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Technical Cooperation Project Support Unit  
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## **TC Assignment: Financial Services for the Poor in MPRLP Final Report ©**

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# Abbreviations and Acronyms

<b>ADO</b>	Additional Development Officer
<b>AIDIS</b>	All India Debt and Investment Surveys
<b>ASA</b>	Action for Social Advancement
<b>ASSEFA</b>	Association of Sarva Sewa Farms
<b>CIG</b>	Common Investment Group
<b>CBMFI</b>	Community Based Micro Finance Institution
<b>CPR</b>	Common Poverty Resources
<b>DPSA</b>	Diversified Portfolio of Subsistence Activities
<b>FES</b>	Foundation for Ecological Security
<b>FSS</b>	Committee – Financial Services Supervision Committee
<b>GIC</b>	General Insurance Corporation (of India)
<b>GVT</b>	Gramin Vikas Trust
<b>HH</b>	Household
<b>ICDS</b>	Integrated Child Development Program
<b>IGA</b>	Income Generation Activity
<b>JLG</b>	Joint Liability Group
<b>LIC</b>	Life Insurance Corporation (of India)
<b>MP</b>	Madhya Pradesh
<b>MPRLP</b>	Madhya Pradesh Rural Livelihoods Project
<b>MPMFPP</b>	Madhya Pradesh Minor Forest Producers Federation
<b>MFI</b>	Micro Finance Institution
<b>NTFP</b>	Non-Timber Forest Produce
<b>NBFC</b>	Non-Banking Financial Company
<b>NREGA</b>	National Rural Employment Guarantee Act
<b>NFS</b>	Non Farm Sector
<b>NSS</b>	National Sample Survey
<b>PACS</b>	Primary Agricultural Credit Services
<b>PFT</b>	Project Facilitation Team
<b>PRADAN</b>	Professional Assistance for Development Action
<b>Qtl</b>	Quintal (1 Quintal=100kgs)
<b>RRB</b>	Regional Rural Banks
<b>ST</b>	Scheduled Tribes
<b>SHG</b>	Self Help Group
<b>SGST</b>	Swarnajayanti Gram Swarozgar Yojana
<b>SMBT</b>	Sarvodaya Mutual Benefit Trust
<b>SPMU</b>	State Project Monitoring Unit

**Disclaimer**

This report is prepared by consultants, Mona Dikshit, Subhash Jindal and Vijay Mahajan and should not be taken to represent the views of Department For International Development, Enterplan, MPRLP and TCPSU.

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## **Executive Summary**

# Executive Summary

This position paper has been commissioned as part of a review of the MPRLP, towards the end of Phase I and to provide some ideas for the design of Phase II. The focus of this paper is on the role of financial services in achieving the project goal and purpose. The paper begins by reviewing the profile of livelihoods of the target group households, using data from the baseline survey, coupled with recent field visits. The broad picture that emerges is that while agriculture is the predominant activity for most households, the livelihood pattern can be characterised as a diversified portfolio of subsistence activities. Credit then becomes a coping strategy. The paper makes the point that it is erroneous to infer from credit usage data that there is a demand for certain kinds of credit. Instead, it posits that if other financial services, such as savings, insurance and money transfers, were available, those would substitute for credit. It also places credit and microfinance services for the poor in the perspective of fundamental services needed – that is building the natural, human and infrastructural base, given the underdeveloped areas that MPRLP operates in.

Using data from the 2003 National Sample Survey, the paper examines the pattern of credit usage and finds the expected trends – a lower proportion of the poor, either by social or economic category – have access to credit, even from informal sources. The proportion of consumption credit including for medical purposes, is quite high among the poorer segments. In terms of productive use, the main share is for crop inputs and for investments in land and water resource development. Non-farm activity is quite limited.

The paper then gives an overview of financial service provision in MPRLP locations based on field visits. The general picture that emerges is that while good initial steps have been taken in almost all locations, in terms of forming or reviving self-help groups, the credit flow is still small and there is little of savings and insurance. The usage pattern of the community fund placed with the Gram Sabha was also studied and it was found that there was a demand for investing in land and water resources. These investments tend to be lumpy, long-term and collective, and in that sense such livelihood finance is quite different from micro-credit, which is small, short-term and aimed at individual households.

The paper identifies three main constraints in the provision of financial services: (a) inappropriate products and procedures (b) inadequate outreach of distribution channels and (c) distorted financial behaviour among the target group. Based on this analysis, the paper recommends a strategy for building a community based financial structure, using the Gram Sabha as a trusteeship institution. The specialised function of identifying and aggregating the demand for financial services would be carried out by a Financial Services Supervision (FSS) Committee of the Gram Sabha, whose members will receive special capacity building inputs from PFTs, who themselves will be trained further. The FSS Committee is expected to negotiate with various financial service providers like post offices, MFIs, banks and insurance companies, to get the best terms for the community, which will be organised into self-help groups (SHGs) of users. Over the long run, the SHGs of an area may be federated into a cooperative and thus establish a sustainable community financial institution.

# 1 | **MPRLP Target Group and Financial Services**

# 1 | MPRLP Target Group and Financial Services

1 DFID UK supported Madhya Pradesh Rural Livelihoods Project (MPRLP) has a budget of GBP16.41 million (approx. Rs 145 crore) over three years (2003-06), of which GBP13.89 million is financial aid funds and GBP 2.52 million is for technical cooperation. The Project operates in six districts covering over 43000 families. The Project envisaged a central role for the Gram Sabha as the leading developmental platform, which would plan and implement all activities, including the provision of financial services, in a participatory manner. At the time of the study, MPRLP was working with 827 villages out of which more than 250 Gram Sabhas have been mobilised to become the platform to take up this kind of role after due capacity building.

## Livelihood Profile of MPRLP Target Group

2 The Baseline Survey showed that agriculture is the most important source of livelihood, followed by wage labour and migration. This is particularly true for the SC/ST and Poor households. The dependence on agriculture as the main livelihood is higher in the case of Medium and Better Off households. Artisanal activity, petty business and livestock are main livelihoods for very few families.

**Table 1.1: Percentage HHs (Households) Who Rank Occupation as Primary**

	SC/ST HHs	Poor HHs	Medium HHs	Better Off HHs
Agriculture	79%	63%	92%	93%
Wage labour	19%	26%	9%	6%
Migration	11%	12%	8%	2%
Artisanal	1%	1%	2%	0%
Petty business	1%	1%	2%	4%
Livestock	0%	0%	0%	0%
Private	1%	1%	2%	4%
Others	1%	1%	1%	6%

3 Within agriculture, the households depend substantially on paddy for their livelihood, following by wheat, maize and pulses. Only 12 percent of those growing paddy reported selling the produce while 26 percent of those who grow wheat, 15 percent of those who grow maize and 40 percent of those who grow pulses, sell their produce. Almost all households also engage in wage labour, occasional collection of non- timber forest produce and some degree of migration. In the western districts of Jhabua, Dhar, Sheopur and Barwani, for many poor households migration and agricultural labour are equally if not more important than farming on own lands, as a livelihood source. This livelihood pattern can be characterised as a “diversified portfolio of subsistence activities” (DPSA),<sup>1/</sup> as illustrated through two household caselets in Appendix 1.

<sup>1/</sup>

Mahajan, Vijay 2003 . “The Algebra of Livelihoods”, a PowerPoint presentation in APMAS Workshop on Livelihoods in Andhra Pradesh. BASIX, Hyderabad. See Appendix 1

## Growing out of Poverty with Credit – Possibilities and Limitations

4 Given that the productivity of MPRLP target households is quite low, as seen from the livelihood profiling in the baseline survey, it appears that access to short term credit to purchase inputs – seeds, fertilisers, diesel, as well to medium term credit buy small livestock, deepen wells or dig new ones, and level the farm land, could help them to enhance their output and grow out of poverty. Our field visits for this study showed a high dependence on moneylenders.

5 For example, in Sheopur district clusters, the Bania-household lending / borrowing relationship is a long term one where he lends Rs 5000-10000 pa per household, and it could be for any purpose. The closest bank is 20-30 km away. Households have migration as the main recourse for livelihood. Nearly 75 percent of the families take loan from the local moneylenders in the range of Rs 5000-20000 at an interest rate as high as 60 percent pa, to meet expenses on agriculture, marriages etc. Nearly 80 percent of the Gujjar community has a debt burden of Rs 20,000-25,000 and 50 percent of Saharias have a debt burden of Rs 5,000-10,000.

6 In Anuppur district, the main source of getting loan is the local moneylenders. The maximum loan one gets from the moneylender is around Rs.3000. Nearly 80 percent of the families among the Kols and Baiga take loan from the moneylenders. These loans are taken during Dahkarm (death ritual), marriage, serious disease, and for agricultural purposes.

7 For both the landed and the landless, access to credit for crop cultivation, consumption and social events was a necessity. However, it may be wrong to interpret this to indicate that the underlying demand pattern is all for credit. In fact, it indicates a situation of chronic income deficit. Several other studies have revealed that in rain-deficient districts of the State, agricultural incomes are often not sufficient even for meeting consumption requirements of households. Even when production credit is disbursed, the beneficiaries utilise part or whole of that loan for meeting their basic needs, eventually becoming defaulters, leading to distress migration of cash-strapped and loan burdened tribals, as in Betul and Sheopur, for example.<sup>2/</sup>

8 In such chronic income deficit households, credit substitutes for all other possible financial services – savings, insurance and money transfers. For example, if savings were available as a service, some of the consumption credit, at least at the level of small and middle farmers would not be required. If efficient money transfer services existed, the poorer households who have a family member earning in a city, would not need to borrow in the village. Long-term savings schemes could partly replace borrowing for marriages and death ceremonies. If health insurance were available, some of the borrowing for medical purposes would go down. Similarly, if reliable crop insurance were available, farmers would not become further indebted in drought years.

9 In the absence of these other financial services, the poor tend to borrow. Thus, it is wrong to infer from usage data that every borrowing implies the need for credit. Many of these needs can be handled better with other financial services.

<sup>2/</sup>

For examples please see: Llewelyn S. (2005). *Globalisation and Labour Migration from Betul District, Madhya Pradesh*. Field Report # 4: Shastri Applied Research Project (SHARP) on Globalisation and the Poor: Sustaining Rural Livelihoods in India. Delhi: JNU and CSD and Guelph: University of Guelph; Bhattacharya P. and S. F. Hayat (2003). Sustainable NTFP Management for Livelihood and Income Generation of Tribal Communities: A Case from Madhya Pradesh, India. In: A. J. Hiremath and G. C. Joseph (eds.). Proceedings of the Conference on 'Policies, Management, Utilisation and Conservation of NTFPs in the South Asia Region', organised by FAO and ATREE, during April 28-30, 2003, p. 34-36. Bangalore and Bangkok: ATREE and FAO.

## Risks and Vulnerability: How Insurance and Savings Can Help

10 However, credit by itself is not good enough, since the activities and cash flows of the poor are subject to several risks. For example, crop yields can go down severely in drought years, or due to un-seasonal rains or occasional pest attacks. Livestock are prone to disease and if untreated, death, leading not only to loss of current income but also an asset getting wiped out. For the landless, whose main asset is their own body, falling ill is a major and frequent risk, because not only does it disable them from working for wages, it also may involve out-of-pocket expenses for medical treatment. Finally, death of a family member is a not only a shock, but also where he/she was earning, the crisis has another dimension as household income goes down, and even otherwise, expenses are involved in the death ceremonies.

11 In theory, these contingencies can all be handled by appropriate insurance products, such as life insurance, health insurance, crop and livestock insurance. The problem, however, is that often the frequency of risks for the poor is so high that they are not insurable at any reasonable cost. Some degree of public investment is required in reducing the risk levels, before the poor become insurable. For example, the incidence of diarrhoeal diseases can be reduced significantly by ensuring that all households have access to safe drinking water. Even when the morbidity is reduced, in case of health insurance by an external agency, the costs of verification of small claims makes it prohibitive to offer anything but cover for catastrophic illness, which requires hospitalisation and more. Smaller claims, which are more frequent, have to be managed through a localised, preferably community-based insurance mechanism.

12 Thus, for the poor, it may be desirable to begin with self-insurance in the form of savings, and then graduate to mutual insurance. However, the meagre savings of a poor household may not be enough for a large adverse event or when several adverse events happen in quick succession. In such cases, mutual insurance can help. Savings are a form of self-insurance – to be used in case of a contingency. Savings can be local, or from family members who have migrated to cities, in which case money transfer services become necessary.

13 To summarise, we argue that while credit is the most oft demanded financial service, offering insurance, savings and money transfer services is equally important and indeed may obviate the need for credit to some extent.

14 Further, while financial services – credit, savings, insurance and money transfer – are important for enhancing the livelihoods of poor households, growing out of poverty requires going beyond provision of financial services. Given the livelihood profile of poor households characterised by a “diversified portfolio of subsistence activities”, the solution lies in additionally providing agricultural/business development services like productivity enhancement, risk mitigation, local value addition and alternate market linkages. As these require some action by public systems and some collective action, additionally, institutional development services need to be provided as well, comprising group formation, training, capacity building, and establishing and managing formal producers’ organisations such as cooperatives.

15 Livelihood enhancement also requires investment in regeneration of the natural capital – land, water and forests – which forms the very basis of livelihoods in the MPRLP areas; as also in human capital, social capital and physical capital such as roads, power and water supply. Such investments are lumpy, long-term and collective, quite in contrast to the small, short-term and individual household level investments that are made through micro-credit. The combination of such long-term finance with agricultural/business development services and investment in building social capital through institutions such as the Gram

Sabhas is called “livelihood finance”.<sup>3/</sup> We propose to use this construct throughout this paper.

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<sup>3/</sup>

Mahajan, Vijay. “From Microcredit to Livelihood Finance” in Economic and Political Weekly, October 8, 2005. Sameeksha Trust, Mumbai.

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## **2 | Assessment of Annual Micro Finance Usage**

## 2 Assessment of Annual Micro Finance Usage

16 Although microfinance is a relatively new term, India has a long tradition of small loans both by formal and informal sources. Starting 1951, India has maintained a large long-term database on rural "indebtedness", through the All India Debt and Investment Surveys (AIDIS), which can be used to study access to credit. In 2001, the AIDIS was merged with the National Sample Survey (NSS) on the "indebtedness" of farmer households, carried out in 2003 as the 49<sup>th</sup> Round of the NSS.

17 Indebtedness is defined by the NSS as having an amount outstanding in excess of Rs 300 at the time of the survey, to any informal or formal source. We believe it reflects an older mindset to call all households having outstanding loans as indebted. A household would be indebted or in a debt trap only when it is unable to service the interest and part of the principal of its outstanding loans, for a prolonged period of time. This may happen due to chronic income deficit, and contingencies such as severe drought, death of livestock, major illness or death in the family, or a natural calamity. In this paper, thus we use the data related to "indebtedness" to look at access to credit, from all sources, not just MFIs.

18 The first point to note (Table 2.1) is that only 508 per 1000 or 50.8 percent of the farmer households indicated any loan outstanding. Considering that the survey covered a whole year this shows that as many as half the household do not have access to even informal sources of credit, except perhaps very small amounts below Rs 300 from relatives and neighbours.

19 The purpose of loan uptake revealed that about 20 percent of borrowing in 2003 was used for meeting expenditure related to consumption, social events, and medical treatment. This figure was as high as 86 percent in the case of farmers engaged in "other agriculture activities", mainly livestock rearing. This shows that lack of own grown food leads to borrowing for consumption, which is then repaid seasonally through sale of milk products and/or livestock.

### Access to Finance by Different Socio-Economic Categories

20 One can study the extent of financial exclusion of different social categories by disaggregating the above data. Since Scheduled Tribe households form a significant part of the MPRLP target group, we looked at the data for them separately. As per Table 2.2, which isolates the data for Scheduled Tribe cultivators, the stark fact is that only 38.4 percent of ST households got access to credit as compared to 50.8 percent for the population as a whole.

21 Among STs, 44.4 percent of the loan amount taken was used for capital expenditure (mainly land leveling and well digging/deepening) while 30.4 percent was in current expenditure in farm business (mainly seeds and fertilisers). Nearly 16 percent of the loan was taken for consumption, medical treatment, marriages and ceremonies. Consumption accounted for 56 percent of the amount borrowed by Scheduled Tribe households engaged in farming other than cultivation (mainly agricultural labour in others' fields), signifying the importance of making consumption credit accessible to this section of the target group. These households also borrowed 19.4 percent of the loan amount for non-farm business, indicating that for them diversification is a necessity and so is financing it. Similar loan utilisation patterns exist for the Scheduled Caste and Backward Caste farmers in the State.

## Overall Picture

Table 2.1: Per 1000 Distribution of Outstanding Loans by Purpose of Loan for Different Sources of Income of Farmer Households (All Social Groups) in MP (Jan-Dec 2003)

Source of Income	Purpose of Loan									No. per 1000 of Indebted Hhs.	Estimated No. of Farmer Hhs. ('00)	Sample No. of Farmer Hhs.
	Capital Expenditure in Farm Business	Current Expenditure in Farm Business	Non-Farm Business	Consumption Expenditure	Marriages and Ceremonies	Education	Medical Treatment	Other Expenditure	All			
Cultivation	506	239	8	74	123	0	33	18	1000	553	37136	1501
Farming Other than Cultivation	725	105	11	62	81	0	0	15	1000	518	878	43
Other Agricultural Activity	70	46	24	739	48	0	3	70	1000	620	2942	88
Others	335	122	44	112	260	3	60	65	1000	418	22250	823
All	470	213	14	96	144	1	36	27	1000	508	63206	2455
Estimated No. of Farmer Hhs. ('00)	9666	13166	1183	8159	5340	112	1630	1408	32110	X	x	X

Source: Indebtedness of Farmer Households, NSS Report No. 498, 59th Round (Jan - Dec 2003).

Table 2.2: Per 1000 Distribution of Outstanding Loans by Purpose of Loan for Different Sources of Income of Farmer Households (ST) in MP (Jan-Dec 2003)

Source of Income	Purpose of Loan									No. per 1000 of Indebted Hhs.	Estimated No. of Farmer Hhs. ('00)	Sample No. of Farmer Hhs.
	Capital Expenditure in Farm Business	Current Expenditure in Farm Business	Non-Farm Business	Consumption Expenditure	Marriages and Ceremonies	Education	Medical Treatment	Other Expenditure	All			
Cultivation	421	366	9	53	86	0	38	27	1000	408	7805	282
Farming Other than Cultivation	16	217	194	558	0	0	0	15	1000	692	213	10
Other Agricultural Activity	349	158	0	0	163	0	0	330	1000	201	727	29
Others	538	137	0	52	115	0	29	128	1000	358	4572	183
All	445	304	9	59	93	0	35	55	1000	384	13317	504
Estimated No. of Farmer Hhs. ('00)	1358	2502	60	959	494	0	140	343	5116	x	x	X

Source: Indebtedness of Farmer Households, NSS Report No. 498, 59th Round (January - December 2003).

**Table 2.3: Per 1000 Distribution of Outstanding Loans by Purpose of Loan for Each Size Class of Land Possessed by Farmer Household in MP (Jan-Dec 2003)**

(Per 1000)												
Source of Income	Purpose of Loan									No. per 1000 of Indebted Hhs.	Estimated No. of Farmer Hhs. ('00)	Sample No. of Farmer Hhs.
	Capital Expenditure in Farm Business	Current Expenditure in Farm Business	Non-Farm Business	Consumption Expenditure	Marriages and Ceremonies	Education	Medical Treatment	Other Expenditure	All			
<0.01	28	0	78	138	17	0	439	299	1000	493	234	43
0.01-0.040	196	145	74	252	225	2	81	25	1000	330	7737	241
0.40-1.00	378	117	34	140	217	3	68	43	1000	441	17905	739
1.01-2.00	470	182	11	172	119	0	25	20	1000	522	16681	536
2.01-4.00	399	243	9	59	242	0	31	16	1000	582	12661	384
4.01-10.00	572	272	8	37	44	1	15	49	1000	655	6370	435
10.00+	650	235	0	37	26	0	50	0	1000	766	1618	77
All Sizes	470	213	14	96	144	1	36	27	1000	508	63206	2455
Estimated No. of Farmer Hhs. ('00)	9666	13166	1183	8159	5340	112	1630	1408	32110	x	x	x

Source: Indebtedness of Farmer Households in India, NSS Report No. 498, 59th Round (Jan - Dec 2003).

22 Yet another way to analyse lack of access to credit is by households categorised on the basis of size of their land holdings (Table 2.3). The first thing to be noted is that financial exclusion is higher at the lowest land ownership categories, with only 49.3 percent of the landless and 33.0 percent of those holding tiny parcels below one acre, getting access to credit as compared to 76.6 percent at the highest level. We can also see that consumption credit and medical credit for landless, marginal and small farmers stood out.

23 Loan use for medical purposes by landless households was found to be particularly high, suggesting that lack of land ownership leads to food insecurity, poor nutrition and increased susceptibility to diseases. As the class of land size increased, the proportion of loans taken for farm business, both for capital and current expenditure, went up. However, the proportion for non-farm activity went down, indicating that diversification from agriculture is only a coping strategy for the poorer households and that well-off households have not yet begun significant non-farm diversification.

### Reasons for Financial Exclusion

24 The reasons why some socio-economic groups have lower access to credit and other financial services have to do with both the demand and the supply side, as well as with regulation. On the demand side, poverty and consequent low income and high variance, coupled with low literacy rates, makes the poor shun formal financial institutions. Their prior indebtedness to moneylenders also comes in the way. In Jhabua, for example, over 90 percent of the households said they owed money to the moneylenders. In Sheopur, the Saharias had mortgaged their land several years ago and in addition were indebted beyond that collateral.

25 Though MP has a large number of branches of nationalised commercial banks, a network of regional rural banks (RRBs) and cooperative banks with their own network of branches as well as primary agricultural credit societies (PACS), the density of these outlets is not adequate in the MPRLP's predominantly tribal districts. The bank branch can be as distant as 20-25 kms away, too far to go on foot or bicycle, and the requirement to go by bus adds transaction costs, which precludes frequent and small transactions.

26 Though households, even the ones at lower income levels, wish to save, the amount they can save each time is small and thus it does not make sense to take a bus to go to a bank. That is why, even if a tribal household has a bank account, it rarely uses it for savings purposes, instead treating it as a requirement to get government scheme linked bank loan. As a result, savings remain as cash in hand and get frittered away.

27 In addition to having fewer and more distant branches in MPRLP areas, banks and insurance companies tend to have inappropriate products, elaborate procedures requiring several documents and unfriendly staff. When discussions are had with the community they gave very negative reactions and bad experience with bankers and various government departments under many sponsored schemes. The villagers said they had to go several times, and also pay money to get the documents needed to complete the procedures. Many villagers have become "defaulters" under various government schemes where there has been a credit component from the formal banking system. Having become "defaulters", they and their families and even their next generation, is ineligible for a loan.

28 Regulation has often come in the way of enhancing financial inclusion. One of these has been the insistence of doing all transactions through brick and mortar branches, rather than adopting more friendly and cost-effective methods such as mobile branches which operate in the numerous weekly haats. The use of "pygmy" deposit collectors was stopped by banks long ago after a few bad experiences. The Reserve Bank of India has also discouraged "residuary" non-banking companies such as Sahara and peerless, which have served millions of depositors by offering to collect small amounts from their doorsteps as

recurring deposits. Shutting such entities down rather than supervising them better, only leads to the poor not getting access to much needed savings services. Ceilings on interest rates on loans below Rs 25,000 have also discouraged banks to lend to this target group. It is well known that the transaction costs of small loans are high and even the most efficient methods cost 12-15 percent of the tiny loan amount. Putting ceiling on interest rates has meant that no legitimate institution operates in this market segment, leaving it open for moneylenders.

## **3 | Provision of Financial Services in MPRLP Review of Status**

## 3 Provision of Financial Services in MPRLP or Review of Status

### Savings Services

29 There are relatively few examples of savings promotion at present. In Bijadandi block, Mandla district, the PFT (BASIX) has been involved in one cluster of seven villages comprising four panchayats. The PFT has so far formed 6 SHGs with 63 members. The savings per member range from Rs 10-25 and average is Rs 15. Bank accounts for SHGs were opened at RRB in Bijadandi in July 2006. To further promote savings, they have done the groundwork to start opening of savings account at post offices. For that purpose several rounds meetings with the Branch/Sub post office staff and community have been held.

30 In most clusters, there are a few so-called "SHGs" or groups that were formed 2-3 years ago under various schemes of the State and Central Government by different Departments such as groups under ICDS formed by Aanganwadi workers, Groups formed under SGSY, etc. These were supposed to encourage thrift and provide access to microcredit. However, the commonly found result is that they ran for 2-3 years, savings were made, and withdrawn, and SHG stops functioning in most cases.

31 In one of the clusters in Dhar, the PFT is trying to revive and run the SHG. The PFT members have been interacting with earlier formed good SHGs encouraging them to restart/continue meeting and saving, and not wind up. These SHGs however want some activity/benefit. They have agreed to wait till Diwali, otherwise they have decided to dissolve. Savings by itself is not seen as a 'benefit' or worthwhile thing to do.

32 However, there was some interest in establishing grain banks, which serve as savings devices, with the simultaneous advantage of enhancing food security. This idea needs to be further explored in the design of the second phase.

### Credit

33 Local money lenders exist in and around the villages. So, during requirement the poor households used this source. The interest rate imposed by the money lenders is 4 percent to 15 percent pm with security. In most cases the villagers depend on neighbours and relatives but these are insufficient to cater the needs. Hence most of the households take loans from the local moneylender.

34 For example in Sheopur, an Agarwal family, who covers three villages, has been giving loans in cash and kind to families in these villages over the years. These families go to him every year, at least two times. In June-July, households come to him for loan for fertilizer/seed requiring an amount of Rs 3000-5000. A second time in the year, they need loan around Diwali time amounting to Rs 5000-10,000. This is for oil, food grain, vessels, etc. Loan for health needs arises on an average once in two to three years, amounting to Rs.2000-5000. The interest rate is 5-10 percent pm. Every family seems to have a credit requirement of around Rs 10,000-15,000 in a year.

35 SHGs are formed in many schemes with the motivation of getting loans. There are a few SGSY SHGs formed by the ICDS worker. In a Barwani cluster, The Janpad ADO had also formed SHGs. There were also a few Watershed Mission Program SHGs. Most such SHGs are closed. 7 of the SHGs made by the Janpad ADO passed their I grading and some even passed the II grading. They each have got loan of Rs 25,000. MPRLP has also started making SHGs. In Tikri cluster they have made 18 groups. There are also seven Kisan Clubs (farmer groups). Loans have been taken for agriculture and basket making. First loan was repaid, and second has been given.

36 In Pahatsara, Bijadandi, initially, the villagers even resisted the concept of micro credit through the gram kosh. However, the PFT worked hard to assure the villagers and build visions of how village community could use their funds/money in the long run through well designed and loan-based financial services and benefit out of it. Given the remoteness of the area and the physical distance and difficulties of transacting with formal financial system, and the need for finance for livelihoods improvement, it was thought out and discussed with the community if the Gram Sabha in anyway, could serve to enhance and deliver/catalyse financial services. Having discussed these aspects very deeply and openly with the community over several rounds in all villages, it was decided to pilot micro credit operation by using gram kosh. Gram Sabha meetings were conducted to develop norms including interest rate and finally, initiate the process of lending slowly, and to facilitate the Gram Sabha to establish a community based credit system. Thereafter loan proposals came up in every Gram Sabha meeting and decisions have been taken on those proposals.

37 Starting in March 2006 till August 2006, the Gram Sabha has disbursed Rs.3,52,500 and the customers are repaid timely with On Time Repayment Rate over 98 percent .

**Table 3.1: Cluster – Maniksara, Bijadandi block, Mandla District - Summary of Micro - credit Operation**

Sn	Village	No.of customers	Total amount disbursed (Rs.)
1	Pahatsara	8	33,000
2	Pindraimaal	12	60,000
3	Maldha	26	121,000
4	Dungaria	19	66,500
5	Bhatadungaria Rayat	7	35,000
6	Bhatadungaria Maal	2	10,000
7	Khami	6	30,000
<b>Total</b>		80	355,500

38 In the Tikri cluster, Barwani District, most households have around half to one acre land and very few are landless. Agriculture is the main livelihood. In Kharif soya, maize and cotton is grown. In Rabi wheat and chana (chick pea) is grown. The main financial requirement is credit for agriculture operations. Households also commonly own livestock and take loans for – dairy animals, goat and bulls. 95 percent households are defaulter to the formal banking institutions, and this indebtedness passes onto the next generation also. Default per household ranges from Principal amount of Rs.6000 – 50,000. The formal banks are closer to the villages on an average, compared to the forest villages in eastern MP. A cluster of 10 villages could have as many as 4 banks in the vicinity – Punjab National Bank, Bank of India, Bank of Maharashtra and Nimar RRB. There has been transaction between the rural poor in the clusters and the formal banking system, but to adverse effect.

39 PFTs in Sheopur district clusters find that a majority of the households take loans from the local moneylenders on regular basis over the years, in cash and kind. Most households have given their land out on share cropping or it has been mortgaged. They depend on migration for subsistence where it is a coping strategy, and income in other cases. The credit demand here is for release of land and goatery. Under MPRLP, in one cluster, total loans amounting to Rs 2.5 lakh have been made for Kharif and Rabi agri-inputs. The loans have gone for seed, fertilizer, ploughing in Kharif for tilli and bajra crops, and in Rabi for mustard, wheat and chana. Average Loan amount is between Rs 2000-3000 pm @ 1 percent pm. In another cluster, MPRLP loans have been given to 54 persons @ Rs 2000 per person, totalling to Rs 1,10,000.

40 In Jhabua district, loans from MPRLP funds have been so far given mainly for micro enterprise development and agriculture (seeds, fertilizer). The system followed for seed loan has been to give seed material loan in kind (maize, soya, cotton) for the season. It is returned @ 1.5 kg for 1 kg, at end of four to five months (end of season).

41 It can be summarised that while the effort is mixed, a common limitation thus far is that there is no systematic collected data on loans given, purpose, terms, rate of interest etc. The result is mixed – there are good efforts, there are worries about repayment, and in many cases the loan size may be too high. This may be due to both incorrect estimation of need as well as due to garnering of benefits by a few members of the village.

**Table 3.2: Summary of Estimated Loan Amount of Different PFTs\***

Sn	Dist	Block	Loan amt	No of loanees	Avg Loan size	Perception remark
1	Badwani	Thikthi	27800	26	1069	
2	Barwani	Block:	195000	20	9750	
3	Dhar	Badnawar	2415000	191	12644	
4	Dhar	Dharampri	379000	29	13069	
5	Dhar	Bagh	210000	15	14000	Needs review, certain cases loan size is too high, in village - Chomgkar. Ghai, Karchat
6	Dhar	Mahawar	226000	13	17385	Certain loan size are too high, need review in Devra and Gopalpura vill
7	Dhar	Gandhwani	140000	8	17500	Loan size is high but seems to have reasonable activity also
8	Jhabua	Meghnagar	708000	116	6103	
9	Jhabua	Sondawa	480800	64	7513	
10	Jhabua	Rona	1292000	117	11043	
11	Jhabua	Udagarh	1420000	122	11639	
12	Jhabua	Rama (N)	1310000	68	19265	
13	Sheopur	Vijay pur	119900	54	2220	
14	Sheopur	Karahal	316000	212	1491	Very reasonable, good efforts

\*Based on discussion in Indore on 7-8<sup>th</sup> September 2006.

## Community and Grant Financing

42 Since MPRLP offers some untied development funds to the Gram Sabha, the pattern of expenditure yields some interesting information on demand for finance.

43 In the state as a whole, up to June 2006, 41 percent of Rs 11.59 crore spent has been for water resource development plus another 12 percent for agriculture which makes the total over 50 percent. The Animal Husbandry (Livestock) and Non-farm IGA account for the next maximum expenditure, at around 18 percent of total money going into each of these sectors. Notably, of the total expenditure, the community contribution has been 17.88 percent. This is an encouraging trend and needs to be built on in the second phase.

**Table 3.3: Purpose for which MPRLP funds were used in the Villages, as decided by Gram Sabha (up to June 2006)**

Components	Total Project Expenditure (lakh Rs.)	% of each component to total	% Community Contribution to total project expenditure
Agriculture	139	12	14.88
Animal Husbandry	216	19	12.56
Capacity Building	8	1	5.72
Water Resource development	477	41	25.50
Information communication	4	0	2.32
Non Farm Based IGA	211	18	12.41
Drudgery reduction	23	2	14.16
Others	79	7	9.38
Total Expenditure	1159	100	17.88

44 We see from the Table 3.3. above that over 50 percent of the expenditure has been made on water resources and agriculture. Given the present livelihood profile, development of natural resource base for agriculture (clubbed here under water resources development) is clearly and by far, the top priority of the villagers. It includes a large number of activities to improve the land for agriculture production, and creation of resources for supplementary irrigation to their crop.

45 This means the demand for finance is not just in the form of small crop loans for individual farmers from season to season, which can be met by microcredit. This also requires investments in land and water resource development that are lumpy (much larger than typical micro-credit investments), and where the gestation period for the investment to give full returns is longer and such investments and returns affect a larger number of households than just one households. This is what we call livelihood finance and it needs to partly funded from government programs like new National Rural Employment Guarantee Act (NREGA).

46 To illustrate, let us take a look at detailed picture available from the PFT of a cluster in Bijadandi Block of Mandla District. A detailed study was done of all households in a tola (hamlet) to see their requirements for a sustainable improved livelihood. In other words, what are the investments needed to improve the livelihoods on a sustained basis? And how, in what form, can they be made and delivered?

47 This cluster is of 25 households having all ST families save 3 households that are OBC. Well being ranking shows 10 as Better off, 9 Poor and 6 Very Poor. Two households

are landless and average landholding of the rest is 2.5 acres. Apart from agriculture, 15 households (60 percent ) also migrate. As many as eight households have a livelihood from NFS also.

48 A matrix with households in rows and required livelihood investment (sector-wise) in the columns was prepared. (See Appendix 2). The sector-wise investment required in terms of financial resources, and order of priority of investment was also recorded. The summary is given Table 3.4 below:

**Table 3.4: Livelihood Support Plan based on a Hamlet of 25 Households' Demand / Choices**

Activity	Total investment	No. of HH benefit	Community Contribution (assume 20%)	Net Investment needed from outside
Repair of Stop Dam coverage for this Tola	125000	25	25000	100000
Old Well repair	20000	10	4000	16000
New well	80000	20	16000	64000
Land Bunding Shaping	75000	19	15000	60000
Farm Pond	30000	2	6000	24000
NFS	38000	9		38000
Agri Allied	55000	11		55000
Promote improved seed	11500	23	2300	9200
Vermicompost	17500	5	3500	14000
Fruit Tree	11500	23	2300	9200
NADEP compost	15000	5	3000	12000
Vegetable badi (plot)	2500	25	500	2000
Veterinary care & fodder Development	9100	19		9100
Hand pump for drinking water	70000	25		70000
Community Institutions	125000	25		125000
TOTAL	685100	25	77600	Approx. 6 lakh

49 The salient features of the above hamlet level micro-plan are:

- The investment required for a sustainable livelihood support plan based on existing livelihood sources, potential, livelihood choices demand is around Rs 6 lakh. These are both short-term and long-term in nature, individual and community based, and involves lumpy and micro financing.
- Such investments can be financed appropriately through a combination of community labour contribution, government grants, livelihood finance (longer term loan to community for common assets with longer gestation), individual long-term loans, short term microcredit.

- Outside financing required is reduced to some extent depending on contribution by the beneficiary/community (through labour, material, etc).
- The plan includes a necessary and critical investment in the community human and institutional resources, training, community institutional development and knowledge and skill transfer to the community, estimated at Rs 1.25 lakh.
- In terms of priority ranking from 1-4 in ascending order, 19 of the 25 households had Irrigation as top priority (Irrigation includes Renovation of own or common well, new well and repairs/construction of stop dam) two households gave top priority to farm pond, and one to land bunding. That makes a total of 22 households out of 25 that want support in the sector of soil/water harvesting / conservation (mainly for agriculture).
- The second important priority for most households is also in the sector of soil/water harvesting/conservation for agriculture. 19 households want farm bunding, two want a well, one wants a farm pond, which is as many as 22 households. Between these two categories, the amount of investment required is Rs 3.30 lakh, accounting for almost 50 percent of total investment required.
- Only a few households put investment in a sector other than land/water/agriculture as top priority. Three households wanted investment in livestock, another three households also had second priority for investment in their ongoing NFS activity.

### **Insurance Services**

50 The awareness and usage of insurance services is low in MPRLP areas. Life insurance as a concept is known and there are examples of poor people being covered under some group insurance schemes. Crop insurance and livestock insurance also exists sporadically. There are no schemes for health insurance.

51 An example of a group life insurance scheme was the coverage of tendu-patta rollers by the MP Minor Forest Producer Federation (MPMFPP). However, the situation vis-à-vis information on the service is poor and claiming settlement is involves unwarranted transaction cost and time. The details of three such cases are presented in the box below:

**Life insurance for Tribal families – Case study of Tendu-patta rollers in MP**

*Pahatsara is one of the 4 villages of the Maniksara Gram Panchayat in the Bijadandi Block of Mandla District, 20 kms away from the block headquarter. In this village, like so many villages in forest areas of Madhya Pradesh, collecting and rolling Tendu Patta is a common seasonal activity for almost all households, and these areas are also predominantly inhabited by tribals (Gonds). It is mainly the women who do this activity in their houses. The GoMP through the Madhya Pradesh Minor Forest Produce Federation (MPMFPP) and its primary societies has introduced a scheme of life insurance for the beedi rollers registered as primary society members.*

*One villager (names withheld) we spoke to had lost his brother. He had received Rs 3,500 as insurance settlement. The process of fulfilling the formalities and completing the transaction required for the settlement money went as follows. The prabhandak (or village organiser for tendu patta rollers who collects the packs rolled by them, arranges for their transport to the MFP primary society and arranges payments by the society to each roller) is the point of transaction for the villager for the insurance service also. The prabhandak organised for the settlement to be paid out to the beneficiary amounting to Rs 3,500. In order to get the cheque, the beneficiary paid the prabhandak Rs 300. It took him three visits to the bank at Bijadandi, to open the bank account. This done, three more visits to the bank were made in order to finally get the money in hand. The closest bank to Pahatsara village is the SBI branch at Bijadandi Block Headquarter, which is 3 km of kacha track from the village to the main road, and an hours drive through the rough road to Bijadandi. On probing, we gathered that these transactions involved a cost of altogether around Rs 1000, mainly travel and travel-related expenses. The time lapse, from death of the insured to the surviving beneficiary receiving the payout of Rs 3,500, was one year.*

*In another case, he had lost his mother a year ago and to get the insurance claim, he had duly opened a SB account. The Prabhandak has informed him that he will pass on the insurance settlement application to Mandla for further processing at Bhopal, once the amount is received he will pay the beneficiary. Prabhandak has also taken Rs.300 as fees. No insurance had been received, and nor did he seem to be aware of the possibilities of claim settlement.*

*A third case: The 25 year-old brother of a tribal had died. A death certificate was duly issued by the Sarpanch. The Prabandhak in this case lives in Bakori village near Mandla. The beneficiary was not aware of what insurance settlement he is supposed to get. However, he did get a settlement of Rs 2,500. Another Rs.10,000 was got from the Panchayat Sahayata scheme.*

52 At the state level, crop insurance is now “universal” under the Rashtriya Krishi Bima Yojana, however it is not easily available to small and marginal farmers. In Bijadandi, Mandla, the BASIX PFT has introduced a rainfall-index based crop insurance product of ICICI Lombard and sold 220 insurance policies to the farmers of 6 villages during this Kharif. It is a relatively sophisticated insurance product but farmers’ acceptance of it was high because of the chance of payout directly linked to their rainfall experience.

53 Livestock insurance is mandatory when the poor get bank loans to buy animals, but is not widely used other than that. As the project goes forward, plans will have to be made to integrate offer of various forms of insurance to the target group households, preferably through the Gram Sabha.

## 4 | Major Constraints

## 4 Major Constraints

54 The primary constraints faced by the MPRLP target group in accessing financial services can be classified in to the following:

### **Inappropriate Products and Procedures**

55 The credit, savings and insurance products that are available at present do not adequately respond to the needs of the target group. For example, no consumption credit is available, even though this is a primary need. Often, the consumption credit itself would not be needed if there were savings systems. Short term credit for crop inputs, though available from cooperative societies and banks, requires a lot of procedural documentation, involving several visits and costs. By the time crop loans are disbursed, the sowing season has passed and the tribals have to any way borrow from moneylenders or big farmers. For saving products, banks offer a reasonable interest rate only on fixed deposits of one year or more. The lumpy nature of these is quite contradictory to the relatively small amounts that poor households can save at a time. Likewise in insurance, life insurance requires proof of age, which is non-existent in most cases since births are not recorded. Livestock insurance requires a veterinarian examination of the animal's health at the time of insurance and a veterinarian certificate in case of a claim. Both are hard and costly to get in remote tribal areas.

### **Inadequate Outreach of Distribution Channels**

56 Even though there are a large number of formal financial institutions operating in MP, their outreach in MPRLP areas is rather limited. Typically, a bank branch is located at a block headquarter, which may be 15 to 25 kilometres away from a village. The branch of an insurance company is usually located only at the district headquarter. The branches of private insurance companies and banks are virtually non-existent, except in the big cities of Bhopal, Indore and Jabalpur. The distance makes these institutions both costly to deal with, as well as psychologically more inaccessible. While micro-finance institutions (MFIs) overcome some of these constraints, there are very few MFIs existing in the MPRLP areas. Expansion of MFI network, though desirable will take a long time and will also be costly. The only formal entity, which is closer to the villages is the Post Office network. While it offers savings and postal life insurance and money transfer (though at a relatively high transaction cost of 5 percent of the sum transferred), the Post Office does not offer credit.

### **Distorted Financial Behaviour among the Target Group**

57 The target group is characterised by combination of chronic poverty, indebtedness to moneylenders, a long history of government subsidised loans which are often waived, a general acceptance of corruption at the time of receiving loans and delay/default at the time of repaying. Due to illiteracy and lack of awareness of procedures and contractual terms, the users of financial services are often at the receiving end due to which they incur penal interest, fines and also lose legitimate claims.

58 The poor need and want to save much more than they want to borrow. However, the lower the income level, the less the saving, with it becoming negative below a certain level. But does this mean that the poor do not save at all? In practice, they do. Dividing the year

into just three seasons – Summer, rainy and Winter – we found that the poor were saving in the Winter season, while during the rainy season they were breaking even, and in the Summer they needed to borrow. In case they did not have adequate options of saving in the rainy and Winter seasons, their distress in the Summer became worse. Saving foodgrains at harvest could reduce their dependence on high interest consumption loans for buying food grains later at higher prices, and reduce annual expenditure for the same level of consumption. Thus grain banks were tried by some NGOs. Yet in an increasingly financialised world, it is not always possible to have such arrangements and saving in the form of money becomes necessary.

59 However, the microfinance field in general focuses on credit and does not adequately emphasise other financial services, such as savings and insurance. The poor are willing to save as long as they are reasonably sure of the safety of their savings and their ability to withdraw at a short notice. The rate of interest is not an important attribute compared to the safety and liquidity of deposits. Another important attribute was how small the amounts could be saved and how frequently. Moreover, the target group is atomised and not organised into a cohesive user community. Thus, it is difficult to obtain good services or get favourable terms from service providers.

## **5** | **Integrating Financial Services in the MPRLP**

## 5 | Integrating Financial Services in the MPRLP

60 Given the centrality of the Gram Sabha in the design of the MPRLP, coupled with the shortcomings of formal financial institutions elaborated in the previous section, we recommend that financial services be provided to the communities covered by the MPRLP under the trusteeship of the Gram Sabha. By this, we mean that the Gram Sabha acts on behalf of the community of users, identifies and aggregates their needs for savings, credit, insurance and money transfers, and negotiates with the most appropriate financial service provider to ensure that reliable services are provided at a reasonable cost. However, the Gram Sabha is not expected to, nor should play the role of financial intermediation. This means it would not borrow in bulk from a bank or an MFI, nor lend in retail to individual households. Nor would it collect savings deposits from individual households.

61 The Gram Sabha should establish a Financial Services Supervision (FSS) Committee, comprising five to seven persons, a majority of them women, which will prepare a comprehensive demand chart for the following major products (see Appendix 3 for details of products):

- savings,
- consumption loans including for medical contingencies,
- short-term credit for crop cultivation and non-farm activity working capital, house repair,
- medium term loans for purchasing livestock, land levelling, well deepening, non-farm enterprise, housing, social events,
- long term loans for well digging, borewells, housing, horticulture/forestry plantation, and education,
- life insurance,
- health insurance,
- crop insurance,
- livestock insurance,
- money transfers from migrant workers back to the village,
- money transfers (government payments) for schemes like old age pensions and NREGA payments in to the village, and
- Specify investments where villagers will put in their contribution (cash, kind, labour, material etc) which will be used to leverage matching grants or other forms of investment from outside

62 Since it is not likely that all the above services can be provided by the same financial institution, the FSS Committee will identify different institutions such as

- the post office for savings and money transfers,
- the SHGs in the village or (to be formed later) area SHG Federations for savings, consumption loans,
- PACS and RRBs for short-term loans,
- commercial banks and MPST Finance and Development Corporation for medium and long term loans,
- the LIC or new private life-insurance companies for life insurance, and
- the GIC subsidiaries and new private non-life insurance companies for health, crop and livestock insurance.

63 All these tasks may seem too heavy for the FSS and Gram Sabha. Therefore, for a transitional period of two to three years, one PFT member may have to be designated and work exclusively for financial services. He/she will be employed and paid for by the Gram Sabha and deputed by it to the FSS. This Gram Sabha Financial Services Advisor (FSA) will be known as such to the village and the community, and not as a PFT member.

64 In order for the FSS committee to perform this function, significant capacity building inputs will have to be given. This can be arranged through MPRLP PFTs, who themselves may require additional specialised training in financial services. The training of the PFTs, FSA and FSS Committees should cover the following areas:

- Demand surveys for various financial services.
- Household development plans and its financial implications.
- Understanding the major contractual terms in financial transactions namely, interest rate, tenor, repayment schedule, moratorium period, loan processing fees, penal interest, hypothecation, collateral security, legal enforcement and the concept of individual and joint liability.
- In case of insurance contracts, understanding premium, the sum insured, the conditions covered, the triggers for claims, procedure for claims and related documentation.
- Basic accounting for various types of financial transactions by a household.
- Formation and management of SHGs.
- Concept of transaction costs and how to reduce them.
- Understanding of pricing of financial services and its cost components – cost of funds, operational costs and risk costs.
- Concept of financial sustainability after taking into account both the operational costs and risk costs.
- Enforcing contracts through mutual guarantee or joint liability.
- In the medium run, appraisal of loan proposals.
- Also in the medium run, channelising funds from government programs.
- In the long run, management of a community financial institution.

65 Another role that the FSS Committee can play is in channelising grants from government programs for investments in village-wide community activities – Livelihood Finance – such as watershed treatment, pasture and degraded forest regeneration, revival/building of water harvesting structures, building access roads and drinking water supply.

66 One of the spin-offs of this strategy would be to dovetail MPRLP with schemes in the area that are financing the poor such as public works under the NREGA, rural roads, water

supply and electrification, watershed development and joint forest management. All these are great sources for Livelihood Finance and can be made good use of by empowered Gram Sabhas.

67 This strategy of combining government grants with community contribution (usually of labour), with loans will enable the FSS committee to take a comprehensive approach to promoting livelihoods: first by strengthening the resource base that generates livelihoods; and then by fostering micro-enterprises that provide employment and income opportunities to the rural poor. The first initiative seeks to improve land, water and forest resources of poor people through integrated watershed management and community forest management.

68 The financial discipline and accounting skills that the FSS Committee would have acquired through training, will hold them in good stead in ensuring that the amounts received from the Gram Sabha for such programs are properly utilised and accounted for. Moreover, the distortionary effects of subsidies in programs like SGSY going to only a few households can be minimised by pooling any subsidy given to a household into the common fund held by the SHGs or the FSS Committee. This model has been successfully tried by the Velugu Program in Andhra Pradesh.

69 Once these investments are made, it will lead to a situation of increased irrigation, more and better land for cultivation which would lead to increased, intensified and diversified cropping, leading to a higher demand for microcredit. The FSS can then promote linkages for micro-credit for crop cultivation as also for diversified non-farm enterprises that lead to value-addition of agricultural and forest produce as well as other non-farm micro-enterprises.

70 It may appear to be a bit utopian to suggest that the Gram Sabhas of MPRLP will establish FSS Committees which will over a period of time acquire the above-mentioned capabilities. However, this is possible and indeed has been done in several locations in MP as well as in tribal areas of other states. In MP itself, the Foundation for Ecological Security (FES) has established vibrant village level structures in the Agar block of Shajapur district and they are performing several of these financial services facilitation roles, with credit from an MFI and insurance from three separate companies.

71 In the Jhabua district, two NGOs, ASA and GVT have both established a large number of SHGs which are facilitating savings, consumption loans and several of which have linked with banks for larger loans for agricultural and livestock activities. In the Kesla block of Hoshangabad district, PRADAN has established a cooperative society of backyard poultry rearers, each of whom has taken medium term loans from the local RRB and/or commercial bank branches. In the Bamori block of Guna District, ASSEFA has established a Sarvodaya Mutual Benefit Trust (SMBT), which provides loans to its member SHGs, for onlending to the SHG members. In states like Jharkhand and Orissa, there are several examples of NGO promoted community financial institutions operating in tribal areas, from which lessons can be learnt.

72 All these examples indicate that it is possible to establish and nurture village level financial institutions. This is the only way to provide user friendly, appropriate, flexible and cost effective financial services to poor people in remote areas. It will also contribute to strengthening the Gram Sabha, developing a financial base for it and ensuring financial sustainability. In the long run, the FSS committees in an area could come together to establish community financial institutions and register them as cooperative societies under the MP Swayatta Sahakarita Act.

73 Having recommended a way forward, finally, we need to get the perspective right about Financial Services for the Poor and the strategies suggested above, – what can it do and what it cannot for the very poor. Reaching the poorest and the poorer regions is the big

challenge. Convergence with other projects in area from SPMU level will help build People's institutions such as SHGs, Watershed Management Associations, Joint Forest Committees and Village Water committees. It will help Promote livelihoods through access to natural resources and technology. While micro-finance, in its narrow or augmented form is a helpful input for improving the livelihoods of the poor, there are major changes in the "real" economy that need to be made to ensure that the poor have the wherewithal for employment and income such as Land Reforms and Land Security. Community investment funds available from other sources and programs need to be placed in the hands of village organisations, comprising Gram Sabha, SHGs, User Groups. It is this kind of investments, which would create the long-term basis for livelihoods. This would enable long-term investments in productive natural resources such as land, water, livestock and forests, which are not possible under the conventional micro-credit paradigm.

# A1 | **Livelihoods Profiles of Two Tribal Families**

# A1 | Livelihoods Profiles of Two Tribal Families

Wealth ranks of following two examples are extreme of ranks profile but still both are having under following approach of diversified portfolio as they are still at subsistence level though both are from different wealth ranking and having different status in same village.

## Profile of Kalo – Landless Farmer, Village Shyampura, Dhar District

Kalo is around 60 years, a landless laborer with three sons and three daughters. One of the sons is married, having three children. He owns no land, but has about 0.75 acre of encroached Government land of not good quality for agriculture. His family cash flow is given below –

Expected cash flow of year Jun 06- May07 of Mr. Kalo's family - a landless farmer															Annual total	Remarks
INFLOW	Particulars	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY			
Cash	A Agri labour in village	900	300	600	900	900									3600	
	B Agri labour on one big farmer of Dhar ( within 100 km) area										500				500	
	C Farming															
	total of cash	900	300	600	900	900					500				4100	zero income as total failure of maize because of excess rains
Kind	D Agri labour on one big farmer of Dhar ( within 100 km) area						Food for family from employer for agri labor						7 Qtl wheat		food security for whole year from this activity	
<b>Out flow</b>																
Cash	A Routine items from	500	500	500	500	500									2500	main cash outflow is during raining season
	B Festival					500					500				1000	
	C seed and agri inputs															
	total	500	500	500	500	1000					500				3500	
kind	D seed and agri inputs	previous year stock														assuring this is the prime focus of livelihood options
	E Cereals, onion and chillies to eat	from previous year stock				in kinds as wages from the big farmer										

Some livelihood related decisions taken by Kalo -

- He believes in not taking any loan at any point of time and he is quite content about this that without taking any loan he has managed his food security till October 2007.
- This year there has been failure of Kharif maize crop (otherwise it gives some food for about three months). He plans to do more labour in other farms in Rabi. Instead of returning in April, he will return in May end to earn more food and extending food security for two months prolonged period.
- He has two goats and one cow, and these are also taken along with them when family migrates.

**Profile of Moolchand, Village Shyampura, Dhar District**

Moolchand has four sons and one daughter. The eldest son is newly married (no children) and has been sent with family as migrant to Gujarat (300 km plus) for regular working as labourer. His family cash flow is given below -

Expected cash flow of year Jun 06- May07 of Mr. Kalo's family - a landless farmer																
INFLOW	Particulars	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	Annual total	Remarks	
Cash	A	Son and daughter in law for labour work in Gujarat ( 300 kms plus)													23500	new initiative 3 yr old activity
	B	1200	500	1200	1200	1200	1200	1200	1200	1200	1200	1200	600	13100		
	total	2200	3000	3700	3700	1200	3700	3700	3700	3700	1200	3700	3100	36600		
kind	C	No return except fodder for cattle -2 cows		failure of Maize crop	200 Kg of Soya	Wheat Cropping expected to be good as land is at lower end and likely to retain moisture due to good Monsoon					20 Qtl wheat and fodder for cows					
Out flow																
cash	A	600	600	1200	600	1500	600	600	600	600	900	600	600	9000		
	B			600		2100					2700			5400		
	C		1800											1800	new initiative	
	D	300	300	300	300	600	300	300	300	300	300	600	300	4200		
		seed and agri inputs											3000	3000		
		900	2700	2100	900	4200	900	900	900	900	3900	1200	3900	23400		
kind	E					180 kg of soya against seed of 90 kg						4 qtl of wheat against 200 kg seed	Rs. 3000 for repayment of fertilizer of 2000/-		kind repayment of seed is double of borrowed quantity	

Some livelihood related decisions taken by him –

- He has sent his newly married son with daughter in law as migrant labourer as there is no sufficient income from existing set of activity.
- He expects some cash inflow from son and sends cereal to son as per mutual needs.
- Money transfer takes place through friends/relatives.
- He was seen as rich person because he could manage marriage of his son at young age.
- He consider him self as lucky person for deciding to put up a flour mill using a loan. It is giving a regular income and the loan was repaid mainly by working as migrant labour by whole family.
- He decided to spend Rs.1800 to buy two calves which will grow at no additional cash outflow in three years to three times this value. He sees this as a good saving/investment.
- He is always under shortage of cash to maintain the multiple activity cycles and frequently takes loans.

**A2** | **Micro Livelihoods Plan for Village  
Pahatsara, Bijadandi Block, Mandla**

# A2 | Micro Livelihood Plan for Village Pahatsara Bijadandi Block, Mandla

SN	Activity	Total investment				No. of HH befitting	Community Contrib. (20%) as corporous for running CPR	Forms of investment	
		Water related CPR	Other community investments	Individual investments	Insurance			Micro credit	Livelihood Finance (any Grant (may 100%) availed will be used as subsidy for LF)
1	Soil/water harvesting and conservation - Repair stop dam	250000				50 total including 25 of this tola			250000
2	Old Well repair			20000		10	0		20000
3	New well			80000		30	0		80000
4	Promote improved seed		11500			19	2300		11500
5	Vermicompost		5000			5	1000		5000
6	NADEP		5000			5	1000		5000
7	NTFP plantation		0			0	0		0
8	Hand pump for drinking water		70000			25	14000		70000
9	Community Institutional Development		125000			25	25000		125000

A2-1

**Micro Livelihood Plan for Village Pahatsara, Bijadandi Block, Mandla**

10	Animal Husbandry - Vet care and fodder dev		9100			25	1820		9100
		<b>Total investment</b>						<b>Forms of investment</b>	
<b>SN</b>	<b>Activity</b>	<b>Water related CPR</b>	<b>Other community investments</b>	<b>Individual investments</b>	<b>Insurance</b>	<b>No. of HH befitting</b>	<b>Community Contrib. (20%) as corporous for running CPR</b>	<b>Micro credit</b>	<b>Livelihood Finance (any Grant (may 100%) availed will be used as subsidy for LF)</b>
11	Land Bunding Shaping			75000		30	0		75000
12	Farm Pond			30000		2	0		30000
13	Vegetable badi			2500		25	0		2500
14	NFS includes trading of NTFP			38000	1125	9	0	39125	0
15	Fruit Tree			11500		23	0		11500
16	Cattle			35000	2100	7	0	37100	0
17	Goats			20000	1200	5	0	21200	0
18	Loan for Consumption needs			0					
19	Post Office accounts+B7			2500		25	0	2500	0
	<b>Total</b>	<b>250000</b>	<b>225600</b>	<b>314500</b>	<b>4425</b>		<b>45120</b>	<b>99925</b>	<b>694600</b>
				790100	<b>794525</b>				<b>794525</b>

Note 1: Community contribution will be used to meet any gap in availability of LF and as corpus for running and maintenance expenses.

Note 2: Water related investment will have 'water equity' as major principle so that the landless will able to sell their water rights to others

## **A3** | **Suggested Products**

# A3 Suggested Products

Purpose	Product Name	Amount	Period	Installments	Interest rate/ Premium	Method
Short term credit	micro credit - short term	max 10 k	24 months	as per cash flow but pre f borrowing	by Gram Sabha 12%	individual through JLG
Medium term	micro credit - long term	max 20 k	4 years			individual through JLG
Long term	Livelihood finance	> 20 k - 500k	5 -10 yrs	harvest time	by Gram Sabha	Village as Group / CIG /
	Government Grants	> 20 k - 500k				
	Community Labour	as needed				
Saving	Short term, recurring	Rs 20-100	< 1year	weekly, monthly		Post Office
	Long term, purpose based, like marriage	Rs 10K	5-10 yrs	harvest time		Own
	In kind - cattle, land, jewellery	Rs 10K	as needed	harvest time		Own
	Grain banks	Two quintals of cereal	Annual	harvest time		Gram Sabha
Insurance	Health, covering critical illness and hospilaistaion		Annual		Rs 2 per day for	Thru CBMFI
	Life	Rs 5-50K	5-20 years	harvest time	0.3% of sum	Post Office
	Crop- normal or rainfall index based	Rs 2-10K	Annual	sowing time	3-7% of sum	Insurance co thru
	Livestock	Rs 5--20K	Annual	On buying	4-6% of value	Insurance co thru
Money Transfer	Money Order	Rs 100-5000	as needed	as needed	5% at present is	Post Office

A3-1

# **A4 | Overview of Micro Finance at National Level**

# A4 | Overview of Micro Finance at National Level

## Demand

Studies and experiences show that the demand for micro-credit is large and largely unmet. Informal Channels still dependable source of credit for poor even though formal institutions have a wider network. Significantly, the Poor need savings and Insurance even more than credit whereas the focus is always on credit and hardly on savings and insurance.

## Delivery Methods and Institutional Models for MF in India

Grameen Bank Model  
Self-help Group Model  
Individual Lending through JLGs  
Individual Lending

### The Grameen Model

The Grameen Model which was pioneered by Prof Muhammad Yunus of Grameen Bank is perhaps the most well known, admired and practised model in the world. The model involves the following elements.

- Homogeneous group of five
- Eight groups form a Centre
- Centre meets every week
- Regular savings by all members (which was introduced a few years after GB started)
- Loan proposals approved at Centre meeting
- Loan disbursed directly to individuals
- All loans repaid in 50 instalments

The Grameen model follows a fairly regimented routine. The group members tend to be selected or at least strongly vetted by the bank. It is cost intensive. One of the reasons for the high cost is that staff members can conduct only two meetings a day and thus are occupied for only a few hours, usually early morning or late in the evening. They were used additionally for accounting work, but that can now be done more cost-effectively using computers. The model is also rather meeting intensive which members can cope with as long as they have no alternative use for their time but can be a problem as members go up the income ladder.

The strength of the Grameen model is in the simplicity of design of products and delivery which makes it replicable widely. However, the Grameen model works only under certain assumptions. As all the loans are only for enterprise promotion, it assumes that all the poor want to be self-employed. People do not borrow for 'enterprise purposes only'. They do borrow 'officially' for non-enterprise purposes, particularly for their husbands' businesses, and unofficially a great deal more, for marriage, food, sickness. The repayment of loans starts the week after the loan is disbursed – the inherent assumption being that the borrowers can service their loan from the ex-ante income. Both assumptions can be questioned.

Some of the major Grameen replicators in India are SHARE Microfin Ltd and Swayam Krishi Sangha (SKS) in Andhra Pradesh, Bharat Seva Samsthe and Grameen Koota in Karnataka, ASA in Tamil Nadu, Cashpor Financial and Technical Services in Uttar Pradesh and the Rashtriya Gramin Vikas Nidhi in Assam and Orissa.

The Grameen Bank and some of its 'replicators' outside and within India have introduced more flexible products for farming, housing (a long standing Grameen product) and other purposes. While the Grameen method is time consuming for members, it is also quite easy for them; the only decisions they have to make as a group are whether or not to accept their fellow members' loan proposals, which is usually somewhat of a formality, since loans are at least initially disbursed on a strict rotational basis.

It is indeed quite simple for the bank but also, perhaps more important, for the members. Hence it may be the best method for seriously disempowered people who lack confidence. People do not borrow for 'enterprise purposes only'. They do borrow 'officially' for non-enterprise purposes, particularly for their husbands' businesses, and unofficially a great deal more, for marriage, food, sickness and all that. In contrast, an SHG is a bank, albeit on a micro-scale, and it takes skill and persuasive powers to run it; it also involves considerable up front investment in institutional capacity building.

There is enough literature to question whether it is the best model for the poorest – particularly when their ability to take risks with new enterprises might not be up to the level required. There is quite a lot of evidence from Bangladesh in particular that the Grameen model benefits the poorest least, and that it actually harms many people. Its very simplicity leads staff to focus exclusively on recoveries, and hence to mobilise fierce group pressure, which has led to seizure of roofing material as security, hence houses being torn down, and even suicides. (Malcolm Harper, 2003, in Microfinance Roundtable, IIM-Ahmedabad)

### **The Self-help Group Model**

The SHG model is a home-grown model. The model is quite popular with bankers, as it is evidence from the phenomenal growth of the SHG Bank Linkage during 2002-2003, who sees potential in microfinance. The essential design elements of the SHG model are:

- Homogenous – members of similar economic status.
- Affinity- trust and mutual support among members; this tends to restrict the group to 15-20 members.
- Regular meetings – studies indicate that SHGs which meet weekly are most likely to evolve as sound institutions providing both savings and credit services as well as taking initiatives in society for change.
- Regular savings – the group begins by savings which are placed in a group common fund; the stress is on regularity in order to create the habit to savings.
- That lending decisions are taken by the group.
- Groups select their leaders that are then are rotated.
- The Group as an institution accesses external funds.

The groups tend to be dependent on the intervening agency (NGOs) for a long time to help them not only maintain accounts and conduct meetings, but also to manage the external interface with the bankers and others. Where the NGO has invested in institutional capacity

building, fortunately this is not the case. The rate of growth of SHGs is not as fast as the Grameen groups, Since the design allows for flexibility and focuses on internal capability development, it may take a long time for penetration. SHGs tend to work better in areas where the credit culture is not severely damaged – particularly in the southern part of India. The Grameen model, which is more structured, seems to work in areas where the credit culture is severely impaired – particularly in the North and Eastern parts.

### Individual Lending with Joint Liability Groups (JLGs)

Under this model, while the MFI lends to individual borrowers, they are asked to form “joint liability groups” of five to seven self-selected members, who agree to guarantee repayment on behalf of each other. This is a mechanism for providing social collateral to the lending institution. The possibility of repayment improves due to the application of peer pressure in case of wilful default by a member, or through mutual help in case one has a genuine setback in the activity and has a temporary shortfall to repay. The JLG also improves repayment because in the first place members eliminate those whom they think are likely to wilful defaulters or will not be able to use the loan properly.

### Individual Lending Models

This is appropriate for borrowers who have graduated from the SHGs or JLGs after a number of cycles and may need loans of Rs 25,000 or more. They either carry out enterprise on their own, or carry out enterprises that hire the other poor who want to be self employed. The reason why this works with larger clients is because the transaction size is large enough to justify the transaction costs of dealing with one borrower at a time. The history of borrowing in groups, or of smaller individual loans, helps the MFI assess the creditworthiness of the borrower and thus eliminates the need for collateral security.

### Summary of Attributes of Various Lending Models

Lending Model	Borrower profile	Transaction Costs	Repayment Levels
Grameen Bank <sup>1/</sup>	Poor, women	High	99%+
Self-Help Group	Poor, mainly women	Medium-low	97%+
Individual in Joint Liability Groups	Slightly above poverty line	Medium -High	95%+
Individual <sup>2/</sup>	Above poverty line	High	95%+

### Models for Delivery of Savings Services to the Poor

The models which are used for savings services can be classified as follows:

#### Informal

- cash kept with self or neighbours/relatives,
- regular (weekly)savings kept in the SHGs group common fund,
- small hand loans given to neighbours and relatives,

1/

Based on data from SHARE and Cashpor

2/

Both this and the joint liability groups data is from BASIX

- committees/Bishis/Chits run in the village/neighbourhood, and
- Daily/weekly savings collectors of finance companies (unauthorised).

#### Formal

- Savings collected by MFIs, even though not legally permitted by RBI
- Daily/weekly savings collection by RBI approved residuary non-bank finance companies (RNBCs) such as Sahara and Peerless
- Post office savings
- Savings in banks

Given the attributes that the poor require for savings, namely flexibility, frequency, safety, liquidity and doorstep transactions, there is nothing to beat the “savings collector” and this accounts for the popularity of companies like Sahara and Peerless with millions of depositors. This is in spite of the fact that savings are hard to withdraw or even to take a loan from (see box on Sahara). However, this model works best in highly populated areas, particularly in cities and towns where the distances to be covered between depositors is short.

In more remote areas, SHGs provide a major savings service with all the attributes mentioned above including ready access for withdrawals. For example the 7332 SHGs currently in the MYRADA programmes areas have a total common fund of Rs 60.7 crores of which Rs 24.3 crores is savings and Rs 12.5 crores is the interest earned on loans.

#### Saving Collection: The Sahara Model <sup>3/</sup>

Sahara collects savings from 39 million depositors (“1 out of every 25 Indians”) through 1,379 branch offices and has 600,000 staff and agents for the purpose. Sahara invests its asset base of Rs160 billion (\$3.3 billion) on the Mumbai money market as well as in lucrative real estate projects. It has even invested in an airline – the third largest airline providing domestic air services in India. Any savings instalment missed by a Sahara depositor has to be paid later along with 9 percent interest and the withdrawal of savings before the completion of the term of the deposit is virtually impossible. The only means depositors have of leveraging their savings with Sahara is the possibility of taking a loan against the balance in the deposit account; Sahara lends back 75 percent of the depositors’ savings at an interest rate of 15 percent per annum compounded monthly. However, the company is reluctant to make such loans and agents generally discourage clients from using this facility. Only 10 percent of the Sahara clients in the block have been able to utilise the service.

However, a number of fly-by night finance companies also provide the same service and decamp with the savings of the poor. By not permitting MFIs to take savings from their client group, the RBI is in fact driving the poor into the hands of much less reliable and unscrupulous operators. Under the Provisions of the RBI Act 1934, as per the amended Section 45 S of the Act “No person being an individual, or a firm or an unincorporated association of individuals shall accept any deposit if: his or its business wholly or partly includes any of the activities specified in clause (c) of Sec. 45-1 (i.e., the business of a financial institution such as financing activities of other institutions, acquisition of shares, bonds, debentures, etc., letting or delivering of any goods under hire purchase agreements, insurance business, managing chits and kuris and collecting money by issue of units), or his

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<sup>3/</sup>

Sinha Sanjay and Meenal Patole, op. cit.

or its principal business is that of receiving of deposits under any scheme or arrangement or in any other manner or lending in any manner".

In spite of this provision, a number of MFIs continue to collect savings. Some do it on their own books, thereby risking the charge of conducting an activity, which is illegal. Others have established artefacts such as "mutual benefit savings trusts" whose legal status vis-à-vis taking savings from members is uncertain. Others, particularly in AP have taken recourse to the AP Mutually Aided Cooperative Societies Act, 1995, which permits taking savings from members. In summary, the status of the legal framework for savings is driven by RBI's rightful concern for depositor safety, but neglects the fact that the poor are unable to access most of the regulated institutions.

### **Models for Delivery of Insurance Services to the Poor**

The Life Insurance Corporation of India (LIC) has had a monopoly in the life insurance business for nearly 50 years. As a result of its public ownership, it was obligated to provide life cover to rural areas and to the vulnerable segments of the population. As for the former, what the LIC did is obvious from the following excerpt from the IRDA's Annual Report.<sup>4/</sup>

*"Though in the past the LIC has indicated that more than 52 percent of its new business used to come from the rural sector, the performance has to be judged in the background of the regulations that have been made by the Authority defining the rural sector. On the basis of the revised yardsticks and the definition of rural sector, LIC's business from that area is around 18 percent. The Authority hopes that in the years to come LIC will improve its performance in the rural and social sectors".*

The LIC, nevertheless continues to offer the largest number of covers for the poor, mostly through group policies, such as the ones linked to government programs such as SGSY. Likewise, the four public sector non-life insurance companies under the General Insurance Corporation (GIC) also offer a number of useful schemes.<sup>5/</sup>

The insurance sector has opened up to private participation only three years ago and already there are a number of innovative delivery models that have emerged. These have arisen in response to obligations imposed by the IRDA on new private insurance companies (see box). These obligations have spurred private sector agencies to seek partnerships with NGOs, MFIs and in some cases dairy cooperatives. These models work as follows: In case of social sector policies, an insurance company appoints an NGO as a "nodal agency" which originates insurance proposals from the target group of poor communities it may be working with. These are then offered life insurance, usually of small amounts, varying from Rs 5000 to 25,000 in case of death. The insurance policies can be individual or can be made for a group, which has to be defined.

In case of group insurance, the paper work is less and premium is sometimes paid by the NGO. In matured variations of this model, the front-end administration – premium collection and claim settlement is done by the NGO, and the accounts are settled periodically between

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<sup>4/</sup>

Insurance Regulatory and Development Authority (IRDA), First Annual Report 2001-01.

<sup>5/</sup>

Friends of Women's World Banking, Ahmedabad: Compilation of insurance schemes available with the four nationalised insurance companies in India, suitable to poor families. 2002

the NGO and the insurance company. This has been done for years by SEWA, Ahmedabad with the LIC and now with private insurers.

In case of non-life insurance, the ones most important for the poor are related to health, crop and livestock. However, health insurance has yet to take off in India. Crop insurance though now "universal" under the Rashtriya Krishi Bima Yojana, is not easily available to small and marginal farmers. Livestock insurance is mandatory when the poor get bank loans to buy animals, but is not widely used other than that.

### **Health Insurance for Poor by NGOs**

With 70 per cent of population in India living in rural areas and 95 per cent of work-force working in unorganised sectors, and disproportionately large percentage of these populations living below poverty line, there is strong need to develop social security mechanisms for this segment of population. This need for security is further increased because the poor are the most vulnerable for ill health, accidents, death, desertion, social disruptions such as riots, loss of housing, job and other means of livelihood. For most people living in rural areas illness still represents a permanent threat to their income earning capacity. Beside the direct costs for treatment and drugs, indirect costs for the missing labour force of the ill and the occupying person have to be shouldered by the household. Health insurance schemes are an increasingly recognised factor as a tool to finance health care provision in rural areas.

There are some efforts in this direction of providing social security to the poor by a few NGOs. The most prominent among them is that of Self-Employed Women's Association (SEWA). The other scheme by government insurance companies developed to focus on poor is called Jan Arogya Bima Policy which was introduced in 1995 and covers expenditure up to Rs. 5000 for a premium of Rs. 70 per annum. It is estimated that about 5 million people are covered under various NGO insurance schemes.

The experience from other countries suggest that in developed countries such as USA, UK, the health insurance have grown out of small non-profit schemes. A large share of health insurance market in USA is in not-for-profit sector. There is need in India to promote these schemes as they address the needs of the poor. Over the last few years in India small and big NGO's like Tribhuvandas, SEWA, ACCORD etc. have implemented the insurance schemes. Many of these schemes are designed to meet the needs of the poorer segments of the community. They have developed several innovations such as:

- mechanism of monitoring the performance.
- pricing of various services.
- integration of various risks in one single product.
- linking of insurance schemes with savings; and
- Coverage of many services not included in market based schemes such as maternity services, transportation, coverage of risks such as from riots, floods etc.

Some NGOs have developed special linkages with public health systems, private facilities and also accessed resources through insurance companies.

### **Determinants of Viable Health Insurance**

The following points should be kept in mind while designing any health insurance scheme:

**Flexibility in premium paying procedure** to the local level requirements such as installments etc. the role of the state also needs to be explored e.g. the possibilities for demand-targeted subsidies.

**Experience in social protection and community participation:** Community financing schemes (CF schemes) are often set up by voluntary, non-profit oriented organisations, which act as an insurance broker between the interest of a health care provider and the expectations and needs of their members. To deal with these ambiguities it must be stressed that the administrative procedure for handling claims should be as simple and transparent as possible. The SEWA example but also other experiences (e.g. Grameen Bank in Bangladesh) shows that mutual insurance schemes are likely to perform better, when they are linked to an organisation which already has experience in the field of financial services and social protection. Community participation matters, when it comes to the control of moral hazard behavior and costs.

The success or failure of health insurance schemes is largely dependent on **existence of a viable health care provider**. Decisions taken by the health care provider have an impact on mobilising demand for CF schemes as well as on the financial balance of the scheme. It will even not be possible to set up a viable insurance scheme and mobilise demand before quality of care is not improved, because if people feel that they will get no “value for money” at the hospitals or health posts, they would be unwilling to pay premiums.

**Community and household characteristics** also determines the demand for health insurance. If people are struggling for survival every day, they are less willing to pay insurance premiums in advance in order to use services at a later point in time. After or before the introduction of health insurance, rising incomes, that may be brought about by development projects, can be necessary to attract members and realise the potential benefits of CF. SEWA's activities in this direction are a good example. The prevailing concepts of illness and risk from the cultural point of view are relevant to the decision of households whether to purchase health insurance or not. The high degree of solidarity and mutual trust is an important prerequisite for the success of CF schemes.

For all too long, social security and risk management has been regarded from the supply side neglecting to a large extent what institutions innovations and the variety of different actors in providing and financing services at the local level. Recently, the interest has shifted to the demand side and institutions like CF scheme gain importance, which help otherwise, excluded people to better deal with day-to-day risks. There has been many cases of successful collaboration between NGOs, government, insurance companies and communities at large, in many parts of India like SEWA, Karuna Trust (Karnataka), Mayapur (West Bengal), are examples of extending affordable and available health care of reasonable quality to the poor population in these areas. These collaborative efforts need to be studied closely to see how such models can be replicated, especially from the point of view of sustainability, if it wants to make a dent on the health and well being of the poor in India.

The Universal Health Insurance scheme of Rs. 365 per year per individual, which is targeted at the poor, has not taken off to any significant extent. The insurance companies are at a loss to know how to generate demand for this scheme.

In summary, the need for insurance among the poor, to protect their lives and livelihoods, is high and perhaps should be addressed before credit. There are a number of insurance products being offered by both public and private sector insurance companies to address the poor and what is needed is to build collaborative models of delivery between MFIs and insurance companies.

## Micro Finance Institutions have emerged as the Alternative Serving the Poor

### NGOs in Micro-finance

NGOs discovered microfinance because they were engaged in empowerment and economic development of the poor. Most institutions under this category are multipurpose NGOs, which are involved in other development activities. It is estimated that there are about 1000 NGOs in India (NABARD, 2000; Mahajan, 2000) involved in micro finance.

They operate on a non-profit basis and have social welfare objectives. Examples include Activists for Social Alternatives (ASA) in Tamil Nadu, Adithi in Bihar, and the Cooperative for Assistance and Relief Everywhere (CARE) in Maharashtra, Madhya Pradesh, Andhra Pradesh, Orissa, Bihar, and West Bengal. NGOs, involved in the promotion of self-help groups but without financial intermediation activities, are not considered microfinance institutions. They include MYRADA, DHAN Foundation, ASSEFA and PRADAN. They are, however, instrumental in linking SHGs to banks and other micro-finance institutions.

### Specialised MFIs

The number and size of these MFIs is increasing to the point where they now collectively account for perhaps nearly two million borrowers and over Rs 1500 crore outstanding. They together span three main categories:

Most are microfinance NGOs, of which there are only a handful in India. Examples include SHARE and Spandana in Andhra Pradesh, the Rural Development Organisation (RDO) in Manipur, and Nari-Nidhi in Bihar, established by Adithi.

The next category is cooperative societies such as the Indian Cooperative Network for Women (ICNW) of the Working Women's Forum (WWF), the Self-Employed Women's Association (SEWA) Bank in Gujarat, and the thrift and credit cooperative societies promoted by the Cooperative Development Foundation (CDF) in Andhra Pradesh. Some mutually aided cooperative societies (MACS) specialising in microfinance -such as Mahila Vikasa in Andhra Pradesh.

Non Banking Finance Companies specialising in microfinance such as those established by BASIX (Bhartiya Samruddi Finance) and SHARE Micro Finance Ltd in Andhra Pradesh, Sanghamithra a Not-For-Profit Company promoted by MYRADA and working in Karnataka, Tamil Nadu, and Andhra Pradesh, Sarvodaya Nano Finance Ltd. and CASHPOR Financial and Technical Services (CFTS) in Uttar Pradesh in Tamil Nadu - are part of this group.

MFIs in India had an outstanding of around Rs 45 crore from bulk lending institutions,<sup>6/</sup> roughly the same amount from donors, and another Rs 50–60 crore in member savings leading to a total of Rs 140–150 crore in outstanding capital<sup>7/</sup> in 2000. This number is likely to be close to Rs 350 crore by March 2003.

6/  
7/

Refer annexure for details  
Sanjay Sinha, 2000

Such evidence as is available, on the other hand, suggests that effective demand is overwhelmingly in excess of this.

### Emerging Institutional Models for Composite Micro-Finance Services

As seen by the poor, the specialisation developed by the financial sector is perhaps dysfunctional. What they need is a composite service which provides them at least the three main components, savings, credit and insurance, and perhaps add on a few services such as money transfer, which is increasingly needed by the poor as part of the family migrates in search of a livelihood. There are only a few examples of composite financial services, mostly to be found among MFIs. For example,

- SEWA Ahmedabad provides a combination of savings and credit through its Sri Mahila SEWA Urban Cooperative Bank and insurance services managed through its Vimo SEWA affiliate, which front ends for the LIC and a number of general insurance companies. Vimo SEWA is perhaps the nations largest MFI insurer, covering over 100,000 women, for life as well risks related to houses and assets used in earning their livelihoods. It also is a leader in designing and offering health insurance covering maternity as well.
- SHARE in Andhra Pradesh provides savings services to its members through the Sneha Mutually Aided Cooperative Society (MACS), in the same weekly meeting where they gather to repay loan instalments and seek fresh loans from Share Microfin Ltd, the NBFC. The members also insured against death.
- Sanghamitra – a not for profit Section 25 Company promoted by MYRADA has entered into an agreement with ICICI Prudential Life Insurance for marketing a specially packaged life insurance policy to it members.
- BASIX group's Krishna Bhima Samruddhi Local Area Bank, however, is able to provide all the services – savings, including daily deposits collected from the doorstep of its borrowers, credit for a range of purposes from crop loans to non-farm activities and to SHGs; and crop insurance to farmers under the Kisan Credit Card / Rashtriya Krishi Bima Yojana. BASIX has also developed a new product offered jointly with AVIVA Life Insurance Company which ensures that in case of a borrower's death, the entire amount outstanding in his name is repaid by the insurance company and in addition the family gets a certain amount. Separately, with Royal Sundaram General Insurance Company, BASIX provides livestock insurance to its borrowers.

What is the logic for such composite services? As far as the poor are concerned, it reduces their problem of having to deal with a number of agencies and thus reduces the transactions costs. Moreover, if they are good savers in an agency's record, but want to borrow from another, this does not count. But if the agency is a composite and has a good internal MIS, it can use the savings history as a "collateral" for loans. Similarly, if the same agency provides insurance for lives or livelihoods, it will be more willing to give a loan. From the MFIs' point of view, transaction costs come down as the same delivery system can be used, with minor additions of training, software and some staff.