RAJASTHAN MICROFINANCE REPORT 2010

Centre for microFinance
We are glad to share with you the 'Rajasthan Microfinance Report 2010'. This report is the conclusion of over two years of work of Centre for Microfinance, to which numerous people across sectors contributed. I would like commend team of CmF for this effort and dedicate this report to all those who participated in consultations, workshops and studies organized by the Centre.

Our studies and interactions have convinced us of the vast potential of microfinance in Rajasthan. To realize this potential fully, however, concerted and sustained efforts will be needed. This report is a small step in that direction.

The report brings out the current status of the sector in Rajasthan. It is done in the context of the need for financial services among rural people, particularly the poor. It reveals the limited nature of investments that have been made in the sector so far and projects the requirement.

CmF remains committed to pursue its journey along this path. We welcome you to join us in this important endeavor.

Dr. Anil K Khandelwal
Chairman, CmF
Acknowledgements

We would like to thank all the people who gave us constructive inputs through the preparation of Rajasthan Microfinance Report 2010. It was a daunting task that involved numerous group discussions, brain storming, data analysis, research meetings and interacting with various stakeholders.

The report should not be seen as a comment on the performance of any organization working in the sector. Our purpose of preparing this report is purely to inform the factual status and to project the vast potential of the sector.

Many people and organizations have contributed in the preparation of this report. Due to paucity of space, it is not possible to name all of them. However, we would like to mention a few names whose support, contribution and encouragement has made this report possible.

We are grateful to NABARD, SIDBI, Bank of Baroda, SLBC, Program Director-SGSY, DWCD, Apex Cooperative Bank, Sakh Se Vikas Initiative partners and other Voluntary Organisations for providing us with data for analysis. We are also grateful to large number of rural women and others who have been part of various research studies conducted over last 3 years by CmF.

We would like to thank Mr. Y C Nanda for his guidance and encouragement at every step while preparing this report. We thank Vartika Jaini, Narender Kande, Ganesh Neelam and Mallika of SRTT for their encouragement and support, right from the conceptualization stage till the final editing.

We would like to thank colleagues and ex-colleagues in CmF for their insights on the concept and framework of the sector report. This report draws significantly from their vision, ideology and research on Rajasthan Microfinance sector. Last but not the least; we thank Govind and Harish for their administrative support.

Jai Pal and Pranay
Centre for microFinance had published Rajasthan MicroFinance Report 2007 which was the first report of its kind for any state. This report updates the progress of the sector and captures the developments from 2007 to 2010 and also presents the comprehensive picture of the microfinance sector in Rajasthan.

The microfinance sector in Rajasthan till recently was predominantly about Self Help Groups but during last 3 years a good number of Micro Finance Institutions (MFIs) have started their operations in state. Though the MFIs started their work in cities and towns but slowly they are reaching to rural areas as well. The credit outstanding to people from MFIs by March 2010 has surpassed the credit outstanding from Banks to Self Help Groups in State.

Number of Self Help Groups reported by various SHG promoters has been increasing at 22% annually. The credit from banks to SHGs has also increased but still there is a huge gap which is yet to be filled. Annually about 10% of SHGs in Rajasthan get bank credit and so far about 60% SHGs have been able to take bank credit. While about Rs. 180 crores of SHG savings are in Banks, the annual credit from banks to SHGs (including SHGs formed under SGSY) is around Rs. 200 crores. SHGs have shown impressive growth in savings and total savings of all SHGs in state is about Rs. 450 Crores by March 2010.

Now, under various poverty alleviation programs implemented by state government (with support of central government, World Bank and Bilateral Donors) the Self Help Group approach has become the key strategy for social mobilization, increasing access of poor to financial services and for livelihoods generation. Subsidies and grants will be used for building social capital of poor, while the capital for asset creation and working capital for livelihood strengthening is expected from mainstream financial institutions like Banks. Thus the growth of sector in Rajasthan will primarily depend on the smooth flow of credit from banks to SHGs and on the quality of SHGs.

The report first delves in depth the developments, trends and innovations in the sector in last few years. It then progresses gradually through different delivery mechanisms of microfinance sector in Rajasthan, namely, Self Help Groups, microfinance institutions and banks. A separate chapter is devoted on financial inclusion which discusses branchless banking, which is RBI’s key medium term focus area. Similarly, important policy issues and regulatory hurdles are discussed in a separate chapter.

The report has used secondary data from State Level Bankers Committee, SGSY, Department of Women and Child Development (DWCD), NABARD microfinance report and voluntary organizations (NGOs) for analysis of Self Help Groups in Rajasthan. The report has used primary research data from microfinance institutions operating in Rajasthan. At the end, report details out the action points for all stakeholders to make the SHG movement vibrant and effective for financial inclusion, women empowerment and poverty alleviation.
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<th>Full Form</th>
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<tr>
<td>ASSEFA</td>
<td>Association for Serva Seva Farms</td>
</tr>
<tr>
<td>BC</td>
<td>Business Correspondent</td>
</tr>
<tr>
<td>BCT</td>
<td>Bharuka Charitable Trust</td>
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<tr>
<td>BF</td>
<td>Business Facilitator</td>
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<tr>
<td>BOB</td>
<td>Bank of Baroda</td>
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<tr>
<td>BPL</td>
<td>Below Poverty line</td>
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<tr>
<td>BRGB</td>
<td>Baroda Rajasthan Grameen Bank</td>
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<tr>
<td>CBI</td>
<td>Central Bank of India</td>
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<tr>
<td>CBO</td>
<td>Community Based Organisation</td>
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<tr>
<td>CECOEDECON</td>
<td>The Centre for Community Economics and Development Consultants Society</td>
</tr>
<tr>
<td>CIG</td>
<td>Common Interest Group</td>
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<td>CmF</td>
<td>Centre for microfinance</td>
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<tr>
<td>CRA</td>
<td>Central Record Keeping System</td>
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<td>CSR</td>
<td>Corporate Social Responsibility</td>
</tr>
<tr>
<td>DPIP</td>
<td>District Poverty Initiative Programme</td>
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<tr>
<td>DRDA</td>
<td>District Rural Development Agency</td>
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<tr>
<td>DWCD</td>
<td>Department of Women and Child Development</td>
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<tr>
<td>FI</td>
<td>Financial Inclusion</td>
</tr>
<tr>
<td>FINO</td>
<td>Financial Information Network and operation</td>
</tr>
<tr>
<td>GAPCl</td>
<td>Grameen Aloe Producers Company Limited</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>GOI</td>
<td>Government of India</td>
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<tr>
<td>GOR</td>
<td>Government of Rajasthan</td>
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<td>GSS</td>
<td>Gram Sahakari Seva Samities</td>
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<tr>
<td>HDFC</td>
<td>Housing Development Finance Corporation</td>
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<tr>
<td>HH</td>
<td>House Holds</td>
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<tr>
<td>ICDS</td>
<td>Integrated Child Development Scheme</td>
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<td>ICICI</td>
<td>Industrial Credit Investment Corporation of India</td>
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<td>ICT</td>
<td>Information Communication Technology</td>
</tr>
<tr>
<td>IFAD</td>
<td>International Fund for Agriculture and Development</td>
</tr>
<tr>
<td>IFMR</td>
<td>Institute for Financial Management and Research</td>
</tr>
<tr>
<td>IIRD</td>
<td>Indian Institute of Research and Development</td>
</tr>
<tr>
<td>IL &amp; FS</td>
<td>Infrastructure Leasing and Financial Services</td>
</tr>
<tr>
<td>IPO</td>
<td>Initial Public Offering</td>
</tr>
<tr>
<td>IRDA</td>
<td>Insurance Regulatory Development Act</td>
</tr>
<tr>
<td>IRV</td>
<td>Individual Rural Volunteers</td>
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<tr>
<td>KCC</td>
<td>Kisan Credit Card</td>
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<tr>
<td>KYC</td>
<td>Know Your Customer</td>
</tr>
<tr>
<td>LIC</td>
<td>Life Insurance Company</td>
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<tr>
<td>MFIs</td>
<td>Microfinance Institutions</td>
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<tr>
<td>MGB</td>
<td>Marwar Ganganagar Bikaner Grameen Bank</td>
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<tr>
<td>MGNREGS</td>
<td>Mahatma Gandhi National Rural Employment Guarantee Scheme</td>
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<td>MIS</td>
<td>Management Information System</td>
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<tr>
<td>MITRA</td>
<td>Mobile Information Technology for Rural Development</td>
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<tr>
<td>Acronym</td>
<td>Full Form</td>
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<tr>
<td>MLM</td>
<td>Multi Level Marketing</td>
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<td>MPower</td>
<td>Mitigation of Poverty in Western Rajasthan</td>
</tr>
<tr>
<td>MSE</td>
<td>Micro and Small Enterprises</td>
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<tr>
<td>NABARD</td>
<td>National Bank for Agriculture and Rural Development</td>
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<tr>
<td>NBFC</td>
<td>Non Banking Finance Company</td>
</tr>
<tr>
<td>NCAER</td>
<td>National Council of Applied Economic Research</td>
</tr>
<tr>
<td>NGO</td>
<td>Non Government Organization</td>
</tr>
<tr>
<td>NPA</td>
<td>Non Performing Assets</td>
</tr>
<tr>
<td>NPS</td>
<td>New Pension System</td>
</tr>
<tr>
<td>NRLM</td>
<td>National Rural Livelihood Mission</td>
</tr>
<tr>
<td>NSDL</td>
<td>National Securities Depository Limited</td>
</tr>
<tr>
<td>NSSO</td>
<td>National Sample Survey Organisation</td>
</tr>
<tr>
<td>OBC</td>
<td>Oriental Bank of Commerce</td>
</tr>
<tr>
<td>OSS</td>
<td>Operational Self Sufficiency</td>
</tr>
<tr>
<td>PACS</td>
<td>Primary Agriculture Cooperative Society</td>
</tr>
<tr>
<td>PDS</td>
<td>Public Distribution System</td>
</tr>
<tr>
<td>PEDO</td>
<td>Peoples Education and Development Organisation</td>
</tr>
<tr>
<td>PFRDA</td>
<td>Pension Fund Regulatory and Development Authority</td>
</tr>
<tr>
<td>PLR</td>
<td>Prime Lending Rate</td>
</tr>
<tr>
<td>PNB</td>
<td>Punjab National Bank</td>
</tr>
<tr>
<td>POS</td>
<td>Point of Sale</td>
</tr>
<tr>
<td>PSB</td>
<td>Public Sector Bank</td>
</tr>
<tr>
<td>RBI</td>
<td>Reserve Bank of India</td>
</tr>
<tr>
<td>RCDF</td>
<td>Rajasthan Cooperative Dairy Federation</td>
</tr>
<tr>
<td>RMOL</td>
<td>Rajasthan Mission of Skills &amp; Livelihood</td>
</tr>
<tr>
<td>RNBC</td>
<td>Residuary Non Banking Companies</td>
</tr>
<tr>
<td>ROI</td>
<td>Return on Investment</td>
</tr>
<tr>
<td>RRB</td>
<td>Regional Rural Banks</td>
</tr>
<tr>
<td>RRLP</td>
<td>Rajasthan Rural Livelihood Programme</td>
</tr>
<tr>
<td>SBBJ</td>
<td>State Bank of Bikaner and Jaipur</td>
</tr>
<tr>
<td>SBI</td>
<td>State Bank of India</td>
</tr>
<tr>
<td>SBPL</td>
<td>Self Help Group Bank Linkage Programme</td>
</tr>
<tr>
<td>SC</td>
<td>Schedule Caste</td>
</tr>
<tr>
<td>SEBI</td>
<td>Security Exchange Board of India</td>
</tr>
<tr>
<td>SGJSY</td>
<td>Swarn Jayanti Gram Swarojgar Yojna</td>
</tr>
<tr>
<td>SHG</td>
<td>Self Help Group</td>
</tr>
<tr>
<td>SHPI</td>
<td>Self Help Group Promoting Institution</td>
</tr>
<tr>
<td>SLBC</td>
<td>State Level Bankers Committee</td>
</tr>
<tr>
<td>SML</td>
<td>Share Microfin Limited</td>
</tr>
<tr>
<td>SRTT</td>
<td>Sir Ratan Tata Trust</td>
</tr>
<tr>
<td>SSV</td>
<td>Sakh Se Vikas</td>
</tr>
<tr>
<td>ST</td>
<td>Schedule Tribe</td>
</tr>
<tr>
<td>UNDP</td>
<td>United Nation Development Programme</td>
</tr>
<tr>
<td>WBIS</td>
<td>Weather Based Insurance Scheme</td>
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</table>
## State at a Glance

### Indicators (As per 2001 Census unless specified)

<table>
<thead>
<tr>
<th>Indicators</th>
<th>(As per 2001 Census unless specified)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Population</td>
<td>5.65 crores</td>
</tr>
<tr>
<td>Rural Population</td>
<td>4.32 crores</td>
</tr>
<tr>
<td>Total BPL Rural Households (BPL Census 2002)</td>
<td>21.09 lakhs</td>
</tr>
<tr>
<td>Total Area</td>
<td>3.42 lakh sq km (342 lakh hectare)</td>
</tr>
<tr>
<td>Irrigated Area</td>
<td>80.88 lakh hectare</td>
</tr>
<tr>
<td>Average annual rainfall</td>
<td>530 mm</td>
</tr>
<tr>
<td>Districts</td>
<td>33</td>
</tr>
<tr>
<td>Panchayat Samitis <em>(2004, Source: GoR)</em></td>
<td>249</td>
</tr>
<tr>
<td>Gram Panchayats <em>(2004, Source: GoR)</em></td>
<td>9168</td>
</tr>
<tr>
<td>Total villages <em>(2004, Source: GoR)</em></td>
<td>41353</td>
</tr>
<tr>
<td>(Inhabited villages)</td>
<td>(39752)</td>
</tr>
<tr>
<td>Density of Population <em>(Population Census 2001)</em></td>
<td>165 per sq km</td>
</tr>
<tr>
<td>Sex Ratio</td>
<td>921 females per 1000 males</td>
</tr>
<tr>
<td>Literacy</td>
<td>60.41%</td>
</tr>
<tr>
<td>Female literacy</td>
<td>44.34%</td>
</tr>
<tr>
<td>Roads Density per 1000 sq km</td>
<td>456</td>
</tr>
</tbody>
</table>

### Indicators (As on March 2010 unless specified)

<table>
<thead>
<tr>
<th>Indicators</th>
<th>(As on March 2010 unless specified)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average population served per Bank branch</td>
<td>15292</td>
</tr>
<tr>
<td>Per Capita Income (at base 1999-2000)</td>
<td>19806</td>
</tr>
<tr>
<td>Per capita bank deposit (Rs.) as on Sept 09</td>
<td>14708</td>
</tr>
<tr>
<td>Per capita bank credit (Rs.) as on Sept 09</td>
<td>11766</td>
</tr>
<tr>
<td>Number of SHGs reported</td>
<td>360,689</td>
</tr>
<tr>
<td>Approx. Outreach of SHGs</td>
<td>44 lakh households</td>
</tr>
<tr>
<td>No. of SHGs having saving bank a/c</td>
<td>2.17 Lakhs</td>
</tr>
<tr>
<td>Savings of SHGs in banks</td>
<td>Rs. 180.18 crores</td>
</tr>
</tbody>
</table>

1 Country’s average is 933  
2 Page 34, 105th Meeting Agenda of SLBC, Rajasthan, 2010  
3 Page 34, 105th Meeting Agenda of SLBC, Rajasthan, 2010. This is provisional data from SLBC. Final data is expected from NABARD soon.
Rajasthan Micro Finance Sector Growth on key parameters

<table>
<thead>
<tr>
<th>Category</th>
<th>As on March 2007</th>
<th>As on March 2010</th>
<th>Annual Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of SHGs reported</td>
<td>2 lakh</td>
<td>3.6 lakh</td>
<td>22%</td>
</tr>
<tr>
<td>Functional SHGs</td>
<td>1.6 lakhs</td>
<td>2.6 lakhs</td>
<td>18%</td>
</tr>
<tr>
<td>SHG Members</td>
<td>24 lakh</td>
<td>44 lakh</td>
<td>22%</td>
</tr>
<tr>
<td>Total Saving of SHGs</td>
<td>Rs. 102 cr</td>
<td>Rs. 450 crore</td>
<td>64%</td>
</tr>
<tr>
<td>Savings of SHGs as deposits in Banks</td>
<td>Rs. 52.23 cr</td>
<td>Rs. 180.18 cr</td>
<td>51%</td>
</tr>
<tr>
<td>SHGs with bank account</td>
<td>111248</td>
<td>217007</td>
<td>40%</td>
</tr>
<tr>
<td>SHGs Credit linked</td>
<td>137837</td>
<td>159161</td>
<td>15%</td>
</tr>
<tr>
<td>Outstanding credit to SHGs</td>
<td>250.04 crores</td>
<td>501 crores</td>
<td>42%</td>
</tr>
<tr>
<td>Number of SHG federations</td>
<td>25 approx</td>
<td>42 federations</td>
<td>-</td>
</tr>
<tr>
<td>Number of bank branches</td>
<td>4239</td>
<td>4656</td>
<td>2.45%</td>
</tr>
<tr>
<td>Number of MFIs</td>
<td>5</td>
<td>22</td>
<td>64%</td>
</tr>
<tr>
<td>Outstanding credit from MFI to clients</td>
<td>N.A.</td>
<td>Rs. 527 cr</td>
<td>-</td>
</tr>
</tbody>
</table>

Loans disbursed to SHGs by banks from beginning till 2010: Rs. 837.83 crores

No. of SHG Federations: 42 federations and 312 clusters

Total loan outstanding of SHG Bank linkage as on March, 2010 (estimated): Rs. 501 crores

Number of MFI: 22

Approx. Outreach of MFIs: 8 lakhs clients

Total loan outstanding from MFIs as on March, 2010 (estimated): Rs. 527 crores

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1 Page 34, 105\textsuperscript{a} Meeting Agenda of SLBC, Rajasthan, 2010
2 In Rajasthan, primary level federations are termed as clusters while secondary level federations are termed as federations.
3 Internal Research
4 Extrapolation based on assumption that the trend in SHGs promoted by DWCD, which is leading SHPI; that trend will hold good for all of SHGs in Rajasthan. DWCD 2010 data reveals that approx. 33% of savings of SHGs is lying in bank account. For conservative estimate, it is assumed that 40% of saving of SHGs lay idle in bank.
5 Status of Microfinance in India, NABARD, 2007-08
6 Page 34, 105\textsuperscript{a} Meeting Agenda of SLBC, Rajasthan, 2010
7 NABARD Microfinance Report 2008
8 Page 34, 105\textsuperscript{a} Meeting Agenda of SLBC, Rajasthan, 2010
9 Meeting agenda of SLBC, Rajasthan, 2007
10 Page 34, 105\textsuperscript{a} Meeting Agenda of SLBC, Rajasthan, 2010
11 NABARD Microfinance Report 2008
12 Estimate of CMF
13 Rajasthan Microfinance Report 2007, CMF, Jaipur
14 Page 4, 105\textsuperscript{a} Meeting Agenda of SLBC, Rajasthan, 2010

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CHAPTER 1
LOCAL CONTEXT OF MICROFINANCE SECTOR
Chapter 1

Local Context of Microfinance Sector

Micro Finance sector and its growth are dependent on the local context of the state, its geo climatic conditions and livelihood systems of people. Micro Finance needs of poor are guided by the larger development context and the opportunities emerging from economic growth. This chapter tries to detail out the local context of Rajasthan, the status of economy, livelihood systems, poverty and its reasons, and livelihood opportunities for poor so that the importance of microfinance services are understood in the context of Rajasthan

1. About Rajasthan

Rajasthan has a very rich history and culture. It is at the forefront of tourist destination in India. The state has western 'Thar Desert' with average annual rainfall of 250 mm and also has eastern parts where annual rainfall is about 700 mm. The geographical location of Rajasthan poses challenges for its inhabitants (low and erratic rainfall and droughts, extreme heat in summers etc.) but it has certain advantages as well. To name a few, its rich culture and architecture attract domestic and foreign tourists which help a large number of people to gain livelihood. State has largest average land holding in country Rajasthan is leading producer of pulses and oilseeds. Its northern part is close vicinity of national capital and thus has potential to develop as industrial hub. Rajasthan also connects Gujarat and Mumbai with Delhi. Its rich mineral deposits of minerals, especially marble and granite are very famous. Rajasthan is also famous for its colourful handicrafts.

Rajasthan is the largest state in the country in terms of total geographical area, with 3.42 lakh sq. kms, which is about 10% of country's area. Out of this only 40% area (1.64 lakh sq kms hectare) is under cultivation. There are vast areas, which are uncultivated due to non-availability of water. Western Rajasthan has the maximum uncultivated lands.

The population of Rajasthan (2001 census) is 5.65 crores of which 77 % is in rural areas. The density of population is 165 persons per sq km. The sex ratio is 922 females for every 1000 males. Rajasthan has the highest proportion of Scheduled Caste (SC) population in India (17%) and a high proportion of Scheduled Tribes population (12.4%). The SC population is fairly distributed all over the state (though higher concentration in western part). The tribal area is mostly in south eastern parts.

The Arawali hill ranges divide the state into two parts from north to south. The western part is the Thar Desert. Nearly 60% of state area is under Desert Districts and about 40% population lives in this part of state. This is characterized by extreme in temperature and scanty rainfall.

The eastern part of Arawali hills is mostly hilly and ravenous. Large part of it drains out in Bay of Bengal through Chambal and its tributaries. Most of topsoil in this part has already been washed away. Almost entire tribal population of Rajasthan lives in this area.
There is no perennial river in Rajasthan. Though average annual rainfall is 536 mm but there is large variation across districts. The western districts like Jaisalmer and Barmer get about 100 to 250 whereas Banswara and Jhalawar in eastern part get about 900 mm. Both regions have acute shortage of water. Any change in either rainfall pattern or in total rainfall results into drought.

Agriculture and animal rearing are two main sources of livelihood on which about 70% of rural population is completely dependent. Rajasthan has 10% of India’s land but only 1% of its water. Only 28% of its cultivated land is irrigated. About 50% of the farmers have access only to 10% of cultivated land. 35% of India’s livestock population is in Rajasthan whereas it produces only about 10% of the country’s milk and 30% of its mutton. Livestock provides 15 per cent of the state agriculture domestic product.

Increase in literacy rates in Rajasthan (1991-2001) is highest in India (from 38.6 to 61%). As per 2001 census, there is wide gap in male and female literacy; Male- 76.46% and Female 44.34%. There is wide gap in literacy in urban and rural areas; Urban- 77% and Rural 56%. Literacy in SC/ST and tribal is extremely low and within that woman literacy rate is worse. Dropout rate in primary education is about 50% and majority of dropouts are from SC/ST children.
Life expectancy in Rajasthan has improved over past 5 decades. In western districts, it is higher than other parts of state. Dungarpur, Banswara, Chittorgarh, Dholpur and Pali are at the lowest in terms of longevity. Health indicators in Rajasthan are amongst the poorest in the country. The Infant Mortality Rate (IMR) of the state (63 per 1000 live births) far exceeds the national average (India, 53) and exhibits a wide rural-urban differential (Rural, 69; Urban, 38)\textsuperscript{a}. While the Maternal Mortality Ratio (MMR) of the state has reduced, it continues to be unacceptably high. Anaemia level amongst women of reproductive age, especially pregnant women continues to be a matter of grave concern. Though Rajasthan continues to have a lower sex ratio than that of India, the gap between the two has reduced over the years. State is plagued by high level of child and adult malnutrition. About 1/3\textsuperscript{rd} of children under 3 years age are under-weight and similar proportion of married adult men and women have Body Mass Index (BMI) below normal\textsuperscript{b}.

2. Economy, Livelihood and Employment

During the Tenth Five-year plan (2002-07) the overall growth in the state was 5.95 %. The growth in primary sector was only 2.15 percent in the plan period whereas the secondary and the tertiary sector registered a growth of 8.58 per cent and 7.16 per cent respectively. The growth in non-agricultural employment has not been fast enough to compensate for the decline in employment in the agriculture sector. Under-employment is widespread especially in the agriculture sector and is very significant in the urban informal sector. The industrial based labour force is quite thin, just 7.15%, indicating its backwardness.

In Rajasthan, the main sector in terms of people employed continues to be agriculture and allied sector. The main sector in terms of income is services sector. The livelihoods in Rajasthan are based on agriculture, animal husbandry, mineral and textiles. Considerable percentage of adult are employed with daily wages. The tertiary sector showed the greatest GDP contribution with 41%, followed by the primary (32%) and secondary sectors (27%).

Agriculture and animal husbandry were two major sources of livelihoods for 66\textsuperscript{th} of people in state in 1999-2000. The agriculture is mainly rain fed and the irrigation is only to about 30% of the cropped area. Majority of small and marginal farmers do agriculture at subsistence level (they grow food and fodder for household consumption). Even if they have small surpluses, they sell it off to buy other subsistence needs of the household.

Main produces in Rajasthan include millets (coarse grains) in Western Rajasthan, Soybean and Spices in eastern region, Wheat and Cotton in north western region while maize, millets, pulses and grains in hilly region. The water for irrigation comes from wells and tanks. The Indira Gandhi Nahar Pariyojna (IGNP) irrigates north western Rajasthan.

In western Rajasthan, livestock is the main livelihood for farmers and nomadic groups. Farmers who have better quality land and some irrigation source rear cattle, while small and marginal farmers and landless people rear goat and sheep. As per NSSO (59\textsuperscript{th} round) survey, number of sheep and goats per 100 farmers was 280, which was highest in India. Animal husbandry contributes over 19% to State’s agriculture GDP. In Rajasthan, wool is a major livelihood in animal husbandry. Wool is mainly used for carpets and blankets. The state also accounts for 10% of total production of milk in India.

\textsuperscript{a} Sample Registration Survey Bulletin 2009
\textsuperscript{b} National Family Health Survey-3, 2005-06
\textsuperscript{c} NSSO data
As per cash flow study conducted by CmF in rural Rajasthan in 2006 which covered 1604 rural households in 36 villages of 6 blocks in 5 districts, agriculture has been the primary occupation of majority (37%) of people in Rajasthan. Second most important occupation has been non-agriculture labour. Almost 25% people have reported non-agriculture labour as their primary occupation. Service has been third important occupation of rural households. Service includes work in factories, shops, or any government or private service. About 12% people reported service as their primary occupation. Non-Agricultural business like grocery shops and itinerate trading has been another important occupation reported by about 8% of people.

Rajasthan is pre-eminent in quarrying and mining in India. The state is the second largest source of cement in India. It has rich deposits of salt, copper, zinc, sand stone etc. However large numbers of people working in quarries are in informal sector and work without safely gears. Many of them suffer from tuberculosis, silicosis and other such diseases. Rajasthan is the second largest producer of polyester fibre in India.

In Rajasthan, a significant percentage of unskilled workers are employed on daily wages. Some 65 lakh households have been provided employment through MGNREGS (Mahatma Gandhi National Rural Employment Guarantee scheme) till 2010. Under this scheme, 89.29 lakh households have been allocated MGNREGS job cards by 2009-10.

3. **Women Empowerment**

Rajasthan has historically been a patriarchal and feudal society where gender discrimination has been a concern. This has drastically affected women’s health, financial status, literacy level and political involvement.

The problems are further aggravated by high levels of seasonal migration. For many men in Rajasthan, migration is required since rural parts of Rajasthan often lack a sufficient economy to provide income for a family year-round. Women are commonly left behind to care and provide for the entire household. This has been increasingly difficult because it is estimated that an average woman’s wage is 30 percent lower than a man’s wage working in a similar position. While these mothers work, they must also tend to domestic responsibilities. This leaves little resource for the growth and development of women’s rights and education levels.

A strong "son preference" exists in the region, as it does throughout the country, and high rates of female infanticide and female feticide plague the area. A strong need for women empowerment is evident considering the present status of Rajasthan’s women.

4. **Government’s strategy for poverty alleviation**

The strategy of the government towards poverty alleviation is three pronged; targeting poor and proving subsidy to give initial boost, helping poor to take up income generating activities by

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^ NREGA, Rajasthan www.nrega.nic.in
accessing credit from financial institutions, and creating infrastructure like roads, irrigation, marketing facilities etc. The government subsidies to poor are critical for their survival needs but for sustainable economic development of poor, public investment in infrastructure and access to financial services are very crucial.

5. Role of microfinance

Access to financial services plays a very crucial role in economic and social development of people. The impact assessment of microfinance programmes in Rajasthan and elsewhere clearly indicates the change in income level of beneficiaries; reduction of dependence on moneylenders; increase expenditure/investment on children education, health, agricultural inputs, increase in production and most important the increased awareness and self confidence among poor.

Micro Finance due to its inherent qualities of timely supply of financial services and flexibility of products can give impetus to potential sectors such as animal husbandry, wool and mutton processing, Information Technology, tourism etc. In addition to harnessing potential sectors of development, microfinance helps in reaching out to the vulnerable segments of the society like Women, SC and ST, which are outside the purview of formal financial institutions.
CHAPTER 2
DEVELOPMENT, INITIATIVES AND INNOVATIONS
CHAPTER 2

DEVELOPMENT, INITIATIVES AND INNOVATIONS

Government programmes on poverty alleviation and the policies impact the microfinance sector to a great deal. The micro finance needs also get impacted by various developments at district, state and centre level. This chapter captures some of the major developments from Government, banks and voluntary organisations in terms of new interventions and policies that would impact the microfinance sector in Rajasthan. Only the schemes and trends which bear direct relation to microfinance services of the poor have been captured in the chapter.

1. Developmental scheme updates

1.1 Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS)

The scheme provides a legal guarantee for one hundred days of employment in every financial year to adult members of rural households willing to do unskilled manual work at the statutory minimum wage. The objective of the scheme is to provide employment to rural poor on one hand and to build assets for rural development on the other.

<table>
<thead>
<tr>
<th>MNREGS in Rajasthan</th>
</tr>
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<tbody>
<tr>
<td>Money spent on wages (in Rs. Crores)</td>
</tr>
<tr>
<td>2008-09</td>
</tr>
<tr>
<td>2009-10</td>
</tr>
<tr>
<td>2010-11 (Till July)</td>
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<tr>
<td>Total</td>
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</tbody>
</table>

MGNREGS started in 2006 in selected 100 districts and from 2008 it was up scaled to all districts. In Rajasthan its implementation is considered successful. Till July 2010, 65 lakhs households have got employment and over Rs. 8960 crores have come in the rural economy of Rajasthan in form of payments to labours. A cash inflow of this quantum has helped poor to meet expenses on child education, food & fodder, agriculture inputs etc. It can be said that had MGNREGA not been there, poor would have taken loan from money lenders at 25-60% interest rates to meet such expenses or would have migrated. Over 50% of households in Rajasthan are estimated to have benefitted from the scheme.

Financial progress as per data provided by MGNREGS indicates that the scheme has been successful in providing employment to rural poor. However, it is not

\[\text{www.nrega.nic.in}\]

\[\text{Assuming number of members per household in Rajasthan remains same as 5.6 which was found in Population Census 2001, number of households by March 2010 can be estimated to be 1.27 cr. Out of which, over 65 households have benefitted from MGNREGS.}\]
known as to what extent the assets for poverty alleviation have been built. Though there has been no impact study to prove or disprove asset creation, preliminary findings\textsuperscript{3} indicate that in Rajasthan, majority of projects have been on making rural *kaccha* roads and de-silting old water bodies and digging new water bodies on common lands.

MGNREGS is often criticized for raising the agricultural wage and thereby increasing the agricultural costs. However, in Rajasthan, agriculture is primarily sustenance agriculture. Therefore, the chance of wage rate increasing is unlikely, even though no evidence is present for or against the argument.

The payments under MGNREGS are routed through banks, post offices and cooperative societies. Thus people have started getting exposed to these formal institutions. This is a positive development and would help in financial inclusion as well.

1.2 NRLM (National Rural Livelihood Mission)

NRLM has been conceptualized by Ministry of Rural Development, Government of India. It is to replace the *Swarajyanty Gram Swaroop Yojana* (SGSY), a scheme which was primarily designed to promote self-employment oriented income generating activities for the BPL (Below Poverty Line) families in the rural areas.

NRLM aims at taking a different approach to issues faced in SGSY. Main thrust areas in NRLM comprise a) Targeting all poor & not just BPL; b) The subsidy to be used as seed capital for long term credit linkage; c) Focus on building institutions of the poor e.g. community based organizations (CBOs, SHG federations etc); d) Dedicated support structure for SHGs and SHG Federations; e) skill development trainings specially off-farm trainings; f) Resource mapping at various levels and matching it with market demand before selecting activities for community livelihood promotion; and g) tracking financial conditions of households over a period of time

1.3 MPOWER (Mitigation of Poverty in Western Rajasthan)

Rajasthan Microfinance Report 2007 highlighted Western Rajasthan as one of the key areas that require focused intervention to strengthen microfinance and livelihoods. In an effort to counter the problems that poor in Western Rajasthan face, MPOWER project was initiated by Government of Rajasthan, in partnership with IFAD and SRTT. Like DPIP II \textsuperscript{2} and NRLM, MPOWER project is designed to support the Government of Rajasthan’s efforts in reducing poverty through the development of the grassroots community institutions and support to various livelihoods activities and setting up of services delivery systems initially. The project, falls in the western, arid zone, targets all households under Below Poverty Line (BPL) category in six blocks, and focuses on organizing women for empowerment and sustainable livelihoods.

The Project, with an estimated investment of INR 415 crores, will be implemented over a six-year period with the first year of the project being devoted to mobilization and capacity building. The project aims at increasing credit flow to SHGs to tune of Rs. 180 cr. Investment on institution building will be to the tune of Rs. 20,000 per SHG. The project is expected to impact 87,000 households across 1400 villages in the region.

1.4 District Poverty Initiative Project (DPIP) II

The Government of Rajasthan completed DPIP Phase I in December 2007 and is

\textsuperscript{3} Internal Research

\textsuperscript{2} Discussed in detail in Chapter 4 section 2.2
preparing to follow it up with a second phase called Rajasthan Rural Livelihood Project (RRLP). The RRLP is expected to build on the experience from DPIP, and other ongoing livelihood projects in India. The RRLP aims to increase and sustain income of the poor, especially women, in 17 districts covering 111 blocks.

1.5 Bhamashah Financial Empowerment Scheme

Bhamashah Financial Empowerment scheme was conceived for financial inclusion of women in Rajasthan. The objective of the scheme was to open 50 lakh bank accounts in the name of women. Government offered to provide starting balance of Rs. 1500 for each account (as one time grant) as an incentive.

The scheme aimed at financial inclusion through Business Correspondent model. All women were supposed to be issued smart cards that would keep track of their personal information and financial history. Plan envisaged use of POS (point of sale) terminals for reading and inputting information in smart cards. Business Correspondents were to act as intermediaries between bank and women. All government payments like MGNREGS, pensions etc. were envisaged to go through this mode.

The scheme was launched at time of election and disbursement of cash to poor was seen as an incentive for vote. The scheme got halted due to a court stay, which resulted in a sum of Rs. 64 crores getting stuck in the middle of the process. This money has been disbursed by government but has not reached the beneficiaries and is still lying in bank accounts. The beneficiaries are unaware of their bank details. They have not received any card, cheque or withdrawal instrument through which they can make a transaction or even access their account. Progress made under this project is discussed in section 1.4 of Chapter 7.

1.6 Loan Waiver and One Time Settlement of Debts Scheme

Following the farmers distress and farmers suicides in various parts of country, Government of India launched Loan waiver and one time settlements of bank debts scheme in 2008. The scheme was to waive off Rs. 60000 crores bank loan of marginal and small farmers so that they can get fresh credit from banks and do not have to fall in debt trap by usurious informal loans.

Small and marginal farmers holding land up to two hectares were entitled for complete waiver of loans, while farmers holding more land than that were eligible for a one-time settlement relief of 25%. It was envisaged that Loan waiver will bring out distressed poor from clutches of debt trap and strengthen them to build their livelihood.

The scheme got implemented but there are different opinions on whether it really benefitted the poor. Data is not available on the number of poor (whose loans were waived off) who could get fresh loans from banks. There are anecdotal evidences from field that people faced enormous difficulties in getting fresh loans from banks. Many bank managers still consider them defaulters (as they have not repaid the loan) and strongly believe that such schemes would have negative impact on the financial discipline of poor.

According to the National Sample Survey [59th Round, 2004-05], 51.4 percent or just over half of farmer households in the country did not access credit, either from institutional or non-institutional sources. Further, despite the vast network of bank branches, only 27 percent of total farm households had any loans from formal sources (of which one-third also borrow from informal sources). Among the marginal farmer category, as many as 80 percent did not have any borrowing from formal sources. Therefore, it can be deduced that target group of loan waiver scheme was not exactly for which the scheme was launched.
In loan waiver scheme, only agricultural loans were waived off. Since SHG’s microfinance loans didn’t fall in this category, SHG loans were not waived off. This resulted in resentment in some SHGs who perceived them to be sufferers at end of the day rather than beneficiaries. Repercussion of the scheme included adverse effect on repayment rate of SHGs, who thought that their loans too will be waived off.

The massive scale of loan waiver scheme squeezed the human resource capacity of banks to an extreme. During 2008-09 and 2009-10, significant proportion of bank staff was engaged in loan waiver claim processing. This had negative impact on SHG-Bank linkage.

1.7 Financial Inclusion

a) Dedicated Fund to promote financial inclusion

Government of India set up Financial Inclusion Fund and Financial Inclusion Technology Fund in NABARD in 2007-2008. With an aim to support developmental activities through promotion and technology, these funds will see infusion of aggregate Rs. 1000 crore in both the funds. The funding will be contributed by the GoI, Reserve Bank of India (RBI) and NABARD in a ratio of 40:40:20.

b) Financial inclusion in villages with population in excess of 2000

Finance Ministry, in consultation with RBI, has decided to provide banking facilities, along with insurance and other financial services, to habitations having population in excess of 2000 by March, 2012. (This will be followed by targeting habitations having population in excess of 1000). This will be achieved through business correspondents and business facilitators. This initiative has been discussed in detail in Section 1.3 of Chapter 7.

1.8 Mushrooming of Multi Level Marketing to collect savings from poor

In last few years, there has been an influx of “doorstep financial services providers” which provide saving linked schemes to poor in Rajasthan. Their activities have ballooned in last few years. Their structure mirrors that of a Ponzi scheme in which returns are paid to investors from their own money or money paid by subsequent investors, rather than from any actual profit earned. A Ponzi scheme is meant to default later, if not earlier in its day of operations, when the bubble gets burst.

There has also been an influx of (Multi-level marketing) schemes in which members are incentivized to add more members under each member to do business. With every new addition, existing members get benefitted.

A quick learning from successful operations of such schemes, many of which are not regulated by RBI, SEBI or IRDA, indicates that a fertile ground exists for banks to meet demand of poor. It is ironic that Doorstep Financial Services Providers which are regulated by none hold a free hand in whatever they do and are able to run scot free in case of frauds. State government and RBI need to take stern action to bring such unregulated entities under their purview, which usually come to public notice only in case of fraud alarm.

1.9 Interest subsidy of 50% on loans taken by women SHGs

The state government has decided to give 50 per cent subsidy on interest to Self Help Groups (from July, 2010) if the SHGs repay to banks on time. This is a positive trend.
and incentivizes SHGs to be regular in payment. This development should also encourage banks to give more credit to SHGs.

1.10 Standard micro-insurance product for rural & social sector

IRDA’s proposed standard product is aimed to provide a comprehensive package of insurance covers to relevant persons belonging to economically weaker sections in rural and urban areas. The product is proposed to link with KCC, farmer clubs, SHGs which would enable the insurers to reach out to the policy holders easily for premium payment and other servicing.

2. Policy trends having impact on microfinance sector

In last few years, there has been paradigm shift observed in the policy and programs of poverty alleviation. Now the policy makers and development practitioners are looking at financial inclusion and microfinance from a different perspective. Some noticeable trends are discussed below

2.1 Addressing all poor rather than targeting only Below Poverty Line (BPL)

In the past, approach of poverty eradication was limited to targeting 'Below Poverty Line' families only. Idea was to provide relief and propel growth of the BPL poor by providing them with one time subsidy. For example, under SGSY (Swarnjayanti Gram Swarozgar Yojana) scheme, subsidy was given to SHGs of BPL members. However, this approach of targeting BPL has not fetched desired results. A negative implication of this policy has been increase in demand of 'BPL card' from relatively richer segment of poor and, therefore, lot of BPL benefits not reaching intended beneficiaries.

New poverty alleviation programmes like MGNREGS, NRLM, RRLP, MPOWER etc. are approaching poverty eradication through 'financial inclusion', in which focus is not just on BPL but a set of poor people, including BPL. The new approach aims at impacting more and more poor irrespective of whether they fall in BPL, thereby increasing outreach and building strong institutions of the poor.

2.2 Focus on institutions of poor (e.g. SHG Federations and CBOs)

Mobilization of all the rural poor households into functionally effective, self-managed and self-governed institutions of the poor has now become top priority of policy makers and local development practitioners. It is perceived that 'institutions of poor' are more sustainable and effective as compared to individuals dependent upon outside support. Federating self help groups in higher-level institutions increases their "voice" and bargaining power with the private sector, market and other state actors. NRLM, which has replaced SGSY, and DPIP II (RRLP), which has replaced DPIP I, have 'focus on institutions of poor' as one of their key thrust areas.

NGOs involved in the sector have found 'federations' to be the next step for SHGs' growth. There is growing acceptance of the whole idea of federating SHGs. This is pronounced by increasing number of federations over the years.

2.3 Use of one time subsidy and grants as seed capital

In the past, focus has been on providing one time subsidy/ grant to BPL households and SHGs. Government schemes like SGSY and DPIP Phase I have focused more on subsidy component to individuals rather than building their credit linkages with banks. Such schemes have resulted in leakages, delay in payments, false delivery and bureaucratic interventions. Adding to that, amount of subsidy has been limited and un-replenishable.
Compared to schemes mentioned above, new schemes like MPOWER, NRLM and DPIP Phase II (RRLP) focus more on building credit linkages of poor with banks rather than providing one time individual subsidies. Idea is to invest in building institutions of the poor by providing seed capital and then grooming them to save. Remaining amount for growth is fetched from banks as credit. This approach is more sustainable. Moreover, since bank credit is unlimited (of course, if repaid regularly), it serves as reliable, long term solution as compared to short term focused subsidy/grant.

2.4 From group enterprise to micro-entrepreneurs' group

SGSY scheme supported and promoted group enterprises. However, group enterprise approach has been proved wrong beyond doubt over time. It has been well established that individual enterprises (or at max, partnerships) are natural, more sustainable and more effective from business point of view. Individual enterprises have got wider acceptance over the years.

2.5 Rollback of private banks from Micro Finance

In microfinance sector, many private sector banks came forward 3-4 years back to provide credit to poor through SHGs and MFIs. The models involved, to name a few, partnering with microfinance institutions, using business facilitators for microfinance services etc. However, either due to operational losses or due to implementation issues, these banks faced expansion issues. Rather than finding solutions to the problems, these banks starting rolling back. The implication was that the channels for provision of financial services to poor were narrowed.

2.6 Shrinking Donor Funds for promotion and nurturing SHGs and SHG federations

Due to influx of large number of microfinance institutions, which are raising commercial capital and which are returning commercial Return on Investment (ROI) to investors, donor agencies have started taking a relook at microfinance sector. Over last 2-4 years, microfinance has become somewhat of a new "asset class". A number of private equity investors and commercial venture capitalists have made significant investments into the sector. Same microfinance institutions, who were hand-held and groomed by donor agencies during initial days, have now become favourites of large commercial investors, who are willing to deploy huge amounts of cash for minority stake of equity.

These developments have led to change in perception of many donor agencies which are now looking at sector as 'profit-making' and 'commercial'. Donor agencies have therefore started distancing themselves from microfinance sector. This has negative implications for community based microfinance programs (read SHGs), which are meant for empowerment of poor. Community based microfinance is being deprived of financial support that is required at initial stage.

2.7 Impressive growth by MFIs

Credit outstanding by MFIs is estimated at Rs. 527 crores as of March, 2010 while credit outstanding through SHG bank linkage is estimated at Rs. 501.3 crores as of March, 2010. This indicates that out of Rs. 1028.3 crores total credit outstanding in microfinance sector as of March, 2010, almost 51.25% has been captured by MFIs. What is more interesting is that this 51.25% has been captured over a period of little over 3 years, while SHG bank linkage has been there for more than 10 years.

3. Innovations in Microfinance Sector

Over last few years, microfinance sector in Rajasthan has seen innovative approaches being tested to counter the challenges of poverty alleviation. A few of them have been captured below -
3.1 Producer Companies

Last few years have seen Producer Companies becoming a reliable and successful model of empowerment of poor. This reinforces the belief that future lies in promoting “people’s institutions”. A producer company is owned by its members who are required to be ‘primary producers’, that is, persons engaged in an activity connected with, or related to, primary produce. Members' ownership or equity in Producer Company is not publicly traded. Some examples of successful producer companies that have emerged in Rajasthan include Grameen Aloe Producers Company Limited (GAPCL), Ginger Producer Company, Jhadol, Maitree, Tonk, Jhambu KhandKisan Producer Company Limited.

3.2 Mobile phone based MIS

MITRA (Mobile information technology for rural development) is an initiative of People’s Education and Development Organization (PEDO), a Dungarpur based NGO. MITRA is a mobile based management information system (MIS), which generates full-fledged reports. MIS captures real time information through mobile and generates reports with following info—Capital, cash book, deposits, ledger, investment, member history, saving report etc

Source: Mitra Mobile Information Technology, PEDO

3.3 Financial Inclusion of tribal through community based microfinance (Dungarpur Project)

Bank of Baroda, in collaboration with PEDO and CmF, took up Dungarpur as a pilot district for SHG-Bank Linkage and for strengthening livelihoods of poor by providing timely and sufficient credit through Self Help Groups. Initiative involved credit of Rs. 55 crores through SHGs, support for promotion of 300 new SHGs, training of all branch managers of Bank of Baroda and its sponsored RRB, skill training of SHG members, issuance of Kisan credit cards, banking products counselling and microfinance training to tribal youth.

Over the last 3 years since launch of project, about 12,000 tribal families have accessed credit of Rs. 320 million and used it for their income enhancement.

The major learning from this pilot project has been that commercial banks can reach out to poor effectively through Self Help Groups. The project has also demonstrated that SHG-Bank linkage is done in focused manner and on scale, can contribute
towards financial viability of rural bank branches. Secondly banks should invest in creation of new SHGs and link it with credit targets. A unit of 300 SHGs in two years will cost the bank Rs. 15 lakhs and generate a credit portfolio of minimum Rs. 150 lakhs per year, earning gross annual revenue of Rs. 15 lakhs.

3.4 Weather Based Insurance Scheme (WBIS)

Weather based insurance scheme is running in pilot stage in Rajasthan. This scheme provides payouts only if the key weather indicators, such as rainfall, temperature exceed or fall short of the specified range. WBIS will prevail for farmers who have availed loans. Private players like ICICI Lombard charge insurance premium in the range of Rs. 138 to Rs. 2647 to provide compensation for various crops in range of Rs. 5000 an acre to Rs. 40000. In another instance, the compensation for every acre of paddy, maize and ground nut is Rs. 10000 while the premium is Rs. 276 for paddy, maize and Rs. 386 for ground nut.
CHAPTER 3

DEMAND FOR MICROFINANCE
Chapter 3

Demand for Microfinance

In this chapter, we will look at the demand side of microfinance and current practices. The chapter will elaborate on needs of the people with regard to microfinance services like savings, credit, insurance and remittances. The chapter will delve deep into current practices and potential of microfinance products and services, both in context of rural poor and urban poor. The relevance of SHGs and other delivery models depends on their ability to meet the needs of people. So it is important to look at how much of the needs of poor are currently met by SHGs and MFIs and what is still unmet.

In Rajasthan, cash inflow for a household broadly includes daily wages from agriculture & non-farm (including MGNREGS), sale proceeds from agriculture and animal products, ‘animal sale’, remittances by family members who have migrated etc. The cash outflow is primarily on expenditure incurred on food, clothes, education of children, household expenses, cattle feed, local conveyance, health, alcohol etc. In addition, there is substantial expenditure on life events like marriage, birth, death; on health related events and construction of house; and investments like deepening of wells/new wells, pump sets, tractors etc.

Given this context, savings and credit have been found to be the two prime financial services that poor needs. However, as most of their livelihoods are uncertain in nature (for example, uncertainty due to illness, death of livestock, crop failure etc), insurance is of utmost importance. Further, due to increased migration of work force from villages to cities within and outside Rajasthan, remittance has become a key service that migratory work force needs these days.

1. Profile of Poor in Rajasthan

   Rural Poor
   
   Most of the rural poor depend on agriculture for their livelihood while others, rear animals to supplement their income. The average annual income of rural household is estimated to be Rs. 54,159\(^a\). A large number of poor in rural Rajasthan migrate to earn their livelihoods. Over 64% of rural households in southern Rajasthan report migration, which contributes to 46% of household incomes (UNDP, 2004). Key reasons reported for migration are stagnant agriculture and lack of diversified sources of livelihood. People from tribal areas in southern part go to adjoining Gujarat. In rest of the places, there is substantial migration from villages to nearby towns and cities like Jaipur, Kota and Jodhpur.

   Urban Poor\(^b\)
   
   In urban areas, a significant proportion of the poor are daily wage labourers working on construction sites and other works, followed by those employed in shops, factories on salary basis, followed by those who are self-employed (but comprise less than 20% of the urban poor). Urban poor are a heterogeneous group consisting of recent migrants/fresh settlers at one hand and permanent settlers at another end. Urban poor live in slums which typically lack even meagre infrastructure. Around 16.9% of the urban population consists of slum dwellers in Rajasthan. Most of urban poor have irregular cash flows. Majority of their income is spent on procuring basic necessities like medical expenses, food, child education, debt servicing etc. The average annual income of urban household is estimated to be Rs. 77,000\(^c\).

\(^a\) Risk profiling study of 493 households conducted in 5 districts of Rajasthan
\(^b\) Cash flow study in 5 cities conducted by CmF, Jaipur
\(^c\) Risk profiling study of 493 households conducted in 5 districts of Rajasthan
2. Demand of Savings

More than 72% of rural families and over 90% of urban families have been found to save\(^{17}\). Apart from few families, mostly destitute, who live hand to mouth, others (even beggars) have been found to be saving some amounts for future needs. Most poor families save for repair of house, construction of new house, marriage of children, celebration of festivals, buying agriculture inputs, pay old debts etc.

**Rural Poor**

For rural poor, the income from agriculture and allied activities is seasonal in nature, primarily around the harvest season. Thus, most rural households have surplus for some time after the harvest of crops. Even the landless agriculture labourers, generally considered at the bottom of the poverty index, have regular employment in this season and tend to save. Rural poor save money as cash in pocket/house, saving in recurring deposits in post office, buying insurance (mainly life insurance of LIC), saving in SHGs, chit funds/committees, and in companies. During last 5-10 years, numerous companies like Tulip Global Pvt Ltd\(^ {32}\), Mitashi Tradelink Ltd\(^ {33}\) among many have started a successful “MLM” (Multi-level marketing) scheme to mobilize deposits. Other companies like Peerless\(^ {34}\), Sahara Financial Services\(^ {35}\) mobilize savings from rural areas by providing ‘service at doorstep’\(^ {36}\).

Households earn from remittances and non-agriculture wage labour, therefore saving products that offer ‘recurring’ deposits and ‘daily’ collection at ‘ doorstep’ are in demand. E.g. Rs. 50 collected every day 25 days a month. The market size of saving products in rural Rajasthan is estimated to be over Rs. 11000 crores\(^ {37}\).

**Urban Poor**\(^ {38}\)

Fresh settlers/ recent migrants save cash at home. Families that have lived in city for more than five to ten years (called permanent settlers) have a bank account and most of the family surplus is deposited in bank. Saving is also done through loaning to friends and purchase of property in ones native village. Agents of RNBCs like Sahara, Peerless etc and Chit Fund Managers are active in the slums and play a key role in financing of life cycle events.

Fresh settlers express their insecurity about saving at home. However due to the lack of saving products and services, they use informal ways of saving. This lack of saving options further increases their dependence on credit for meeting their expenditure. Permanent settlers have relatively more saving avenues but still crave for better saving options viz. Doorstep financial service. The market size of saving products in urban Rajasthan is estimated to be over Rs. 4500 crores\(^ {39}\).

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\(^{17}\) Cash flow studies conducted by CmF in 2006

\(^{32}\) http://tulipbusiness.com/mlm_in_india/

\(^{33}\) http://mitashitradelink.com/

\(^{34}\) http://www.peerless.co.in/

\(^{35}\) http://www.sifo.in/

\(^{36}\) Also discussed in Section 1 of Chapter 2

\(^{37}\) Average household income in rural Rajasthan is Rs. 54159 (As per risk profiling study of 493 households in Rajasthan over 5 districts conducted by CmF, Jaipur). As per NCAER, 2007, saving rate in rural India is 22%. Number of households in Rajasthan as of March 2010 can be estimated at 97.2 lakhs as follows - As per Population Census 2001, rural population is 78.54% of total population and average strength of household in Rajasthan is 5.6. Extrapolating these figures to 2010 level assuming 2.6% p.a. growth rate in population and assuming strength of households to remain same over last 10 years,

\(^{38}\) Cash flow study in 5 cities conducted by CmF, Jaipur

\(^{39}\) Average household income in urban Rajasthan is Rs. 77000 (As per risk profiling study of 493 households in Rajasthan over 5 districts conducted by CmF, Jaipur). As per NCAER, 2007, saving rate in urban India is 28%. Number of households in Rajasthan as of March 2010 can be estimated at 29.7 lakhs as follows - As per Population Census 2001, Urban population is 24.55% of total population and average strength of household in Rajasthan is 5.6. Extrapolating these figures to 2010 level assuming 2.6% p.a. growth rate in population and assuming strength of households to remain same over last 10 years,
What is the share of SHGs in total savings of the household?

Though SHGs were promoted to collect savings from members and use the savings as loan to members, they have not been able to become a trusted and viable saving model to members. As a practice, members decide a sum which every member has to save regularly. However, differing cash flow of respective members in SHG along with members' different saving needs renders the SHG saving mechanism ineffective. In case, when one or more members have more cash, one has to find another place to save that surplus.

It is observed that the decision of saving avenue (where to save) is taken considering the safety (risk of losing savings) and liquidity (ability to withdraw as and needed) by the poor. At present most SHGs have not demonstrated these two factors in their operations in Rajasthan. There are good experiences in Tamil Nadu (Kallanjium Foundation) where SHG members have two types of savings- Mandatory in which every member saves equal amount and voluntary in which any member can save any amount. The SHG pays interest on voluntary savings and members withdraw the savings at pre decided time.

Good quality SHGs of 5 years and more are able to attract about 25% of the HH savings (Source: Impact Assessment, Ibteda, SSV partner, Rajasthan). The average saving of a member in SHGs (Source: Saksh se Vikas initiative) is about Rs. 2000. Thus total saving of a family or SHG member can be estimated to be Rs. 8000/-. 

3. Demand of Credit

The credit need of poor can be classified in to three categories a) Credit needed for investments such as capital investment (to buy assets) or as working capital; b) Credit needed to meet household consumption; c) Credit needed to finance life events like marriages, house construction, serious health emergencies etc. The poor are not a homogeneous group and their livelihoods vary a great deal in wage labour, agriculture, animal rearing, petty businesses etc. Therefore their credit need varies too.

**Rural Poor**

It has been found\(^4\) that about 24% outstanding credit to rural families is from banks and cooperatives whereas rest 76% is from various informal sources like moneylenders, friends and relatives etc. The credit from informal sources comes at very high cost i.e. at 24% to 60% annual interest. The immediate propensity of poor is to pay off costly loan from moneylenders\(^5\) and then to use it for meeting their consumption needs, health expenditures and after some time, to make small investments to augment their livelihood sources e.g. seeds and other inputs, fodder for animals etc. Once these needs are fulfilled, poor start making investments on assets (capital investments) like deepening of wells, pipes for irrigation, purchase of animals and so on.

On an average a poor family needs about Rs. 15000/- credit (in multiple doses) every year to meet their consumption and small working capital needs. This translates into total annual credit demand of Rs. 8700 crores\(^6\). If sustainable livelihood is to be ensured and people have to be brought out of poverty, then a family would need at least Rs. 50,000/- credit (cumulative) over a period of 2-3 years\(^7\).

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\(^4\) Cash flow studies conducted by CmF in 15 locations in Rajasthan

\(^5\) Assuming ‘loan use pattern’ of SHG members is taken as an indicator

\(^6\) However it is important to mention here that ‘credit alone’ will not bring people out of poverty and a number of services like technical skills, market linkages etc. will be needed along with credit. But credit as capital investment (long term capital and working capital) is critical.

\(^7\) Extrapolating number of rural families in Rajasthan as of March, 2010 to be 97.2 lakh and assuming about 60% of them as clients of microfinance, total annual credit demand works out to be Rs. 8700 crores.
If the demand is to be seen within the overall framework of 'livelihood finance' then the micro credit market can be estimated to be around Rs. 29,000 crores in next 2-3 years\(^4\). Out of this, total credit need in agriculture and allied sector is estimated at Rs. 19200 crores\(^5\) (Agriculture crop loan 15100 crores, Term Loans 3800 crores and agro processing 300 crores).

**Urban Poor**

It has been estimated\(^6\) that more than three fourth of the poor households in urban areas are indebted, with moneylenders emerging as the main source of credit. Less than 10% have been found \(^7\) avail credit from banks. Most of the credit is available at the rate of 24% -36% per annum. Most loans are taken for life cycle events and housing. In case of fresh settlers/ recent migrants, credit is primarily for consumption, for sending remittance, for marriages and for unpredictable expenditures due to illness, accident, loss of spouse’s job etc. In case of permanent settlers, availing credit is relatively easier. It is normal for tea vendors and fruit stall owners’ etc to get 2-10 days credit. Such settlers take credit at interest rates of typically 2% p.m. to meet large expenditures like marriages, property acquisition etc.

As per study conducted by Aajeevika Bureua, credit needs of migrants are: Food loan- for ensuring food and nutrition to families left behind as migrants move to new places in search of jobs; Transportation loan- for travel expenses from the village to the destination point; Tools loan- for newly trained plumbers, electricians and carpenters; Uniform loan- For those in catering and hotel services and Enterprise loan- For those confident enough to set up seasonal businesses outside villages, for example ice cream and sugarcane juice vending.

Total annual credit demand in urban areas is estimated to be Rs. 2700 crores\(^7\). If the demand is to be seen within the overall framework of 'livelihood finance' then the urban micro-credit market can be estimated to be around Rs. 9,000 crores in next 2-3 years.

<table>
<thead>
<tr>
<th>Micro and Small enterprises have high growth potential in Rajasthan, like rest of India. There are about 3 lakh MSEs employing about 12 lakh people in Rajasthan (Source: Economic survey of India, 2009). At national level, a 3rd All India Census of SSIs (2001-2002) reveals that 14% of registered units (only 13% of units are registered) and only 3% non-registered units avail formal credit at national level. The census found that only about 15% of MSEs have access to formal credit. This translates into huge unmet credit need of micro-enterprises, which fall under purview of micro-credit.</th>
</tr>
</thead>
</table>

**4. Demand of Insurance**

**Rural Poor**

The major risks\(^8\) that rural household faces are four types: Life, Health, Animal Illness and death of...
Risks faced by Rural Households in last 3 years

- **Death in family** – About 17% HH faced this risk
- **Death of Livestock** – About 57% of HH faced this risk
- **Crop Failure** – About 69% of farmer HH faced this risk
- **Health & Illness risks** - About 43% of HH faced this risk

Risks faced by Urban Households in last 3 years

- **Death in family** – About 18% of HH faced this risk
- **Health & Illness risks** - About 42% of HH faced this risk

**Current practises**

Poor households in rural areas spend 19% of their income on health & illness, 14% of income on livestock death and 20% of income on crop failure. Therefore, more than 50% of poor's household expenses in rural areas are lost on items that should ideally fall under non-life insurance coverage. In contrast, only 7.5% of the households have insurance policy, that too life insurance. Non-life insurance is something unheard of.

**Need and Potential for Insurance products**

Estimating demand for insurance assuming a) 'life' insurance coverage equal to two years' household income and 'non-life' insurance coverage equal to 50% of household income, it can be deduced that there is demand of Rs. 1.35 lakhs of insurance coverage per household in rural area, provided household is ready to pay around Rs. 50 as premium per month. This translates to market demand of over Rs. 130,000 cr market of insurance coverage in rural areas in Rajasthan. In other words, this translates to potential premium turnover of over Rs. 600 cr for insurance companies per annum in rural areas.

**Urban Poor**

The major risks that urban households face are health and life.

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Risk profiling study of 493 households conducted in 5 districts of Rajasthan

Assuming average annual household income of Rs. 54159 which was found in cash flow studies conducted by CmF, Jaipur in rural areas.

Most Indians are willing to pay 1.35 per cent of income or more for health insurance

Assuming premium to be around 0.5% p.a. of insurance coverage amount

Assuming number of rural households in Rajasthan by March, 2010 to be 97.2 lakhs (through extrapolation as discussed in notes above)

Risk profiling study of 493 households conducted in 5 districts of Rajasthan
Current practise\textsuperscript{55} of urban poor

Poor households in urban areas spend over 26% of their income on health & illness. Therefore, more than 26% of poor’s household expenses in urban areas are lost on items that should ideally fall under non-life insurance coverage. In contrast, only 10% of the households have insurance policy, that too life insurance. At times of crisis, poor resort to taking credit at very high rate of interests from informal sources and sometimes, end up losing all their savings and assets during the course.

Need and Potential for Insurance products

Estimating demand for insurance assuming a) ‘life’ insurance coverage equal to two years’ household income and ‘non-life’ insurance coverage equal to 26% of household income, it can be deduced that there is demand of Rs. 1.74 lakhs\textsuperscript{56} of insurance coverage per household in urban area, provided household is ready to pay\textsuperscript{57} approximately Rs. 70\textsuperscript{58} as premium per month. This translates to market demand of over Rs. 50,000 crores\textsuperscript{59} market insurance coverage in urban areas in Rajasthan. In other words, this translates to potential premium turnover of over Rs. 250 crores for insurance companies per annum in urban areas.

5. Demand of Remittance

It is estimated that there are around 1.39 crores\textsuperscript{60} migrants in Rajasthan accounting for approximately 5.68% of the total migrants in the country. Migrants use informal sources like self carry, transfer through friends/relatives, or in kind remittances in the form of consumer goods etc. Formal financial institutions offer the remittance services such as bank transfers and money orders. But recent settlers/migrants do not approach formal institutions and services. Moreover, the service fee charged by banks (7 %) and post offices (5.3 %) makes remitting small amounts at frequent intervals unviable. Primary research indicates that there is unmet demand as far as remittances are concerned, though there is no authentic data for estimation.

\textsuperscript{55} Risk profiling study of 493 households conducted in 5 districts of Rajasthan
\textsuperscript{56} Assuming average annual household income of Rs. 54159 as discussed in footnote above
\textsuperscript{57} Most Indians are willing to pay 1.35 per cent of income or more for health insurance As per survey conducted in 7 locations by David M Dror - “Health Insurance for the Poor: Myths and Realities”
\textsuperscript{58} Assuming premium to be around 0.5% p.a. of insurance coverage amount
\textsuperscript{59} Assuming number of urban households in Rajasthan by March, 2010 to be 29.7 lakhs (through extrapolation as discussed in notes above)
\textsuperscript{60} NSSO , Report 470 , migration in India , Sept 2001, this also includes within the state migration : rural to urban migration, urban to urban migration and inter state migration
The micro finance providers can be broadly grouped into three categories viz. informal, semi formal and formal. In Rajasthan, the Bank-led Self Help Group-Bank Linkage programme (SBLP) and MFI-led microfinance programme are reaching out to the poor in a most significant way.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Microfinance Delivery Institutions</th>
<th>Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Informal sector</td>
<td>Money lenders who typically charge interest rate of 24-60% p.a.</td>
<td>-Credit (with collateral and without collateral)</td>
</tr>
<tr>
<td></td>
<td>Friends and Relatives</td>
<td>-Credit (largely on interest and sometimes without interest)</td>
</tr>
<tr>
<td></td>
<td>Commission agents</td>
<td>-Credit for all purposes</td>
</tr>
<tr>
<td></td>
<td>Petty Shopkeepers, Kirana Shops</td>
<td>-Deposits</td>
</tr>
<tr>
<td></td>
<td>SHGs higher-level organization like 'clusters' and 'federations' come under Semi Formal category. They are registered.</td>
<td>- Intermediate between banks and SHGs (Mainly capacity building of SHGs, facilities linkages with banks, etc.) &amp; insurance services</td>
</tr>
<tr>
<td></td>
<td>Beesi, Chit fund</td>
<td>-Saving</td>
</tr>
<tr>
<td></td>
<td>Self Help Group which are members based institutions, The SHGs are unregistered.</td>
<td>-Thrift, Credit (Also link members to other mF services like insurance etc.)</td>
</tr>
<tr>
<td>Semi formal sector</td>
<td>SHG’s higher-level organization like 'clusters' and 'federations' come under Semi Formal category. They are registered.</td>
<td>-Intermediate between banks and SHGs (Mainly capacity building of SHGs, facilities linkages with banks, etc.) &amp; insurance services</td>
</tr>
<tr>
<td>Formal sector</td>
<td>Commercial Bank</td>
<td>-Savings, credit, money transfer, payments of MNREGA, insurance linked with loan</td>
</tr>
<tr>
<td></td>
<td>Primary Agriculture Cooperative Societies</td>
<td>-Credit (agriculture) and Agri. Inputs</td>
</tr>
<tr>
<td></td>
<td>Cooperative banks</td>
<td>-Savings from members in form of equity, payments</td>
</tr>
<tr>
<td></td>
<td>Regional Rural Banks</td>
<td>-Credit, Savings</td>
</tr>
<tr>
<td></td>
<td>Insurance Companies</td>
<td>-Insurance term and endowment</td>
</tr>
<tr>
<td></td>
<td>Post Offices</td>
<td>Savings, money transfer, payments of NREGA</td>
</tr>
<tr>
<td></td>
<td>Not for Profit Micro Finance Institutions</td>
<td>Credit, mainly through SHGs but to individuals also</td>
</tr>
<tr>
<td></td>
<td>For-profit Microfinance Institutions</td>
<td>-Credit and insurance</td>
</tr>
<tr>
<td></td>
<td>Residuary Non-banking Companies (RNBCs) e.g. Sahara India Financial Services</td>
<td>-Savings in form of term deposits only after permission from RBI</td>
</tr>
<tr>
<td></td>
<td>Pawn shops and Gold loan NBFCs e.g. Muthoot Finance and Manappuram Finance</td>
<td>-Gold Loan, Provide credit against collateral of jewellery. They typically charge interest rates of 12 - 27% p.a. on declining basis.</td>
</tr>
</tbody>
</table>
CHAPTER 4

SELF HELP GROUPS
Chapter 4

SELF HELP GROUPS

Self Help Group mechanism has potential to play a critical role in women empowerment and in delivery of microfinance services to poor. This chapter tries to understand the status of SHG movement in Rajasthan viz. number of SHGs, promoters, products and services, dedicated support structures needed to support the groups etc. The chapter also discusses way forward to make SHGs as more effective strategy in Financial Inclusion. The chapter also highlights how SHG movement has been helpful in empowerment of poor, especially women. It also analyzes the implications of federating SHGs on the SHG movement.

A self-help group (SHG) is a primary community institution usually composed of 10 - 15 women from similar socio-economic backgrounds, organized as internal group and managed through simple self-imposed norms. SHGs have established themselves as effective & self managed financial intermediary at local level aggregating financial needs of poor in a more bankable proposition.

The Self Help Movement started more as 'social mobilization' of women for their better place in family and society rather than 'microfinance movement' in Rajasthan. However, most development practitioners and policy makers gradually realized that mere women participation is not adequate and some direct action in terms of improving economic status of women is needed. That’s how many voluntary organizations and government (together and/or separately) started organizing women in to groups to take up small business (income generation activities) collectively.

Over the years, considerable progress has been made in organizing women into groups. The groups of women have to be promoted since new SHGs do not self-evolve. That’s where Self Help Group promoting institution (SHPI) plays a key role. Though the concept of SHGs initiated from voluntary agencies, state government (especially its Department of Women and Child Development) has taken a lead in SHG promotion.

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>SHPIs</th>
<th>Schemel Project</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Department of Women and Child Development</td>
<td>No Specific Scheme</td>
<td>Groups are organised by Anganwadi workers and Sathins</td>
</tr>
<tr>
<td>2.</td>
<td>Department of Rural Development</td>
<td>SGSY Watershed Development Programmes DPIP, MPOWER</td>
<td>BPL groups- mostly promoted in collaboration with NGOs</td>
</tr>
<tr>
<td>3.</td>
<td>NABARD and Banks</td>
<td>SHG-Bank Linkage Individual Rural Volunteers (IRV)</td>
<td>Through NGOs, RRBs Cooperatives</td>
</tr>
<tr>
<td>4.</td>
<td>Cooperatives</td>
<td></td>
<td>The cooperatives have very recently started forming SHGs</td>
</tr>
<tr>
<td>5.</td>
<td>Voluntary Organisations</td>
<td>With support from Donor agencies and government programmes</td>
<td>Groups promoted by NGOs and Government are often reported by both</td>
</tr>
<tr>
<td>6.</td>
<td>Others</td>
<td>Forest Dept., Elementary Education, Dept. of Industries</td>
<td></td>
</tr>
</tbody>
</table>
Progress made by SHPIs will be discussed later. We will first discuss the number of SHGs promoted in Rajasthan.

1.1 Number of Self Help Groups (SHGs) in Rajasthan

In Rajasthan, all of SHG promoters have different format for SHG information. Also there is double reporting i.e. same group is reported by different agencies. Therefore, reporting of SHG numbers becomes a difficult task.

| Table: Numbers of SHGs promoted by SHPIs as of March 2010 |
|-------------|-------------|-------------|-------------|-------------|
|               | DWCD         | NGOs        | Cooperatives | Others      | Total       |
| ICDS          | 196,273\(^{a}\) | 1245\(^{b}\) |             |             | 197518      |
| SGSY          | 35,518\(^{b}\) |             | 11,839       |             | 47357       |
| NABARD-SBLP   |             | 11,069\(^{c}\) |             |             | 11,069      |
| DPIP          | 18000\(^{d}\) |             |             |             | 18000       |
| Others        | 11,417\(^{d}\) | 47,638\(^{d}\) | 27,690\(^{d}\) |             | 86,745      |
| Total         | 196,273      | 77,249      | 47,638       | 39,529      | 360,689     |

1.2 Estimate of actual number of SHGs

As stated above, there is no comprehensive database of self-help groups in state. It is very difficult to compile the data on all SHGs in the state because of various reasons like- there is double reporting (more than one agency reporting the same group), the groups that have become defunct are not deleted from the list. There is no uniform reporting/ MIS and many SHPIs are hesitant to share the information on their groups.

The only reference point for counting of SHGs is the data on bank accounts of SHGs. As on March 2010, total 2.17 lakh SHGs are reported as having bank account. But there is problem in taking this as reference as well. There are good number of groups that are not having bank accounts.

Many SHGs become defunct after some time due to various reasons like - the promoting organization is unable to regularly visit the group, there is conflict among group members, SHG fails to link with bank and members distribute their savings among themselves and stop meeting and so on. But such groups are seldom removed from the list of SHGs reported by the SHPIs.

\(^{a}\) DWCD 2009-10
\(^{b}\) Three voluntary agencies Lupin, BCT and URMUL have formed SHGs under ICDS program
\(^{c}\) Under SGSY, total SHGs reported are 209412 but it was found that many of SHGs are actually not formed but reported. Therefore all SHGs having passed grade 1 and SHGs formed but yet to be graded (about 20% of graded SHGs) are reported here. On enquiry, it was told that 75% of the groups are formed by NGOs and 25% by others
\(^{d}\) NABARD had reported 7897 SHGs formed by NGOs from their support till 2007, additional 3172 SHGs are formed later
\(^{e}\) DPIP project evaluation. Anecdotal reports claim that only about 30% CIGs formed under DPIP are functioning
\(^{f}\) Internal Research
\(^{g}\) Cooperative department has reported 44047 SHGs formed but it appears that all those SHGs who have accounts in cooperatives (irrespective of who has formed those SHGs) are reported by the department. So there is some double reporting here.
\(^{h}\) Others: Watershed Development (9400); Literacy Mission (12977); RCDF (5168); Forest (145)
Considering the above factors, it will be highly useful if a comprehensive database of SHGs is prepared and managed at district and state level. Till such database is prepared, it is difficult to arrive at the exact number of SHGs existing. However, it might be safe to assume that about 2.6 lakh SHGs (about 70% of the SHGs reported) exist.

### 1.3 Outreach of Self Help Groups

Taking the actual functioning 2.6 lakh SHGs and the average membership of SHG (12), the total outreach of SHGs in Rajasthan would be near about 31.2 lakh members (while 44 lakhs as per reported figures). Assuming that the members are from different families (though there is more than one member from a family in some groups), SHGs are reaching out to about 32% of rural families. As per the study conducted by CmF, about 40% members in SHGs are from BPL. Assuming this sample statistic as representative of the whole set, about 12.48 lakh rural BPL families can be assumed to be covered through SHGs, which is about 59% of total rural BPL families in state.

SHG movement is not uniformly spread out in Rajasthan. After taking into account data provided by SHPIs till 2009-10 on district wise number of SHGs in a district and comparing it with population of the district, a ‘Saturation Index’ has been constructed. The index gives clear status of %age of rural HH covered under SHG movement in a particular district.

On basis of analysis, SHG movement has been found to be weak (in terms of HH covered) in districts like Nagaur, Dholpur, Dausa, Karouli, Barmer, Jodhpur, Pali, Jalaur, Alwar and Raajsamand. As per section 1 of Chapter 6, which computes 'under-banked' index of districts in Rajasthan, Nagaur, Dholpur, Dausa, Karouli, Barmer and Jalaur have been found to be under-banked too.

Further, SHG movement has been found to be strong in districts like Kota, Jhalawar, Dungarpur, Bhilwara, Baran, Bundi, Chittorgarh, Banswara, Bikaner and Sirohi. As per section 1 of Chapter 6, which computes 'under-banked' index of districts in Rajasthan, Jhalawar, Dungarpur, Bhilwara, Bundi and Chittorgarh have been found to have strong bank presence.

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Assuming growth in rural population at 2.6% p.a. Rural population was 4.32 crores in 2001 in Rajasthan (Source: Population Census 2001). It is also assumed that average number of members per household, which was found as 5.6 in Population Census 2001, still holds good.

Study of SHGs in 7 districts of Rajasthan by CmF

Number of BPL households in Rajasthan as of March, 2010 is 2119352. Source: bpl2002.raj.nic.in
Figure: Saturation Index of SHG movement in Rajasthan as of March, 2010

Saturation Index 2010

- Kota: 91%
- Jhalawar: 80%
- Dungarpur: 57%
- Bhilwara: 55%
- Baran: 54%
- Bundi: 53%
- Chittorgarh: 50%
- Banswara: 49%
- Bikaner: 48%
- Sirohi: 46%
- Udiapur: 44%
- Jaisalmer: 42%
- Bharatpur: 42%
- Ganganagar: 42%
- Hanumangarh: 40%
- S.Madhopur: 37%
- Tonk: 36%
- Sikar: 36%
- Jhunjhunu: 36%
- Churu: 36%
- Ajmer: 34%
- Jaipur: 34%
- Rajsamand: 32%
- Alwar: 29%
- Jalaur: 28%
- Pali: 28%
- Jodhpur: 28%
- Barmer: 26%
- Karouli: 24%
- Dausa: 23%
- Dholpur: 20%
- Nagaur: 19%
2. Self Help Group promoting institutions

Various SHPIs are promoting SHGs in Rajasthan as a strategy for women empowerment and poverty alleviation. DWCD has been leading SHG promoter in Rajasthan. The rural department has adopted the Self Help Group approach for poverty alleviation through social mobilization and micro enterprise development under its programs like SGSY, Watershed Development, and District Poverty Initiative Project and so on. Banks and Cooperatives have mostly focused on providing credit to SHGs. SHPIs are discussed in detail below -

2.1 Department of Women and Child Development (DWCD):

The Department of Women and Child Development (DWCD) has promoted largest number of the groups in Rajasthan (196273 till March, 2010). The department has a cadre of women workers (Aanganwadi Workers and Sathins at village level) who organise women Self Help Groups. Total savings of the groups is Rs. 107.37 crores. Compared to savings, only Rs. 61.88 crores has been disbursed by banks as credit during 2009-10. That credit too is estimated to be distributed only among 10%\(^7\) of SHGs. Further analysis of data provided by DWCD indicates that only 54% SHGs are using their savings to give loans to members.

2.2 Department of Rural Development

Department of Rural Development, Government of Rajasthan is promoting Self Help Groups through its three main programmes - Swarnjayanti Gram Swa-rojgar Yojana (SGSY),

\(^7\) As per analysis in Section 2 of Chapter-6
Watershed Development and District Poverty Initiative Project (DPIP).

2.2.1 SGSY (2009-10)\textsuperscript{a}

The triangulation of data provided by government on SGSY is a tough task for any researcher. For example, under SGSY in 2008-09, 165941 groups have been reported to be formed while in 2009-10 only 2846 groups have been reported to be formed. And in 2007-08, 7952 SHGs are reported as formed during the year.

**Figure: SHGs promoted under SGSY in last 3 years**

![Figure: SHGs promoted under SGSY in last 3 years](image)

Further, as per data reported by NABARD (as discussed in section 2 of chapter 6), banks provided credit of Rs. 20.26 crores and Rs. 44.58 crores respectively to SHGs under SGSY in 2007-08 and 2008-09. However, as per data reported by SGSY, banks have provided credit of Rs. 43.43 crores and Rs. 86.4 crores to SHGs under SGSY in 2007-08 and 2008-09, respectively.

Going by figures reported by SGSY, total 209412 SHGs have been formed under SGSY in Rajasthan till March 2010. The SHG groups formed under SGSY are as per the guidelines by GoI and the revolving fund and bank credit is provided to the group if it passes the grading test. Out of total 209412 groups, 39464 groups (18.9%) have passed first grading and 16927 SHGs (8%) have passed second grading as of March, 2010. Total 13488 SHGs have taken up some economic activity.

In last three years (2007-08 to 2009-10), total Rs.1327.5 lakhs have been spent to form and nurture 176739 SHGs under SGSY in Rajasthan. Thus the money spent for promoting one SHG in 3 years under SGSY comes to Rs. 751/- . The average cost of promoting a good quality SHG and also the norm in SGSY itself is Rs. 8,000/- per SHG. This is one of the reasons for poor quality of SHGs under the scheme.

A total credit of Rs. 192.22 crores has been reported as mobilised from banks under SGSY during 2009-10. Most of it (approx. 80%) has gone through SHGs while only 20% has gone to individual swarozgaris. Over the years, credit reported as mobilized from Banks to SHGs under SGSY has increased by almost 100% every year. However the data from banks is yet to be published by NABARD. Considering the differences of

\textsuperscript{a} Source: SGSY Progress Report 2007-10 Department of Rural Development GoR
almost 100% in the data of Bank credit under SGSY (reported by SGSY and NABARD), credit mobilized to SHGs from banks is estimated to be about Rs. 90-100 crores.

2.2.2 CIGs under District Poverty Initiative Project (DPIP) "

DPIP was implemented in 7 poorest districts: Baran, Churu, Dausa, Dholpur, Jhalawar, Rajsamand and Tonk of the 32 Rajasthan’s districts wherein 100000 poor rural households were covered and 170000 members were benefited. The project was initiated in July 2000 and ended in December 2007. These poor households were organized into common interest groups (CIGs), provided with financial and technical support so as to improve their organizational capacity and maximize the utility of their productive assets, federating them and then linking them to markets. Some 18,000 CIGs were formed, of which nearly half were livestock and dairy groups. Of these, about 4347 CIGs were linked to the Rajasthan State Dairy Federation for marketing and technical services support.

The impact evaluation of the project revealed that the project achieved significant results viz., (i) assets were intact with CIGs, (ii) 82.14 percent CIGs had shown full utilization (iii) around 20 percent CIGs acquired additional assets through bank linkage, and (iv) the average income increased by 78 percent over the base year 2001. The other positive lessons from implementation of DPIP include income from animal husbandry increased by 267 percent, around 95 percent members of CIGs getting sufficient food daily around the year, increase in irrigated area from 1 bigha to 4 bighas for land based groups.

2.2.3 Watershed Development Programme:

As per the guidelines of the watershed development programmes, promotion of SHGs in watershed area is one of the strategies. There is a provision of Rs. 1 lakh as revolving fund in a micro watershed. Though about 16783 SHGs have been reported under Watershed Development Programme, the focus of the programme is more on water harvesting and land development.

2.3 NABARD, Banks and Cooperatives:

In 1992, SHG movement was started with initial support from NABARD. By March, 2009, NABARD had sanctioned Rs. 4.21 cr to SHPIs for group promotion in Rajasthan.

Table: Support to SHPIs by NABARD

<table>
<thead>
<tr>
<th>SHPI</th>
<th>No. of SHGs aimed to be promoted and credit linked</th>
<th>Amount sanctioned (in Rs. Lakhs)</th>
<th>Total amount released (Rs. Lakhs)</th>
<th>No. of SHGs promoted</th>
<th>No. of SHGs credit linked</th>
</tr>
</thead>
<tbody>
<tr>
<td>NGOs</td>
<td>12122</td>
<td>249.43</td>
<td>98.35</td>
<td>7272</td>
<td>4794</td>
</tr>
<tr>
<td>RRB</td>
<td>300</td>
<td>1.55</td>
<td>1.11</td>
<td>611</td>
<td>411</td>
</tr>
<tr>
<td>Cooperative Banks</td>
<td>5315</td>
<td>79.17</td>
<td>1.74</td>
<td>316</td>
<td>158</td>
</tr>
<tr>
<td>IRVs</td>
<td>5030</td>
<td>90.54</td>
<td>4.2</td>
<td>365</td>
<td>30</td>
</tr>
<tr>
<td>Total</td>
<td>22767</td>
<td>420.69</td>
<td>105.4</td>
<td>8564</td>
<td>5393</td>
</tr>
</tbody>
</table>

An analysis of support provided to SHPIs by NABARD indicates that the progress has not been encouraging in Rajasthan. Out of Rs. 4.21 crores sanctioned to SHPIs, only Rs. 1.05 crores has been released. Out of target of 22767 SHGs, only 8564 (38%) groups were actually promoted and only 5393 (24%) were credit linked.

" Source: [www.dpipraj.gov.in](http://www.dpipraj.gov.in) accessed on 18th August 2010
Poor performance of credit linkage and group formation might be attributable to low financial support to SHPIs in absolute terms. Even though NABARD’s objective was to supplement SHPIs finances through its financial support, it seems that SHPIs are promoting SHGs only from NABARD’s financial support.

Figures indicate that only Rs. 4.21 crores was sanctioned to promote 22767 SHGs in Rajasthan. This translates to Rs. 1848 per group for promotion and credit linkage. This too was to be paid in 3-4 instalments to SHPIs. Actual cost of promotion of one SHG is estimated to be around Rs. 8000 over a period of 3 years. Therefore, SHPIs found it difficult to remain financially sustainable and had to quit before completion of the projects.

Apart from NABARD, Small Industries Development Bank of India (SIDBI) has also been involved in promoting microfinance by lending to NGOs & MFIs to on-lend to microfinance clients.

### 2.4 Voluntary Organisations

In every district, there are about 5 to 10 voluntary organisations that are organising SHGs either on their own or in collaboration with government. Most of the voluntary agencies have promoted 50 to 100 SHGs. However there are a few agencies that have substantial number (300 to 1800 SHGs) of groups. For example: PEDO in Dungarpur, Lupin Foundation in Bharatpur, PRADAN in Dausa, Dholpur, IBTADA in Alwar, ASSEFA in Baran and Banswara, URMUL in Bikaner, Sewa Mandir in Udaipur, Navyuvak Mandal and Bhoruka Charitable Trust in Churu, IIRD in Baran, CECOEDECON in Tonk, Jaipur and Baran, SRIJAN in Tonk and Bundi and a few others have large microfinance programmes.

Interestingly, not many NGOs can be found in districts like Nagaur, Karouli, Barmer, Pali, Jhalawar, and Rajsamand, which have been found to fall lowest on SHG Saturation Index 2010. It is interesting to note that except for larger NGOs, other focus more on other social mobilization issues like health, education, advocacy, human rights etc. Microfinance is typically not their core proposition. Therefore, expecting such smaller NGOs to create new products and to build a long term vision for SHGs may not be appropriate.

---

1. Internal Research
2. In some cases, staff has been found to be multi-purpose. Personnel are deployed for microfinance operations when required while the same personnel are then deployed for education/human rights issue when needed.
Sakh-se-vikas initiative -

Sakh-Se-Vikas (SSV) is a development initiative in Rajasthan that seeks to propagate the best practices in SHG movement among all the stakeholders’ viz. Self Help Group promoting institutions, government agencies, NGOs etc. Promoted by Sir Ratan Tata Trust, it currently has six strategic partners, which are well-acknowledged development agencies at regional and national levels. Centre for microfinance (CmF) is the nodal agency for the SSV initiative. The initiative has two primary objectives first, to disseminate the sector best practices across various stakeholders and second, to develop resource agencies for the microfinance sector. SSV partners aim to create conducive policy environment that fosters growth of self-help based microfinance. The initiative has been active in 6 districts Dholpur, Tonk, Ajmer, Alwar, Banswara and Dungarpur, and has been able to directly impact 67,000 poor households, 4400 SHGs and 22 SHG federations. SSV regional initiatives include Dungarpur district initiative, Western Rajasthan initiative and Urban Poor initiative. SSV’s thematic verticals include Livelihood enhancement, strengthening interface of banks/ financial institutions with SHGs, Risk mitigation and social security and strengthening people’s institutions.

Table: Achievements of few SSV partners

<table>
<thead>
<tr>
<th>SSV Partners</th>
<th>No. of SHG</th>
<th>Savings mobilized (Mar’10)</th>
<th>No. of SHGs bank linked</th>
<th>Loan Outstanding</th>
<th>Credit mobilized from external sources (Mar’10)</th>
</tr>
</thead>
<tbody>
<tr>
<td>PEDO</td>
<td>1786</td>
<td>77,522,042</td>
<td>1,248</td>
<td>138,143,729</td>
<td>18,547,871</td>
</tr>
<tr>
<td>Ibtada</td>
<td>625</td>
<td>15,750,000</td>
<td>455</td>
<td>31,365,000</td>
<td>149,700,001</td>
</tr>
<tr>
<td>PRADAN</td>
<td>630</td>
<td>9,039,635</td>
<td>126</td>
<td>10,586,868</td>
<td>8,240,000</td>
</tr>
<tr>
<td>SRIJAN</td>
<td>330</td>
<td>3,032,422</td>
<td>86</td>
<td>97,800</td>
<td>4,460,000</td>
</tr>
<tr>
<td>GDS</td>
<td>147</td>
<td>3,186,890</td>
<td>105</td>
<td>7,793,304</td>
<td>11,215,80C</td>
</tr>
<tr>
<td>Access Dev. Services</td>
<td>67</td>
<td>581,929</td>
<td>12</td>
<td></td>
<td>99,450</td>
</tr>
<tr>
<td>GSVS</td>
<td>130</td>
<td>3,766,950</td>
<td>62</td>
<td>7,162,934</td>
<td>4,415,500</td>
</tr>
<tr>
<td>GMVS</td>
<td>220</td>
<td>11,465,420</td>
<td>200</td>
<td>12,845,950</td>
<td>28,545,80C</td>
</tr>
<tr>
<td>Navachar Sansthan</td>
<td>86</td>
<td>1,614,950</td>
<td>50</td>
<td>120,031</td>
<td>1,006,500</td>
</tr>
<tr>
<td>Saheli Samiti</td>
<td>175</td>
<td>2,836,704</td>
<td>30</td>
<td>5,199,357</td>
<td>4,088,000</td>
</tr>
<tr>
<td>CmF (Urban Pilot)</td>
<td>65</td>
<td>294,960</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CmF (Rural Pilot)</td>
<td>139</td>
<td>12,32,024</td>
<td>15</td>
<td>290,600</td>
<td>6,22,304</td>
</tr>
<tr>
<td>Total</td>
<td>4400</td>
<td>129,091,902</td>
<td>2,389</td>
<td>213,605,573</td>
<td>230,318,92</td>
</tr>
</tbody>
</table>

3. SHG Products and services delivered by SHGs

The SHGs provides mainly two types of microfinance services viz. Savings and Credit to their members. In few places, SHGs have also taken up micro insurance services.

3.1 Savings

One of the objectives of the SHGs is to promote thrift/ savings among members. SHG members save a specific amount every month (equal amount by each member) and the savings are either used as credit to members or is deposited in bank account (which ideally should be used for inter)-loaning. A reserve is kept aside to meet emergency need of the members.

In Rajasthan, a trend is emerging wherein members deposit voluntary savings in the groups, taking learning from self help groups in South India. This trend should be promoted at larger scale since it provides an option to park surplus savings and not look for alternative saving mechanisms.

3.1.1 Average saving per member per month

As per a study conducted by CmF in 2009-10, the normal monthly saving per person in SHG group has been found to vary from Rs. 20 to 100. About 60% groups have
been found to save up to Rs. 50 per person/month. Rest 40% groups have been found to save Rs. 80-100 per month/per member. The average saving per member has been found to be Rs. 60/- per month\(^{77}\) which has increased from Rs. 35 per month in 2007. Data from DWCD\(^{78}\) reveals that average monthly savings of SHG members per month as of March, 2009 was Rs. 45 in plain region, Rs. 43 in desert region and Rs. 32 in tribal region.

### 3.1.2 Average savings per group

In Rajasthan, as per analysis of SHGs promoted by SSV partners, total savings (which includes savings in bank plus amount inter-loaned in group) has been found to be varying from Rs. 1174 to Rs. 2500\(^{79}\).

The total savings reported in banks of 217007 groups by March, 2010 was Rs. 180.19 crores\(^{80}\). Assuming that 40% \(^{81}\) of savings lay idle in bank account, it can be estimated that cumulative saving of SHGs by March, 2010 has been Rs. 450 cr. This translates to average saving per group of Rs. 20,751 or average saving per member of Rs. 1730\(^{82}\). This conforms to findings of SSV partners.

### 3.1.3 Comparison of average saving per group

As per March 2009 figures, the average saving of non-SGSY group in banks was Rs. 6786/- and average savings of SGSY group was Rs. 9412. The average saving of SGSY group was 23% more than the state average and 27% more than non-SGSY groups.

#### Figure: Comparison of average saving per group

<table>
<thead>
<tr>
<th>Year</th>
<th>National average</th>
<th>Rajasthan average</th>
</tr>
</thead>
<tbody>
<tr>
<td>March, 2009</td>
<td>Rs. 450 crores</td>
<td>Rs. 20,751/SHG</td>
</tr>
</tbody>
</table>

#### Average saving per SHG in banks as of March, 2009

\(^{77}\) Study of SHGs in 7 districts of Rajasthan by CmF

\(^{78}\) The Baseline Survey of Women SHGs, DWCD

\(^{79}\) Average saving per member in Ibtada is Rs. 2131, in Pradan is Rs. 1174, in Srijan is Rs. 1870 and in PEDO is Rs. 2500

\(^{80}\) Page 34, 105\(^{\text{th}}\) Meeting Agenda of SLBC, Rajasthan, 2010

\(^{81}\) In SHGs promoted by DWCD which is leading SHPI in Rajasthan, % of savings lying idle is 33% in 2009-10. However, internal studies by CmF Jaipur indicate that well over 50% of savings of SHGs esp. in case of credit linked SHGs is deposited in banks. Therefore, conservatively, it has been assumed that fund lying idle in bank accounts is 40% of total SHG savings.

\(^{82}\) Assuming 12 members per SHG
The average saving per SHG is Rs. 9504/- in PSB, Rs. 4966 in RRB and Rs. 5958 in cooperative bank.

### Figure: Average saving per SHG

![Average saving per SHG as of March, 2009](image)

#### 3.1.4 Estimated Savings of SHGs in Rajasthan (2008-15)

Total savings (money lying in bank account plus that inter-loaned) has been estimated and projected below using some assumptions which are discussed in footnotes.

#### Table: Estimated savings of SHGs in Rajasthan (2008-15)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of functional SHGs (CmF estimate)</td>
<td>1.6</td>
<td>2.1</td>
<td>2.6</td>
<td>3.1</td>
<td>3.6</td>
<td>4.1</td>
<td>4.6</td>
<td>5.1</td>
</tr>
<tr>
<td>Assume: Saving per member p.m.</td>
<td>35°</td>
<td>45°</td>
<td>60°</td>
<td>70</td>
<td>80</td>
<td>90</td>
<td>100</td>
<td>110</td>
</tr>
<tr>
<td>Savings of SHGs during the year (Rs. Cr)</td>
<td>225°</td>
<td>312</td>
<td>415</td>
<td>531</td>
<td>662</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total savings of SHGs</td>
<td>102</td>
<td>307</td>
<td>450°</td>
<td>675</td>
<td>988</td>
<td>1402</td>
<td>1934</td>
<td>2596</td>
</tr>
</tbody>
</table>

° Rajasthan Microfinance Sector Report 2007
°° DWCD Base line survey of women SHGS, March 2009
°°° CmF Internal Research as discussed in last section
°°°° Assuming 12 members per SHG with Rs. 60 average saving per month per member and 2.6 lakh SHGs
°°°°° CmF had projected total SHG savings of Rs. 384 cr in Rajasthan in Rajasthan Microfinance Report 2007. By March, 2010 the total SHG savings is estimated to be Rs. 450 cr owing to increased average saving per member per month from Rs. 35 in 2007-08 to Rs. 60 by 2009-10.
### 3.1.5 Milestone Setting for Banks in Rajasthan

Self Help Group has to be primarily saving led model. Therefore, more and more inter-loaning should be promoted among the groups and practise of parking deposits in banks should be discouraged. However, current practice of banks to impound savings is found to be in direct conflict with long term vision of saving led model. Moreover, credit disbursed by banks, compared to saving accumulated by SHGs, is not in tune with expectations. Given this context, banks should aim at milestones discussed below to promote financial inclusion in Rajasthan.

#### Table: Milestones for Banks (2008-15)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Target % of savings lying idle in bank</td>
<td>51%</td>
<td>45%</td>
<td>40%</td>
<td>35%</td>
<td>30%</td>
<td>25%</td>
<td>20%</td>
<td>10%</td>
</tr>
<tr>
<td>Target Savings of SHGs with Banks</td>
<td>52.23</td>
<td>138.37</td>
<td>180.18</td>
<td>236.28</td>
<td>296.27</td>
<td>350.57</td>
<td>386.73</td>
<td>259.60</td>
</tr>
<tr>
<td>Total savings of SHGs</td>
<td>102.41</td>
<td>307.48</td>
<td>450.45</td>
<td>675</td>
<td>988</td>
<td>1402</td>
<td>1934</td>
<td>2596</td>
</tr>
<tr>
<td>Credit to Saving ratio</td>
<td>0.99</td>
<td>0.54</td>
<td>0.49</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Credit disbursed by Banks during year</td>
<td>101.68</td>
<td>167.34</td>
<td>219.02</td>
<td>675</td>
<td>988</td>
<td>1402</td>
<td>1934</td>
<td>2596</td>
</tr>
<tr>
<td>Credit outstanding to total saving ratio</td>
<td>2.44</td>
<td>1.13</td>
<td>1.11</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Credit outstanding to SHGs by banks</td>
<td>250.04</td>
<td>347.99</td>
<td>501.3</td>
<td>2025</td>
<td>2963</td>
<td>4207</td>
<td>5801</td>
<td>7788</td>
</tr>
</tbody>
</table>

As indicated in table above, firstly, banks should ideally try to reduce SHG savings lying idle in bank account so that it can be used for inter-loaning. This would result in more and more funds for inter-loaning and only a minor portion of total savings of SHGs in bank account.

Secondly, banks should ideally try to improve the 'credit disbursed to total SHG saving' ratio as indicated above. This would happen if annual number of SHGs credit linked is increased substantially and the repeat linkage is encouraged.

#### 3.2 Credit

SHGs use their savings to advance loan to group members. Though the amount (members' savings in SHG) is usually small and is not sufficient to meet the total credit need of all members, but the practice of using group savings for loans to members is extremely important and useful. It promotes mutual trust and a financial discipline among members.

Considering the total credit outstanding as of March, 2009 on one hand and total SHG bank savings as of March, 2009 on other hand, it can be deduced that 40% of the outstanding loan to SHGs actually came from their own deposits in banks. This point is substantiated by prevalence of impounding of savings as discussed in section 4.1 of chapter 6.

#### 3.2.1 Purpose of Credit

Poor need credit for various purposes as discussed in Section 2 of Chapter 3. Members of Self Help Groups have two avenues of raising credit through group membership - inter-loaning and bank loan. An analysis of usage of credit is given below

In SHGs promoted by SSV partners, credit is used for following purposes

---

1. Discussed in section 9 of Chapter 6
2. Total credit outstanding by March, 2009 = Rs. 347.9936 cr and total bank savings by March, 2009 = Rs. 138.37 cr (Source: NABARD microfinance report, 2009)
However, an analysis of data provided by DWCD Base Line survey indicates that almost 90% of SHG members availed credit for domestic purposes while 54% of members availed credit for illness.

Interestingly, only 24% had availed credit for income generation activities. This may be due to the practise that funds used in inter-loaning are lent at higher interest rates\textsuperscript{90} than that loan of bank loan. Such practice of having different lending rates for different sources of finance is not appropriate and should be abandoned. Capital employed in an entity is pooled together and invested at same discount rate irrespective of the sources of finance. Similarly, in SHGs, irrespective of the sources of finance (read, inter-loaning and bank credit), lending rates should ideally be same.

Further, an analysis of data provided by DWCD Base Line survey indicates that 37% of 'bank' credit availed by SHG members is for income generating activities. This indicates that SHG members feel more comfortable with bank credit (as compared to inter-loaning) when availing loan for income generation activities.

\textsuperscript{90} Analysis of DWCD Base Line Survey indicates that in majority of cases, interest rate charged is 2% p.m. on borrowing in case of inter-loaning funds. While interest rate charged is less than 1% on borrowing in case of bank credit.
3.2.2 Inter-loaning among SHGs

In SHGs promoted by SSV partners, % of SHG savings inter-loaned within members has been found to be around 90%\(^{21}\). This indicates that % of savings lying idle in bank is less than 10%.

In SHGs promoted by DWCD which is leading SHPI in Rajasthan, % of savings lying idle in bank is 33%\(^{22}\) in 2009-10. By March 2009, as per analysis of base line survey of DWCD, on an average, 73% of groups had done inter-loaning.

However, internal studies by CmF Jaipur indicate that well over 50% of savings of SHGs esp. in case of credit linked SHGs is deposited in banks. Therefore, in this entire report, it has been conservatively assumed that fund lying idle in bank accounts is 40% of total SHG savings.

3.2.3 Average credit per member

Not many studies have been conducted that study the credit availing pattern among SHG members in the groups. Further, using macro level data to compute the average credit per member may be mis-leading owing to the fact that in majority of cases, credit is not distributed among SHG members on need basis. An analysis of data provided by DWCD Base Line Survey indicates that majority of credit distributed among group members is in following 2 ways

1) Distributing credit equally among all group members irrespective of their needs
2) Distributing credit to only 1-2 persons in the group

<table>
<thead>
<tr>
<th>Number of members who availed credit</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4 to 6</th>
<th>7 to 9</th>
<th>10 +</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plain region</td>
<td>35</td>
<td>21%</td>
<td>9%</td>
<td>12%</td>
<td>18%</td>
<td>3%</td>
</tr>
<tr>
<td>Desert region</td>
<td>47</td>
<td>40%</td>
<td>21%</td>
<td>6%</td>
<td>6%</td>
<td>4%</td>
</tr>
<tr>
<td>Tribal region</td>
<td>59</td>
<td>23%</td>
<td>5%</td>
<td>13%</td>
<td>13%</td>
<td>5%</td>
</tr>
<tr>
<td>Total</td>
<td>141</td>
<td>28%</td>
<td>12%</td>
<td>10%</td>
<td>12%</td>
<td>4%</td>
</tr>
</tbody>
</table>

\(^{21}\) As per feedback from SSV partners viz. PEDO, Pradan, Srijan, Ibtada, GDS etc
\(^{22}\) Data from DWCD for 2009-10
Such practices of distributing credit are unhealthy since they do not promote group solidarity and peer pressure. Only when more than 60% of group members avail credit, that peer pressure and group solidarity comes into play. As per analysis of DWCD data, only in minority cases credit has been distributed to 6-8 members (among total of 12 members).

Therefore, neither a credible study exists for such an analysis nor a credible approach exists for analysis of computing average credit per member.

4. SHG Federation in Rajasthan

Many Self Help Groups in Rajasthan have come out of their first phase of formation. Now many SHPIs are in consolidation stage and are exploring the idea of promoting second and third tier structures ('people's institutions as discussed in section 2.2 of Chapter 2 e.g. SHG clusters and SHG Federations) of SHGs to make their microfinance programmes self-sustaining.

In Rajasthan, the SHGs are grouped together in clusters to build social capital of women. Clusters are usually formed by clubbing 10-15 SHGs across 2-4 villages or a gram panchayat. Currently, geographic proximity of SHGs plays a key role in determining the membership of SHGs in such clusters. These clusters are generally unregistered and operate as a tier between the federation and SHGs.

About 10-20 such clusters aggregate to form Federations, functioning mostly at sub-block level. The Federations are mostly registered as societies, or trusts or companies (sec-25 of companies act). There are also many un-registered federations in Rajasthan. Thus a SHG Federation normally has 100-250 SHGs as its members comprising total 1500 to 4000 women each.

In Rajasthan, SHG federations are, unfortunately, promoter centric and do not follow an area approach or need-based approach. In other words, SHPIs' club together SHGs promoted by themselves to promote a federation structure. Interestingly, all SHG Federations in the state have been facilitated by Voluntary Organizations. Government departments like Department of Women and Child Development and Department of Rural Development (under SGSY) are yet to promote any SHG Federation.

However, there is divided opinion (mainly among the promoters) on federations performing a financial intermediation role. Irrespective of the opinion, almost half of the SHG federations in Rajasthan are engaged in some form of financial intermediation role. Some of them term themselves as Community Based Microfinance Institutions (CBMFIs) and have been accessing bulk finances for on lending. Some of the federations call themselves "Mahila Banks" (women's banks). Federations have shown their willingness to develop performance standards, undertake self-rating and have also undergone quality assessment (rating) by a third party to access loans from financial institutions. Many federations have demonstrated both operational and financial self-sufficiency by covering their costs.

4.1 Number and composition of SHG Federations in Rajasthan

There are about 312 SHG clusters and 42 SHG Federations in Rajasthan as of March 2010.
Why SHG Federations?

Promotion of SHG federations has various motivations. The primary motivation is to strengthen the SHG movement. Federations, because of sheer volume of members, empowers poor to ‘voice’ their opinion and get things done, be it at government level or bank level.

The second motivation is from SHPI’s perspective. SHGs clubbed together are easier to manage. As the number of SHGs increases, the promoter finds it increasingly difficult to monitor individual SHGs. However, clusters and federations present a platform to simplify monitoring of SHGs in a cost effective manner.

The third motivation is to strengthen the poor’ capability and empower them to an extent that they undertake business activity on their own. In other words, federations of SHGs undertake financial intermediation (bulk loan from Banks/NBFCs and on lending to SHGs) by themselves without support of SHPIs, thereby releasing SHPIs resources, which can then focus on other key issues.

The fourth motivation is multiple utility of SHG Federations. Apart from financial intermediation, SHG federations have also demonstrated significant progress in their engagements on other issues like education, health and sanitation etc.

4.1 Benefits of SHG Federations

Key benefits of SHG Federations-

Number of Federations impacted

- Standardization of grading of SHGs
- Focus on hygiene in villages
- Empowerment/One voice
- Increased training
- Increased support for livelihood activities
- Increased credit linkage
- Increased income and savings
- Increased awareness

Source—Comments of SHG federation leaders at “Future Search: Secondary Institutions in Community based microfinance” held on 20th August 2009 at Jaipur
SHG Federations serve a role of multi-utility vehicle for SHGs. Federations have been successful in supporting livelihoods of SHG members (by providing services like veterinary care, supply of agricultural inputs, cattle feed etc.) and have been instrumental in improving bank linkage of SHGs. A major benefit of Federations to SHGs and their members is the empowerment and the improved solidarity among SHG women. The SHG members, through federations, have got a 'voice' which help them to get heard in a bank, municipality office or any other government department. This has led to increased confidence among women that they too can make a difference in their society and their life.

Another benefit is lower cost of credit. Though the rate of interest in case of SHG federations is relatively higher by 2-4% p.a., the SHG members save enormous time and money which they would have otherwise spent in following banks had they approached banks alone. Through federation structure, SHGs have been able to access insurance services, which they might not have fetched otherwise.

Another key benefit of SHG federation, not stated above, is simplification of record keeping and generation of regular reports through management information system (MIS), which is not possible at SHG level.

4.2 Issues faced by SHG Federations in Rajasthan

SHG federations in Rajasthan are at very early stage and promoting agencies are making efforts to develop them as 'vibrant people's organisations'. Considering the fact that most of the SHG members and their leaders are poor, illiterate and socially marginalised, it will take some time before these federations emerge as strong organisations.

Some of the issues/ areas for action regarding SHG federations in Rajasthan are a) Lack of a clear perspective and clear vision about Federations among SHG members, b) Lack of Capacity in Federation leaders on organisation development, planning, management etc. C) lack of resources (financial support) in the early stages of federation when their revenues are also not streamlined, d) availability of qualified staff (at the salary that Federations can afford), and lack of appropriate legal structure to operate.

SHG Federations in Rajasthan are currently promoter-centric, heavily guided by the perspective and organisational culture of the promoting organisation. Federations should be as per the members' needs and therefore, preferably location-centric or community-centric. The experiences tell that a federation doesn’t become self-sustaining until it comprises 3000 women (about 150-200 SHGs) and the area of operation is limited to 15 kms radius.

4.3 Cost Benefit analysis of SHG federations

Cost of promoting and nurturing a SHG over a period of about 5 years is over Rs. 10 lakhs. This capital cannot be borne by SHG federation during formation stage. However, once the operation starts, SHG federations have been found to be running at operational self sufficiency of about 76 - 113%. Taking into account the intangible benefits of Federation to members, the benefits of federations are higher than its costs. A quantitative cost benefit analysis of SHG federations is not feasible owing to the fact that a) it is difficult to attribute benefits occurring to one specific entity (SHG or SHG federation or even SHPI); b) benefits involve lot of intangible benefits like women empowerment, enhancement of solidarity among women, common 'voice' etc which cannot be
quantified but are key benefits of SHG federations. Even then, if one were to estimate only incremental 'tangible' benefits attributable to SHG federations, one may conclude that benefits are higher than the costs.

Revenue source of SHG Federations includes membership fees from members and interest income from on-lending. For example, in case of Saheli Samiti, Dausa and Savera Mahila Manch, Alwar, revenue sources were as follows:

<table>
<thead>
<tr>
<th>Operating Income Sources</th>
<th>% of earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Savera Mahila Manch, Alwar</td>
</tr>
<tr>
<td>Interest and fee income from loans</td>
<td>36.13%</td>
</tr>
<tr>
<td>Income from other finance-related services</td>
<td>50.29%</td>
</tr>
<tr>
<td>Miscellaneous income</td>
<td>13.5%</td>
</tr>
</tbody>
</table>

Expenditure of SHG Federations includes personnel expenses and administrative expenses. For example, in case of Saheli Samiti, Dausa and Savera Mahila Manch, Alwar, expenditure items were as follows:

<table>
<thead>
<tr>
<th>Operating Expenditure Avenues</th>
<th>% of earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Savera Mahila Manch, Alwar</td>
</tr>
<tr>
<td>Personnel Expenses</td>
<td>78.47%</td>
</tr>
<tr>
<td>Administrative Expenses</td>
<td>21.31%</td>
</tr>
<tr>
<td>Other operational expenses</td>
<td>0.23%</td>
</tr>
</tbody>
</table>

1.3 Loan Defaults by SHGs

In Rajasthan, repayment rate in case of SHGs has been understood to be higher than 95%. Repayment rate is important because future bank linkage depends heavily on repayment rate of SHGs. Recent studies esp. NABARD publication has informed that loan defaults are an emerging concern. However, no analysis has been conducted so far that goes deeper into the issue of SHG NPAs and SHG overdue. CmF recently concluded a study on SHG loan defaults to assess and analyze the status and reasons of the NPA and overdue of bank loans by SHGs in Rajasthan.

Reasons for SHG loan defaults

The study reveals that NPA and overdue is a serious challenge to SHG bank linkage, which is a major propellant for growth of SHGs. The study highlights the following as the main characteristics of default SHG groups in Rajasthan.

Firstly, the default groups have in general received inadequate attention to the processes of forging cooperative interaction among the members. Any social group evolves through phases of coming together, learning to work together, developing norms of engagement and finally being able to work together in an interdependent and flexible manner. Most of the groups in the study have not gone through such an evolutionary process. A brief summary of the major manifestations of lack of focus

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*A back-of-the-envelope computation of incremental benefits attributable to SHG federations of Saheli Samiti, Dausa and Savera Mahila Manch indicate that present value of incremental benefits are way higher than total costs incurred at today’s value, indicating positive net present value of investment in SHG federations.*
Secondly, the study found that there is widespread negligence among the default groups with respect to maintaining even the critical financial records regularly. This had led to misappropriation of benefits of the scheme by the leaders, who often are the only literate members. Only 10% of SHGs have all the required records regularly updated. One fifth of the groups could not present their minutes books/attendance registers and, of those could, 70 per have not updated them. Similarly, though 65 per cent of all groups surveyed could present their loan and savings ledgers, two thirds of them have not updated the entries.

Thirdly, there is a general lack of understanding of the strengths of SHGs and the ways of working with banks. Saving and inter-loaning are considered as two crucial functions of SHGs and as very critical to generating and consolidating cooperative group behaviour. However, only half of the SHGs reported any such lending using group fund. And 9 per cent of these SHGs did not report any saving members. Lack of basic knowledge about banking and lack of financial literacy are the other two striking features of the defaulted SHGs.

Continuous drought situation, low levels of economic activity and poor income are found as the major triggering factors that accelerated the process of group degeneration and eventual default. About a fifth of the groups cited poor economic status of members as the major reason for defaulting repayment. Paradoxically, in one of the districts, many BPL groups ended up having multiple bank loans as they were reportedly pressurized to purchase animals as part of SGSY scheme. Most of these groups, obviously, ended as defaulters.

The poor households are not educated as to how to make the best use of subsidy. Many of the government promoted groups are formed by using the carrot of subsidy interpreted as ‘free money’ - to attract women to join groups. Groups have not been educated as to how subsidy reduces the cost of credit. This has led to negative promotion of subsidy support, which, in effect, has prevented the poorer households from taking advantage of schemes like SGSY.
CHAPTER 5
MICROFINANCE INSTITUTIONS (MFIs)
Chapter 5

MICROFINANCE INSTITUTIONS (MFIs)

Microfinance Institutions have become an important delivery model for microfinance services, given their rapid growth in last 3-4 years. A comparison of loan outstanding of MFIs and SBLP indicates that MFIs have surpassed loan outstanding of SHG bank linkage in Rajasthan. This chapter is an attempt to build first ever complete database of major MFIs in Rajasthan.

Technically any institution working in the field of microfinance can be called a Micro Finance Institution. However, usually the organisations which do micro lending as their prime work are included in 'Microfinance Institutions'. For clarity of readers, it is worth mentioning that in this chapter, institutions that are delivering micro credit as a 'business' are discussed as MFIs.

The emergence of MFIs can be rooted to Grameen Model of Bangladesh. Under this model of micro finance, poor are called clients and about 5-6 clients are grouped in to ‘Joint Liability Group- JLG’ and credit is provided to 2-3 members of JLG and all of the members take joint liability of repayment. Once repayment is received from first set of clients, loans are given to remaining members of the group. Experiences indicate that JLGs become unsustainable once loan sizes go beyond Rs. 15000. Therefore, after 2-3 initial cycles of loaning through JLG mechanism, many MFIs start providing micro-credit to clients on 'individual' basis.

In early days, microfinance was being discussed as the next big innovation to address the poverty issues in India. In recent times, microfinance is discussed in terms of the next big investment opportunity, thanks to phenomenon called MFIs. Owing to MFIs, the language of microfinance has undergone a fundamental change in the two decades of its evolution. With recent IPO (initial public offering) of SKS Microfinance Ltd, MFIs have become a buzzword in capital markets not just in India, but across the world. MFIs in India borrow from banks at 13%, lend to the poor at 26-27%, and spend around 8% to deliver the loans and have an interest margin of 5-6% - almost double the margin that banks make. Adding to that, NBFC MFIs in India have 5-10 times leverage (debt to equity ratio). This results in healthy Return on Equity (ROE) for MFIs.

Over time, MFIs have become favourites of private equity funds and venture capitalists. Private Equity/ Venture Capital investors typically expect a return (ROI or IRR) of over 30% p.a. from investments in their fund’s portfolio. MFIs, therefore, in their pursuit of generating over 30% p.a. return are required to follow profit-maximizing strategies which are expected to generate over 30% returns. This is done by hiring of professionals, by following industry best practices and by making optimum use of technology. Further, PE/VC Funds set milestones for MFIs, at the time of investment, for scaling up at exponential pace. MFIs are expected to achieve these milestones over time.

In Rajasthan, MFIs started their operations in around 2007. And within short span of three years, combined clients of MFIs have touched 8.06 lakhs and the outstanding credit of MFIs has touched
Rs. 527 crores. MFI outstanding credit in Rajasthan has surpassed SBLP outstanding credit\(^9\).

1. **Products—credit and insurance**

Products and services offered by MFIs are primarily credit led and insurance led. Since most of the NBFCs' are non-deposit taking NBFCs, therefore, by regulation, they are not allowed to mobilize saving deposits. Credit led products typically have loan sizes of Rs. 6000 to Rs. 10000 and increase with every loan cycle. MFIs also tie up with insurance companies to provide life insurance.

For repeat loans, credit records and attendance at the weekly meetings of the members is studied and based on this criterion the repeat loan is given out. The repayment rate for most of the MFIs is reported to be more than 98%. However, information received from field officers and other informal sources reveals that repayment rates are actually not so high. Loan defaults do happen but are not reported by MFIs to outside world.

Interest rates reported by MFIs vary from 15-30%\(^10\) on reducing balance basis. However, this reporting does not include flat loan processing fee charged to clients at time of initiation of the loan. Moreover, this also does not include the certain amount of deposit that is kept as collateral with some MFIs. So the effective rate of interest charged comes out to be higher than that reported by MFIs.

**Illustration of effective interest rate of a hypothetical MFI which charges 15% flat interest rate**

A 15% flat interest rate charged on a 12 month micro-credit loan translates to over 27% interest rate p.a. on a reducing basis. Now assuming that this MFI also keeps 10% of credit given to a client as ‘deposit’ (or collateral), then the effective rate of interest becomes 33% p.a. on a reducing basis. A flat processing fee of 3.5% makes the effective rate of interest to be 36.5%.

MFIs also act as insurance service providers (as an intermediary between insurance companies and clients). They collect an insurance premium on regular basis for insurance cover provided to MFI clients. It has been learnt that typically the insurance cover is only large enough to safeguard credit repayment to MFIs in case of a casualty. The insurance covers are usually not as per needs of the microfinance clients.

2. **Microfinance Institutions in Rajasthan**

There are currently 22 MFIs operating in the state. 8 of these MFIs are local with headquarters in the state while the rest are multi-state players SKS Microfinance is the largest player with 87 branches and a portfolio of Rs. 159 cr.

Till 2006-07, BASIX and SKS microfinance were the only major players in the state, but in last three years, MFIs have seen an exponential growth in the state. The overall number of branches, areas of operations, client base and their portfolio have seen a steep rise. This can be summarized as follows:

---

\(^9\) SHGs outstanding credit as of March 2009 was Rs. 347.9936 cr while credit disbursed during last year was Rs. 219.02 cr. Assuming that in conservative scenario, only 30% of credit disbursed to SHGs was repaid in last year, then the total credit outstanding to SHGs till March 2010 would be Rs. 501.3 cr. Comparing this with conservative estimates of outstanding credit of MFIs as Rs. 527 cr, one can conclude that MFI credit has surpassed SHG Credit outstanding.

\(^10\) Primary Survey conducted by CmF, Jaipur
Particulars of MFIs in Rajasthan as of March, 2010

<table>
<thead>
<tr>
<th>Name of MFI</th>
<th>Loan Outstanding (Rs. Crores)</th>
<th>Number of branches</th>
<th>Areas of operation</th>
<th>Outreach (number of clients)</th>
<th>Interest Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arth</td>
<td>8.12</td>
<td>9</td>
<td>Jhalawar, Kota, Baran &amp; Jaipur</td>
<td>11073</td>
<td>15% Flat</td>
</tr>
<tr>
<td>Basix (BSFL)</td>
<td>38.99</td>
<td>15 districts</td>
<td>Jaipur, Jodhpur, Kota, Udaipur, Bhilwara, Bharatpur, Ajmer, Bikaner, Dausa, Ganganagar, Chittorgarh, Hanumangarh etc</td>
<td>38646</td>
<td>18-24% reducing</td>
</tr>
<tr>
<td>Bazaari Global</td>
<td>7.55</td>
<td>15</td>
<td>Abu road, Balotra, Bhinmal, Bhopalgarh, Gudamalani, Jalore, Jodhpur, Pali, Phalodi, Rohit, Samadari, Sanchore, Sayla, Shiv, Sindhari, Siwana, Sumerpur</td>
<td>8127</td>
<td>18% flat</td>
</tr>
<tr>
<td>Equitas</td>
<td>0.35</td>
<td>2</td>
<td>Not Available</td>
<td>347</td>
<td>26.5% 28.5% reducing</td>
</tr>
<tr>
<td>Janalakshmi</td>
<td>2.89</td>
<td>1</td>
<td>Jaipur</td>
<td>3460</td>
<td>28-30% reducing</td>
</tr>
<tr>
<td>Mitr</td>
<td>1.53</td>
<td>2</td>
<td>Alwar</td>
<td>2700</td>
<td>15% flat</td>
</tr>
<tr>
<td>Mimo Finance</td>
<td>2.92</td>
<td>6</td>
<td>Ajmer, Beawar, Bhilwara, Jaipur, Nagaur</td>
<td>3500</td>
<td>15% flat</td>
</tr>
<tr>
<td>Pustikar</td>
<td>75.22</td>
<td>8</td>
<td>Three in Jodhpur, one each in Bikaner, Pali, Phalodi, Jaisalmer Nagaur</td>
<td>Not Available</td>
<td>15% 17% reducing</td>
</tr>
<tr>
<td>Sahayata</td>
<td>60.98</td>
<td>70</td>
<td>Udaipur, Jaipur, Kota, Jodhpur, Ajmer, Beawar, Bhilwara, Chittorgarh, Pali, Rajnagar, Jhalawar, Kotputli, Bikaner, Fetehnagar, Merta, Neem Ka thana, Kishangarh, Sikar, Chomu, Gulabpura, Kuchaman, Jobner, Shahpura</td>
<td>139179 (64% in urban while 36% in semi urban)</td>
<td>28.13% reducing</td>
</tr>
<tr>
<td>SKS Microfinance</td>
<td>159</td>
<td>87</td>
<td>Jaipur, Bhilwara, Alwar, Ajmer, Tonk Pali, Nagaur, Churu, Sikar,</td>
<td>266093</td>
<td>15% Flat</td>
</tr>
<tr>
<td>Share Microfin &amp; Asmitha</td>
<td>100</td>
<td>50</td>
<td>Not Available</td>
<td>200000</td>
<td>NA</td>
</tr>
<tr>
<td>Ujjivan</td>
<td>19.57</td>
<td>13</td>
<td>Jaipur, Jodhpur, Kota, Alwar, Ajmer Bharatpur, Bundi, Kishangarh, Tonk, Pali, Dausa, Sawai Madhopur, Sri Ganganagar &amp; Hanumangarh</td>
<td>32499</td>
<td>22-25% reducing</td>
</tr>
<tr>
<td>Others (including NGO MFIs)</td>
<td>50</td>
<td>NA</td>
<td>NA</td>
<td>30000</td>
<td>NA</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>527</strong></td>
<td><strong>NA</strong></td>
<td><strong>NA</strong></td>
<td><strong>805624</strong></td>
<td></td>
</tr>
</tbody>
</table>

*In spite of repeated mails and calls, Share Microfin (and its associate concern Asmitha) surprisingly did not share data like loan outstanding and number of clients. The figures of Share Microfin and Asmitha are estimates based on information received from informal sources.*
### Loan Portfolio (in Rs. Cr) of MFIs as on March, 2010

- **SKS Share, Asmita**: 159
- **Pustikar Sahayata**: 75.22
- **Others Basix**: 60.98
- **Basix Ujjivan**: 50
- **Ujjivan Arth**: 38.99
- **Arth Bazaari**: 19.57
- **Bazaari Mimo**: 8.12
- **Mimo Janalakshmi**: 7.55
- **Janalakshmi Mitr**: 2.92
- **Mitr Equitas**: 2.88
- **Equitas**: 1.53
- **Others**: 0.35

### Client Outreach of MFIs as on March, 2010

- **SKS Share, Asmita**: 266093
- **Pustikar Sahayata**: 150000
- **Others Basix**: 139179
- **Basix Ujjivan**: 100000
- **Ujjivan Arth**: 50000
- **Arth Bazaari**: 38646
- **Bazaari Mimo**: 32499
- **Mimo Janalakshmi**: 11073
- **Janalakshmi Mitr**: 8127
- **Mitr Equitas**: 3500
- **Equitas**: 3460
- **Others**: 347
3. Major issues related to Micro Finance Institutions in Rajasthan

Micro Finance Institutions are providing credit to people who otherwise are not able to get it from commercial banks. The excellent growth registered by MFIs in Rajasthan in terms of number of clients and amount of credit is a good indicator of the 'demand of credit' and acceptability of MFIs. However it is worth mentioning here that the clients of MFIs are those who have some economic activities which enable them to make weekly repayments. Therefore the MFI clients are largely in semi urban areas and somewhat in better off rural areas.

Rate of interest charged by MFIs has been a much debated issue. While it is largely accepted that the cost of credit to poor (small size of transactions and large distances) will always be more than what it is for economically better off middle class; there is no agreement on what should be 'just and appropriate' interest rate. It is also argued that market forces (competition) will force the MFIs to rationalise their interest rates but considering the number of people who do not have access to formal financial institutions, possibility of this happening is remote.

Initially clients come to MFIs for loans because their effective rate of interest (30-35%) is lower than that of moneylenders who normally charge 36-60%. But as the loan size grows, the interest rate of 30% becomes a burden and defaults start happening. However the local staffs of MFI give a top up loan to get repayment instalment on time. Or the client starts approaching another MFI to repay the loan of another MFI.

Most MFIs are found to focus their operations in same area. One can find lot of MFIs in few areas while none in other areas. However, this does not result in lowering of interest rates. The major reason attributable is that it takes around 15-20 days for a MFI to train and orient a new set of microfinance clients. The late MFI entrant finds it easier to deal with tried and tested set of microfinance clients rather than to start operations in a virgin territory.

The negative implication of this practice is occurrence of multiple lending. One set of clients are provided credit by more than one MFI. This leads to payment to one MFI by availing credit from the other and vice-versa, until the client falls into debt trap and defaults.

Apart from a few big MFIs, majority do not reveal their cost structure and therefore, the justification of high interest rates. The salary structure of top executives working in some of the MFIs is same or even more than the commercial bank staff\textsuperscript{1}. This adds to the total cost/ expenses of MFIs, thereby impacting the interest rates charged to microfinance clients. MFI promoters need to understand that all these costs are ultimately borne by the poor.

If MFIs, like other for-profit NBFCs (read vehicle finance, gold loan finance, home finance, car finance NBFCs etc) can easily access capital markets to raise cheap finance, and if they have mastered the art of recovering loans from villagers and can reach where the banks can't, it may be

\textsuperscript{1}For example, gross remuneration paid to managing director of SKS for year ended March, 2009 was Rs. 3.28 cr and that to CEO of SKS for year ended March, 2010 was Rs. 2.45 cr. In comparison, gross remuneration paid to managing director of India's second largest private bank ICICI for year 2009-2010 was Rs. 1.62 cr. In another example, the managerial remuneration of the managing director of Share Microfin Ltd was around Rs.2.29 crores. In 2008-09 it shot up to Rs. 8.08 crores, by far not only the highest remuneration in the microfinance sector, but way above the remuneration obtained by the CEO of the largest private sector bank ICICI Bank as discussed above. The remuneration paid to the managing director was around 7% of the total personnel cost of SML in 2007-08 and shot up to 15% of the personnel cost of the company in 2008-09.
argued whether or not they still require 'priority sector lending' support. Same reasoning is applicable to 'micro-credit' portfolios of 'gold loan' companies, which, too, fall under priority sector lending.

Emerging action points

MFIs currently operate in urban, semi-urban and relatively well off rural areas. MFIs can target relatively poorer segments by collaborating with SHGs. SHGs provide a ready platform for MFIs to scale up and impact weaker sections of poor. SHGs need more credit while MFIs look for disciplined clients with good credit record. MFIs can save on cost given that SHGs are capable to take care of back-end operations (e.g. collection, distribution, book-keeping etc) by themselves. However, for this to happen, MFIs may have to give a re-look at their cost structure and see where costs can be reduced so that they charge economical interest rates to clients.
CHAPTER 6

BANK LINKAGE
OF SHGs
Chapter 6

BANK LINKAGE OF SHGs

Banks play a pivotal role in delivery of microfinance services to poor through Self Help Group Bank Linkage program. SHGs avail credit from banks apart from using own funds for consumption and livelihood promotion activities. In this chapter, we look at banking infrastructure in Rajasthan, its growth trends and developments in SHG bank linkage program and how it may affect the future of SHG movement in India. The Chapter also covers the impounding of savings by banks, which is affecting the progress of SHG bank linkage today.

1. Banking Infrastructure

The state has a bank network of 4655 branches comprising of commercial banks (3042), regional rural banks or RRBs (1052) and cooperative banks (561) as of March 2010. There are 43 commercial banks, six RRBs and 29 district cooperative banks in the state.

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<tr>
<td></td>
<td>Rural</td>
<td>SU</td>
<td>Urban</td>
<td>Total</td>
</tr>
<tr>
<td>Commercial Banks</td>
<td>2508</td>
<td>2668</td>
<td>995</td>
<td>1080</td>
</tr>
<tr>
<td>RRBs</td>
<td>1015</td>
<td>1022</td>
<td>810</td>
<td>181</td>
</tr>
<tr>
<td>Cooperative Banks</td>
<td>534</td>
<td>549</td>
<td>189</td>
<td>83</td>
</tr>
<tr>
<td>Total</td>
<td>4057</td>
<td>4239</td>
<td>1994</td>
<td>1258</td>
</tr>
</tbody>
</table>

Number of branches as of Mar, 2010

- Commercial Bank: 65%
- RRBs: 23%
- Cooperative Banks: 12%
The number of bank branches in the state has shown a steady increase over the years. It can be seen from the figure below that the bank branches have shown an increase in numbers over 2007, 2008 and 2009. The rural branches have increased by 1.9%, semi urban by 8.14% and urban branches by 9.07% over last 1 year.

The population per branch in Rajasthan is 15292 which has decreased gradually over the years. **Assuming 2.6% growth p.a. in population of Rajasthan over base of 2001 population census.**
It is interesting to note that growth of branches in rural areas has not been commensurate with the population growth. This may be an indicator that branches of banks in rural areas are not as profitable as those in urban/semi-urban areas. Moreover, an analysis of growth of human resource in banks indicates that personnel are more inclined towards working in urban/semi-urban areas rather than in rural areas. This has resulted in very low bank personnel to branch ratio in rural areas. Therefore, low growth of bank branches in rural areas and further, lower number of personnel in rural branches has resulted in poor service for rural clients. This is validated by feedback received from members of SHG groups.

The total bank deposit in Rajasthan is Rs. 117375 crores (SLBC, March 2009-10) registering a growth of 19.25% over last year. The bank credit is Rs. 101817 crores (SLBC, March 2009-10) registering a growth of 25.24% over last year.

**Population in district per bank branch in Rajasthan**

An analysis of population per district per bank branch in Rajasthan indicates that districts which are under-banked are the very districts that fall low on SHG 'Saturation Index'. This shows that SHG movement and bank presence in a district has high positive correlation.

In Rajasthan, **Nagaur, Dholpur, Dausa, Karouli, Barmer and Jalaur** are under-banked as per chart below. These are also the districts where SHG movement has been found to be weak as per SHG 'Saturation Index'.

Moreover, **Jhalawar, Dungarpur, Bhilwara, Bundi and Chittorgarh** have strong bank presence. These are also the districts where SHG movement has been found to be strong as per SHG 'Saturation Index'.

---

* For example, a bank branch in rural area is managed by 2-3 personnel while a similar branch in urban area serving almost equal number of clients is managed by around 10 personnel.
Under-banked Index (Ranking as per population in district per bank branch in Rajasthan)

- Pali
- Chittorgarh
- Jodhpur
- Bhilwara
- Udaipur
- Bundi
- Hanumangarh
- Jhalawar
- Dungarpur
- Rajsamand
- Tonk
- S. Madhopur
- Alwar
- Jhunjhunu
- Sikar
- Banswara
- Bharatpur
- Dausa
- Partapgarh
- Churu
- Nagaur
- Barmer
- Karauli
- Jalore
- Dholepur
- Baran

Values: 0 5000 10000 15000 20000 25000
Priority Sector Lending in Rajasthan

Analysis of priority sector advances indicates that though there is net increase in credit outflow to total priority sector, there is constant decrease in percentage of priority sector advances to total advances. Similar trends also reflect in advances to agriculture i.e. though there is net increase in credit outflow except in 2009, there is constant decrease in percentage of agriculture advances to total advances.

<table>
<thead>
<tr>
<th>Parameters</th>
<th>March 07</th>
<th>March 08</th>
<th>March 09</th>
<th>March 10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Priority sector advances</td>
<td>34388</td>
<td>40854</td>
<td>43033</td>
<td>49493</td>
</tr>
<tr>
<td>%age of PS advances to Total Advances</td>
<td>56.65%</td>
<td>56.57%</td>
<td>52.93%</td>
<td>48.61%</td>
</tr>
<tr>
<td>Total Agriculture Advances</td>
<td>20977</td>
<td>24659</td>
<td>24155</td>
<td>27899</td>
</tr>
<tr>
<td>%age of Agriculture advances to Total advances</td>
<td>34.56 %</td>
<td>34.15 %</td>
<td>29.71 %</td>
<td>27.40 %</td>
</tr>
<tr>
<td>Total advances to weaker sections</td>
<td>5981</td>
<td>7666</td>
<td>10300</td>
<td>13197</td>
</tr>
</tbody>
</table>

In year 2009, total agriculture credit decreased by about Rs. 500 crores in Rajasthan. This is the year when loan waiver scheme was implemented for encouraging fresh loans to small and marginal farmers. The share of agriculture credit from banks has decreased from 34.56% in 2007 to 27.4% in 2010.

2. SHG Bank Credit Linkage

2.1 Analysis from SGSY & non-SGSY perspective - based on credit disbursed during the year

<table>
<thead>
<tr>
<th>Source of Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>i) 93°, 97°, 101°, 105° Meeting Agenda of SLBC, Rajasthan</td>
</tr>
<tr>
<td>ii) Format 3 &amp; 4 of SGSY, Government of Rajasthan</td>
</tr>
<tr>
<td>iii) NABARD microfinance report 2007-08 and 2008-09</td>
</tr>
<tr>
<td>iv) For 2009-10, SLBC’s provisional data is used which does not seem to tally</td>
</tr>
<tr>
<td>with CmF’s analysis</td>
</tr>
<tr>
<td>v) NABARD data is not available for 2009-10 as of publication of this report</td>
</tr>
<tr>
<td>CmF has estimated figures for 2009-10 based on information received from</td>
</tr>
<tr>
<td>banks, DWCD, SGSY, Cooperatives etc.</td>
</tr>
</tbody>
</table>

*B72/B64/B74/B68/B73/B74/B74/B68* Commercial Banks and RRBs data pertains to status till March 2009 since neither NABARD nor SLBC has furnished detailed data as of publication date of this Sector Report.
There is substantial difference between figures reported by SLBC and NABARD. For example, if data from SLBC is trusted, then SHGs under SGSY have received a credit of Rs. 86.40 cr in 2008-09. However, as per data published by NABARD, SHGs under SGSY have received a credit of Rs. 44.59 cr in 2008-09. It is somewhat difficult to choose between the two sources of information. However, we decided to use NABARD data because it has been published.

In 2008 and 2009, the % of SHGs which have got credit linked has come down.

In Rajasthan, even though SGSY groups comprised only 8 - 16% of total groups, the credit disbursed to them was 20-27%. This is reversal of trend at national level. At all India level, SGSY groups comprise around 25% of total groups while the credit disbursed to them is only around 15%.\(^\text{106}\) It indicates that the focus in Rajasthan is majorly on SGSY groups.

---

\(^{106}\) Nabard report 2008-09
2.2 Bank type wise credit linkage (number of SHG loans disbursed)

<table>
<thead>
<tr>
<th></th>
<th>Commercial Banks</th>
<th>Regional Rural Banks</th>
<th>Cooperative banks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Nos. of SHG loans</td>
<td>Growth w.r.t. 2005-06</td>
<td>Nos. of SHG loans</td>
</tr>
<tr>
<td>2005-06</td>
<td>19184</td>
<td>-3.8%</td>
<td>12637</td>
</tr>
<tr>
<td>2006-07</td>
<td>18445</td>
<td>-22.73%</td>
<td>13923</td>
</tr>
<tr>
<td>2007-08</td>
<td>14823</td>
<td>-49.28%</td>
<td>10533</td>
</tr>
<tr>
<td>2008-09</td>
<td>9729</td>
<td>-50.0%</td>
<td>7949</td>
</tr>
</tbody>
</table>

Commercial Banks and Regional Rural Banks
Overall the commercial banks' annual SHG-Bank linkage has fallen drastically as of Mar, 2009. There are only 4 commercial banks that link more than 1000 SHGs annually and they are SBBJ, Bank of Baroda, PNB, and SBI. Another two banks (OBC and CBI) have linked 576 and 543 SHGs during 08-09. Rest all banks have insignificant SHG-Bank linkage i.e. less than 500 SHGs. All 6 regional rural banks have SHG linkage, however the number of SHGs annually getting linked with RRBs are also showing downward trend.

Cooperative Banks
As of March 2010, there are 29 District Cooperative Banks in Rajasthan covering all 33 districts. There are 5259 primary agriculture societies - PACS (popularly called Gram Sahakari Seva Samities or GSS) in state. And there are 404 branches of cooperative banks across state.
Credit disbursed to SHGs during the year has decreased over last year\textsuperscript{18}, which is in conjunction with declining trend in number of SHG loans during the year.

2.3 Cross-sectional analysis as of March 2009 - comparison among banks

During 2008-09, cooperative banks surpassed commercial banks in terms of number of SHG loans, though in terms of amount of loan to SHGs, the commercial banks still have the lead.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{shg_credit_linkage_in_rajasthan_across_banks}
\caption{SHG- Credit linkage in Rajasthan across Banks}
\end{figure}

2.4 Performance of Rajasthan relative to that of rest of India

Analysis indicates that performance is mixed.

2.4.1 A study of NABARD annual report for 2007-08 and 2008-09 indicates that % share of Rajasthan in India has increased on parameters like - a) Savings of SHGs with banks (which is not desirable and thus, a negative trend); b) Bank loans disbursed to SHGs during the year (positive trend); c) Bank loans outstanding against SHGs (positive trend).

\begin{table}[h]
\centering
\begin{tabular}{|c|c|c|c|c|c|}
\hline
 & \multicolumn{2}{c|}{2007-08} & \multicolumn{2}{c|}{2008-09} \\
 & Rajasthan & All India & Rajasthan & All India \\
\hline
Savings of SHGs with Banks (Rs. Lakhs) & 5223 & 378589 & 1.38% & 13837 & 554562 & 2.50% \\
Bank Loans disbursed to SHGs during the year (Rs. Lakhs) & 10168 & 884926 & 1.15% & 16734 & 1225351 & 1.37% \\
Bank loans outstanding against SHGs (Rs. Lakhs) & 25004 & 1699991 & 1.47% & 36655 & 2267984 & 1.62% \\
\hline
\end{tabular}
\caption{\% SHARE OF RAJASTHAN OVER ALL INDIA FIGURES}
\end{table}

\textsuperscript{18} MIS-5 for 2008-09 and 2009-10 The Rajasthan State Cooperative Bank Ltd
### 2.4.1 Average Credit per SHG disbursed during the year 2008-09

Analysis indicates that average for Rajasthan is 35% less than all India average.

#### Average credit disbursed per SHG

Average credit disbursed in PSB is Rs. 80252, in RRBs is Rs. 44240 and in cooperative bank is Rs. 45559. Average credit is Rs. 56368 which is 35% less than national average.

### 3. Saving Bank Accounts of SHGs in Rajasthan

The number of SHGs having bank accounts in Rajasthan has increased from 22,742 in March 2003 to 2,17,007 by 31 March 2010.

In Rajasthan, by March 2009, total 192479 SHGs had their accounts in various banks. It included SHGs formed under SGSY (29495 SHG, 15%) as well as non-SGSY SHGs (162984 SHGs, 85%). Total saving of all these SHGs deposited in Banks was Rs. 13837.49 lakhs with average of Rs. 7189/- per SHG. However, it may be noted here that the savings of SHGs are supposed to be used as loan to members by the group.

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Banks</th>
<th>Nos. of SHGs having S/B accounts</th>
<th>Amount of Saving in Banks (Rs. Lakhs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Scheduled Commercial Banks</td>
<td>86665</td>
<td>8124.01</td>
</tr>
<tr>
<td>2</td>
<td>Regional Rural Banks</td>
<td>59625</td>
<td>2961.50</td>
</tr>
<tr>
<td>3</td>
<td>Cooperative Banks</td>
<td>46159</td>
<td>2751.98</td>
</tr>
<tr>
<td>4</td>
<td>Total</td>
<td>192479</td>
<td>13837.49</td>
</tr>
</tbody>
</table>

---

**Page 34, 105th Meeting Agenda of SLBC, Rajasthan, 2010**
No. of SHGs with savings bank account is 1,92,479 out of which 84,767 (45.6%) are in public sector scheduled commercial bank (PSB), 1898 (1%) are in private schedules commercial bank, 59625 (31%) are in RRBs and 46189 (22.4%) are in cooperative banks.

3.2 Amount of SHG savings in banks
Commercial banks are leading in having SHG saving with 59% share, followed by RRBs with 21% share and cooperative banks with 20%.

3.3 Leading banks in Rajasthan in SHG Bank Linkage
In terms of PSB, SBBJ serves highest no. of SHGs i.e. 29850 (35% of total SHGs in public sector scheduled commercial bank) followed by PNB with 15910 and BoB with 14220. In terms of RRBs, Baroda Rajasthan Gramin Bank (BRGB) leading the way with 19960 SHGs (43% of total SHGs in RRBs) followed by Rajasthan Garmin bank with 11764 SHG and MGB Grameen bank with 10554 SHGs.

4. Issues in SHG Bank Linkage Program
4.1 Impounding of Savings by banks
Many SHGs and SHG promoting organisations have raised the issue of 'impounding' of savings of SHGs by banks' while providing them the credit. Impounding is disadvantageous to the SHGs as they pay higher interest rates even when their own savings are lying idle in banks. Besides the basic idea of meeting the credit needs of members from their savings get defeated if the savings are held by banks.

Main observations of the study conducted by Centre for Microfinance, Jaipur
The bank wise data gives clear indication that Impounding of SHG savings is a practice across banks. In all the banks the savings of credit linked SHGs in banks were found to be more than that of non credit linked SHGs.

More than 80% of the total savings of the SHGs especially in the case of credit linked SHGs is deposited in the banks

The average savings of SHGs in banks is Rs 7890/- as of March, 2009. Further, it is Rs 3714/- for those which are not credit linked while Rs 10,779/- for those which are credit linked. It shows that SHGs who are taking credit from banks also deposit higher amounts in the bank. This indicates the impounding of SHG savings by Banks.

### Average saving per SHG

<table>
<thead>
<tr>
<th>Average saving per SHG</th>
<th>Average saving per SHG which are not credit linked</th>
<th>Average saving per SHG which are credit linked</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

[112] Impounding of savings refer to the practice in which bank branches impound the saving of SHGs as collateral in order to give credit. It is discussed in detail in section 4.1 of chapter 6

Rajasthan Microfinance Report-2010
Typical margin on working capital loans or capital expenditure loans is 15% - 25% in banks.

Though the credit linked SHGs are 59%, their share of total SHG deposits in the bank is 80%. It clearly illustrates that SHGs which are credit linked have to deposit more savings with banks.

The SHG savings in banks are equivalent to 25% of the total loan outstanding from bank, which is acting as collateral.

The prime purpose of Self Help Group movement is to use the savings in groups to advance loans to members (because these members do not have access to banks for credit and have to take loans from moneylenders on highly exploitative terms). But over a period of time, both SHG promoters and banks have kept this basic principle aside, and now SHGs are encouraged by promoters (and compelled by Banks) to keep their savings with banks. In Rajasthan, Rs. 138 crores of SHG savings was sitting with Banks by end of March, 2009. This amount is almost 40% (refer section 3.1 of Chapter 4) of total savings by SHGs. Actually this amount should have been rotating as loan to members.

It would be unfair to blame only banks for keeping the SHG savings with them, though branch managers of banks make all efforts to impound the SHG savings while giving loan to SHGs. But largely it is SHG promoters who do not educate SHGs and do not make necessary efforts of using the savings of members for advancing loan to them. It is very hard to justify when SHG members keep their saving in saving account (earning 3% per annum) and same members continue borrowing from banks at 12% & moneylenders at 36% per annum. With this calculation in 2008-09, SHGs as a sector, earned an interest of about Rs. 4.8 crores on their savings of 138 crores in banks and paid Rs. 15.2 crores to banks as interest on the same amount, thus making a net loss of Rs, 10.4 crores. This raises a question for both SHG promoters and banks on the purpose of SHG movement.

The situation is getting worse every year because as on March, 2010 the SHG savings in banks were reported at Rs. 180.18 cr while the credit to all SHGs (including SGSY) was reported at Rs. 219 cr.

Further analysis of bank’s data reveals that, in Rajasthan, the average credit outstanding is 2.64 times of total savings in banks. Comparing this figure with average credit to margin money ratio of 5.6 times reveals that banks impound savings in case of SHGs.

**Note:** Typical margin on working capital loans or capital expenditure loans is 15% - 25% in banks.
Credit Outstanding v/s savings ratio for SHGs as of March, 2009 is as follows:

**Commercial Banks**

<table>
<thead>
<tr>
<th>Bank</th>
<th>Total Savings</th>
<th>Total Outstanding</th>
<th>Credit: Saving Ratio for SHGs</th>
</tr>
</thead>
<tbody>
<tr>
<td>BoB</td>
<td>3636.9</td>
<td>3221.04</td>
<td>0.88</td>
</tr>
<tr>
<td>SBI</td>
<td>376.61</td>
<td>5234.22</td>
<td>13.89</td>
</tr>
<tr>
<td>SBBJ</td>
<td>484.61</td>
<td>4565.66</td>
<td>9.42</td>
</tr>
<tr>
<td>PNB</td>
<td>675.34</td>
<td>2344.77</td>
<td>3.47</td>
</tr>
<tr>
<td>DENA</td>
<td>1364.68</td>
<td>3159</td>
<td>2.31</td>
</tr>
<tr>
<td>UCO</td>
<td>977.82</td>
<td>302.42</td>
<td>0.31</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>13837.49</strong></td>
<td><strong>36654.6</strong></td>
<td><strong>2.65</strong></td>
</tr>
</tbody>
</table>

Above table indicates that SBBJ and SBI are not impounding savings and are giving higher priority to SHG lending. On other hand, Bank of Baroda and UCO Bank fall way below the standards. These banks are impounding SHG savings.

**Regional Rural Bank:**

<table>
<thead>
<tr>
<th>Bank</th>
<th>Total Savings</th>
<th>Total Outstanding</th>
<th>Credit to Saving Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baroda Rajastan Gramin Bank</td>
<td>779.69</td>
<td>2715.41</td>
<td>3.5</td>
</tr>
<tr>
<td>Hadoti KGB</td>
<td>173.19</td>
<td>569.86</td>
<td>3.3</td>
</tr>
<tr>
<td>Jaipur Thar Gramin Bank 1</td>
<td>638.29</td>
<td>884.26</td>
<td>1.4</td>
</tr>
<tr>
<td>MGB Aanchalik GB</td>
<td>197.68</td>
<td>472</td>
<td>2.4</td>
</tr>
<tr>
<td>MGB Grammen Bank</td>
<td>713.09</td>
<td>1505.14</td>
<td>2.1</td>
</tr>
<tr>
<td>Rajasthan Gramin Bank</td>
<td>459.56</td>
<td>1566.34</td>
<td>3.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2961.5</strong></td>
<td><strong>7713.01</strong></td>
<td><strong>2.6</strong></td>
</tr>
</tbody>
</table>
RRBs too seem to be impounding savings. Jaipur Thar Gramin Bank has credit to saving ratio of 1.4 which means that only Rs. 1.5 of credit is given to SHGs for every Rs. 1 of saving of SHG in bank. This indicates that Jaipur Thar Gramin Bank is running almost risk free as it keeps 67% of collateral for each loan disbursed to SHGs.

Cooperative Banks

The outstanding amount of cooperative bank is 2.96 times the saving amount.

The overall analysis clearly reflects that all three agencies i.e. PSB, RRBs and cooperative are having similar ratio of outstanding in respect to savings (except SBI and SBBJ). Cooperative banks as a group fare little better. Furthermore, the savings of SHGs are also lying in large chunks with PSB. Firsthand conclusion is that many banks are more interested in savings mobilization from SHGs rather than giving credit. On the other hand, performance of SBI and SBBJ can be example for sector as they maintain appreciable outstanding ratio of 13.89 & 9.42 times respectively.

Banks should instruct their branch managers that they should not keep the savings of the SHGs seeking credit from banks. Banks must encourage withdrawal of savings by SHGs and its use as inter loan among members.

4.2 Lack of awareness among banks' staff

In linkage-banking programme, often the SHGs find it difficult/time consuming [necessitating repeated visits to the bank branch] for opening account/getting credit linked. Continuous efforts are needed to build awareness/knowledge of rural branch staff [who are frequently changed and new staff takes over] about the linkage banking programme and the simplified/user friendly procedures needed for their account opening/credit linkage etc. The banks also need to bring about necessary changes in the working of their rural branches to accommodate this development. With introduction of business correspondent model by RBI, the experience of SHGs is expected to improve over time.

4.3 Inadequate monitoring

At present, progress is monitored more on 'number of groups' linked. While it is important to track the number of groups linked, the 'number of repeat loans' and 'size of loans' should also be important indicators of monitoring.

4.4 Focus on achieving targets

State government has been focusing on achieving 'number of SHG' target only rather than achieving 'real objectives of SHG bank linkage program'. The focus should be towards achieving 'quality' rather than 'quantity'.

4.5 Lack of SHG database in Rajasthan for planning and monitoring

A database of SHGs does not exist in State. Figures from various government departments, NGOs, SLBC and NABARD are sometimes conflicting and sometimes fail to give any direction. A reliable, credible database of SHGs at state level will help in policy making and development of credible schemes.
CHAPTER 7

FINANCIAL INCLUSION
Financial inclusion refers to delivery of financial services at affordable costs to low income people. Financial services include credit, savings, and insurance, pensions, payments and remittance. The objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit people with low incomes. Through graduated credit, the attempt is to lift the poor from one level to another so that they come out of poverty.

“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.”
— C Rangarajan

“Expanding access to financial services, such as payments services, savings products, insurance products, and inflation-protected pensions.”
— Raghuram Committee

In Rajasthan, proportion of farmer households not having access to credit from formal financial institutions is 47.6%. About 14 districts have been found to have credit gap of 97.8—95.2. As a result, informal channels such as money lenders, friends and relatives play a significant role in lending to farmer households. As per NSSO survey, 66% of rural Rajasthan depends on informal channels for credit while it is 48% for urban Rajasthan.

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NSSO survey 59th round
NSSO survey 59th round
As per Finance Ministry's directive, banks are required to cover all unbanked villages with population above 2000 before March, 2011. The number of unbanked villages in Rajasthan with population above 2000 is tabulated below -

Source: NSSO survey, 59th round
Number of Villages without banking outlet

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1.1 Kisan Credit Card

The concept of Kisan Credit Cards (KCC) started in 1998-99 to help farmers access timely and adequate credit. Kisan Credit Card allows farmer to have cash credit facilities without going through the credit screening processes repeatedly. Repayment can be rescheduled if there is a bad crop season, and extensions are offered for up to 4 years. The card is valid for 3 years and is subject to annual renewals. Banks in India that lend for agricultural purposes usually offer the KCC. Withdrawals are made using slips, cards, and a passbook. Overall 41,28,461 (cumulative) KCCs have been issued in Rajasthan till March, 2010\textsuperscript{117} amounting to credit limit of Rs. 25272 cr. Analysis of KCC issuance by different banks throws an interesting insight:

<table>
<thead>
<tr>
<th>KCC issuance in Rajasthan as of March, 2009\textsuperscript{a}</th>
<th>Cards Issued (in '000)</th>
<th>Amount sanctioned (in Rs. cr)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cooperative Banks</td>
<td>2851</td>
<td>8387</td>
</tr>
<tr>
<td>Regional Rural Banks</td>
<td>440</td>
<td>3596</td>
</tr>
<tr>
<td>Commercial Banks</td>
<td>1467</td>
<td>16574</td>
</tr>
<tr>
<td>Total</td>
<td>4758</td>
<td>28557</td>
</tr>
</tbody>
</table>

It can be concluded from above analysis that cooperative banks seem to be providing less credit for every card issued as compared to commercial banks. It may be due to two reasons; a) large farmers might have been issued KCC by Commercial banks and the small and marginal farmers by Cooperatives & RRBs; b) the Cash Credit Limit on KCC is low in RRB & Coops compared to commercial banks. Possibility of first reason is high.

Comparing these figures with national figures, it can be inferred that 5.6% of KCCs issued in country have been issued in Rajasthan. On other hand, 7.7% of amount sanctioned in country has been sanctioned in Rajasthan as of March, 2009.

\textsuperscript{117} Page 22, 105th meeting agenda, SLBC, Rajasthan March 2010
\textsuperscript{a} http://rbidocs.rbi.org.in/rdocs/Publications/PDFs/ATV101009.pdf
A quick study was conducted by CmF, Jaipur to understand KCC coverage in Rajasthan in 7 randomly chosen villages in Rajasthan. Out of total 1487 farmer families in 7 villages, 610 farmers were found possessing Kisan Credit Card which translates to an average of 40% KCC coverage. There was wide variation observed on use of KCC (16 to 100% farmers).

Few key observations were a) farmers having more land and higher awareness are using KCC frequently; b) cost of getting a KCC comes to about Rs.2500/ - per card (including fee of the advocate etc), c) many KCC users complained that credit limit is less than their requirement.

1.1 Self Help Groups

Self Help Groups pay a very critical role in financial inclusion of low income people by providing saving and credit services. The challenge of financial inclusion is to reach out to poor who do not make prospective clients of banks due to their tiny and irregular transactions. SHGs provide that bridge between banks and poor through SHG-Bank linkage program. About 32 lakh women are involved in SHG movement in Rajasthan, of whom about 80% (25.6 lakh) are regularly saving small sums every month and of whom, about 60% (15 lakh) are getting credit as well. Insurance services are new and about 10% SHG members also get insurance.

SHGs and bank linkages have been covered extensively in Chapter 4 and 6 respectively. SHG bank linkage continues to remain one of primary pillars of financial inclusion.

1.2 Adoption of pilot districts by banks for 100% financial inclusion in Rajasthan

In 2008, at the behest of RBI, major banks operating in Rajasthan took up one district each for 100% financial inclusion. SBBJ took up Rajsamand, Bank of Baroda - Dungarpur, Oriental bank of commerce - Sriganganagar, PNB - Dholpur, UCO Bank- Dausa and Central Bank - took Jhalawar. The lead bank in the district with support from other banks and district administration spearheaded the drive of ‘opening no-frill bank accounts’ of every willing family in all villages of the district.

It was a very tough task of first surveying all households and then opening such large number of accounts. SBBJ was first to declare Rajsamand as 100% financially included. Bank of Baroda followed with declaring Dungarpur as 100% financially included and other banks followed too. Total five districts were covered.

After about a year or so, RBI commissioned a study to understand the status of newly opened no-frill accounts and it was found that more than 80% of the accounts were non-operative. It was also well known before starting the drive of opening bank accounts en masse that such accounts will not lead to financial inclusion but RBI and banks considered bank accounts as the first step towards financial inclusion. Unfortunately the journey of financial inclusion also ended with the first step itself.

Making village free from moneylenders:

It is well known that private money lenders charge high interest rates which varies from 25% to 100% in a year. The poor have to pay high interest rate because they do not have assets to mortgage. As a result, significant portion of annual income of poor is used to serve these costly debts from moneylenders. Borrowers keep on paying the interest while the principle amount remains the same. With an aim to address this issue, major commercial banks were suggested to adopt two villages while each RRB was suggested to adopt at least one village to make these villages free from the clutches of money lenders, by March 2009. Responding to the call, 50 villages were adopted by the banks. All the 50 villages have been declared free from private money lenders.

No study is available to know whether the villages are 'actually moneylender free' or they
In order to promote financial inclusion amongst the unbanked, the Reserve Bank of India (RBI) has asked the State Lead Bank coordinators across India to come out with a financial inclusion roadmap for their States to ensure that all unbanked villages with population above 2000 persons will have access to banking services by 2011. In Rajasthan, 3911 such villages have been identified under this roadmap for 2011 (Refer section 1 of Chapter 6). The banks will be using three branchless banking models:

1) Traditional agent based Business Correspondent (BC)
2) Information, Communication Technology (ICT) based
3) ICT and BC based model

The thrust area for financial inclusion is expected to be through Business Correspondent model (Agent based and technology based). Owing to thrust on BC model in current Financial Inclusion initiatives, the focus of the rest of the chapter is on Business Correspondent model (agent based and technology based).

1.3.1 Business Correspondent/ Business Facilitator model

RBI had issued a set of guidelines to banks for using Business Facilitators and Business Correspondents to spread their operations in areas where banks are not having branch network. Under this framework, banks can partner with third party agents to provide financial services such as credit and savings on their behalf. To support the financial inclusion effort, as well as leverage advances in banking technology, two kinds of third party banking agents were created - Business Facilitators (BF) who would primarily be involved in processing and opening accounts and Business Correspondents who could, in addition to the BF functions mobilize deposits and disburse credit on behalf of the bank. BC/BF model is an important channel for financial inclusion in Rajasthan because the varied population density in Rajasthan (from 16 persons/sq km in Jaisalmer to 578 in Jaipur) makes branches an expensive channel for banks.

The BC model provides an opportunity to banks to save on costs which they would have incurred in case they had gone in for the ‘brick and mortar’ branch model. Further, BCs help banks in taking their low value/high volume transactions out of the branch premises and to that extent there is a potential saving in costs.

As per the current regulations, the following entities are permitted to act as BC’s for banks: NGOs (typically microfinance institutions (MFIs) set up as Societies/Trusts), Cooperative Societies, Section 25 companies in which no NBFC/telecom company/bank holds more than 10% of ownership, post offices, retired government/bank employees and ex-servicemen. In order to operate within the regulation, technology service provider organizations such as FINO, EKO and A Little World have created Section 25 companies with whom they partner.

‘For-profit’ NBFC MFIs have been kept out of purview of BCs.

Progress So far

The progress towards adoption of BC/BF model has been extremely slow in Rajasthan. Except for Bhamashah Scheme (which is now abandoned without operationalising) there is not much talk about this. Only recently, with focus on financial inclusion from RBI, have banks started discussions on this model. Following the BC/BF circular of RBI, most of the banks issued policy circular on this model.
A few banks also advertised their willingness to appoint BF/BC. Banks are looking for ‘established organisations’ that can be relied upon in terms of ‘sound financials’ and proven track record.

The sustainability of BF or a BC will depend on the size and volume of transactions and the rate of commission. There is no concrete data available on the volume of business within the area of a BF/BC. The pilots of BC/BF so far have not established the viability details. The RBI Task Force also observed that the cost of services for a BC are far higher than the commission it gets.

The concept of BC/BF hinged on model that the local people, who know the clients well, could take up the role of BF/BC for banks and thus earn livelihood while helping the banks to reach out to more people. However, observations tell that banks prefer established organisations as BC/BF rather than local people. In normal course, the Technology Provider has also been entrusted the role of BC/BF.

2.3.1.1 Operational issues in Business Correspondent model

**Cash Handling and settlement**

As almost all BC transactions are cash based, the flow of cash with BCs becomes a key, especially, in the context of Western Rajasthan, on account of vast and difficult terrain and poor connectivity. Besides the logistics of handling large volumes of cash, it leads to increased costs and added operational risks. Current regulations mandate BCs to settle cash with bank branches by the end of the day or next working day. Given that the area of operation of BCs predominantly extends to rural areas with erratic connectivity, it becomes difficult to complete the settlements within the prescribed timeframe.

Over last 2 years, an unhealthy trend has started to threaten the viability of Business Correspondent model. According to a report, over Rs. 1000 crore of banks’ money has been lost or looted while in transition from beneficiary to bank and vice versa. This has resulted in negative vibes in bankers’ realms, so much so that bankers’ have already started taking a back seat in financial inclusion. If this trend continues, it may lead to banks rolling back on financial inclusion initiative. Banks already find financial inclusion as unnecessary, unprofitable burden and such trends may lead to banks shunning financial inclusion altogether.

**Use of no-frills bank account**

A majority of no-frill accounts opened by BCs have remained non-operational. A good example in Rajasthan is Bhamashah Empowerment Scheme. Further, in Rajasthan, as high as 80% of no-frill accounts are not in use. As such, opening of the accounts to provide deposit services to begin with and subsequently widen the coverage of activities, with a view to making these accounts profitable, have not made the desired progress. Retaining customers after the initial transactions proves to be a big challenge.

A study shows that no-frill accounts are currently a loss making activity for banks. Since this is the case, banks are not motivated to pursue financial inclusion beyond the targets and roadmaps stipulated by the RBI. The RBI is making an effort to subsidize the cost of no-frills accounts, by reimbursing the banks Rs. 50 for every smart-card enabled no-frills account opened by them for a NREGA beneficiary (smart card solutions currently cost between Rs. 75 - 125 per card depending on memory capacity and card features).

**Additional operating Costs**

It has been reported that banks charge interest to BCs for the temporary accommodation/overdraft provided by banks to them. This adds to the operating costs of the BCs. Moreover, the insurance costs as well as security costs for the cash-in-transit are
also passed on to the BCs, which affect their financial viability. Where the BCs have to cover large distances, the transport cost often becomes prohibitive. Further, where power supply is a problem, the BCs have to move with generator kits/batteries.

**Lack of promotional and capacity building support**

In case of SHG Bank linkage models, there is no support provided to BCs for meeting the group promotion costs. Further, capacity building through training of BC staff also involves financial outlays, which is seldom provided by banks.

**Narrow product range**

At present, the BC model is largely perceived as a channel for undertaking only deposits. Adding to that, a few banks are using the BCs for opening no-frills accounts through which the various government payments like NREGA, pensions and other social security payments are routed. All in all, the product range is pretty much narrow and does not offer wide spectrum of products and services as needed by poor.

### 2.3.1.2 Hurdles in Business Correspondent model

**Financially unviable due to interest rate cap**

Overall, the current regulatory regime appears to yield little room for the BC model to become financially viable for either the promoting bank or the BC. Banks view BC operations as inherently non-profitable; most only allow BC's to open no frills savings accounts as they feel uncomfortable allowing a third-party agent to do credit evaluation. Even in the event that banks allowed BC's to distribute credit, the Reserve Bank of India restricts banks from charging more than their prime lending rate (PLR) for BC credit. Under regulation, banks cannot charge more than prime lending rate for these loans, which are typically lower than Rs. 25,000. This reduces potential margins against BC’s relatively higher operating cost, or forces banks to raise their PLR which they are not inclined to do. Thus, banks are inherently disinclined to view the BC as a priority, and many perceive the model as a Corporate Social Responsibility (CSR) activity. Some public sector banks, for example, subsidize the cost of BC components such as smart cards or point of service (POS) devices for clients, though this is not a sustainable option for them.

**Financially unviable due to per-transaction commission structure**

For business correspondents, the commission structure is not adequate to cover costs, which for most are based on a per-transaction fee. There are costs involved in staff salaries, trainings, etc for which the current compensation structure is not generally adequate. The transaction-based structure is weakened by reported low rates of no frills account usage by clients. A majority of BCs have reported losses and some of them have even suspended their operations in Rajasthan. This, in turn affects the banks as it becomes difficult for banks to substitute these BCs with others. BC's have tied with technology providers and plan to leverage their services for disbursing government benefits, in which they foresee higher usage and a more feasible business model.

Some BC's have argued that especially in the initial operational stages, the commission should be set at a combination of fixed and variable compensation. This is because, during setup, BC's must invest a large amount of capital in technological infrastructure such as smart cards, Point of Service (POS) devices, database, training staff etc. For current providers, not-for-profits, financial viability tends to hinge on how much support the promoting bank is willing to give, which is fairly arbitrary. For example some banks as part of the fee arrangement provide the money for POS devices and for smart cards. Others provide money for the smart cards but not the POS devices. Thus, it becomes difficult for many BC's, especially those not associated with technology providers, to provide this kind of outlay for capital expenditure.
2.3.2 Bhamashah Financial Empowerment Scheme

Bhamashah Financial Empowerment Scheme has already been discussed in Section 1 of Chapter 2. The impetus to branchless banking in Rajasthan was given by the previous government’s Bhamashah financial inclusion project. This project aimed at creating a state-wide biometric smart-card infrastructure and Point of Sale (PoS) network for service delivery to the poor. As a partner to previous Rajasthan Government’s Bhamashah financial inclusion project, PNB had opened 2.5 million no-frills PNB Mitra accounts (as of July 30th, 2009) and had mobilized an amount of Rs 160 crores in these accounts and possessed 8750 Point of Sale (PoS) stations across the state.

Other major banking players in the Branchless Banking space in Rajasthan are SBI and SBBJ (who had partnered with the Rajasthan government as well for certain portions of the Bhamashah project).

The key technology service providers for Branchless Banking in Rajasthan are

- Financial Information Network and Operations (FINO) with presence in 10 districts
- Infrastructure Leasing and Financial Services (IL&FS) which was the implementation agency for the Bhamashah project in 29 districts in the state (with a mandate to service 44 lakhs accounts) in collaboration with PNB
- Bartronics India which was the implementation agency for the Bhamashah project in 4 districts in the state (with a mandate to service 6 lakhs accounts) in collaboration with SBBJ and SBI
CHAPTER 8
REGULATORY, LEGAL AND POLICY ISSUES
Chapter 8

REGULATORY, LEGAL AND POLICY ISSUES

1. Micro Credit recognised under Priority Sector lending but no target:

Bank credit to SHGs is recognized as 'lending under priority sector'. But there is no binding on banks that they would have to do SHG lending as part of 'priority sector' like there is binding of 18% lending to agricultural sector. Due to lack of 'target', microcredit and especially, SHGs have not got appropriate attention from banks. Adding to that, even under 'microcredit' priority sector lending, the following types of NBFCs have been getting bulk loan from banks, who on-lend to individuals at 27-33% interest rate. It seems that the banks are now looking for bulk loans to microfinance and therefore MFIs are now taking loan from banks

1.1 Microfinance Institutions registered as NBFCs

All the microfinance institutions are growing at over 100% a year. Due to such growth rates, equity has not been much of a challenge for the microfinance industry lately. Thus, the industry has attracted significant amounts of Private Equity capital. Every time a MFI raises 100 rupees of equity, it can leverage that 5-10 times over by way of debt. In last 3 - 4 years, most banks have become comfortable in lending to microfinance companies as the loans fall under 'priority sector lending'. Also, there is a bias towards lending to the larger MFIs. The banks have therefore found a profitable asset class to pour money in. The only sufferers in this whole episode are SHGs into which credit linkage is deteriorating. MFIs may be taken out of purview of ‘Priority Sector Lending’.

| Lending under Priority Sector (Target - 40% of net bank's credit portfolio) |
| Source: Master Circular - Priority Sector Lending, RBI dated July 1, 2008 |
| Agricultural advances (Target - 18% of net bank credit) |
| Loans for agriculture and allied activities (dairy, fishery, piggery, poultry, bee-keeping etc) to individuals, Self Help Groups or Joint Liability Groups |
| Crop Loans plus pre/post harvest activities |
| Small Enterprises (No target) |
| 60% to Micro Enterprises (investment less than 5 lacs in plant and machinery) |
| 40% to small scale enterprises (investment less than 5 cr in plant and machinery) |
| Micro Credit (No target) Provision of credit and other financial services and products of very small amounts not exceeding Rs. 50,000 per borrower, either directly or indirectly through a SHG/ JLG mechanism or to NBFC/ MFI for on-lending up to Rs. 50,000 per borrower |
| Housing Loans (No target) |
| Less than Rs. 20 lacs for purchase/ construction |
| Less than Rs. 5 lacs for rehabilitation of slum dwellers (to be given by govt agency |
| Education Loan (No target) |
| Upto Rs. 10 lacs for studies in India and Rs. 20 lacs for studies abroad |
| Weaker Sections (Target - 10% of net bank credit) |
1.2 Gold Loan companies registered as NBFCs

Microcredit aims at eradicating poverty through provision of credit for income generation activities. As the intention goes, microcredit is typically collateral free even in case when microcredit is used for consumption activities. However, banks have been lending heavily to gold loan companies, which on-lend to individuals for immediate consumption activities against gold jewellery. Such individuals typically lack credit discipline and a majority of them take loans for less than Rs. 50000. Gold loan companies, which register as NBFCs, typically charge interest rates ranging from 27 - 33%.

What is interesting is that banks have been accounting these loans under 'microcredit - priority sector lending'. Microcredit, which is technically meant for Self Help Groups, is being used to provide debt to gold loan companies, which on-lend to ill-creditworthy individuals at exorbitant interest rates, that too against jewellery collateral.

Gold loan NBFCs, which again are favourites of capital investors may be taken out of purview of 'priority sector lending'. Such companies, like Muthoot Finance & Manappuram Finance, have private equity investors and banks lined up for financing. As such they do not require 'Priority Sector Lending' placard to raise finance.

2. No legal framework for SHG federations in Rajasthan

In SHG sector in India, there is near unanimity on the need for SHG federations to provide non-financial services to members contributing to SHG sustainability. As discussed in Section 4 of chapter 4, SHG federations are considered as a means for bringing strength and sustainability to SHG movement.

However, the problem starts when we start talking about 'legal structure' of SHG federations. Though the SHG federation promotion began almost 15 years ago, in many ways it is still at a nascent stage, especially regarding registering them under an appropriate legal form and complying with the statutory requirements as per the legal form. Though there are about 69,000 federations in the country, a large majority of them are either not registered to become a body corporate or are not complying with the minimum requirements as per the law. Other possible laws, under which the federations could be registered, are 'not for profit (section 25) financial company' and 'non-banking financial company (NBFC)'. Apart from these there are some local appropriate acts, under which the federations are being registered.

Federations in AP, Bihar, and MP are registered under respective state Mutually Aided Cooperative Societies Act. The federations in Kerala and Orissa are registered under respective...
state's society registration law. Some federations are registered under Indian Trust Act 1882 and State Cooperative Societies Act. The federations in Karnataka, Rajasthan and West Bengal are not registered at all.

In Rajasthan, there is no legal framework available for registering SHG federations where SHG come together and form their federations. All the acts mentioned above do not recognize SHGs as legal entity which is necessary to become member of the institutions under these Acts. Thus, the SHG leaders become member in their individual capacity. In Rajasthan, a provision is made to allow SHG membership in cooperative society but they do not have voting right.

RBI's circular on SHG federations is an important development in recognition of federations by the central bank. Registered SHG federations could act as either a Business Facilitator or Business Correspondent of a bank to provide last mile connectivity to banks to provide a full range of banking services.

3. Not making full use of telecom technology

All banking activities from origination and transaction to fulfilment and settlement can be completed using a mobile phone. This is evident from success of M-Pesa model in Kenya, Tanzania and Afghanistan, where poor are able to access formal financial services through branchless banking. However, RBI is not willing to let telecom operators in India hold free float of money which is deemed as 'deposit taking', thereby, falling under the purview of banking regulations. RBI's concerns are understandable owing to belief that only banks should be allowed to take deposits from public and that telecom operators do not possess bandwidth or

However, financial inclusion should not be made hostage to regulatory hurdles and implementation issues. The New Pension System offers a model of low-cost electronic accounts that banks can adopt - one agency (for e.g. CRA or a few of them) could maintain accounts on a single electronic platform that different banks can access as per account holders' mandate, lowering costs. These accounts could be tied to the unique identity numbers being generated under UID project Aadhaar. Access to these accounts could be through mobile phones held by airtime sellers (like M-PESA in Kenya), retail outlets, business facilitators (BFs), business correspondents (BCs), SHGs, post offices etc. The accounts could also be used for payment of MGNREGS, pension and other government schemes to intended beneficiaries. The government and the RBI would do well to focus on deploying India's success in telecom and information technology to revolutionise inclusive banking.

4. Definition of 'loan defaulter'

NABARD policy circular clearly says that 20% of members of a SHG can be from existing default families. But gradually banks have started refusing opening of accounts of such SHGs which have even a single member from defaulted family. Originally the idea was to discourage defaulters. However, the banks have virtually extended the definition of 'defaulter' to include the entire family and in some cases, even to joint family. This is coming as one of biggest hindrances in SHG-Bank linkage.
CHAPTER 9

WAY FORWARD
In conclusion, this chapter outlines the major opportunities and issues that need to be addressed for scaling up the microfinance sector in Rajasthan. This report confirms the potential of microfinance to organise two-third of rural households that are otherwise difficult to reach. The report has estimated a vast market for micro savings, micro credit, micro insurance, and remittance services for poor in Rajasthan. Achieving this will require concerted action from all stakeholders on various issues, some of which are listed below.

**Great Coverage of poor under microfinance**

Reach out to 'all poor families' and 'not restrict to only BPL'

Rajasthan has a peculiar economic status, where the average land holding is comparatively high (3.7 hectare in Rajasthan, 1.5 hectare in India) and the density of population is comparatively low. There are large numbers of families which are not in BPL list but are only marginally better off than BPL. A single year of drought is enough to pull them below BPL families' status.  

More importantly, the whole approach of SHG is based on affinity among members and on condition that members of a group have mutual trust and can use peer pressure on each other to ensure repayments etc. Experiences all over tell that exclusive BPL groups do not function well. Therefore, focusing only on BPL families, while forming SHGs (as done under SGSY, DPIP and MPOWER projects), may not address the poverty alleviation or women empowerment significantly, as large number of families will be left out. The SHG movement in Rajasthan should reach out to all poor (about 60-70% households in rural areas) including BPL, small and marginal farmers, etc.

**Strengthening SHG movement in Weaker Areas**

As per section 1 of chapter 4, SHG movement has been found to be weak in districts like Nagaur, Dholpur, Dausa, Karauli, Barmer, Jodhpur, Pali, Jalore etc. As per section 4.2 of Chapter 6, which computes under-banked index of districts in Rajasthan, Nagaur, Dholpur, Dausa, Karauli, Barmer and Jalore have been found to be under-banked too. The reasons for disparity of SHG movement among the states can be traced to opportunities in local economy, density of population, presence of NGOs and government support etc. It has been observed that backward and disadvantaged districts have less number of SHGs. This disparity can be tackled with two-prolonged strategies first, to create a cadre of human resource including Community Resource Person (leaders of SHG groups) in stronger districts in phases and train them to promote Self Help Groups in weaker districts. Community resource persons (CRPs) are better placed in creating solidarity among group members and can pace up the movement in weaker districts. Second, to put special focus on weaker areas by allocating special funds for implementation of community based microfinance and livelihoods projects by collaborating with NABARD, Banks and Voluntary Organisations.

**Adopting common approach**

Currently, in Rajasthan, Self Help Groups are promoted by many Government and Non Government agencies with different objectives like women empowerment, poverty alleviation, delivery of credit etc. The promoting agencies, even if they work in same village, have different vision and
expectations from SHGs. This creates operational problems and confusion at the community level.

By becoming member of a particular group, a woman may get good amount of subsidy, which she may not get if she were a member of another group. This often leads to multiple memberships in SHGs and breaking of some groups.

To tackle this issue, SHG movement in Rajasthan needs a common approach. Government and Banks should look at all SHGs, irrespective of their pedigree, through a single lens. Discussed below are few strategies to use a common approach for all SHGs, irrespective of their originator, SHPI or the scheme they fall under.

**Standardized systems and processes for all SHGs in the state**

All SHGs, irrespective of their pedigree, should have uniform systems, processes, operations, book-keeping, record-keeping, grading, auditing and quality standards. Such a standardized approach to all SHGs would lead to drawing of everyone’s attention and focus on SHG movement rather than a select set of SHGs falling under a certain scheme.

**Common Perspective**

**Saving first, credit later**

The SHG movement started with ‘thrift’ as its core value and banks came in later with credit, primarily to augment SHGs’ corpus. Objective was to meet credit need of SHG members to a larger extent. But now, primarily under government programs, the SHGs are being formed to meet the targets and to avail bank credit only.

If such a trend continues, the sector and its core value of ‘Self help’ will not grow. If the core value of ‘Self help’ does not grow, then solidarity among groups will not be strengthened, which in turn will lead to breaking of groups. Self Help Group Bank Linkage Program cannot afford such a trend and therefore, the groups must focus on savings by members first, so that they do not become dependent on bank credit for small needs. Bank credit is only meant to supplement the group savings. SHGs have to provide appropriate savings products to mobilise disposable cash surpluses of members and create a reserve for future.

**Focus on Women empowerment**

The relevance and impact of Self Help Groups on women empowerment and on livelihood strengthening has been proven all over country (Rajasthan as well). Good quality Self Help Groups create mutual trust and a sense of solidarity among members. This raises their confidence to deal with socio-economic problems of their family and their village, all by themselves. Women empowerment can further be boosted by promoting four ideologies, which can be taken as indicators of success:  

a) Zero tolerance of domestic violence in families of all SHG members in Rajasthan;  
b) 100% girl child enrolment in educational institutions in families of all SHG members;  
c) 100% institutional infant delivery;  
d) 50% participation of women SHG members at village development committees². Milestones should be set for every year in order to achieve the stated objectives while progress should be tracked by measuring the indicators.

**Promoting ‘area centric’ federations of SHGs**

Self Help Groups on their own are tiny institutions (10-20 marginalised women from very poor families). They can best be effective to provide small social capital, small savings and small credit to members. They alone and individually are not in a position to bring larger change and impact on lives of poor women unless they federate in to next tier institutions and aggregate their demands and surpluses to market, to take benefit of ‘economics of scale’. In Rajasthan there are about 42 Federations of SHGs and the vibrancy of SHGs through the federations is commendable. In southern state like AP, Tamil Nadu, Karnataka etc. there are thousands of federations of SHGs.

In Rajasthan, so far only NGOs have promoted SHG federations and the objective and perspective of different NGOs has been different. The quality and system of SHGs have been heavily influenced by
the promoting institutions. It has been observed that SHGs promoted by a particular promoter federate and leave aside SHGs promoted by other promoter within same village. If this trend continues, it may lead to more than two SHG federations working in the same village. Therefore, efforts need to be made to promote area-centric federations rather than ‘SHPI centric’ or ‘target centric’ federations.

In next 3-5 years, efforts should be made to federate the SHGs in to village, cluster and block level federations. This task is very crucial and would require clear perspective, skills, patience and investments required for ‘institution building’. There is good experience available on federating SHGs in state and outside, which should be used in forming new SHG federations.

Rajasthan Micro Finance Mission

State Government may consider setting up a body for SHGs in Rajasthan with equitable mix of government functionaries, SHPIs and SHG community leaders in form of ‘Rajasthan Micro Finance Mission or Rajasthan SHG mission’. The body would prepare a vision and a 5-year action plan to upscale the SHG movement in state. All SHGs, irrespective of their pedigree, may fall under the purview of this body. Under this body, a cadre of quality auditors can be developed (at district level) which will help communities and bankers with an independent assessment. This cadre may be given the task of regular grading of the SHGs and providing necessary inputs to SHGs on regular basis.

Deepening financial services and financial inclusion

Increasing Bank Credit through Self Help Groups

Compared to the vast demand and potential of micro credit, annual credit through SHGs from banks in Rajasthan (about Rs. 200 crores) is very low. The number of SHGs credit linked every year is also about 10%. The repayment of SHGs to banks is more than 95% on time. It is also observed that the SHG members start losing interest in group meetings etc. if timely credit does not come to groups from banks.

SHGs have the potential and capacities to bridge the gap between Banks and Poor. Therefore, banks should increase their credit through SHGs. This can be done by orientation and sensitization of branch staff, simplifying the procedure of opening bank accounts and credit sanction to SHGs, not impounding of SHG savings (while giving them loan), timely processing of loan application of SHGs, encouraging repeat credit linkages, adopting a common system of grading, appreciation of the quality of SHGs by providing credit to good groups on priority etc.

In the recent past, there have been some positive experiences in the form of special emphasis by banks on rural credit and SHG bank linkage programme. In Dungarpur district, Bank of Baroda collaborated with local NGO and CmF and adopted a focused approach for livelihood strengthening of SHG members through timely and adequate credit. This approach can work in other districts as well. Therefore, commercial banks should take up districts where they are lead banks and adopt a focused approach where SHG promoting organisation ensure the quality of SHGs and Bank ensure timely and adequate credit.

Government has made micro credit eligible under Priority Sector Lending of Banks. However to give impetus to banks engagement with SHG movement, government should allocate a certain percentage of priority sector lending target to SHG bank linkage. This target can be year marked at 2% of the total credit disbursement in a state of a particular bank. A committee along with SLBC may review the achievement of this target.

Credit Fund for SHGs

Annual credit from banks to SHGs in Rajasthan is stagnant in the range of Rs. 160-220 crores. Only about 60% of SHGs have been able to take credit from banks in last 10 years. Whereas the annual credit in state like Andhra Pradesh is to the tune of Rs. 5000 crores.
Banks, State Government and leaders of SHG movement should explore possibility of setting up an 'exclusive SHG credit fund' and 'special purpose vehicle' (SPV) to deliver credit to SHGs in state. Banks, State Government and SHGs can jointly float a company/ fund to provide timely credit. Such a company may be professionally managed. SHG federations can effectively take up the role of 'financial intermediation', provided they are supported and strengthened. The SHG federations can facilitate the SHG bank linkage with credit rating services and ensure repayments. Proposed company can give bulk loan to SHG Federations which the federation can on lend to SHGs.

SHG-MFI collaboration

MFIs currently operate in urban, semi-urban and with relatively economically better off people in rural areas. MFIs can target poorer segments by collaborating with SHGs. SHGs provide a ready platform for MFIs to scale up and impact weaker sections of poor. SHGs need more credit while MFIs look for disciplined clients with good credit record. MFIs can save on cost because SHGs are capable of taking care of back-end operations (e.g. collection, distribution, book-keeping etc) by themselves. However, for this to happen, MFIs may have to give a re-look at their cost structure and see where costs can be reduced so that the effective rate of interest to SHG members is below 20% per annum on reducing balance basis.

Financial inclusion through ICT

Banking activities from origination and transaction to fulfilment and settlement can be completed using a mobile phone or smart cards. This is evident from success of FINO in India, M-Pesa model in Kenya, Tanzania and Afghanistan, where poor are able to access formal financial services through branchless banking. Such a model for technology based financial inclusion can also be implemented in India. The New Pension System offers a model of low-cost electronic accounts that banks can adopt - an agency could maintain accounts on a single electronic platform that different banks can access as per account holders’ mandate, lowering costs. These accounts could be tied to the unique identity numbers being generated under UID project. Access to these accounts could be through mobile phones held by airtime sellers, retail outlets, business facilitators, business correspondents, SHGs, post offices etc. The accounts could also be used for payment of MGNREGS, pension and other government schemes to intended beneficiaries.

Building dedicated support structure for SHG movement

District Level SHG resource centres

There is a need for concerted efforts on promotion of new groups, quality improvement of existing groups as well as the need for setting up systems to ensure that new groups are made keeping quality and quality standards in focus. This requires not only investments on the groups’ trainings and exposures but also require a fleet of trained trainers and a dedicated institutions working as resource centres preferably at each district level. These centres will act as technical support centres and knowledge hub offering quality training programmes for those engaged in the sector, extend handholding support to promoters as well as community institutions; undertake studies on relevant issues and disseminate best practices. Some of the voluntary agencies having vast experience and human resource can take up the role of district/ regional resource agencies.

Comprehensive Database of SHGs and SHG Federations

At present there is no authentic database available at state level. The data provided by SLBC varies a great deal from the data provided by SHPIs and NABARD. A good number of SHGs get defunct which doesn’t get recorded because there is no monitoring or tracking mechanism. The number of reported SHGs seems to be inflated by 50-60%. There is urgent need for a comprehensive database of SHGs in Rajasthan. SHPI-wise or scheme-wise database may be of little use. What is needed is a comprehensive database of all SHGs, irrespective of their pedigree. Such a database platform can be interactive and process oriented to ensure regular updating rather than a standalone system for
data compilation e. g. All SHGs registered on the platform only may be eligible for credit linkage. Grading certificate of SHGs can be generated online based on transactions.

**Developing human resource**

Most organisations practicing micro-finance have constantly been in need of trained staff. There is also a need for capacity building of existing human resource. For meeting this scale of requirement, new institutional innovations have to be attempted, which may include courses and training programmes for capacity building on microfinance and livelihoods. Various management and training institutes in the state need to collaborate with SHPIs, federations and take up training and educational programmes in the state.

**Need for Investment in Sector**

**Investment by Government and Banks**

Considering the good impact that SHGs are having on households, both in terms of women empowerment and economic development, there is need to make necessary investments for institutional building. Currently most of the SHGs are formed by state government employees, where targets are given to them. The due process of SHG formation is not followed. It has been seen that a good quality SHG needs about 3 years hand holding support and a capital expenditure of Rs. 8000/-. Further, quality improvement of existing SHGs will require Rs. 5000 per SHG. This translates to a total investment of Rs. 250 cr to improve the quality of existing SHGs and create good quality SHGs. This investment may be viewed as a part of developing financial infrastructure. Government and Banks should come forward and invest in building potential base of its future clients.

**Livelihood enhancement of poor**

Over last one decade, farmers in Rajasthan have been migrating to wage labour, effectively pushing agriculture and allied activities to second & third priority. This is attributable to slow growth in agriculture in Rajasthan. Slow growth in agriculture can be traced retrospectively to low level of private investment in agriculture and livestock, leading to low credit off take in agriculture. Even though SHG members use small credit for procuring seeds, fodder and for buying animals, large credit or large investment is usually not done unless business development services (e.g. technical services, health services for animals, marketing services to sell their produce and so on) are present. Moreover, rainfed agriculture in Rajasthan and corresponding risk-return trade-off does not encourage farmers to take credit and invest in agriculture.

Therefore, private and public investment for improving productivity and business development services for enabling micro-entrepreneurship should be targeted in a phased manner. All stakeholders have a role to play. Banks should develop collaborations with people institutions and technical service providers. SHPIs should encourage innovations to boost farm productivity.

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*Quality improvement of existing SHGs (about 1 lakh SHGs are lacking quality) needs an investment of Rs. 50 crores (Rs. 5000/- per SHG). In terms of increasing outreach by about 50,000 new SHGs per year for he next 5 years, an investment of Rs 8000 per SHG is required which aggregates to a total of Rs 200 crore. This translates to total investment of Rs. 250 crores.*