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## *Pathways to Financial Inclusion NABARD on the Forefront*

An Exclusive Interview with  
**Dr. Harsh Kumar Bhanwala**  
Chairman, NABARD

*Inclusive finance India*  
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**Question 1: What has been the main thrust of NABARD in the development of rural economy?**

**Chairman:** NABARD's vision is to bring about rural prosperity. Therefore, it has been an endeavour at NABARD to strengthen Rural Financial Institutions (RFIs), extension agencies, and community organisations through credit support, grant assistance, tech innovations, capacity building and policy advocacy. The aim is to bring about changes which are sustainable, inclusive and appropriate for the targeted populace. While these are at the core of all interventions at NABARD, in keeping with contemporary demands, certain issues gain currency over others at different points of time. During last few years, considering the challenges and issues in agriculture, the focus was on boosting long term credit for capital formation, enhancing area under irrigation, improving irrigation efficiency and providing housing to rural populations. At the same time, I feel that technology has a critical role in addressing issues in rural sector and as such NABARD has also been focusing on banking technology for RFIs and digitising of SHGs. SHG-Bank linkage programme pioneered by NABARD has just completed 25 years. On the occasion, we have initiated the EShakti Project for digitisation of SHGs, which will enable the banking system to gauge the health of SHGs at the click of a button and lead to higher confidence and credit flow to the SHGs.

**Question 2: The present government has pursued financial inclusion in a mission mode during the past four years. What has been the role of NABARD as an apex development bank in support of this strategy?**

**Chairman:** Now that globally it has been empirically proven that financial inclusion has a direct correlation to growth, I feel that for our country, a time bound, mission mode approach was the need of the hour. We are seeing the phenomenal success of PMJDY and the



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opportunities it has created. NABARD has been promoting financial inclusion through a slew of measures to strengthen both demand and supply sides of the rural banking ecosystem.

On the demand side, these have included initiatives like Financial Literacy Camps (FLCs) targeted at various groups of population like farmers, school children, senior citizens, SHGs and entrepreneurs with focus on conduct of digital transactions. The Centers for Financial Literacy and demonstration of banking technology through mobile vans have greatly helped in increasing awareness levels on financial products/services in villages. Further, to bring all the excluded population into the fold of financial inclusion, opening of Jan Dhan accounts, PMJJBY, PMSBY and APY accounts under social security schemes were actively pursued in these FLCs. To address supply side issues by widening the digital payment acceptance infrastructure,

support was extended for 2 lakh PoS/mPoS devices in 1 lakh villages (Tier 5 and 6 centres with population less than 10,000); and 20 Lakh BHIM Aadhaar Pay devices.

Similarly, focus on excluded areas by reaching last mile banking services were supported by way of incentives to RRBs in NER, SHG members as BC (Bank Sakhi) support for installation of micro-ATMs. In order to take care of the twin problems of lack of electricity and tele-connectivity, we supported installation of solar powered V-Sat for expansion of banking network in LWE districts as well as fixed point BCs in Sub Service Areas; and mobile signal boosters in areas with no intermittent connectivity. To support cashless transactions, INR 260 crore was disbursed under Digi Dhan and Lucky Grahak Yojana. Further, all the banks were supported for setting up of Aadhar Enrollment Centres. With these measures, I feel NABARD has supported creation of a comprehensive financial inclusion ecosystem for furthering financial inclusion in a mission mode.

**Question 3: NABARD maintains a Financial Inclusion Fund. What specific measures have been taken by NABARD to support RRBs and Cooperative banks to enable them to fulfill their role in inclusive finance?**

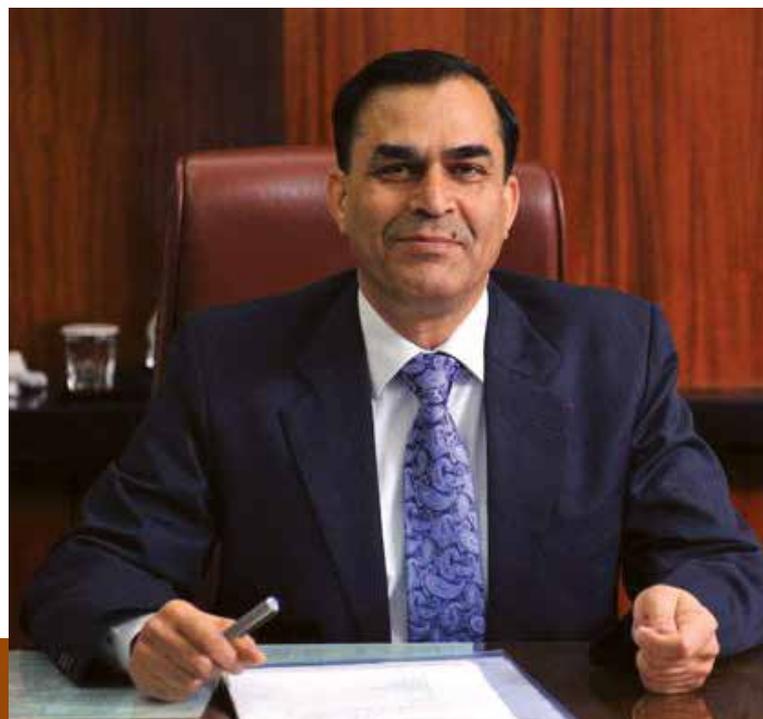
**Chairman:** I have always felt that despite changes in the institutional landscape in recent years, Cooperative banks and RRBs are uniquely placed to further the financial inclusion agenda. Their origin, functioning and products make them ideally suited to cater to small scale financial services and as such it has been our priority to strengthen them. Apart from the schemes mentioned above, and in keeping with our focus on technology, NABARD has been supporting Rural Cooperative Banks and RRBs to migrate from the manual system to the Core Banking Solutions (CBS) platform. This will enable them to compete with new generation players with a robust MIS and accounting system. We have supported 350 Cooperative Banks for onboarding them to RuPay Kisan Cards (RKC).

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As on 31.07.2018, the Rural Cooperative Bank (RCBs) and RRBs have issued 1.95 crore and 1.15 crore RKC's respectively, which is in line with the digital India roadmap. We are also supporting licensed RRBs and RCBs for onboarding to the Central KYC Records Registry as well as Authentication User Agency/e-KYC User Agency membership so that they can comply with regulatory provisions.

My vision is to bring about all round technology enabled financial inclusion through C-KYC, RuPay KCC, CBS, DBT/PFMS, ATM/Micro ATM, BHIM UPI onboarding etc., to encourage digital financial transactions through PoS devices, microATMs and remove impediments in connectivity through support for mobile boosters and V-SAT.

**Question 4: How do you see the outcome of the ongoing process of amalgamation of RRBs and delayering of the cooperative banking channel? How will it impact the provision of financial services to the under-banked and poor families in rural areas?**



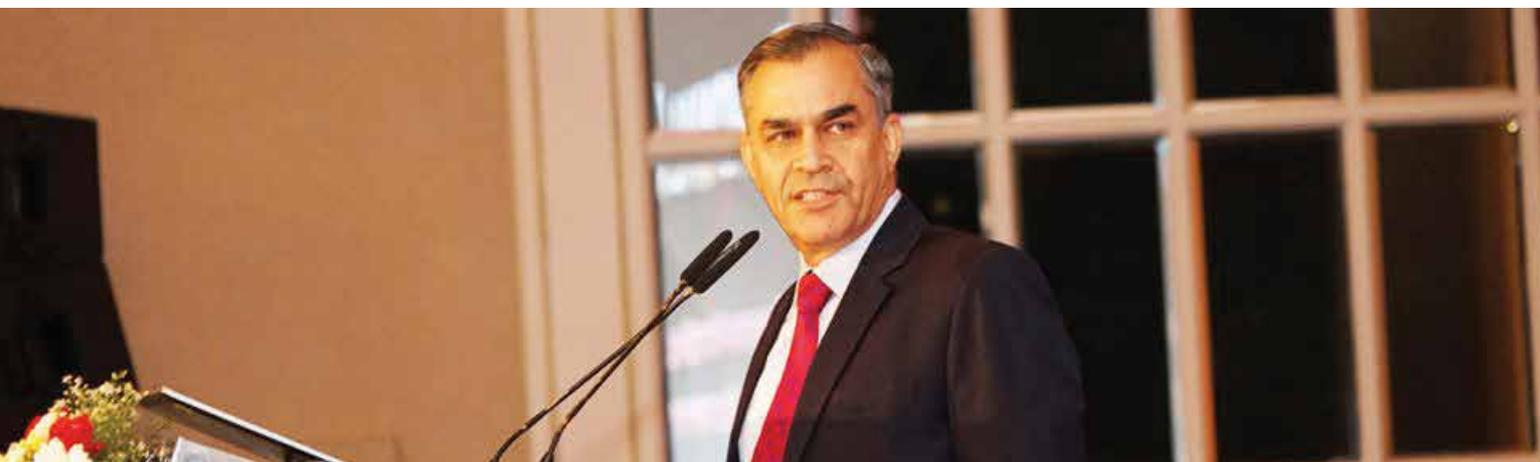
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**Chairman:** As you know, two phases of amalgamation of RRBs has already been completed, the first initiated during 2004-05 and the second during 2011-12. This led to reduction of number of RRBs from 196 to 56. I can see that the amalgamation has brought out better functioning entities. During the next phase, it has been proposed to bring down the number to 38.

The guiding rationale behind amalgamation is that it would enable RRBs to minimise their overhead expenditure, optimise the use of technology, enhance capital base, have expanded area of operation and loan portfolio with improved mix. This will also result in better scale-efficiency, higher productivity and robust financial health of the RRBs and will, in turn, enable them to contribute to improved financial inclusion and greater credit flow to rural areas.

I am confident that amalgamation of RRB and delayering of the cooperatives will positively impact the provision of financial services in rural areas.

**Question 5: The Self Help Group Bank Linkage Programme has been a major initiative of NABARD that over 25 years has resulted in the formation of over 8 million active SHGs in the country. Of these, 5 million are receiving bank loans. Nevertheless there is a feeling that SHGs have not fully realized their potential. Besides, it has not been possible to graduate SHG members to individual level borrowing through an independent relationship with bank. What steps have been taken by NABARD in recent years to more fully support these groups to**



The three tier system in cooperatives was conceived long back and with changes in technology and market, I feel there is scope for delayering to improve the functioning of cooperatives. The objective of the delayering of CCS is to bring in greater efficiency in operations leveraging technology, improved governance, enhanced margin and provision of access to higher financial and non-financial resources. The delayering process should aim at providing improved financial & non-financial services to the farmers as well as turning the cooperative credit structure stronger. The delayering will also enable the CCS to recruit skilled manpower through market level compensation.

**integrate within mainstream banking and also to play a stronger developmental role?**

**Chairman:** My feeling is that while immense outcome based progress has happened under SHG-Bank Linkage programme, there is always room for improvement. We do not want to sit on laurels but keep on working for continuous improvements. Today, out of 8.7 million SHGs, 5 million have loan outstanding to banks. While it may appear that SHG members have not been able to graduate to having an independent relationship with banks, studies show 88 % of

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these members have individual bank accounts (APMAS: “Quality and Sustainability of SHGBLP”, 2016). The fact that they choose to remain with the group and avail bank loan in the group mode is primarily because they see value in group membership. Rural people have credit needs which are small and intermittent. SHG allows them to avail purpose- neutral, collateral-free loans which may not be possible as individual borrower or under typical MFI operations.

Accessing higher volume of institutional credit requires an ecosystem of (i) higher confidence level of the entrepreneur/borrower based on the skill sets available and (ii) improved infrastructure (farm, off farm & marketing). This is in addition to the proximity of the credit access point. I would also like to emphasise that with our focus on financial dimensions, we miss the equally important aspect of social outcomes associated with SHGs. Wherever I go, I hear amazing stories of social change from group members.

On improvements, NABARD has duly prioritised the next generation aspects and is working with the stakeholders for bringing about necessary improvements. NABARD has been trying to create sustainable livelihoods for SHG members through Livelihood and Entrepreneurship Development Programme (LEDP) which is an end-to-end solution for creating long term livelihood options to enable the matured SHG members to become employable and credit worthy.

EShakti is another attempt to digitise their accounts and create transparent and reliable credit histories so that they may integrate with the mainstream banking institutions.

**Question 6: The NRLM has emerged as the main promoter of SHGs in the country by taking over from the Self Help Promoting Institutions (SHPIs) of earlier years. There are concerns about the quality of groups and the federations that are being formed under a target driven programme. How is NABARD contributing to maintaining the quality and original objectives of SHGs?**

**Chairman:** NABARD had pioneered the concept of Panchsutras- Regular meeting, regular saving, regular inter-lending, regular repayment and book-keeping for SHGs. NRLM is following the same concept for promoting and grading its SHGs. Federations of SHGs with a bottom up approach is a positive indicator of social empowerment and should be supported. With the Federation approach, skilling of members becomes easier with higher employment potential.

**Question 7: Related to the above, the NRLM sees a role for SHG federations in financial intermediation of bank lending to SHGs. How is NABARD disposed to this idea? How is it working with the NRLM towards the common goal of livelihoods development and poverty reduction?**

**Chairman:** I have seen SHG federations doing commendable work in states like Andhra Pradesh, Telangana and Kerala. However, sustainability of their operations is an issue. Wherever, they have been successful, there is considerable state patronage. Financial intermediation requires exclusive skill sets in terms of financial market mechanism, rules, monitoring and recovery etc. If federations are well equipped themselves, there should not be any apprehension. NABARD encourages federations to provide all sorts of services required by the member SHGs other than financial intermediation and this is based on our field experience.

**Question 8: Are there plans to support an independent financial institution at the national level, or multiple state agencies, for the SHG channel?**

**Chairman:** At present Sreenidhi is the only

financial institution which is successfully catering to the credit needs of SHGs. Streenidhi is amply supported by SERP, a society promoted by the Govt of AP and Telangana in sourcing and appraisal of loan applications and subsequent follow-up and repayment. A financial institution that will exclusively cater to SHGs can be either State sponsored or emerge on its own. However, a specialised institution catering to a select set of clients is prone to higher risk.

**Question 9: The E-Shakti project has been projected as a major initiative towards mainstreaming SHGs into banking system. However, is this not more in the interest of banks and a step towards individual lending at the expense of the independent functioning of the SHGs?**

**Chairman:** Let us not cast this as favouring one over another but see the practical realities. You will agree that financial record keeping at SHGs level is a concern in view of the socio-economic-literacy background of the members. E-Shakti has been conceived, designed and introduced to address the complex issues related to facilitation of credit access. EShakti, a project for digitisation of all records/transactions at SHGs level with in-built formats of automatic grading and generation of loan application, helps in timely updation of books at SHG level and providing reliable data inputs for bank branches to take credit decisions. This has resulted in improved credit linkage and also higher credit flows to SHGs. The project in the long run aims at digitisation of all the SHG accounts to bring SHG members under the fold of digital Financial Inclusion. This will help them to access wider range of financial services while also enhancing banker's comfort level.

E-Shakti is a win-win concept for both the stakeholders. One of the main reasons banks go for SHG lending is because individually such SHG members are not considered credit worthy. If as a result of E-Shakti, individual members of SHGs are deemed credit worthy by banks only after they prove their credit worthiness through the group approach, it reaffirms that E-Shakti has enabled the 'not credit worthy' to become 'credit

worthy'. Naturally, improvement in the credit status of the SHG members among others, is a social elevation for them.

**Question 10: While NABARD for long, has had a revolving fund facility for lending to MFIs, this has not been provided on large scale. Is it proposed to extend greater support to MFIs through this facility?**

**Chairman:** NABARD had given revolving fund assistance and capital support from Microfinance Development and Equity Fund (MFDEF) to some 40 MFIs in the past. Later on, two of these MFIs got Small Finance Bank license and one got full banking license. Melt down of MFI sector during 2010-11 adversely affected the microfinance sector and that dissuaded serious new players from entering the sector for quite some time. In the meantime, it was decided that all the equity related activities under MFDEF were to be handled through the India Microfinance Equity Fund (IMEF), operated by SIDBI and MFDEF would cease to function.

At present NABARD provides refinance to NBFC- MFIs. INR 744 crore refinance was given to NBFC- MFIs during 2017-18 and INR 1688 crore of refinance is outstanding as on 31 March 2018.

