined as ‘counseling that explores the possibility of repaying debts outside bankruptcy and educates the debtor about credit, budgeting and financial management’.¹⁹⁸ Credit counseling is necessary to solve financial problems, to approach formal financial institutions to get credit and to make proper use of credit. At present, some banks are running counseling centres in the state of Maharashtra viz., ‘ABHAY’ counseling centre (initiated by Bank of India);’ DISHA Trust (initiated by ICICI Bank Ltd.) and Grameen Paramarsh Kendras (an initiative of Bank of Baroda).¹⁹⁹ Andhra Bank, being the Lead Bank and State Level Bankers Committee convenor, has opened a Financial Literacy cum Credit Counseling Centre in Srikakulam District. The centre started functioning from October 2007.

Skoch Foundation study reveals that only around twelve percent of the no frills accounts are active out of twenty five million no frills accounts. The major reason for this state is lack of financial literacy among masses at the bottom of the pyramid.²⁰⁰ Financial literacy is a must for promoting financial inclusion. In developing countries like India, financial literacy is important because awareness about the benefits of using the financial products or services from formal financial institutions will help them to meet the contingency in life and to avoid unnecessary debt.

8.4.3 Initiatives by Reserve Bank of India on Financial Literacy

In February 2009, RBI formulated a model scheme on financial literacy and credit counselling and circulated to all Commercial Banks and Regional Rural Banks in the country.

¹⁹⁸ Ibid., p.p.No.2363

¹⁹⁹ Dr.Suresh Chandra Bihari, Financial Literacy- The key to Financial Deepening, Oct-Dec 2010, The Journal of Indian Institute of Banking and Finance. Pp-34

²⁰⁰ Ibid., 28

It has advised Commercial Banks that Financial Literacy and Credit Counselling Centres be set up as separate entities at arm's length from the bank so that such facilities can be availed by customers of different banks.²⁰¹

Reserve Bank of India has launched a project titled 'Project Financial Literacy'. This project disseminates the information through pamphlets, brochures, films and presentations regarding the central bank and general banking concepts to the various target groups such as school children, college students, women, rural and urban poor, defense personnel and senior citizens. The Reserve bank of India has created a link in its web site for the common person to access information in English and Hindi and twelve Indian regional languages.

8.4.4 Functions of Financial Literacy cum Credit Counselling Center in Srikakulam District²⁰²:

1. Educate the weaker sections about the benefits of financial services/financial inclusion, which have impact on economic conditions of the people and also on the economic growth of the country.
2. Making the people aware of various schemes of the financial institutions including credit schemes like newly introduced Debt swapping scheme to farmers, SHGs and various Government sponsored schemes and to inculcate the habit of savings and explain about the advantages of micro savings, insurance etc.

²⁰¹ Swathi Raju, *op. cit.*, pp-48

²⁰² Pamphlet published by FLCC, Srikakulam.

3. Help the people in opening of savings bank accounts. Make them understand financial services and the operations to be carried out. Building awareness about the services rendered and various products of the bank.
4. In coordination with the rural development institutes of Andhra Bank and Government, the counselling center will conduct financial literacy campaigns in rural areas and urban slums. Conducting Farmers meets with the involvement of “Subject Matter Specialists” from Agricultural University/Department of Agriculture on technical matters related to agriculture i.e. various issues.
5. Conducting awareness camps to the members of self-help groups, Rythu Mitra Groups, Tenant Farmers etc.
6. Organizing market awareness camps i.e. for procurement and marketing of agriculture produce.
7. To facilitate training of people in the rural development institutes of Andhra Bank and Government on various economic activities and capacity building.
8. Explain people in rural/semi urban including urban slums about the various deposit schemes and various credit products of the bank in the campaigns.
9. To arrange workshops/ seminars/village fairs etc. in selected places by inviting eminent personalities/ Agriculture Scientists etc. In the workshops, banks’ schemes/services are to be explained.
10. To select popular burrakatha/play let groups of local area and send those to service area villages of bank to give their performance along with bank’s schemes in selected service area villages.

11. To maintain liaison with the Government departments and banks under the guidance of the Lead District Manager.
12. To start with, the centre will look after the applications and other work relating to Andhra Bank and later it will be extended to other banks.
13. Any other matter relating to financial inclusion.

Role of the centre in future:

1. The services of the Centre will be extended to all banks in future.
2. In co-ordination with all banks, the centre will conduct the credit counselling camps at various centers in the district.
3. The Centre will facilitate the weaker sections to open accounts in banks nearer to their area.

8.5 SELF-HELP GROUPS (SHGs) IN SRIKAKULAM DISTRICT

Easy availability of credit at cheaper rates and availability of other financial services by all the sections of the society is a pre-requisite for development of any country.

Despite the broad international consensus regarding the importance of access to finance as a crucial poverty alleviation tool, it is estimated that globally over two billion people are currently excluded from access to financial services.²⁰³ The situation is not different in India. Less than one-quarter of India's total population, have no access to formal financial services.

²⁰³ Evolution of Banking in India, Chapter III, Report on Currency and Finance, 2003-08 Vol. V, pp.59,

In 1992, Self-Help Group–Bank Linkage Programme was introduced by NABARD based on the “MYRADA” an action research project²⁰⁴. A Self Help Group (SHG)²⁰⁵ is a registered or unregistered group of micro entrepreneurs having homogenous social and economic background voluntarily, coming together to save small amounts regularly, to mutually agree to contribute to a common fund and to meet their emergency needs on mutual help basis.

SHG is a voluntary association of people formed to attain certain economic and social goals. Each group consists of 10-20 members. A group could be exclusively male or female, or even mixed. However, majority of SHG’s are female groups.

After formation, the group decides the periodical contribution by each member and the pooled savings will be deposited into a savings bank account. This will not only inculcate the habit of thrift among the members but also makes them reduce their wasteful expenditure.

The group maintains transparency in each and every transaction. As the bank operates one account for 20 members as a group instead of 20 individual accounts, the account opening costs and transaction costs of the banks will be reduced. In addition, the small savings of each member will become a considerable large amount after some time. The members use the pooled savings as interest bearing loans for conducting any economic activity. In this process, the members are taught how to keep simple accounts. Once the group is stabilized, it is considered for linking to banks. Banks provide

²⁰⁴ Dr.Prakash Bakshi, Banking with the last, the lost and the least, The Journal of Indian Institute of Banking and Finance, July-September, 2009, pp30

²⁰⁵ Sri Jayasheela, Dinesha P.T and V.Basil Hans , Financial Inclusion and Microfinance in India – an overview, <http://ssrn.com>

collateral free loans to SHGs in certain multiples of the accumulated savings of the SHGs.

There are three different models²⁰⁶ that have emerged under the linkage programme.

- Model 1: This involves lending by banks directly to SHGs without intervention/facilitation by any NGO.
- Model 2: This envisages lending by banks directly to SHGs with facilitation by NGOs and other agencies.
- Model 3: This involves lending, with an NGO acting as a facilitator and financing agency.

Model 2 accounted for around 74% of the total linkage at the end of March 2007, while Models 1 and 2 accounted for around twenty percent and six percent respectively²⁰⁷.

The Self-Help Group –Bank Linkage program (SBLP), which started as a pilot programme in 1992 for linking 500 members with banks has developed with rapid strides over the years.

During the year 2007-08, the average loan per SHG disbursed was Rs. 72,076. Such a single loan account which is larger than most individual loans issued by banks in rural areas for agriculture, allied farm activities like dairy etc. or even non-farm sector loans make SHG financing a business proposition for any bank. The average NPAs in

²⁰⁶ Shalini Yadav and S.L.Kumbhare, Transaction Costs under SHG-Bank Linkage Programme, The Journal of Indian Institute of Banking and Finance, January-March 2008, pp-30

²⁰⁷ Financial Inclusion, Chapter 7, Report on Currency and Finance 2003-08 Vol. V P.p. No.306

SHGs are less than 3%.²⁰⁸ Hence, this is considered as a good business opportunity as well as a riskless lending for the banks.

²⁰⁸ Dr.Prakash Bakshi, banking with the last, the lost and the least, The Journal of Indian Institute of Banking and Finance, July-September 2009 P.p.31.

Progress of Self-Help Groups in India

(As at end-March)

Item	Self-Help Groups			
	Number (in millions)		Amount (Rs. In crores)	
	2008-09	2009-10	2008-09	2009-10
Loans disbursed by banks during the year	1.61 (0.26)	1.59 (0.27)	12,254 (2,015)	14,453 (2,198)
Loans outstanding with banks	4.22 (0.98)	4.85 (1.25)	22,680 (5,862)	28,038 (6,251)
Savings with banks	6.12 (1.51)	6.95 (1.69)	5,546 (1,563)	6,199 (1,293)

(Note: Figures in brackets indicate the details about SHGs

covered under Swarnajayanti Gram Swarozgar Yojana (SGSY)

(Source: Report on Trend and Progress of Banking in India 2009-10)

Table: 8.14

The new SHGs which were credit linked with banks in 2009-10 accounts for 1.59 million and a bank loan of Rs.14,453 crore (including repeat loan) was disbursed to these SHGs. Further, at end-March 2010, 6.95 million SHGs maintained savings accounts with banks (Table 8.14).

On an average, the amount of savings, per SHG was Rs.8, 915 as compared to the amount of credit outstanding of Rs.57, 795 in 2009-10. While there was a continued increase in the amount of credit outstanding per SHG, there was a fluctuating trend in the amount of saving per SHG in the recent years.²⁰⁹

SHG-bank linkage is not only a powerful tool in poverty alleviation, but also reduces the physical and psychological distances between the rural people at the bottom of the population pyramid and bank branch network.

8.5.1 The status of self-help groups in Andhra Pradesh at a glance:

Andhra Pradesh is doing well in the SHG Bank linkage programme and occupied No.1 position²¹⁰ in the country covering about 10 lakh groups with an outstanding amount of Rs.11,000 crore which is almost 50% of all India performance.

SHG-Bank Linkage Program Outstandings (Rural and Urban) in Andhra Pradesh

	MARCH'08	MARH'09	MARCH'10
Outstanding amount (Rs. in crores)	7,125	9,837	11,764
Outstanding No. of groups	7,10,315,	9,89,382	11,67,000

(Source: SLBC of A P.ac.in)

Table: 8.15

²⁰⁹ Report on Trend and Progress of Banking in India 2009-10,pp-94, www.rbi.org.in

²¹⁰ 169 SLBC minutes of meeting of Andhra Pradesh, SLBC of AP.gov.in

As on 31st March 2010, the total outstanding number of groups was 11,67,000 and the amount outstanding stood at Rs.11764 crores.

8.5.2 SHG-Bank Linkage in Srikakulam District:

Micro finance has played a crucial role in poverty alleviation in the district especially in enlarging coverage of the unreached under the banking fold. Ninety eight per cent of the poorest of the poor were covered under SHGs in the district. The district has stood second in the state in implementation of SHG bank linkage programme continuously from 2005-06. The SHG movement in the district has entered into the consolidation phase and the present goal is to improve the ‘quality and sustainability’. Besides there is emphasis on graduating the SHGs to micro-enterprise stage and marketing the SHG products.²¹¹

Table 8.16 and 8.17 highlights the progress of SHGs in the district from 2000-01 to 2010-11.

Progress of Self-Help Groups in Srikakulam District

YEAR	No. of Groups					Bank Loan (Rs.in Lakhs)	Growth%
	Beginning of the year	Formed during the year	Growth %	Total groups (Cumulative)	Growth %		
2000-01	7258	6746	155	14004	93	1340.15	--
2001-02	14004	4299	-36	18303	31	2580.65	93
2002-03	18303	5688	32	23991	31	3437.35	33
2003-04	23991	1849	-67	25840	8	6115.26	78
2004-05	25840	302	-84	26142	1	5917.59	-3

²¹¹ Potential linked plan of Srikakulam District 2009-10. Pp- 93

2005-06	26142	1087	260	27229	4	8586	45
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TABLE: 8.16

No. of SHGs from 2006-07 to 2010-11

Year	No. of groups	Bank loan (Rs. in crores)
2006-07	27228	120
2008-09	30376	303
2009-10	36360	260.54
2010-11	38329	282.77

Table: 8.17

Number of SHGs is increasing year after year and the amount disbursed is also relatively increasing. However, the number of new groups formed during the year was showing a decline year by year. The number of new groups formed has reduced from 6746 in 2000-01 to 302 groups by March ending 2004-05. However, this has increased to 1087 by March end 2005-06 and further increased to 5984 by the end of March 2010. However, it has reduced to 1969 in 2010-11.

As regards the bank loan, the amount of loan had increased from Rs.1340.15 lakhs to Rs.282.77 crores. The total women having membership in SHGs account for 4.74 lakh as on 31.03.2011.

The total number of groups functioning in the district as on 31st March 2004 was 25,840. Mandal Velugu Training Centres were established for conduct of regular training programmes for self-help group members and leaders in the capacity building and skill development during this year. Out of 25840 groups, 19719 groups were classified as A Grade (76.31%), 3603 groups are classified as B grade, 1412 groups are classified as C grade and 1106 groups are classified as Grade D.²¹² The district bagged 'Best Performance Award' for past 3 years in SHG bank linkage programme. Out of 25,840 groups, 23,531 groups are bank linked during the year. 1,288 SHGs are provided with micro credit for income generating activities under SGSY from 1999-2000 to 2003-04 with an outlay of 20.91 crores. 2,580 SHGs are provided community investment fund from Velugu Project with an outlay of Rs. 30.00 crores during 2003-04. Mandal Mahila Samakyas are equipped with KU band TVs, DVDs, Computers and audio visual equipment for training programmes. One thousand one hundred and eighteen Community Facilitators are working for strengthening of SHGs and Village Organisations.²¹³

As on 31st March 2006, the total number of groups functioning in the district is 27,228. Out of them, 21,846 groups are categorized as 'A' grade and rest of them are 'B' and 'C' grades. 3.73 lakh women are covered under SHG fold. Twenty nine Indira Kranthi Patham-Mandal Training Centre buildings are constructed with a cost of 182.70 lakhs to impart training to SHG women on Institutional Building and Micro Credit Plans. Pavala vaddi (25 paise interest) is being paid to the SHGs over and above 3% interest per

²¹² The basis for grading is payment record of the groups.

²¹³ Annual Credit Plan of Srikakulam District 2004-05

annum charged by the bank on the SHG Bank linkage programme w.e.f. 01.07.2004 every September and March ending.

During 2006-07, an amount of Rs.120 crores was projected as bank linkage. Bank linkage will be routed through Village Organizations for better recovery and reduction of operational charges at Bank level. Community Based Recovery Mechanism (CBRM) was introduced. Swarozgar Credit Card System will be extended to Village organizations/SHGs/members.





(SELF-HELP GROUPS FINANCED BY BANK)

(Source: Financial Inclusion and Financial Literacy: Andhra Bank's Initiatives)

Under SHG bank linkage, an amount of Rs. 216.32 crores (81%) provided as credit as against a target of 266 crores during the year 2007-08. Under Pavala vaddi scheme, an amount of Rs.5.75 crores was released to SHGs as interest subsidy during 2007-08.

As on 31st March 2008, the total SHGs working in the district are 30376 covering 4.06 lakh households. These groups are categorized into 3 categories. 23,247 groups are in 'A' grade (77%) and 4,215 groups are in 'B' grade (14%) and 2914 groups are in 'C' grade (9%). Point persons are placed at every bank branch for coordinating with Community Based Organisations and banks. Case Managers are placed for desk work relates to Self-Help Groups and Village Organization to each bank branch.²¹⁴ An amount of Rs.303 crores was projected under SHG bank linkage programme. During 2008-09, it is proposed to establish Village Nirmita Kendras to speed up Indiramma Housing Programme²¹⁵.

²¹⁴ Annual Credit Plan of Srikakulam District 2008-09

²¹⁵ Annual Credit Plan of Srikakulam District 2009-10

The total number of SHGs went up to 36360 as on March 2009 in the district covering 4.11 lakh women membership. For better monitoring of the SHGs, federations of SHGs i.e., Village Organisations, Mandal Samakhya and Zilla Samakyas are functioning in the district. During 2009-10, under SHG-Bank Linkage programme, an amount of Rs.260.54 crores (72%) credit was mobilized as against a target of Rs.360 crores.

Bank Mitras are placed in all bank branches for desk work relates to SHGs and Village Organisations. Web based software has been introduced for better monitoring of SHGS. For quick and effective monitoring of SHGs, SMS based data updating was introduced from March 2010. Under this system, all disbursements and repayment particulars will be sent to central server by SMS message.

Community Resource Persons (CRPs) were deployed for effective functioning of SHGs. The CRPs are working for Institutional Building, Total Financial Inclusion (TFI), Marketing activities and recovery.

It is also proposed to introduce SHG-e-Bookkeeping to record transactions and meeting of SHGs, connect to website, so that the functioning of SHG can be viewed in web site, and monitor the performance. Joint Liability Groups (JLGs) formed under Non-Pesticide Management (NPM) programme are 875. Bank accounts were opened for 465 groups and Linkage should be provided to the JLGs on par with regular SHGs.

The above analysis shows that the district has stood second in the state in implementation of SHG bank linkage. Number of SHGs is increasing year after year and

the amount disbursed is also relatively increasing. However, the number of new groups formed during the year is showing a decline year by year. The total women having membership in SHGs account for 4.74 lakh as on 31.03.2011.

The efforts that are made by the banks and district authorities in strengthening SHGs are appreciable. Better recovery and greater financial inclusion are the two advantages that make the SHG lending definitely a good proposition for the banks.