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Report on

Madhya Pradesh Model of Financial Inclusion

Samruddhi

Report on

“*Samruddhi* – The Madhya Pradesh Model of Financial Inclusion”

DECEMBER - 2013

Prepared by

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FOREWORD

The challenge of devolution of individual or family benefits based on entitlement and access is the greatest challenge. The three vital elements for any successful model for Direct Benefit Transfer are universal data base, conduit to transfer the money even to non-core banking financial institutions and access to financial inclusion. Thus, Direct Benefit Transfer (DBT) is not just devolution of benefits but needs to have a more comprehensive, sustainable and cost effective approach.

The biggest challenge today is that banking is not a part of the public service delivery in the country. Banking the unbanked is a pre-requisite to reach out to the needy population with multiple benefits offered by the Government. Financial inclusion along with direct benefit transfer needs to become a parameter of good governance and service delivery system.

The Madhya Pradesh Model of Financial Inclusion and Direct Benefit Transfer 'Samruddhi' i.e. prosperity with inclusive growth is modeled on these three pillars being executed simultaneously. It is a sustainable business model. The State undertook a census like operation under 'Samagra Samajik Suraksha Mission (SSSM) covering 7.25 crore people and nearly 2.5 crore households, where individual and family data was collected and a unique family and individual number allocated to them.

The SSSM provides a common data base for all requirements like Food Security, Scholarships, Housing, MGNREGA, Pensions, Nirmal Bharat Abhiyan etc. Now no parallel/ scheme-specific additional data base is required and SSSM enables the generation of information on benefits extended to an individual or family. The entire survey was completed in a span of 5 months and cost a mere Rs. 60 crore.

The next important issue was to have a strong conduit in a Financial Institution for transfer of funds into the accounts of individuals. Thus, e-FMS (electronic Financial Management System) was developed. Cooperative Banks and Post Office (not yet in core banking) opened accounts in the nearest commercial banks to work on a combination of core banking and manual accounting systems. The entire MGNREGA payment is through this conduit since April 2013 and thus tested for its efficacy. Now pensions and all scholarships will also be distributed through the same system, either directly from treasury or from Banks into individual accounts.

The third and the biggest challenge was of ensuring access to the financial institutions. The paradigm shift was to 'gain access to financial institution rather than just having access'. Thus, the concept of 'Shadow Area' was evolved, that is, all villages which did not have any financial institution like Post Office, Commercial Bank, Cooperative Bank etc within a 5 km radius were termed Shadow Area.

The 5 km radius was kept as criteria on two accounts a) to provide easy accessibility to individuals and b) to ensure viability of the unit dispensing financial services from there. Thus, in these 14,786 shadow villages 3,000 such brick and mortar structures i.e. Ultra Small Banks were proposed and 1,861 have been opened till date. As per bankers '*what started as a mandated activity has now turned into a ful-fledged business domain. The model creates a win-win situation for the stakeholders*'. These USB not just devolve benefits but also provide all financial products like savings, recurring deposits, loan etc. Each of the established USB is doing enough turn-over to be a business model.

Thus, under Madhya Pradesh Model, the entitlement and access is fully addressed and thus makes the system viable. The Madhya Pradesh Model of Financial Inclusion is an innovative and sustainable model for providing banking services within the vicinity of citizens, especially in rural /un-banked areas. The paradigm shift provided by this model is to lay stress on a distance norm rather than on population and gives opportunity to the unbanked in gaining financial access. The model is also helping spread financial literacy among the vast majority of rural people, as till now they have remained excluded from the Financial Inclusion and developmental stream. Under *Samruddhi* the beneficiaries get their entitlements through a transparent system, as the money is directly transferred into their bio-metric enabled bank accounts in the USBs and in non-core banking institutions like Cooperative Banks and Post Offices. This model is a really a Business Model for banks also as they get sufficient transactions to make the USB viable.

This model of Madhya Pradesh Government overcame the challenge of bringing transparency and good governance in the developmental process by bringing the excluded, disadvantaged and rural poor within the mainstream.

It was therefore important to have an independent impact study at this stage to see how far the objectives have been achieved, learn lessons and plan the way forward. It was encouraging when UNDP agreed to get it done. The efforts of the two consultants Dr. Kavim V Bhatnagar and Mr. Ashish Gupta, who visited the districts and interacted with all the stakeholders to understand firsthand how the Madhya Pradesh Model of Financial Inclusion is working in reality, should be lauded. Their analysis of the international experiences and comparison with the MP Model adds value to this document.

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Government of Madhya Pradesh

FOREWORD

Samruddhi Madhya Pradesh Model of Financial inclusion

Foreword

The Government of Madhya Pradesh has been a pioneer in developing a pro-poor model of financial inclusion. The *Samruddhi* model is based on three pillars: a common database platform for system integration of all benefit schemes of the government; an electronic fund management system to ensure timely and accurate payments to beneficiaries; and ultra-small bank branches or customer service points for opening bank accounts, transactions and ensuring last mile connectivity.

As a result of this initiative, there has been nearly 40 per cent increase in the number of bank accounts opened in the last six months between March and September 2013. During the same period, the number of transactions is estimated to have increased by over 650 per cent and the value of transactions by 1,700 per cent.

The United Nations Development Programme in India is privileged to document and evaluate *Samruddhi*. Allow us to congratulate the Government of Madhya Pradesh for developing this excellent model of financial inclusion which we are certain will be a best practice example for other states to replicate.

Lise Grande
United Nations Resident Coordinator
Resident Representative United Nations Development Programme

ACKNOWLEDGEMENT

May we say we are deeply indebted to all the stakeholders of the Financial Inclusion model of Madhya Pradesh who helped us in bringing out this document. While the list of such stakeholders is vast ranging from the rural beneficiaries at the grass-root level to the topmost officials of the Panchayat and Rural Development Department, Government of Madhya Pradesh we apologise that only a few could be mentioned here for paucity of space.

We gratefully acknowledge the '*Samruddhi* – the MPFI' Team at the Government level headed by. Dr. Aruna Sharma, IAS – Additional Chief Secretary, Government of MP, Department of Panchayat, Rural Development and Social Justice; Dr. Rajesh Rajora, IAS – Secretary, Rural Development, Dr. Ravindra Pastor IAS – Commissioner, MGNREGS – Government of MP, Mr. V. K. Batham, Commissioner, Social Justice, Mr. John Kingsley, IAS – Mission Director SSSM, Mr. Brajesh Kumar, IPoS – Additional Secretary, Rural Development. While Dr. Aruna Sharma provided us the Helicopter view of the thinking processes at the GoMP level over the financial inclusion model, its evolution, design, implementation strategy and current status, the team members provided us the details of each of the pillar of the model that they were heading. The team also guided us by providing useful feedback from time to time and arranging the field visits to the district.

We also acknowledge the bankers located at Bhopal, including the Lead Bankers to the State Central Bank of India, Mr. Umesh Singh, Field General Manager, Central Bank of India, Mr. Ravi Mohan, Regional Director, Reserve Bank of India, Mr. Rajendra Singh, Chief General Manager, NABARD who have helped us in providing the overall picture from a bankers perspective, providing us with various data related to FI, copies of minutes of SLBCs, internal circulars etc. and responding to our unending queries from time to time. We also acknowledge the FI Heads at State Bank of India, Bank of India, Central Bank of India and SIDBI.

The depiction of the model would have been incomplete but for the field visits to the four districts to identify the exact position, status and understanding of the model at the field level. We are highly indebted to the officials of all the four districts including the District Collectors, CEO Zila and Janpad Panchayats and the Lead District Managers of respective banks who despite being busy in the state assembly elections devoted their time and resources to make the field meetings a success. In particular, our appreciation goes to Mr. Rahul Jain, District Collector, Hoshangabad, Mr. Shrikant Bhanot, Ms. Sophiya, Mr. G K Tiwari, the CEOs of Zila Panchayat Dhar, Gwalior and Hoshangabad, respectively and Mr. Neetiraj Singh, Additional CEO of Zila Panchayat, Chhindwara district. Our sincerest gratitude to the Lead District Managers of the Banks, Mr. RK Jain – Bank of India, Dhar; Mr. V Krishnan – Central Bank of India, Gwalior; Mr. Shashidhar Sahu – Central Bank of India, Hoshangabad and Mr. G S Jayant – Central Bank of India, Chhindwara who accompanied us throughout the field visits and interaction with the customers and BCs at the USB / CSP and apprised us of their perceptions and issues being faced at the field level. At the field level we also acknowledge the support of Project Officers – MGNREGS, DDOs – Zila Panchayats, CEOs, AAOs and other team members at the Janpad Panchayats of all the Janpads and Districts that we visited. We are equally grateful to the BCs who manned the USB / CSP, the Sarpanchs and Secretaries of the Gram Panchayats and the community members who provided us the first hand information at the locations that we visited.

Last, but not the least we also acknowledge the timely inputs and support from the UNDP team of Mr. Amit Anand (UNDP, MP) and Mr. Navin Anand (UNDP, Delhi office) for allowing us the freedom and autonomy to be flexible in the contents of the two reports and being the force that constantly kept us motivated and encouraged during the three months of the assignment. We look forward for such help and cooperation from all stakeholders in all our future endeavors.

Dr. Kavim V Bhatnagar and Ashish Gupta

About the Report

This report is the outcome of a consulting assignment on 'Documentation and Evaluation of 'Samruddhi – the Madhya Pradesh Model of Financial Inclusion (MPFI)' commissioned by the UNDP. The scope of the assignment was divided into two separate but related Outputs / Reports:

1. Report 1. A detailed documentation of the Madhya Pradesh Model of Financial Inclusion including a detailed desk review of relevant circulars, government orders, communication, meeting minutes; stakeholder discussion to understand the process, etc. It deals with the model per se and covers the 'supply side' of Samruddhi - the MPFI model and documents the steps that were undertaken by the GoMP for re-engineering the system towards its development. It brings out in detail and in a logical order, how the state government in partnership with different stakeholders created the road-map for re-working the system. The Report also documents some of the Global as well as Indian experiences in Financial Inclusion.

2. Report 2. An evaluation of the state's model of financial inclusion undertaking an evaluation of Samruddhi – the MPFI model's rollout and implementation, based on the understanding developed through the first part of the assignment and observations from the field. The evaluation includes discussion with the relevant stakeholders and beneficiaries involved with and impacted by the model to get their perspective. It presents an assessment of the functioning of the model based on field visits to 4 representative districts (covering 2 blocks each) within the state. Thus it captures the 'demand side' views of the beneficiaries as well as those who are actually the implementers of the model as described in Part 1.

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PART-II

ABBREVIATIONS

AAO	Assistant Accounts Officer
AAP	Annual Action Plan
AB	Allahabad Bank
ABEP	Annual Branch Expansion Plan
ABY	Aam Aadmi Bima Yojana
ADB	Asian Development Bank
AEPS	Aadhaar Enabled Payment System
AFI	Alliance for Financial Inclusion
AIRCS	All India Rural Credit Survey Committee
ALW	A Little World
AML	Anti Money Laundering
APBP	Aadhaar Payment Bridge Platform
AS	Administrative Sanction
ASA	Association for Social Advancement
ATISG	Access Through Innovation Sub-Group
ATM	Automated Teller Machine
AusAID	Australia Aid
BBAN	Basic Bank Account Number
BC	Business Correspondent
BCA	Business Correspondent Agents
BCB	Banco Central do Brasil (Central Bank of Brazil)
BCNM	Business Correspondent Network Managers
BF	Business Facilitator
BI	Bank Indonesia (Central Bank of Indonesia)
BLCC	Block Level Coordination Committee
BOB	Bank of Baroda
BOI	Bank of India
BoP	Bottom of Pyramid
BoT	Bank of Tanzania (Central Bank of Tanzania)

BPL	Below Poverty Line
BPO	Block Programme Office
BRAC	Bangladesh Rural Advancement Committee (Formerly)
BSBDA	Basic Savings Bank Deposit Account
BSNL	Bhartiya Sanchar Nigam Limited
BSR	Basic Statistical Returns
CB	Commercial Bank
CBI	Central Bank of India
CBS	Core Banking Solution
CBSE	Central Board for Secondary Education
CCB	Central Cooperative Bank
CCT	Conditional Cash Transfers
CEO	Chief Executive Officer
CFT	Counter Terrorrist Financing
CGAP	Consultative Group to Assist the Poor
CGD	Centre for Global Development
CMD	Chairman and Managing Director
CMO	Chief Municipal Officer
CMPGB	Central Madhya Pradesh Grameen Bank
CP	Credit Penetration
CRAR	Capital to Risk (Weighted) Assets Ratio
CRISIL	Credit Rating and Information Services of India Limited
CRR	Cash Reserve Ratio
CSC	Customer Service Centre
CSFMS	Centralised State Financial Management System
CSP	Customer Service Point
CSR	Corporate Social Responsibility
DBT	Direct Benefit Transfer
DCC	District Consultative Committee
DCCB	District Central Cooperative Bank
DCP	District Credit Plan
DCRF	Debt Consolidation and Relief Facility

DFI	Development Finance Institution
DFID	Department For International Development
DFO	Divisional Forest Officer
DFS	Department of Financial Services, Government of India
DIC	District Industries Centre
DLBC	District Level Banking Committee
DM	District Magistrate
DP	Deposit Penetration
DSC	Digital Signature Certificate
DTS	Direct Transfer of Subsidies
EBT	Electronic Benefit Transfers
ECS	Electronic Clearing System
EDP	Entrepreneurship Development Programme
e-FMS	Electronic Fund Management System
e-MO	Electronic Money Order
EU	European Union
FAS	Financial Access Survey
FD	Fixed Deposit
FGD	Focused Group Discussion
FI	Financial Inclusion
FICCI	Federation of Indian Chamber of Commerce and Industry
FIEG	Financial Inclusion Experts Group
FIF	Financial Inclusion Fund
FINCA	The Foundation for International Community Assistance
FINO	Financial Inclusion Network & Operations Ltd
FIP	Financial Inclusion Plan
FITF	Financial Inclusion Technology Fund
FLC	Financial Literacy Centres
FRBM	Fiscal Responsibility and Budget Management
FSDC	Financial Stability and Development Council
FTO	Fund Transfer Order
FY	Financial Year

G2P	Government-To-Person
GCC	General Credit Card
GDP	Gross Domestic Product
GDS	Grameen Dak Sevak
GIRO	General Interbank Recurring Order
GOI	Government of India
GOMP	Government of Madhya Pradesh
GP	Gram Panchayat
GPFI	Global Partnership for Financial Inclusion
GRS	Gram Rozgar Sahayak
GSDP	Gross State Domestic Product
HDFC	Housing Development Finance Corporation
HHD	Hand Held Device
HPO	Head Post Office
IAS	Indian Administrative Services
IBAN	International Bank account Number
IBP	International Budget Partnership
ICAI	Institute of Chartered Accountants of India
ICT	Information and Communication Technology
IDBI	Industrial Development Bank of India
IFC	International Finance Corporation
IFSC	Indian Financial System Code
IGNOAPS	Indira Gandhi National Old Age Pension Scheme
IGNOU	Indira Gandhi National Open University
IIMA	Indian Institute of Management, Ahmedabad
IITK	Indian Institute of Technology, Kanpur
IMF	International Monetary Fund
IMPS	Interbank Mobile Payments Service
INFE	International Network on Financial Education
InM	Institute of Microfinance
IPoS	Indian Postal Services
IRDA	Insurance Regulatory and Development Authority

IRMA	Institute of Rural Management Anand
IT	Information Technology
JBY	Janshree Bima Yojana
JLG	Joint Liability Group
JP	Janpad Panchayat
JSY	Janani Suraksha Yojana
KCC	Kisan Credit Card
KGFS	Kshetriya Gramin Financial Services
KM	Kilometer
KO	Kiosk Operator
KVIC	Khadi and Village Industries Commission
KYC	Know Your Customer
KYR	Know Your Resident
LAMPS	Large Area Multi-Purpose Cooperative Society
LDM	Lead Development Manager
LIC	Life Insurance Corporation
MF	Mutual Funds
MFI	Micro Finance Institution
MFIN	Micro Finance Institutions Network
MGREGS	Mahatma Gandhi National Rural Employment Guarantee Scheme
MICR	Magnetic Ink Character Recognition
MIS	Management Information System
MMID	Mobile Money Identifier
MNO	Mobile Network Operators
MGNREGA	Mahatma Gandhi National Rural Employment Guarantee Act
MGNREGC	Mahatma Gandhi National Rural Employment Guarantee Council
MoF	Ministry of Finance (Government of India)
MoRD	Ministry of Rural Development (Government of India)
MoU	Memorandum of Understanding
MP	Madhya Pradesh
MPCON	Madhya Pradesh Consultancy
MPFI	Madhya Pradesh (Model of) Financial Inclusion

MPRLP	Madhya Pradesh Rural Livelihoods Project
MR	Muster Roll
MSME	Micro, Small and Medium Enterprise
NA	Not Applicable / Not Available
NABARD	National Bank for Agriculture and Rural Development
NACEN	National Academy of Customs and Narcotics
NACH	National Automated Clearing House
NATRSS	National Academy for Training and Research in Social Security
NBFC	Non Banking Finance Company
NCAER	National Council of Applied and Economic Research
NCERT	National Council of Educational Research and Training
NECS	National Electronic Clearing Service
NEFT	National Electronic Fund Transfer
NeGP	National e-Governance Plan
NFBS	National Family Benefit Scheme
NGO	Non Governmental Organization
NHB	National Housing Bank
NIC	National Informatics Centre
NMMU	National Mission Management Unit (NRLM)
NMR	Muster Roll (under MGNREGA)
NPA	Non Performing Assets
NPBS	Aadhaar Payment Bridge System
NPCI	National Payment Corporation of India
NPR	National Population Register
NPS	National Pension Scheme
NRLM	National Rural Livelihood Mission
NSAP	National Social Assistance Program
NSAS	National Social Assistance Scheme
NSFE	National Strategy for Financial Education
NUUP	National Uniform USSD Platform
OBC	Other Backward Class
OD	Overdraft

OECD	Organisation for Economic Co-operation and Development
P2M	Person to Merchant
P2P	Person to Person
PACS	Primary Agriculture Cooperative Society
PCO	Public Call Office
PDS	Public Distribution System
PFIP	Pacific Financial Inclusion Program
PFRDA	Pension Fund Regulatory and Development Authority
PhD	Doctor of Philosophy
PIN	Personal Identification Number
PLR	Prime Lending Rate
PNB	Punjab National Bank
PO	Programme Officer
PO	Post Office
PoS	Point of Sale
PPF	Public Provident Fund
PPI	Prepaid Payment Instrument
PPP	Private Public Partnership
PSB	Public Sector Banks
RBI	Reserve Bank of India
RD	Recurring Deposit
RES	Rural Engineering Services
RFID	Radio-frequency identification
RRB	Regional Rural Bank
RSBY	Rashtriya Swasthya Bima Yojana
RSETI	Rural Self Employment Training Institute
RTGS	Real Time Gross Settlement
RTI	Right To Information
SAA	Service Area Approach
SAB	Service Area Bank
SBI	State Bank of India
SBOD	State Bank Over Draft

SBP	State Bank of Pakistan
SC	Scheduled Caste
SCA	Service Centre Agency
SCB	State Cooperative Bank
SE	Sub Engineer
SEBI	Security Exchange Board of India
SEWA	Self Employed Women's Association
SGSY	Swarnjayanti Gram Swarozgar Yojana
SHG	Self Help Group
SIDBI	Small Industries Development Bank of India
SLBC	State Level Bankers Committee
SLR	Statutory Liquidity Ratio
SME	Small and Medium Enterprise
SMS	Short Messaging Service
SOP	Standard Operating Processes
SP	Sanchay Post
SPO	Sub Post Office
SRO	Self Regulatory Organisation
SSA	Sarva Shiksha Abhiyan
SSP	Social Security Pensions
SSSM	Samagra Samajik Suraksha Mission
ST	Scheduled Tribe
SWIFT	-Society for Worldwide Interbank Financial Telecommunication.
TAT	Turn Around Time
TCS	Tata Consultancy Services
TDR	Term Deposit Receipt
TFSF	Tanzania Financial Stability Forum
TPDS	Targeted Public Distribution System
TRAI	Telecom Regulatory Authority of India
TS	Technical Sanction
TSP	Technology Service Providers
UBI	Union Bank of India

UC	Utilisation Certificate
UCB	Urban Cooperative Bank
UCT	UnConditional Cash Transfers
UID	Unique Identity
UIDAI	Unique Identification Authority of India
UK	United Kingdom
UN	United Nations
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
UNICEF	United Nation Children's Fund
UPU	Universal Postal Union
USA	United State of America
USAID	United States Agency for International Development
USB	Ultra Small Branches
USD	United States Dollar
USSD	Unstructured Supplementary Service Data
UTR No.	Unique Transaction Number
VLE	Village Level Entrepreneur
VPO/BPO	Village Post Office / Branch Post Office
VSAT	Very Small Aperture Terminal
ZP	Zila Panchayat

PART I

Documentation of *Samruddhi* the MPFI Model

Executive Summary I
Documentation of
'*Samruddhi* – The MPFI Model'

A. Backdrop

General: The origins of the current approach to financial inclusion can be traced to the United Nations initiatives, which broadly described the main goals of inclusive finance as access to a range of financial services including savings, credit, insurance, remittance and other banking / payment services to all 'bankable' households and enterprises at a reasonable cost. The G20 Toronto Summit (June, 2010) outlined the "Principles for Innovative Financial Inclusion", which serves as a guide for policy and regulatory approaches aimed at fostering safe and sound adoption of innovative, adequate, low-cost financial delivery models, helping provide conditions for fair competition and a framework of incentives for the various bank, insurance, and non-bank actors involved in the delivery of a full range of affordable and quality financial services. Initiatives for financial inclusion have come from the financial regulators, the governments and the banking industry. While the banking sector has taken several steps to promote financial inclusion, legislative measures have also been initiated in some countries.

The global financial crisis has brought the need for financial inclusion into greater focus worldwide as it is believed that the wide spread financial exclusion was one of the factors that precipitated the financial crisis. While the spread of financial inclusion is recognized through formal financial institutions such as banks, credit unions, post offices or microfinance institutions, the approach of keeping some entities as part of the core or as support players, varies within countries. Besides, it is important to note that the defining principles of financial inclusion, coverage, role and responsibilities of institutions and assessment / monitoring requirements have been evolving over the years.

Indian Historicity: The history of financial inclusion in India is actually much older than the formal adoption of the objective. The nationalization of banks, Lead Bank Scheme, Expansion of Cooperatives incorporation of RRBs, Post Offices, Service Area Approach and formation of Self-Help Groups - all these were initiatives aimed at taking banking services to the masses. The brick and mortar infrastructure expanded the number of bank branches ten-fold - from 8,000+ in 1969, when the first set of banks were nationalized, to 99,000+ today. Despite this wide network of bank branches spread across the length and breadth of the country, banking has still not reached a large section of the population. The extent of financial exclusion is staggering. Out of the 600,000 habitations in the country, only about 36,000+ had a commercial bank branch. Just about 40% of the population across the country has bank accounts.

A number of rural households are deprived of basic banking services like a savings account or minimal credit facilities. Accordingly, the primary objective is to take banking to all excluded sections of the society, rural and urban. A more focused and structured approach towards financial inclusion was followed since the year 2005 when the Reserve Bank of India (RBI) decided to implement policies to promote financial inclusion and urged the banking system to focus on providing banking services to all six lakh villages and meeting their financial needs through basic financial products. The objectives of financial inclusion, in the wider context of the agenda for inclusive growth, have been pursued through a multi-agency approach. In 2006, the Government of India constituted a Committee on Financial Inclusion that made a wide range of recommendations for building an inclusive financial sector and gave a national rural financial inclusion plan. Government of India has set up the Financial Stability and Development Council (FSDC), which is mandated, inter alia, to focus on Financial Inclusion and Financial Literacy. In order to further strengthen the ongoing financial inclusion agenda in India, a high level Financial Inclusion Advisory Committee was constituted by RBI. Financial sector regulators including RBI are fully committed to the Financial Inclusion Mission.

B. Financial Inclusion in Madhya Pradesh

The State: Madhya Pradesh is second largest state in India with over 75 million inhabitants living in 54,903 villages. With a varied demographic and economic profile and vast disparities on many vital counts, MP requires multiple approaches to ensure meaningful FI. MP requires sustained and concerted efforts to take the benefits to the last mile in the state. ***Samruddhi* – the MPFI** model is an effort of almost half a decade of research and development and has positively digressed from the conventional FI model envisaged for India by the Central Government and the RBI. The biggest challenge in MP is to practice Inclusive Banking as an integral part of effective public service delivery mechanism. Banking the unbanked is a pre-condition to reach out to the needy population, simultaneously offering them direct multiple benefits of the Government. The financial inclusion along with direct benefit transfer has now become a parameter of good governance and service delivery. In order to provide door step delivery of integrated financial services to the rural poor, MP has carved out a distinct identity by evolving a pro-poor model of financial inclusion and 'Direct Benefit Transfer' titled as '*Samruddhi*' i.e. Prosperity.

One of the objectives of Financial Inclusion is also penetration of banking access to the deepest pocket in MP with the advent of "*Samruddhi*". Financial Inclusion in MP has been rolled out through the platform of State Level Banking Committee (SLBC) and Department of Panchayat & Rural Development (P&RD) with beneficiaries at the center stage. The concept of social security integration called "*SAMAGRA*" carries a multi-utility database that was initiated in the year 2010. The Individual-wise, Family-wise information was incorporated in the *Samagra* portal. To allow access to banking products to the beneficiaries, it was necessary that the conduit for transmission of the Government Benefits was free of laxities. *Samruddhi* – the MPFI model constitutes three basic pillars:

1. ***Samagra*: An Integrated Social Security Mission (SSSM)**
2. **Electronic Fund Management System** also known as e-FMS, for ensuring timely and correct payments to the beneficiaries as Government to Person (G2P).
3. **Ultra Small Bank Branches (USBs) / Customer Service Points (CSP)** for opening bank accounts, performing transactions and ensuring last-mile connectivity including financial dispensation.

Three of them together form the MP Financial Inclusion (MPFI) model – *Samruddhi*. The MPFI Model provides for an integrated solution to inclusive growth at the front and back end. At the backend, it captures the data base of every citizen and households and defines entitlements based on their characteristics as defined under the eligibility, features and benefits of the social sector schemes that get converged into three mainstreams namely, Health, Social Security and Education. At the front-end, the model offers huge potential for banking and financial inclusion where products and services could be offered at the doorsteps of the rural population by means of ultra small branches / customer service points (USB / CSP) using banking technology. The Three Pillars that are integrated with each other provide an end-to-end solution for the rural poor. These three pillars, left alone can be treated as modular, however the services that they offer are bundled into Government to Person (G2P). The risk of each of them if adopted on a standalone basis, may simply defeat purpose of integration. MP has cultivated a broad-based government commitment to financial inclusion to help alleviate poverty and the same has been defined and reflected in its overall objective of financial inclusion. The objectives may range from, but may not be limited to, switching over to an entitlement-based benefit flow to the vulnerable groups, to penetration of banking access to the deepest pockets of the state.

The model is a departure from the conventional models in India and mostly resembles with the international best practices like the G – 20 Principles for Innovative Financial Inclusion[1] and yet is little far from, but steadily heading towards attaining that status.

The Model's USP: With the advent of "*Samruddhi*" prosperity, linked with Financial Inclusion the model gears up itself as a technically feasible and financially viable tool to offer G2P services and benefits at the doorsteps. The *Samruddhi* model provides for a listing of all social sector schemes under one roof cutting across various departments and schemes, avoids double dipping and provides the benefits while keeping a track of every family as well as individual in the context of benefits provided to them under various schemes. From the supply side i.e. manufacturer of product and services, the model strives to make the USB / CSP a sustainable business model for banks in attaining the overall objectives of Financial Inclusion. In MP, the process of FI is an ongoing, long term process and is not limited to merely opening bank accounts and providing for

[1] The G20 Principles for Innovative Financial Inclusion bring those experiences together to produce a set of practical recommendations for policymakers worldwide. They are not rigid requirements, but rather nine valuable insights that together form a set of conditions that spur innovation for financial inclusion while safeguarding financial stability and protecting consumers.

a direct transfer of social / financial benefit and devolution of benefits. It also strives to provide financial literacy and awareness to all other financial services as core products. Besides core banking structure, non-core banking financial institutions like the post offices and cooperative banks are also used as a conduit to transfer the benefits and financial services. The central focus of *Samruddhi* is not only providing an access to bank and their convenience to reach out the masses, but also to offer services to the clients at the door steps / in their own vicinity and mostly using their own people.

There has been a paradigm shift from population norms to geographic norms in order to provide banking access. The third component of *Samruddhi* therefore makes the financial dispensation facility accessible in order to realize the concept of Financial Inclusion in a holistic manner. In order to resolve issues emerging from the peculiarity of MP and to provide seamless transfers of payment from the Government and make it convenient for them to land up at the individual bank accounts, a model needed to be designed where beneficiaries could receive payments through direct fund transfer, channeled to their bank accounts. GoMP realized that the directions issued by the RBI and Ministry of Finance (Department of Financial Services), GoI, were required to be fine-tuned as per the requirements of the State. It became necessary in the interest of the people to evolve a system that would offer immediate solution and was also sustainable.

GoMP decided to work out arrangements that would institutionalize the system and hence convened the meeting of Lead Bankers in order to understand the issues first hand, that included delay in payments and mechanisms adopted on date for not just devolution, but also selling other financial products. This massive exercise made the administration realize that as many as 14,767 out of a total of 54,903 villages, in the state did not have formalized financial institutions, within a radius of 5 KM. It was also concluded that the RBI as well as GoI's norm of population of 2,000 towards facilitating banking accounts should to be revisited for these reasons.

A solution was introduced by GoMP through use of geographical distance as a parameter for providing Banking facilities in under-banked pockets. Out of 54,903 villages, 50,396 villages were unbanked / under-banked till 31.03.2011. This ushered in the concept of 'Shadow Area'. Shadow Area is an area that does not have any brick and mortar financial institution. GoMP has decided to shift the criteria from 'population' to 'shadow area'. The geographical norms for installation of Ultra Small Banks / Customer Service Points have been the hallmark of *Samruddhi* as far as the ***Outreach*** is concerned. The term ***'shadow area'*** has been coined to identify areas without RRBs / Commercial Banks i.e. without any formal brick-and-mortar financial dispensation unit within a 5 km radius. The banks in MP were accordingly advised to open their USBs and CSPs in these shadow areas. Till June 2013, 1,761 such facilities USB (Ultra Small Banks) have been provided as a business model.

Update on *Samruddhi*: Further efforts were made to bring all the banks, including the District Central Cooperative Banks (DCCBs) and Post offices as well as Cooperatives under the Core Banking System (CBS). The DCCBs and the RRBs were the foremost target for bringing them in the

CBS. It was realized by the convener bank in MP that it was important to build the capacities of service providers to match them with the needs of the beneficiaries; hence steps were taken to create compatibility of systems including efficient and effective financial literacy.

C. Financial Deepening of the *Samruddhi*

Financial deepening is the improvement or increase in the pool of financial services that are tailored to the requirement of all levels in the society. The model in MP has developed a framework for financial inclusion and has taken into account various supply side issues; assessment of enabling environment; issues in penetration, barriers to financial inclusion, etc. However, evidence for demand side shall be reflected in terms of opening of accounts, volumes of transactions, increase in bank balance and saving schemes etc. The demand side issues are tested in Part II of this report that deals with observations from field visits.

The MP model of financial inclusion poses immense opportunities for financial deepening as there are opportunities and potential for the CSPs / USBs to offer products and services to keep themselves floating and attain sustainability. Besides, the services as offered under various government schemes, the demand for regulated products could be generated by means of financial education as well as converting the need to demand. Promoting well-managed financial deepening in low-income states like MP can enhance resilience and capacity to cope with shocks, improve macroeconomic effectiveness, and support solid and durable inclusive growth.

Financial deepening fosters inclusive growth as more varied and accessible financial services support growth and reduce poverty and inequality. It also supports the view that development in financial sector leads to development of the economy as a whole. However from the point of view of the Welfare State, it also plays an important role in reducing risk and vulnerability for disadvantaged groups, and increasing the ability of individuals and households to access basic services like health and education, thus having a more direct impact on poverty reduction. Financial system in low income state like MP is growing and becoming more inclusive, but they still remain relatively small and undiversified. Although currently they have much lower levels of financial depth than the high - and middle-income states, MP is likely to experience financial deepening at rates faster than higher income states in years to come. Access to finance is as pivotal as the depth of the financial system. Here again, there are encouraging signs, but more has to be done. In the state of MP and specially in the past couple of years it has been amply realized that mere banking inclusion would not serve the purpose of inclusive growth, hence the State has to move beyond opening of banking accounts.

While banking accounts could be the first and foremost step of financial inclusion, it is certainly not the end all of the process. Again, from the side of the supply, it can offer various social benefits to the underprivileged by properly targeting and transferring the benefits directly into their accounts. On the demand side, creation of awareness by means of financial literacy is the key to success. This would create a demand for various financial products like the need for credit, savings, term and recurring deposits, remittances, insurance and finally contributory pensions.

According to certain preliminary indications in MP, it is not only the interest rate that affects financial deepening but also, various other factors such as government activities, external sector activities, bank branch expansion and communications development. These prima facie results are in line with various empirical studies across developing countries confirming that there is a positive relationship between these variables and financial deepening indicators.

D. *Samruddhi*'s Current Status and Best Practices

In relation to the global best practices, The G20 Principles for Innovative Financial Inclusion globally, *Samruddhi* - the MPFI model stands at the cross roads of inclusive growth. While MP has adopted some of the principles enshrined in the global document, few are yet to be attained. However, there are still some principles like the area of consumer protection where a lot has to be done in the model. On the issue of regulatory mechanism, while banking and financial products are regulated in India, MP has set up monitoring through SSSM (G2P that is monitored on a daily basis). MP is now set to create an institutional mechanism that would coordinate with the financial regulators to monitor and regulate the products and services being offered for financial deepening, including the welfare schemes of the Government to the beneficiaries.

MP's Adoption of Best Practices: On the positive note, the GoMP has displayed remarkable progress in cultivating a broad-based government commitment to financial inclusion as part of its effort to alleviate poverty. It has also promoted technological and institutional innovation as a means to expand financial system access and usage. However, it is yet to address the infrastructure weaknesses. Though it has issued instructions to provide physical infrastructure in terms of a 100 sq. ft. room at each Panchayat, not just for USB / CSP but also for post offices, the IT infrastructure such as seamless internet connectivity etc. requires a lot more. The model has been partly successful in utilizing improved data to make evidence-based policy, measuring progress, and considering an incremental ***"test and learn"*** approach by both regulators and service providers. As with any area of policymaking, appropriate and reliable data are needed to support the design of financial inclusion policy and to monitor and measure the impact of policy over time, the model has already developed the database but its efficacy will need to be proven in years to come.

Miles to Go: However, *Samruddhi* has to evolve to reach a level where it could implement policy approaches that would promote competition and provide market-based incentives for delivery of sustainable financial access and usage of a broad range of affordable services (savings, credit, payments and transfers, insurance) as well as a diversity of service providers. GoMP has to encourage a comprehensive approach to consumer protection that would recognize the roles of government, providers, and consumers in clear terms. Again, it has made a beginning for a well defined and targeted financial literacy and financial capability. For G2P, accountability line is clearly devised in the SSSM directions issued by the Finance Department as well as the parent department. MP has made a beginning in its FI model to offer any regulated financial products other than the basic banking mentioned earlier.

Chapter-1

Introduction and Backdrop

The first chapter briefly introduces the objective and backdrop of this report and provides for an introduction to MP as well as defines FI in very generic terms. It also discusses significant and relevant views and action on FI across the globe and ends with a brief on chapter construction of this report.

INTRODUCTION AND BACKDROP

The objective of this report (Part I) is to capture and document the MP FI model that is expected to improve access to finance for MP's rural poor by means of a paradigm shift from the conventional financial inclusion models prevalent in India. The study also examines the current level and pattern of access to finance largely for rural households in India, evaluates various approaches for delivering financial services to the rural poor, analyzes what lies behind the lack of adequate financial access for the rural poor, and identifies what it would take to improve access to finance based on the MPFI model. Based on the analysis of a 'supply side' large-scale secondary survey of available literature and minutes of proceedings of various deliberations, in combination with an evaluation of the role of banking and financial institutions along with Government schemes, it also examines different forms of financial service provision, including formal, informal and microfinance, and raises questions about approaches used so far to address financial exclusion. It finally makes recommendations for policy advisors and financial service providers on how to scale-up access to finance for rural poor to meet their diverse financial needs (savings, credit, insurance against unexpected events, etc.), in a commercially sustainable manner. Its conclusions will be of interest to those involved in social sector and economic policy and its implementation, microfinance, micro-insurance and micro-pensions, cash transfers including CCTs and UCTs, and Direct Benefit Transfers and poverty reduction.

1.1 Introduction to Madhya Pradesh

Madhya Pradesh, literally meaning 'Central Region' is geographically, the most central state of India. Once the largest[2], MP is currently the second largest state in the country by area. With over 75 million inhabitants, it is the sixth largest state in India by population and is landlocked, being the most central state,. As per 2011 census, the population of MP is 72 million, and the population density is 196 people per square km. More than 75 percent of the state's population resides in villages and their main occupation is agriculture. The low density of population results in one-third of the village residents needing to commute 20 km to 90 km to do financial transactions.

1.1.1 Economy of Madhya Pradesh

Among India's 20 largest states, MP has the third lowest per capita GSDP. MP's per capita own revenue is much below the average of these states. Weak fiscal indicators point towards the weak capacity of the state government to mobilize resources for development. The state has not yet been able to capitalize on India's improved growth and thus there exists potential and need for MP to identify and address the critical constraints to growth. Recent spurt in economic growth is encouraging and needs to be sustained. MP's gross state domestic product (nominal GDP) for 2010–11 was Rs. 259,903 crore (approximately US$ 47 billion) with a per-capita figure

[2] Before its bifurcation in November 2000 into MP and Chhattisgarh, it was the largest state with 4,43,000 square kilometers

of US$ 583, the fourth lowest in the country. Between 1999 and 2008, the annualized growth rate of the state was very low at 3.5%. Subsequently, the state's GDP growth rate has improved significantly, rising to 8.96% (National 8.58%) during 2010-11 and 12% during 2011-12. During the last five years (from the year 2006-07 to 2010-11), the average growth rate of State GSDP was 9.27. Some more positive developments in recent years include the significant turnaround in fiscal indicators in revenue deficit and capital outlays. A comparative analysis of the structure of the economy of the State and the changes witnessed in it vis-a-vis the national economy is presented below:

Changes in the Structure of the Economy (at constant prices)

Sector / Year	All India		Madhya Pradesh	
	2004 - 05	**2010 –11**	**2004 - 05**	**2010 –11**
Primary	19.03%	14.19%	27.66%	24.11%
Secondary	27.93%	27.96%	27.15%	30.28%
Tertiary	53.05%	57.85%	45.19%	45.61%

Source: FRBM Report 2012 – 13 (GoMP)

1.1.2 Development of Social Sector

The fiscal policy of the State is aimed at increasing capital expenditure so as to ensure investment in social and physical infrastructure. At a more near term tenure, the expenditure on Plan Schemes as well as Social Sector too has grown multi fold in MP.

MP's Spending on Social Sector (PLAN)

(Rs. In Millions)

	2010-11 Actual	2011-12 Budget	2012 -13 Budget
A. Social Services (1 to 12)	**78,570**	**91,516**	**121,431**
1. Education, Sports, Art and Culture	24,098	29,120	38,622
2. Medical and Public Health	2,862	3,631	6,787
3. Family Welfare	2,509	3,474	4,018
4. Water Supply and Sanitation	2,152	1,981	2,927
5. Housing	1,564	1,415	2,228
6. Urban Development	5,837	7,901	10,619
7. Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes	13,097	13,807	17,851
8. Labour and Labour Welfare	485	779	800
9. Social Security and Welfare	16,179	20,176	25,476
10. Nutrition	9,699	9,130	12,044
11. Relief on account of Natural Calamities	50	50	
12. Others*	41	53	59

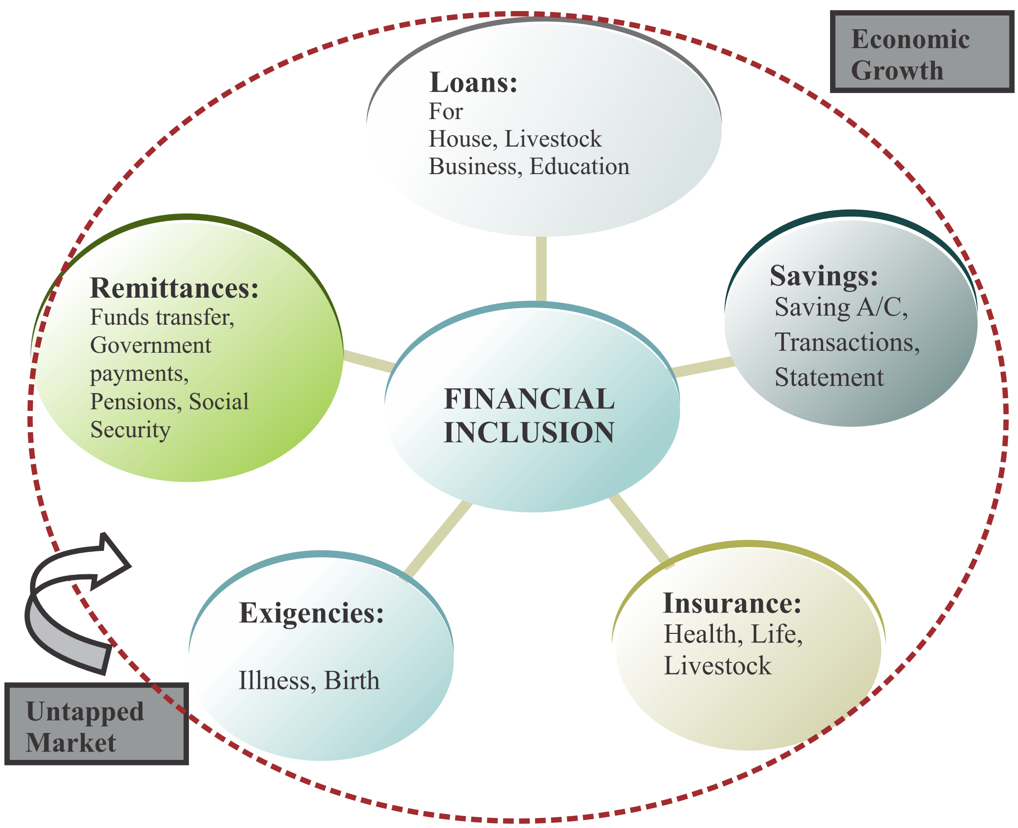
Source: RBI Study on State Finances

While social sector spending has seen an upward trend in recent years, the relatively lower growth of the economy has made it difficult for all sections to benefit from it. Total Plan expenditure for the year 2013-14 is estimated to be Rs 37608.17 crore as against Rs. 31473.48 crore for the year 2012-13, which is an 18 percent increase. In the current fiscal, a provision of Rs. 1397 crore has been for Social Justice Department which is 31 percent higher than last year. In the past three years the annual growth in social spending has been more than 25% which is much higher when compared with the growth in GSDP or Social Sector as a percentage of overall plan expenditure for MP.

1.2 Introduction to Financial Inclusion

Financial inclusion or inclusive financing is the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of society, in contrast to financial exclusion where those services are not available or affordable. Financial inclusion today is about financial markets that serve more people with more products at lower cost.

Financial Inclusion Ecosystem



Source: Frost & Sullivan

Access to financial services plays a critical part in development by facilitating economic growth and reducing income inequality. Inclusive financial systems allow poor to smoothen their consumption and insure themselves against economic vulnerabilities —from illness and accidents to theft and unemployment. It enables poor to save and to borrow—allowing them to build their assets, invest in education and entrepreneurial ventures, and thus improve their livelihoods. Inclusive finance is especially likely to benefit disadvantaged groups such as women, youth, and rural communities. For all these reasons financial inclusion has gained prominence in recent years as a means to improve the lives of the poor. A key challenge is how to create the broader interconnected ecosystem of market actors and infrastructure needed for safe and efficient product delivery to the poor. The term "microfinance," once associated almost exclusively with small-value loans to the poor, is now increasingly used to refer to a broad array of products tailored to meet the particular needs of low-income individuals. Recent empirical evidence highlights that access to basic financial services can make a substantial positive difference in improving poor people's lives. Accordingly, financial sector reforms that promote financial inclusion are increasingly at the core of policymakers' agendas.

1.3 Global Perspective on Financial Inclusion

The term "financial inclusion" has gained importance since the early 2000s, when financial exclusion and its direct impact on poverty was understood. An estimated 2.5 billion working-age adults globally have no access to the types of formal financial services delivered by regulated financial institutions. It is argued that as banking services are in the nature of public good; the availability of banking and payment services to the entire population without discrimination is the prime objective of financial inclusion public policy. In response to policymakers promoting financial inclusion and the stakeholders demand for rationalization of resources towards Financial Inclusion, CGAP (Consultative Group to Assist the Poor) and the World Bank Group, recently launched the Financial Access project, including a cross-country database on financial inclusion topics and an annual report to inform the policy debate. It also analyzes the state of access to deposit and loan services as well as the extent of retail networks, and discusses the state of financial inclusion mandates around the world. According to its database, still 56% of the adults are unbanked globally.

1.3.1 The United Nations

The United Nations defines the goals of financial inclusion as follows:

- access at a reasonable cost for all households to a full range of financial services, including savings or deposit services, payment and transfer services, credit and insurance;
- sound and safe institutions governed by clear regulation and industry performance standards;
- financial and institutional sustainability, to ensure continuity and certainty of investment; and
- competition to ensure choice and affordability for clients.

Kofi Annan, Former United Nations Secretary-General

> *"The stark reality is that most poor people in the world still lack access to sustainable financial services, whether it is savings, credit or insurance. The great challenge before us is to address the constraints that exclude people from full participation in the financial sector. Together, we can and must build inclusive financial sectors that help people improve their lives."*
>
> **– 29 December 2003**

Pacific Financial Inclusion Program (PFIP): UNCDF, together with UNDP, AusAID and the EU, has created the Pacific Financial Inclusion Programme (PFIP). The PFIP strategy involves finding new ways of serving hard-to-reach populations, while fostering greater commitment and cooperation to build inclusive financial systems throughout the region. At the core of its efforts is building branchless banking platforms that can reach low income and rural households, the vast majority of which are unbanked. The programme supports a government-to-person (G2P) payment project, in which social welfare recipients are able to receive their stipends electronically, rather than through a voucher and cash-based system.

1.3.2 Global Partnership for Financial Inclusion (GPFI)

Global Partnership for Financial Inclusion (GPFI) is an inclusive platform for all G20 countries, interested non-G20 countries and relevant stakeholders to carry forward work on financial inclusion, including implementation of the Financial Inclusion Action Plan, endorsed at the G20 Summit in South Korea[3]. Financial Inclusion was not only prominently included in the Leaders' Declaration, but was also highlighted as an important component under the Seoul Development Consensus and the financial sector reform agenda. Subsequently, the leaders announced the establishment of the Global Partnership for Financial Inclusion (GPFI) to institutionalize and continue the work began by the Financial Inclusion Experts Group (FIEG) in 2010. Spearheading the implementation are the five Key Implementing Partners: the Alliance for Financial Inclusion (AFI), the Consultative Group to Assist the Poor (CGAP), the International Finance Corporation (IFC), the Organisation for Economic Co-operation and Development (OECD) and the World Bank. Another group namely, Sub-Group on Financial Consumer Protection and Financial Literacy takes forward the G20 Leaders commitments on financial consumer protection and financial literacy. It supports and complements work of the other Sub-Groups on activities specifically related to consumer protection and financial literacy in their work programs.

1.3.3 The Alliance for Financial Inclusion (AFI)

AFI is a knowledge network of central banks and other financial regulatory bodies in developing countries. As a key player for global financial inclusion efforts, AFI serves as one of the five implementing partners for the G20 Global Partnership for Financial Inclusion (GPFI). It is the

[3] The GPFI was officially launched on 10 December 2010 in Seoul, South Korea.

world's largest and most prominent network of financial inclusion policymakers from developing and emerging economies who work together to increase access to appropriate financial services for the poor. The G20 Financial Inclusion Experts Group (FIEG) utilized many of AFI's ongoing programs, including dialogues and meetings with developing country policymakers, together with the AFI Survey on Financial Inclusion Policy which helped to shape the G20 Principles for Innovative Financial Inclusion.

Alfred Hannig, Executive Director, AFI

> "Financial inclusion is no longer a fringe subject. It is now recognized as an important part of the mainstream thinking on economic development based on country leadership". –
>
> Progress in financial inclusion during the IMF-World Bank 2013 Spring Meetings: 24 April 2013

1.3.4 The Maya Declaration

The Maya Declaration is a statement of common principles regarding the development of FI policy made by a group of developing nation regulatory institutions during the AFI 2011 Global Policy Forum held in Mexico. The Maya Declaration is broad in nature, focusing on:

- creating the right environment;
- implementing the correct framework;
- ensuring consumer protection measures are taken and using data to inform and track financial inclusion efforts.

This declaration was made through the Alliance for Financial Inclusion network of regulatory institutions and although no vote was taken, the common principles have been implicitly adopted by all of the networks members. There were as many as 17 institutions which made specific Maya Declaration[4] commitments during 2011. Interestingly, India is not a signatory to Maya Declaration.

1.3.5 International Monetary Fund on Financial Inclusion

As per the International Monetary Fund (IMF), improving access to financial services and building inclusive financial systems are gaining priority for the policy makers in the aftermath of the global financial crisis. An increasing number of financial regulators around the world are tasked with promoting access to financial services in addition to ensuring the stability of financial markets by regulating and supervising financial institutions.

The Financial Access Survey (FAS) published by the IMF collects data on access to and usage of financial services from central banks and other financial regulators around the world on an annual basis. The key FAS indicators are:

[4] Full Text of Maya Declaration is available at:
http://www.afi-global.org/library/publications/maya-declaration-afi-network-commitment-financial-inclusion

a. Identify knowledge gaps and set priorities for policies on broadening financial access;

b. Monitor the effectiveness of these policies over time; and

c. Advance research and analysis to strengthen understanding of the determinants and implications of financial access and usage.

To foster the use of a common methodology in the survey data, the definitions, types of institutional units, and financial instruments covered in the FAS are broadly consistent with the IMF's Monetary and Financial Statistics Manual and its accompanying Compilation Guide.

IMF's FAS Database - Select Indicators on Financial Inclusion

	USA		UK		Germany	
	2005	2011	2005	2011	2005	2011
ATMs per 1,000 km	43.2	NA	241	NA	NA	NA
ATMs per 100,000 adults	169	NA	118	NA	NA	NA
Commercial bank branches per 1,000 km	8.5	9.6	58	NA	40.9	NA
Commercial bank branches per 100,000 adults	33.1	35.4	28.4	NA	20.2	NA
Deposit accounts with commercial banks per 1,000 adults	NA	NA	NA	NA	NA	NA
Household deposit accounts with commercial banks per 1,000 adults	NA	NA	NA	NA	NA	NA
Household loan accounts with commercial banks per 1,000 adults	NA	NA	NA	NA	NA	NA
Loan accounts with commercial banks per 1,000 adults	NA	NA	NA	NA	NA	NA
Outstanding deposits with commercial banks(Percent of GDP)	48	57.8	357	423	20.1	27.6
Outstanding loans from commercial banks (Percent of GDP)	48.9	46.8	378	460	24.7	24.2

Source: IMF's Financial Inclusion Survey July 2012

IMF's FAS Database -Select Indicators on Financial Inclusion								
	Russian Federation		Brazil		China		India	
	2005	2011	2005	2011	2005	2011	2005	2011
ATMs per 1,000 km	1.7	11.2	17.4	20.6	NA	NA	NA	25.4
ATMs per 100,000 adults	22.8	153	109	119.6	NA	NA	NA	8.9
Commercial bank branches per 1,000 km	2.1	2.7	NA	7.9	NA	NA	23.2	30.4
Commercial bank branches per 100,000 adults	28.4	37.1	NA	46.2	NA	NA	9	10.6
Deposit accounts with commercial banks per 1,000 adults	NA	NA	706	1033	NA	NA	607	953
Household deposit accounts with commercial banks per 1,000 adults	NA	NA	NA	NA	NA	NA	577	853
Household loan accounts with commercial banks per 1,000 adults	NA	NA	NA	747.4	NA	NA	7.4	20.6
Loan accounts with commercial banks per 1,000 adults	NA	NA	NA	853.7	NA	NA	100	142
Outstanding deposits with commercial banks(Percent of GDP)	18.7	45	34	53.3	123	159	47.3	68.4
Outstanding loans from commercial banks (Percent of GDP)	29.5	63.9	21.2	40.3	85.3	109	31.2	51.8

Source: IMF's Financial Inclusion Survey July 2012

1.3.6 The World Bank on Financial Inclusion

World Bank is the leading global development partner for governments and regulators for financial inclusion. Taking a comprehensive approach to promoting financial inclusion among the 2.5 billion adults who lack access to formal financial services, World Bank support includes policy advice, data and diagnostics, technical assistance for legal and regulatory reforms, institutional development, risk-sharing, and financing.

Led by the Financial Inclusion and Infrastructure Global Practice and its international network of over 170 financial specialists, the World Bank takes a comprehensive approach to working with governments and regulators towards creating financial inclusion. The World Bank supports increased access to a range of financial products and services through:

1. Policy and regulatory reforms for micro and SME finance;
2. Development of sound and efficient financial infrastructure for payments, supply chain finance, credit information, and collateral frameworks;
3. Innovations to reach poorer households, including through Government to Person (G2P) payments linked to financial accounts; and
4. Responsible finance, through financial capability and consumer protection.

The World Bank also partners with countries to support national strategies for financial inclusion and provides data, technical assistance, financing, and capacity building to support the implementation and sustainability of these strategies. The World Bank's global surveys provide data and insights on financial inclusion, including the Global Financial Inclusion Database, Global Findex.[5] The World Bank's Global Findex reports that three quarters of the world's poor lack a bank account because of poverty, costs, travel distances, and the often burdensome requirements involved in opening an account. Only 25% of adults earning less than $2 a day have saved at a formal financial institution. Being "unbanked" is linked to income inequality: the richest 20 percent of adults in developing countries are more than twice as likely to have a formal account.

World Bank's FINDEX - Select Indicators on Financial Inclusion -2011 (Proportion of Population of Age 15+)							
Indicator Name	USA	UK	Germany	Russian Federation	Brazil	China	India
CREDIT:							
Loan from a financial institution in the past year	20.1	11.8	12.5	7.7	6.3	7.3	7.7
Loan from a financial institution in the past year, income, bottom 40%	17.6	11.1	12.3	6.3	3.5	7.7	7.9
Loan from a financial institution in the past year, income, top 60%	22.3	13.2	13.7	8.7	8.2	7	7.5
Loan in the past year	44.6	28.8	25.3	31.9	23.8	29.4	30.6
Loan in the past year, income, bottom 40%	45.1	28.1	25.4	32.1	19.7	32.4	35.7
Loan in the past year, income, top 60%	44.2	30.2	24.6	31.7	26.6	27.3	24.9
INSURANCE:							
Personally paid for health insurance	NA	NA	NA	6.7	7.6	47.2	6.8
Purchased agriculture insurance (% working in agriculture, age 15+)	NA	NA	NA	3.7	11.2	7.2	6.6
PAYMENTS:							
Checks used to make payments	65.5	50.1	7.2	5.2	6.7	1.8	6.7
Electronic payments used to	64.3	65.3	64.2	7.7	16.6	6.9	2
Mobile phone used to pay bills	NA	NA	NA	1.7	1.3	1.3	2.2
SAVINGS:							
Saved at a financial institution in the past year	50.4	43.8	55.9	10.9	10.3	32.1	11.6
Saved at a financial institution in the past year, income, bottom 40%	32.1	43.5	55.1	8.8	5.8	18.3	10.4
Saved at a financial institution in the past year, income, top 60%	66.5	44.3	60	12.4	13.3	41.7	12.9
Saved any money in the past year	66.8	56.7	67.3	22.7	21.1	38.4	22.4
Saved any money in the past year, income, bottom 40%	51.5	56.2	67.1	18.9	12.1	23.3	19.4
Saved any money in the past year, income, top 60%	80.2	57.7	68.1	25.4	27.1	48.9	25.8

NA: Not Available

Source: The World Bank

[5] A Bill and Melinda Gates Foundation funded survey of 150,000 people in 148 countries, implemented with Gallup, and the Global Payment Systems Survey (which covers financial infrastructure related to payments and mobile money, in 142 countries).

1.3.7 International Finance Corporation (IFC)

IFC is World Bank Group's lead investor in microfinance in terms of volume and is one of the leading multilateral investors in terms of reach to microfinance institutions, working with 150 institutions in more than 60 countries. IFC works to create and support commercially viable microfinance institutions that can attract capital to scale up and meet demand. Since pioneering commercial microfinance in the early 1990s, IFC has led innovation in microfinance, using technology, financial products, and policy to help financial institutions reach a greater numbers in a more cost-effective way.

1.3.8 Consultative Group to Assist the Poor (CGAP)

The CGAP works toward a world in which everyone has access to the financial services they need to improve their lives. CGAP develops innovative solutions for financial inclusion through practical research and active engagement with financial service providers, policy makers, and funders. Established in 1995 and housed at the World Bank, CGAP combines a pragmatic approach to market development with an evidence-based advocacy platform to advance poor people's access to finance. Its global network of members includes over 35 development agencies, private foundations, and national governments that share a common vision of improving the lives of poor people with better access to finance. CGAP is widely recognized as a leading global knowledge resource for financial inclusion, offering vital information through its renowned publications and online knowledge resources that include the Microfinance Gateway and the CGAP Blog. CGAP projects cover a wide range of topics on financial inclusion and microfinance.

1.4 Foremost Financial Inclusion: Micro Credit

The first and foremost efforts to provide an inclusive finance were pioneered in Bangladesh by Grameen and BRAC. Largely funded by grants and aid, the microfinance sector grew quickly and fuelled hopes for a new "miracle cure" for global poverty. But in the decades since, critics of microfinance have been just as vocal as its proponents. A series of crises, notably in Nicaragua, Pakistan and India, have called the ethics of microfinance into question, and suggested the sector might need better regulation.

1.5 Tracking Financial Inclusion

While financial inclusion is an important issue, it may also be interesting to assess whether such inclusion as earmarked in policies are actually reaching the common beneficiaries. Since 1990s, there have been serious efforts both in the government agencies and in the civil society to monitor the fund flow process and to track the outcome of public expenditure through budget tracking. Organisations like International Budget Partnership (IBP) are undertaking global surveys in more than 100 countries to study the openness (transparency) in budget making process. There are various tools used by different civil society groups to track public expenditure.

Such tools may include performance monitoring of public services, social audit and public accountability surveys. In India, the institutionalisation of Right to information (RTI) has been a supporting tool for activists and citizen groups for budget tracking and advocacy for social inclusion.

1.5.1 Global Financial Inclusion (Global Findex) Database

Recognizing the need for better data to support the financial inclusion agenda, the World Bank's Development Research Group, has constructed the Global Findex database. The Database provides 506 country-level indicators of financial inclusion summarized for all adults and disaggregated by key demographic characteristics—gender, age, education, income, and rural or urban residence. As the first public database of indicators that consistently measure people's use of financial products the Findex database fills a major gap in the financial inclusion landscape. Covering a range of topics, the database can be used to track financial inclusion policies globally and develop a deeper and more nuanced understanding of how people around the world save, borrow, make payments, and manage risk.

1.6 Chapter Construction

This report is primarily aimed at documenting the Financial Inclusion model of MP in the backdrop of various financial inclusion drives across the globe in general and India in particular. While this **Chapter One** captures the introduction and backdrop to the state of Madhya Pradesh, it also captures the term '*financial inclusion'* as the world looks at it including the efforts made to provide an inclusive finance to various low income informal sector workers. **Chapter Two** of this report provides a vibrant discussion on global formats and innovation in Financial Inclusion and describes some of the best practices on Financial Inclusion across the globe. It also points out how countries like Brazil et al have attained the status by building up an integrated model that may closely resembles the *Samruddhi*. **Third Chapter** of this report captures the Indian perspective on Financial Inclusion and provides a historicity of various efforts in Indian context on banking and financial inclusion. It describes the initial efforts of social banking in the early decades of independent India, followed by the SHG and cooperative movement, bank nationalization and consolidation and leads the discussion to financial inclusion in its present form.

The next four chapters provide for the documentation of *Samruddhi* – the MP Model for Financial Inclusion (MPFI) and are basically from the 'supply' perspective of the products and services. Thus while the **Fourth chapter** briefly captures the financial model of MP and various façade including its evolution, it also acts as a precursor to the next three chapters since it does not provide full details of the *Samruddhi*. The **Fifth, Sixth and Seventh chapters** together describe the three different components of the Financial Inclusion model of MP per se including its evolution in current form. Thus while **Chapter Five** discusses various aspects of financial deepening like the banking and direct benefit transfers under the SSSM adopted to attain the FI objective in real sense and carries the discussion on convergence of financial inclusion by means of an integrated approach to create social security in MP, **Chapter Six** that discusses the various means adopted by the State Government to ensure timely and actual wage payment to real workers under MGNREGA, and carries its detailed discussion to the next **chapter namely, Seven** that describes the initiatives of the State Government to drastically improve the last-mile connectivity of people from unbanked areas (termed as Shadow Area) to formal financial institutions while making various paradigm shifts to existing norms.

Any discussion on Financial Inclusion, especially in the context of MP remains incomplete and meaningless, unless the FI is coupled with a strong dosage of Financial Literacy and hence a chapter dedicated to financial literacy is a must to understand the implication of inclusion. The **Eighth chapter** therefore captures the various aspects of the preconditions of financial inclusion in the state of MP and proves beyond the shadow of doubts that financial inclusion shall remain meaningless if not preceded along with financial literacy and capacity building of various stakeholders in the value chain. **Chapter Nine** provides a critique of the financial inclusion model in India. Finally, the last **chapter Ten** highlights the 'Way Forward' for the *Samruddhi* – the MPFI Model concluding the part one of the study and generates hypothesis that gets tested in part two of the study from the 'demand side' of financial inclusion.

Chapter-2

Global Best Practices and Experiences in Financial Inclusion

This chapter provides a deeper understanding on the G – 20 Principles for Innovative Financial Inclusion. It describes all Nine Principles with examples from real life of different countries and finally concludes that Brazil has not only adopted most of them, but also its policies are aligned to the framework. It provides an insight into the Brazilian model of Financial Inclusion that compares well with that of MP. The chapter also discusses six different nations which are in the process of adopting some of the principles on 'best practices' including India.

Global Best Practices and Experiences in Financial Inclusion

Financial exclusion looms large in several growing economies across the world and not only reflects but also contributes to the stark socio - economic divide that exists in these economies. The unbanked is estimated to exceed 2 billion people worldwide and this is not a problem limited to the emerging economies. In most countries, financial exclusion is a phenomenon which is mostly restricted to rural areas where accessibility is limited and the population density is substantially lower. However, recently the phenomenon has also been observed in urban areas where some segment of the populace remains financially excluded in spite of the existence of bank branches, due to constraints such as access timings, and income potential. Nearly 2.2 billion people, i.e. 62 percent of the population, living in Asia, Africa, Latin America and the Middle East are financially excluded. In China and India, only about a third of the population participates in the formal banking sector. In Africa the number is just 25 percent. Africa as a whole has 230 million unbanked households. For banks, this is a massive opportunity to serve a new demographic and tap into the previously untouched wallets of the unbanked. Traditional methods of serving the unbanked - ATMs and the banking correspondent model - have achieved tepid results. It is becoming increasingly clear that new technologies like the mobile are the way forward. The use of technology has been the obvious choice to drive the financial inclusion programs of banks, as the key objectives of such a program is to reduce the cost of operations without compromising on customer experience and security.

2.1 Global Best Practices: The G20 Principles for Innovative Financial Inclusion

Despite advances in financial inclusion across the globe, people remain excluded and this restricts their ability to save, to borrow and to protect themselves and their families against hunger, crime and natural disaster. To counteract this, and increase access to and usage of financial services for the poor, many innovative approaches have been adopted. These range from agent banking to delivering financial services through the mobile phone networks. New institutions have been established, new products devised and new technologies harnessed to reach un/ under - served markets. Behind the scenes, changes in legislation and regulation have helped provide the right conditions for innovation to thrive while protecting consumers and the financial system.

The Nine Principles

1.	Leadership	*The Principles were developed in 2010 by the Access Through Innovation Sub-Group (ATISG) of the G20, Financial Inclusion Experts Group (FIEG).*
2.	Diversity	*The Principles were originally published in the Sub-Group's official report to the G20 and endorsed at the Toronto Summit in May 2010, and underpin the Financial Inclusion Action Plan endorsed at the Korea Summit in November 2010.*
3.	Innovation	*The year-long FIEG process resulted in the establishment of the Global Partnership for Financial Inclusion (GPFI) by G20 leaders at the Seoul Summit in November 2010 to take forward its various commitments on financial inclusion with broad stakeholder participation.*
4.	Protection	*AFI participates as an implementing partner in several GPFI work streams. This includes supporting the subgroup that promotes awareness and use of the G20 Principles together with CGAP. Tasked with raising awareness and collecting further examples of the Principles in action, AFI has reprinted the G20 Principles in this executive brief, along with some examples of how developing country policymakers are bringing these Principles to life.*
5.	Empowerment	*Helping to make the Principles more widely available to its network is one step towards AFI's aim to compile a comprehensive report on the application of the Principles through a number of country case studies.*
6.	Cooperation	
7.	Knowledge	
8.	Proportionality	
9.	Framework	

The experiences of those countries that have adopted such models are now available to inform future strategies to increase financial inclusion. The G20 Principles for Innovative Financial Inclusion bring those experiences together to produce a set of practical recommendations for policymakers worldwide.

2.1.1 Principle 1: Leadership

Cultivate a broad-based government commitment to financial inclusion to help alleviate poverty.

Experience from around the world has underlined that government leadership and commitment at the highest level is an essential condition for increasing financial inclusion. More importantly still, that leadership is vital to ensuring that increased financial inclusion successfully translates into progress in alleviating poverty. The best results have been seen when financial inclusion is viewed as an integral component of overall financial sector growth and development strategies.

In practice, this has meant that governments that have successfully increased financial inclusion have shown leadership in some or all of the following ways:

- addressing policy and regulatory issues related to innovation, consumer protection and payments, facilitating new approaches and ensuring that excessive regulation does not stifle growth
- adopting a collaborative approach to financial inclusion that engages all players, including the private sector and auditing authorities
- supporting inclusion programs with financial education and / or by developing payment systems and infrastructures, and
- collecting data to support proportionate and evidence-based policy, which in turn maintains the safety and soundness of the system.

Mexico's Inclusive Approach to Leadership

- *Led by the Secretariat of Finance and Public Credit, the Mexican government established a National Development Plan for 2007-2012 that addressed financial inclusion, consumer protection, and financial literacy.*
- *To formulate the Plan, the Secretariat worked in close collaboration with the Central Bank of Mexico, national savings banks, the National Banking and Securities Commission, and other key stakeholders.*
- *This not only ensured their commitment from the start, but it also means that they have maintained a direct interest and involvement throughout the Plan's duration and ensured that financial inclusion has remained on the overall policy agenda.*
- *One of the first and most important activities under the Plan was reforming the banking law to enable the use of non-financial entities, such as banking agents, to provide financial services in rural areas.*
- *The law also allowed the creation of specialized niche banks which could offer different services and were subject to different regulations.*
- *Under the Plan, small savings and credit institutions were offered assistance to help them develop into regulated deposit-taking entities, and a new national savings and financial services system was created to provide back office support to these providers.*

2.1.2 Principle 2: Diversity

Implement policy approaches that promote competition and provide market-based incentives for delivery of sustainable financial access and usage of a broad range of affordable services (savings, credit, payments and transfers, insurance) as well as a diversity of service providers.

It is widely recognized that competition in a market produces greater value, choice and opportunities for customers, and the financial services market is no exception. However, when it comes to reaching the unbanked, diversity of products, providers and delivery methods is more important. Services need to be offered outside of the traditional channels to reach a wider customer base. For governments, this means there is a crucial role to play in facilitating the development of market structures that promote entry. One key aspect is the design of appropriate market-based incentives for all parties — from traditional banks to prospective 'agents' to telecoms companies, microfinance institutions and customers themselves — that encourage the development of a broad range of sustainable, secured, and affordable financial services, such as savings, credit, payments, and transfers. At the same time, these incentives should aim to attract a wide range of providers, as this can help improve both access and usage.

Encouraging diversity in India's insurance market

- *To build a broader and more diverse domestic insurance market, India's Insurance and Regulatory Development Authority (IRDA) relaxed agent banking regulations, promoted linkages between insurers and non-governmental organizations and allowed composite insurance services to be offered through micro-insurers.*
- *It also allowed self-help groups (SHG) to partner with insurers to assist with the claims settlement process, including collecting proposal forms, collecting and remitting premiums, and providing insurance policy administration services.*
- *The result was that many more people and small groups were able to afford and access insurance and increase their financial security.*

2.1.3 Principle 3: Innovation

Promote technological and institutional innovation as a means to expand financial system access and usage, including addressing infrastructure weaknesses.

Many of the most effective methods of increasing financial inclusion have been based on the application of new technologies, such as mobile phones, or the introduction of new institutional arrangements, such as banking agents. These allow rapid expansion of services to reach excluded populations, while at the same time reducing the costs of service delivery. For example, the massive global growth in mobile phone usage means that financial services offered through the mobile phone networks can be delivered cost-effectively to a wide population. Experience has shown that in some cases the existing financial services infrastructure can be a barrier to innovation. For example, the interbank payments system might make it difficult for new providers to enter the market. Policymakers need to address such barriers as part of a holistic financial inclusion strategy.

Overcoming Regulatory Hurdles to Mobile Banking in the Philippines

- *Financial inclusion in the Philippines has received a significant boost through the introduction of two mobile phone financial services: the bank-based Smart Money and the non-bank based G-Cash.*
- *The two services received initial authorization to launch from the Central Bank (Bangko Sentral ng Pilipinas, BSP) even though there was little regulation in place.*
- *Instead, the Central Bank chose to allow a carefully controlled pilot phase to test different business models, and used their learnings from this phase to develop relevant and effective e-money regulations.*
- *The regulations now address the risks arising from new mobile channels and allow a variety of models to flourish, while maintaining the safety and soundness of the system.*
- *The Central Bank maintains an open dialogue with industry and civil society players to foster an environment conducive to innovation.*

2.1.4 Principle 4: Protection

Encourage a comprehensive approach to consumer protection that recognizes the roles of government, providers, and consumers.

The mix of innovation, new service providers, and inexperienced consumers bring new risks of consumer fraud and abuse, as well as the possibility of technical or human error around financial services. An equitable and transparent consumer protection infrastructure is therefore vital part of a broad financial inclusion framework. To establish protections and promote trust in new and innovative services, government, regulators, and supervisors need to take responsibility for:

- establishing regulations that promote transparency in pricing and services
- creating a dispute resolution mechanism for consumers
- identifying an appropriate authority to enforce this protection

Safeguarding Customers of Agent Banks in Colombia

Agent-led services have played an important role in extending financial inclusion in Colombia. As an incentive to promote the highest standards of consumer protection, the Colombian government designed regulations that made the service provider fully liable for their agents.

Adopting a similar approach to Mexico, the government has also required providers to:

- *establish out-of-court redress mechanisms*
- *ensure that agents maintain data privacy standards on par with banks*

- *train agents in Anti-Money Laundering (AML) best practices*
- *post their customer service contact channels and disclose all applicable fees and charges at the agent's facilities, and*
- *ensure that safety and privacy features of data storage and transmission are robust enough to protect customer funds and information.*

2.1.5 Principle 5: Empowerment

Develop financial literacy and financial capability.

For consumers to make the most of new financial services, it is important that they have:

- Financial Literacy —ability to understand basic information about financial products and services
- Financial Capability —ability to apply that understanding to make informed choices about their finances
- Redress Mechanisms —ability to resolve disputes through a safe and recognized mechanism

These are an essential complement to consumer protection regulation: without financial literacy and capability, the regulation itself cannot adequately protect consumers, and moreover, can increase operational costs. Experience has shown that low levels of financial literacy and capability in developing countries form a significant barrier to accessing and properly using financial services. By contrast, increased financial literacy and capability lead to increased demand for relevant services. For governments, this means that building financial capability is an integral part of increasing inclusion. Best practice indicates that effective financial capability initiatives focus on providing practical, easy-to-understand and impartial advice so that consumers can make informed choices.

Ghana's National Strategy for Financial Literacy

- *A Ghanaian government survey in 2007 revealed a low level of knowledge among adults of financial institutions, services, and products. Even the knowledgeable (products / services) persons were not necessarily taking advantage of them.*
- *As a result, the government launched a financial literacy program in 2008 to create awareness and build trust between consumers and service providers.*
- *In 2009, a national strategy for financial literacy and consumer protection in the microfinance sector was adopted that addressed the three pillars of financial capability: knowing, understanding, and behavior change.*
- *The strategy featured the development of educational materials on key product types, and a road-show that visited rural areas.*

2.1.6 Principle 6: Cooperation

Create an institutional environment with clear lines of accountability and coordination within government; and also encourage partnerships and direct consultation across government, business, and other stakeholders.

The nature of innovative financial services and new delivery channels is that they span multiple public institutions and regulatory agencies — as well as a range of different private sector organizations. While there is an understandable desire to provide adequate policy across the value chain, this needs to be coordinated across the different institutions involved, to avoid conflicting or inconsistent approaches. To achieve this, coordination and increase global partnership, countries that have successfully increased financial inclusion have identified a lead agency to coordinate among government agencies and manage the consultative process with stakeholders. One essential consideration in developing coordinated policy is to understand the incentives of each player in the value chain, and how these could be affected by regulation.

Cooperation Improves Technical and Financial Oversight in Pakistan

- *In Pakistan, the overall responsibility for increasing financial inclusion sits with the State Bank.*
- *In 2007, it launched a strategy for this, of which branchless banking was an important component.*
- *To oversee implementation of that strategy and in particular to develop effective regulation for branchless banking, the State Bank set up a committee of interested parties, led by the Governor of the State Bank.*
- *The committee included not only representatives from relevant units within the bank but also members of the Ministry of Information Technology, which is the primary regulator of mobile networks in Pakistan.*
- *This meant that any proposed policy could be scrutinized not only from the core financial perspective, but also a technical one — and one which understood the interests of the mobile operators.*

2.1.7 Principle 7: Knowledge

Utilize improved data to make evidence-based policy, measure progress, and consider an incremental "test and learn" approach by both regulators and service providers. As with any area of policymaking, appropriate and reliable data are needed to support the design of financial inclusion policy and to monitor and measure the impact of policy over time.

Currently, few countries have sufficient data on financial inclusion. This is changing fast, and many governments are seeking to improve the data available. A lack of data however, need not necessarily delay the introduction of new services and business models. A number of countries have overcome this by adopting a "test and learn" approach that has enabled them to examine new services and untried business models under carefully controlled conditions. As a result, they are better able to strike an appropriate policy-regulatory balance between safety and soundness on one hand, and growth and development on the other. In order to increase the role of monitoring and assessment in this 'test and learn' approach, data and knowledge management play crucial role.

Audit Trails Enable Kenya to Refine its Regulation

- *Kenya has become renowned as a world leader in the adoption of mobile phone financial services, with huge numbers of users and a competitive marketplace.*
- *But it began with little regulation in place, and very little data to work with to support evidence-based policy making.*
- *When the first network operator requested permission from the Central Bank of Kenya to launch mobile money services, the Bank replied in a private letter that set out essential conditions for all the operators to follow.*
- *In particular, the operator was required to provide the bank with a comprehensive audit trail of all transactions and abide by the terms of the draft Anti-Money Laundering Bill and National Payment System Bill, which were shortly to be enacted.*
- *In this way, the Central Bank not only mitigated the main risks around launching mobile financial services but also ensured there would be a stream of data that they could monitor, assess and use to refine policies.*
- *Today, Kenya is drafting e-money regulations that reflect a better understanding of the market, risks and opportunities that mobile money provides.*

2.1.8 Principle 8: Proportionality

Build a policy and regulatory framework that is proportionate with the risks involved in such innovative products and services, and is based on an understanding of the gaps and barriers in existing regulation.

Any innovation involves risks. The challenge is to create a regulatory framework that is strong enough to protect the financial system and institutions against those risks, yet not so severe that the costs of regulatory compliance deter service-providers from entering the market. To strike the right balance, existing regulations should be carefully analyzed to establish whether their demands on service-providers and customers are proportionate to the risks. This diagnostic exercise will also pinpoint regulatory gaps that need to be filled to enable innovations to flourish and to develop effective tools to mitigate these risks. Greater knowledge (principle 6) and greater cooperation (principle 7) are also, of course, important for a proportionate framework.

Diagnosing Barriers to Inclusion in Argentina

- *A diagnostic exercise conducted by the government of Argentina revealed that existing regulation did not permit the use of agents.*
- *This meant that the cost of providing financial services to the poorest was often prohibitive for commercial banks.*
- *The regulations were revised and branchless banking via agents is now at the heart of the country's financial inclusion strategy.*

2.1.9 Principle 9: Framework

Consider the following in the regulatory framework, reflecting international standards, national circumstances and support for a competitive landscape: an appropriate, flexible, risk based AML / CFT regime; conditions for the use of agents as a customer interface; a clear regulatory regime for electronically stored value; and market based incentives to achieve the long term goal of broad interoperability and interconnection.

Principle 9 draws together many of the preceding principles to summarize the key constituents of an effective regulatory framework for innovative financial inclusion. One of the key issues is how to address risk without stifling innovative services. The international financial standards provide the basic framework. However, they are very broad and designed to be flexible in their application. Thus, it is not always clear how to apply the standards to innovative financial inclusion services. The international financial standard setters are working to provide greater clarity and fill any gaps. Experience shows that in fact increasing inclusion often improves compliance with international standards: AML / CFT (Anti- Money Laundering / Counter Terrorist Financing) recommendations in particular have been better served by a more inclusive financial sector which provides increased ability to trace and monitor transactions.

How a risk-based approach to AML regulation helped South Africa

- *South Africa's Financial Intelligence Centre Act requires that service providers (accountable institutions) confirm the identity of their clients before allowing them to open an account, and record and verify the documents they use to do so, as a means of complying with international AML/ CFT standards.*
- *However, this proved to be a barrier to financial inclusion: many of the poorest prospective clients do not possess formal identification or proof of residence.*
- *The government decided to introduce an exemption to the Act which would allow service providers to open accounts without requiring such verification.*
- *Instead, strict limits on transactions were introduced, based on risk analysis that reduced banks' potential exposure and the prospect of money laundering.*

- *This led to the introduction of a basic bank account, the Mzansi Account, which brought millions of people into the formal financial system.*
- *Further reforms to the Act have now also allowed banks to open mobile phone – accessible bank accounts on a non face-to-face basis, but with lower transaction limits than accounts opened face-to-face in a bank.*

2.2 Brazil: A Panacea of Financial Inclusion

In 2009, the Banco Central do Brasil (BCB) formulated the Financial Inclusion project, the objective of which was to rethink, together with those already involved, the model of financial inclusion in the country, with the aim of providing the Brazilian population with access to financial services that are adequate to its needs. This project carried out analysis of the microfinance sector in Brazil – strengths and weaknesses – and promoted integration between stakeholders – organization of the skills network – with the premise that the BCB can and should perform the role of coordinating agency on the issue of financial inclusion in Brazil, for two fundamental reasons:

1. Recognized ability in promoting the meeting and integration of the various agents in the microfinance field, in view of the success of the seminars that, since 2002, promote the idea of it being a legitimate potential broker of partnerships; and
2. Experience in regulation and supervision of the financial system, a function it performs uniquely.

The project sought, therefore, to lead improved organization of the agents, in a way which, with deeper knowledge of the strengths and weaknesses of the microfinance market in Brazil, enabling a viable solution for the problems and difficulties in the field of financial inclusion.

United Nations Secretary-General's Special Advocate for Inclusive Finance

Central Bank of Brazil (BCB) on May 9th, 2012 launched its action plan for the strengthening of the institutional environment under the National Partnership for Financial Inclusion. This special event was held in Brasilia at Sebrae (The Brazilian support network for micro and small enterprises) was attended by Her Royal Highness Princess Máxima of the Netherlands, United Nations Secretary-General's Special Advocate for Inclusive Finance for Development and Honorary Chairman of the G20 Global Partnership for Financial Inclusion (GPIF).

She praised Brazil for the progress the country has made over the last decade in increasing financial access. She also highlighted the need to provide a wider range of financial services beyond microcredit to low-income customers, and encouraged peer-to-peer learning between countries as way to further advance the financial inclusion agenda

The National Partnership for Financial Inclusion was launched in 2011 at the BCB's Third Forum on Financial Inclusion. Its action plan aims to create an appropriate institutional environment in order to promote adequate financial inclusion for Brazilians, and is an important step in setting an agenda for progress, coordination and partnership. The NPFI is aligned with the G20 principles for innovative financial inclusion, and is the result of increased awareness amongst the public and private sector that financial inclusion is complimentary to financial sector development, economic growth and poverty alleviation. According to BCB, ***"Financial inclusion in Brazil has traditionally been associated with access to credit, and it is important that it is seen as more than this. There is a universal need for savings, payment, and transfer services, and access to them empowers less advantaged social groups to grow or stabilize their incomes and become more resilient to economic shocks".***

The success of the Business Correspondent (BC) model in Brazil could hardly be undermined and has lead the country and its notable results in expanding access to financial services to all municipalities. Its success has served as a model for other countries and is currently being replicated around the world. However, for the model to achieve its full potential, improvements need to be made to ensure that Brazilians use it as a channel for safe and reliable financial services beyond bill payments, as these are essential to achieve greater social and economic impact. In addition, there is still a need to improve the usage of simplified accounts.

At present, 30% of account holders use these accounts solely for cash withdrawal; therefore further research needs to take place in order to have a more textured understanding of how low-income people use financial services. Nearly 40% of Brazilians lack access to bank accounts and while a process of formalization is rapidly taking place, there is a need to better understand the suitability of these financial products in the context of low-income customers. People manage a huge number of financial tools so they have money when they need it. They take precious time managing their money. Therefore, there is an opportunity for technical assistance to understand these financial behaviors.

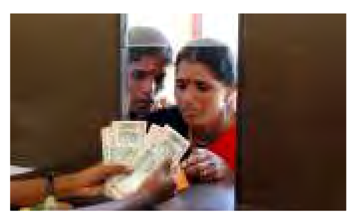
Thus further work needs to be done in the area of impact assessment in order to accurately understand the benefits of having access to financial products such as savings and insurance. Financial education is a key part of this as it can help prevent over-indebtedness which is a growing issue in the country. The need for entrepreneurial skills in financial education has been raised given the pivotal role that small enterprises play in driving economic growth worldwide. Finally, to conclude the discussion, it should be highlighted that an efficient, inclusive and sustainable financial system depends on good quality data and education; therefore encouraging other stakeholders to drive policy with a data-driven approach is necessary in Brazilian context.

2.2.1 Regulatory Perspective

As financial inclusion has gradually gained relevance in BCB's agenda, the regulatory scope has also advanced

Microcredit

Microfinance



Financial Inclusion

Since 2010, promoting financial inclusion has been one of BCB's strategic objectives. Financial System in Brazil is highly spread out. Three alternative channels were fostered by BCB to complement the traditional ones:

1. **Correspondents -** Non financial firms hired by FIs to provide services in remote regions and more convenient access in metropolitan areas
2. **Credit Cooperatives -** Relevant for specific activities and social sectors
3. **Bank Services Outposts -** Bank satellite with smaller staff and infrastructure for unassisted municipalities.

2.2.2 Tools and Initiatives Used for Financial Inclusion

In order to accomplish the same, the following tools were adopted

- **Transparency** – regulation directed at enhanced transparency in prices and services, standardized and simpler contracts to support clients' decision-making
- **Switching costs reduction** – regulation creating automatic inter-bank procedures to transfer accounts, loan balances, and personal data
- **Simplified accounts** – targeted at low income clients, they are exempt of fees, require simpler procedures and limit balances
- **Payroll-guaranteed loans** – legal framework that ensures repayment favoring access to credit for workers and pensioners, with adequate safeguards
- **Mandatory FI staff certification**, including correspondents

2.2.3 Synergies Between Financial Inclusion and Social Programs

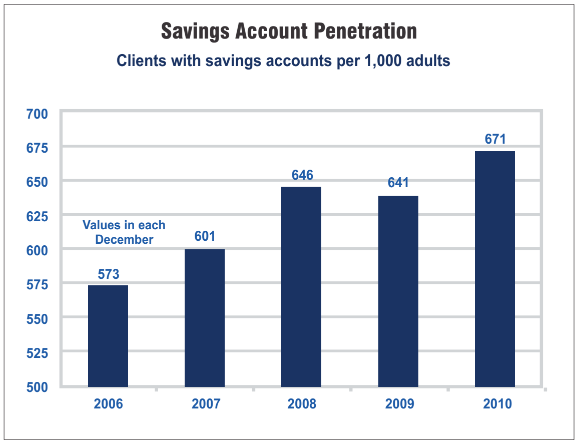
The policies of financial inclusion initiatives and social programs in Brazil are fully integrated as below:

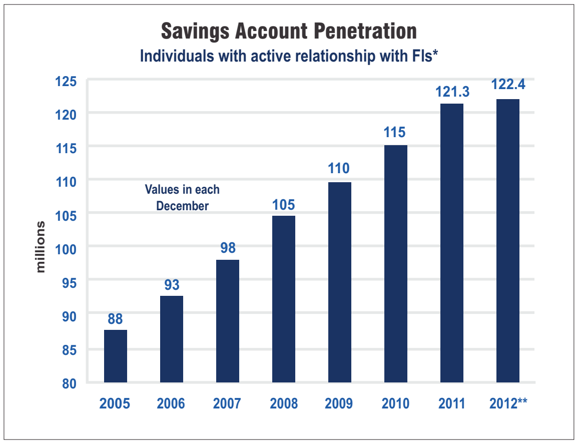
- **Poverty Reduction** – innovative distribution channels enable G2P cash transfer programs to reach remote communities such as ***"Brasil sem Miséria"*** and ***"Bolsa Família"***
- **Social Finance Programs** – innovative distribution channels enable access to subsidized credit programs such as:
  - Low income farmers program ***(Pronaf)***
  - Microcredit programs ***(PNMPO, "Crescer")***
  - Social housing loan program ***("Minha Casa Minha Vida")***

2.2.4 Impact of Financial Inclusion

Following are some of the highlights of impact of Financial Inclusion on Brazilian economy and society:

- Both macroeconomic and inclusion policies have led to marked improvement in living conditions
- A significant share of low income groups joined the middle class
- Macroeconomic stability contributed directly to financial inclusion, allowing the government to advance on the social development agenda





Source: Banco Central Do Brasil

- Government has promoted FI by improving distribution channels, adopting targeted social programs, transparency, adapting regulation of financial services to low income customers
- Brazil is now reaping the benefits of these policies as under:
    - All 5,565 municipalities are served by the Financial System
    - Individuals with active relationship with FIs grew 31% to 121 million over the last five years

Access to Banking Service

	2002	2009	2011
Accounts (for the banking sector)	55,708,468	83,308,800	91,944,421
Customers	87,630,527	151,102,765	174,791,126
Branches			
For the banking sector	17,049	20,046	21,278
For all financial institutions	17,756	21,287	22,628
Posts of service (for the banking sector)	32,769	53,628	60,375
ATM's	129,913	165,567	174,920
Domestic correspondents	78,539	151,351	177,925
Municipalities			
Without banking services	222	-	-
With banking services	5,337	5,565	5,565
Municipalities banking services coverage	96%	100%	100%

Source: Banco Central Do Brasil

2.2.5 Challenges in Financial Inclusion in Brazil

The main objective of the BCB is to foster financial inclusion and to ensure it remains a sustainable process. Following are the major challenges being faced and realized by the BCB:

1. Promoting responsible and rational decision-making the same could be achieved. However, lack of financial literacy would not usher the inclusive finance despite the best of efforts.
2. Continuous development of regulatory framework: suitability and transparency, improvement of distribution channels (e.g. mobile payments), consumer protection and mandatory training of financial services providers. Deviation from this pre-requisite is a major threat and challenge.
3. Coordination of public and private agents through the National Partnership for Financial Inclusion too is a major challenge to reckon with.

2.2.6 Financial Literacy

Financial education promotes responsible and rational decision-making, specially taking into account the recent incorporation of millions of new financial consumers. Main work streams in Brazil are:

- The Government created the National Committee for Financial Education to coordinate actions of financial regulatory agencies, Ministry of Education and other government bodies
- Partnerships with financial industry and Non-Governmental Organizations

2.2.7 Brazil's Integrated Approach to G – 20 Principles

Brazil has been at the forefront of all countries in adopting the integrated approach to the G – 20 Principles right from the beginning. At the turn of the previous century only one third of Brazilians had an access to some or the other means of financial services in country while a majority was excluded from such services. However, it made rapid progress before theorizing the G 20 principles as mentioned above. For, the development of principles began not before the Pittsburg summit in 2009.

The Principles in Action: Brazil

In 1997, as many as 40 million Brazilians — about two-thirds of the total population — did not have access to financial services. Over the last decade, that figure has been reduced significantly. Between 2000 and 2008, the number of bank accounts in Brazil doubled from 63.7 million to 125.7 million. At the heart of this has been a dramatic expansion of the country's "correspondent" model, backed by a supportive government that has prioritized financial inclusion following many of the principles in this document. Correspondents are Brazil's equivalent of banking agents, and they have operated in the country since the 1970s. However, a little over a decade ago, the government changed regulations governing correspondents, allowing them to diversify ***(principle***

2) *and provide a wider range of services. This was at a time when conventional banking services in Brazil had very low penetration. Over the last decade, the correspondent model has grown rapidly, with Brazil's 150,000 correspondents now accounting for about 62% of the total number of service points in the financial system — making it the world's largest network of this kind.*

Apart from diversification, the Brazilian approach is also characterized by innovation ***(principle 3)*** *particularly in the way that correspondents and service providers have overcome the physical barriers to having bank branches in certain locations (e.g. in the Amazon region).*

Now, retail stores, post offices, and lottery outlets all act as correspondents for institutions, using point-of-sale devices and mobile phones to transact.

Banco Central do Brasil (BCB) created an enabling environment for such institutional arrangements, providing regulatory clarity on what agents / correspondents are permitted to do and setting reporting requirements for accountable institutions. Brazil took a cooperative approach ***(principle 6),*** *setting up an interdisciplinary Micro-insurance Commission comprised of relevant government entities, the insurance industry, and other private sector players, including industry networks and academic institutions that promote micro-insurance.*

Having supervised correspondent banking for over a decade, the Central Bank has concluded that most agency-related risks are minimal particularly since the main service provider is fully liable for the actions of their agents. The regulatory approach is proportionate to this risk ***(principle 8)*** *with its focus on requiring regulated banking institutions to manage their own risks via transaction limits or submitting agency agreements.*

2.3 Sundry Best Practices

The past two decades have seen an expansion of financial inclusion driven by the adoption of innovations and new technologies that have significantly reduced the costs and increased the efficiency of offering financial services to low-income households, traditionally unbanked or under-banked individuals and micro, small and medium-sized enterprises (MSMEs). Within the development, mobile and branchless banking, improvements in credit information systems and risk analytics, and improvement in electronic data security have made considerable progress in developing economies, enabling a growing number of such households and enterprises to gain access to finance. This in turn, is expanding the prospects of improving people's standard of living and increasing the opportunities for economic growth.

2.3.1 The 2013 Global Forum on Financial Inclusion for Development

The Universal Postal Union (UPU) helps its member countries to introduce or develop inclusive and sustainable financial services[6]. As an information and technical assistance platform for the

[6] Some 1.5 billion people worldwide are already using the financial services provided by Posts.

postal sector, the UPU is an ideal partner for lending institutions and donors in the effort to make postal financial services accessible to the most disadvantaged populations. Postal financial inclusion is enjoying a boom. After banks, postal operators and their postal financial subsidiaries are the world's second biggest contributor to financial inclusion. The UPU, jointly with the Swiss Federal Department of Foreign Affairs and the International Organization of La Francophonie, has established this forum as a platform for dialogue on postal financial inclusion between governments, postal operators, central banks, private sector players and international organizations. The Forum's objectives are to:

- Raise awareness on the role of Posts in financial inclusion
- Bring together decision-makers to exchange best practices in the area of postal financial inclusion
- Provide a forum for discussion between central banks and postal operators

2.3.2 From Protection to Inclusion: Shifting to Cashless Payments

All around the world, social protection is evolving into much more than a safety net for the poor. It is becoming a tool for financial inclusion and economic opportunity. CGAP published the first official estimate of financially-inclusive G2P payments. Since then, government, donor and NGO efforts to link financial access to government payments has become a swiftly growing movement, culminating in individual efforts indicating a global multi-stakeholder alliance called 'Better than Cash'. These stakeholders, such as USAID, cite not only the potential to leverage payments for effective financial inclusion, but also improvements in transparency, security, corruption and potential cost savings for both governments and intermediaries (banks) as motivators of their efforts. According to a recent report by CGAP that evaluated some of the biggest social protection programs in the world, the business case for financial intermediaries is fully dependent on government fees, rather than on the opportunity to cross-sell new products to this new client base. Beneficiaries, even when they could, do not always choose to save any portion of their benefit or take advantage of the bank for other financial services.

2.4 Countrywide Experiences

Some of the international experiences in this regard are worth mentioning to draw useful lessons that can be implemented in Indian settings within the existing policy environment for financial inclusion. Countries like China, Brazil, South Africa, Mexico, Kenya and Philippines have implemented various technology-based financial inclusion programmes and their success stories have been replicated in various countries albeit with modifications based on local needs. Internationally, there are different approaches towards delivery of payment services to the unbanked and under-banked customers using innovative methods. For example, the BC model with traditional PoS devices and cards is used in Brazil and China. The Mobile based payments are extensively used in Kenya, South Africa, Philippines and Mexico. A few countries like the USA and China use pre-paid payment cards as an instrument to provide payment and banking services to the unbanked population.

2.4.1 South Asia: Bangladesh – An Averted Crises

Bangladesh's microfinance industry, which grew large in the 1990s, continued to expand well into the new century, adding 15–28 percent active borrowers annually from 2004 to 2007. Then in late 2007 microfinance institutions (MFIs) began to worry that continued rapid growth could have negative consequences. In 2007, it was realized by ASA, one of the largest MFIs, that ***'Excessive lending into a saturated market could cause a 'train crash' that might cause great sector-wide damage and burden borrowers with debts they did not need.***' Bangladesh's microfinance was on the verge of a sharp change in direction. The country's big four MFIs — ASA, BRAC, Buro, and Grameen Bank, which constituted two-thirds of microfinance supply for the past decade — in aggregate stopped adding branches and staff around 2008. The change in course happened without notice or wider public discussion, and before microfinance crises in other countries, such as Nicaragua, Morocco, and India, came to light. Bangladesh recently has been ranked second in FI inclusion in South Asia after Sri Lanka as the households pay more for loans from banks than from MFIs. Around 66% of the households in Bangladesh now have access to services including credit, savings and insurance from banks or microfinance institutions (MFIs) and cooperatives, according to Institute of Microfinance.

Sri Lanka, where 80.4% of the population is covered by the financial umbrella is followed by Pakistan 60% and lastly India where only 48% of the households have access to such services. The Bangladesh study[7] found that households have to bear more borrowing cost for getting loan from formal credit market than from MFIs and cooperatives. Non-interest cost as percentage of average total transaction cost is the highest in formal credit market, where it is over 16%. In contrast, it is only 9.20% in quasi-formal credit market. More than 50% of the non-interest cost in formal market is bribing, while it is very negligible in quasi-formal credit market. **A 10% increase in the total supply of credit at the village level boosts financial inclusion by 4.8%**, the study revealed. The study, however, suggested that fundamental changes in financial policies and market structure are required for sustainable financial inclusion.

2.4.2 The KGFS Model in India

The second example of FI model could be taken from Indian context of Kshetriya Gramin Financial Services (literally mean Regional Rural Financial Services). It is a rural financial services delivery model designed and owned by IFMR Rural Finance and promoted by IFMR Trust as part of its mission "to ensure that every individual and enterprise has complete access to financial services". It's an innovative branch-based model that starkly differentiates itself from all other financial institutions, by virtue of its unique operational model. Following three core operating principles differentiate the KGFS model:

1. Complete coverage of the population in a focused geographic area,
2. Customized client wealth management services, and
3. A broad range of products.

7. Institute of Microfinance (InM), Bangladesh

The KGFS approach is still fairly new, though it has moved beyond being a small experiment. Five separate KGFS institutions are working in very different regions of the country and serve a total of 200,000 clients. The oldest KGFS has been in operation since June 2008, and the most recent commenced operations in February 2012. At the end of 2011, KGFS institutions had 110 branches and managed a loan portfolio of $10 million. Some branches of these institutions have become profitable, though none of the five KGFS institutions has broken even yet on a consolidated basis. Early client response to these institutions shows a significant proportion of households, over 50%, enroll within the first 18 months of a KGFS branch opening nearby. The model's customized wealth management approach starts with identifying household needs and goals to provide services centered on client needs and without biases to sell one product or another. Clients have begun to use multiple financial services from KGFS institutions, especially insurance and pensions. More than 60% of enrolled clients across all KGFS institutions use insurance services; 22% use only insurance. At the same time, credit remains important, with slightly more than 55% accessing a loan product. The ultimate aim is meaningful improvement in the financial well-being of households, an outcome KGFS is evaluating with external research help.

2.4.3 Pakistan: Branchless Banking

Pakistan is one of the fastest developing markets for branchless banking in the world. Clear regulations and a regulator that is willing to both listen to the private sector and provide incentives for innovation have promoted a dynamic branchless banking sector. Two players have already launched services, and others are waiting in the wings. This brief highlights both existing and anticipated businesses and outlines the key challenges and opportunities that are likely to shape the market in short to medium term. Branchless banking regulation was first introduced in Pakistan in April 2008. From the beginning, the State Bank of Pakistan (SBP) has taken a constructive regulatory approach by providing clear guidance and being willing to listen to businesses and adjust regulation where necessary. A variety of business models are emerging that involve a wide range of players, including mobile network operators (MNOs), technology companies, and even a courier business.(Notably, a bank remains ultimately liable to SBP in all the models.) The government is further encouraging innovation by piloting the use of branchless banking to distribute government payments. Taken together, these factors make Pakistan a unique laboratory for innovation. SBP has issued four branchless banking licenses and is considering several others.

2.4.4 Tanzania (Central Bank of Tanzania Revisits Regulations)

The central Bank of Tanzania (BoT) is in the process of reviewing various regulations in an effort to come out with ones which actively promote financial inclusion and best practices. According to the Monetary Policy Statement for June 2013, this comes in the wake of developments in the country's financial sector, including especially risks arising from increased innovations in financial services. Mobile financial services were introduced in earnest in Tanzania in 2007, and there has not been a particular law to guide and regulate transactions despite their phenomenal growth. The absence of regulations opens a window for all possible anomalies in the system, ranging from the lack of a prescribed or enforceable mode of transaction through security to activities such as money laundering and terrorism financing that might engulf the mushrooming mobile 'phone-based transactions. The increase in the uptake of mobile financial services has demonstrated great potential for financial inclusion and economic growth in the country. In similar vein, performance of the banking sub-sector continues to be sound as depicted by financial soundness indicators.

2.4.5 South Africa: Branchless Banking

South Africa has often been used as a case study by those with an interest in financial inclusion. The country has an advanced banking infrastructure with nearly 10,000 ATMs and over 100,000 POS devices deployed. The Government has for a long time been committed to expanding access to financial services to the bottom of the pyramid and around 63% of South African adults now have a bank account, higher than the other countries featured here. They have employed a number of policy levers that have helped to achieve this mentioned below:

The "Mzansi account" – a basic entry-level bank account which has attracted 6 million customers – was launched in October 2004 by the four largest banks as well as the state owned Post Bank as part of a compact between government and the private sector.

Government payments to Individuals – Payment of R88 billion (USD 11 billion) are made to 14 million individuals – approximately one-quarter of all South African adults every year. **KYC Innovation:** The government has also made efforts to promote an enabling environment for innovation. A proportionate approach to KYC procedures for account opening has been introduced by removing the requirement for customers to give proof of address when opening low value accounts and non face-to-face account opening is permitted. The private sector also sees a huge opportunity in South Africa – a country which accounts for nearly one-third of sub-Saharan Africa's GDP. But there is still some nervousness about innovating without clearer guidance from the regulator, especially around account opening procedures.

2.4.6 Indonesia

Despite Bank Indonesia's (BI) relatively advanced approach toward e-money, neither mobile network operators (MNOs) nor banks have developed branchless banking business models that satisfy the needs of poor and unbanked clients in Indonesia[8]. BI has recently issued regulations permitting non-banks to issue e-money for making retail payments. However, the ability of these regulations to dramatically change the landscape of e-money providers is questionable. This is due in part to the fact that any person wishing to offer person-to-person (P2P) transfers must obtain a money remittance license. BI does not permit banks to provide financial services through agents (other than limited payment services for existing customers in regions that are

8. The 2009 "Diagnostic Report on the Legal and Regulatory Environment for Branchless Banking in Indonesia" was based on an analysis of existing legislation and regulations relevant to branchless banking approaches and on the CGAP research team's insights from interviews with a range of stakeholders.

already serviced by a bank's branch), notwithstanding ambiguities in the law that could be interpreted otherwise, as acknowledged by BI.

There are also restrictions on non-banks' use of agents, including the requirement that any agent offering money transfer or cash withdrawal services be licensed as a money transferor. These restrictions limit the ability to achieve the necessary scale to make a low-value transaction business sustainable. Furthermore, banks are not allowed to outsource know-your-customer (KYC) account-opening procedures, thereby precluding customer acquisition beyond the reach of bank branches. In addition, the KYC rules for account opening and financial transactions by non-banks engaged in the provision of financial services are costly and, for some providers, not feasible. The 2009 World Bank Access to Finance study for Indonesia indicates that just under 50 percent of Indonesian households hold an account in a formal financial institution; 18 percent have accounts in informal institutions. Access is highly skewed to urban areas, and only 20–34 percent of rural households have access to banking services.

2.5 International Models

Some of these models have evolved taking into account the factors like banking penetration in a country, levels of literacy, availability of necessary eco-system, etc. In the context of technology-enabled financial inclusion the success stories of Brazil, Kenya and Philippines are often quoted. Amongst the most popular as well as efficient models that have some bearing in the Indian context as well, broadly there are three such models:

1. Bank-led model (e.g. Brazil /South Africa)

Brazilian Banking Correspondent Model: Brazil adopted a 'correspondent' banking model to expand the reach of banking services to its remote areas. The success of this model can be gauged by the fact that while there were 63,509 agents in 2000, their number had grown to 132, 757 by January 2010. This enabled the spread of banking and financial services to even the far-flung areas of Brazil. The PoS devices with cards are used for providing a wide range of services from deposit taking, money transfers, opening accounts, bill payments, verifying and forwarding documentation to provide credit, etc. This wide network has also helped in the delivery of government benefits to families covered under the ***Bolsa Família programme***[9]. It enables the beneficiaries to withdraw their benefits locally, without having to travel long distances and has resulted in reducing the transaction costs to the government in providing social payments.

2. Non-bank led model (e.g. Kenya)

Kenyan Non-bank MNO Model: In 2006 one of the leading mobile operators of Kenya launched M-Pesa[10], an m-commerce payment service, aimed at the unbanked. M-Pesa enables customers to exchange cash in return for an e-money account which is stored on the server of a non-bank,

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9. A Family Allowance, a social welfare program of the Brazilian government, part of the Fome Zero network of federal assistance programs. Bolsa Família provides financial aid to poor Brazilian families; if they have children, families must ensure that the infants attend school and are vaccinated. The program attempts to both reduce short-term poverty by direct cash transfers and fight long-term poverty by increasing human capital among the poor through conditional cash transfers. It also works to give free education to children who cannot afford to go to school to show the importance of education.

10. M-Pesa (M for mobile, Pesa is Swahili for money) is a mobile-phone based money transfer and microfinancing service for Safaricom and Vodacom, the largest mobile network operators in Kenya and Tanzania. Currently the most developed mobile payment system in the world, M-Pesa allows users with a national ID card or passport to deposit, withdraw, and transfer money easily with a mobile device

such as, a mobile operator or an issuer of stored-value cards. The balance can be used for making payments, storing funds for future use, transferring funds or converting back to cash, etc. In Kenya, the latest available data shows that the number of M-Pesa mobile phone money transfer service users is around 14 million. Its agent network has also increased to close to 28,000 outlets. The M-Pesa model has been a major success in providing mobile payment services, especially for remittances to the Kenyan citizens. In neighbouring countries, however, the quest to replicate the model has proved to be quite challenging and has not been as successful. One of the primary reasons attributed to the difference in the levels of success in Kenya as compared to other neighbouring countries is the existence of only one dominant Mobile Network Operator (MNO) in the country.

3. Hybrid model (e.g. Philippines)

Philippines Hybrid Model: SmartMoney was launched as a remittance product by an MNO (viz. Smart) in partnership with a commercial bank (viz. Banco d'Oro). While the MNO managed the brand and execution of the service, the underlying product was akin to a pre-paid account of the bank. This was a classic example of bank-supported model where the MNO assumed product and marketing leadership. Unlike SmartMoney, the fundamental difference in G-Cash, another product launched in Philippines, was that the G-Cash model did not have a bank to assume direct liability for the deposits of customers. This was due to the fact that G-Cash was itself the issuer of the mobile money account. In other words, this was a non-bank led model. The retail accounts were actually held by a wholly owned subsidiary of the MNO, and, therefore, somewhat ring-fenced from the operational cash flows of the MNO although in reality the MNO was assuming liability for a type of deposit. The aggregate balances of G-Cash would however be held as deposits in banks that are regulated by the central bank of the country.

The above examples illustrate the use of different methods to further the goals of financial inclusion. While in the case of the Brazil it is the PoS device along with the card (a somewhat traditional mode) with the business correspondent which is enabling financial inclusion in Kenya and Philippines, it is the mobile technology which is driving this effort. As can be seen from these examples, policymakers and regulators, especially in developing countries and emerging markets, are adopting different models to reach to unbanked and under banked customers taking into account the regulatory comforts based on financial sector eco system and security in providing safe payment systems using different technologies.

Chapter-3

Indian Perspective on Financial Inclusion

This chapter starts with a historical perspective of banking in India bringing it to its current form and provides for various causes, factors and circumstances under which financial inclusion is precipitating in Indian banking space and socioeconomic scenario. It brings out the views of the RBI as well as that of the Government of India on Financial Inclusion that has already started percolating into various social sector schemes and reaches to the end client seamlessly. It also discussed the current trends in financial inclusion space in India.

Indian Perspective on Financial Inclusion

3.1 Banking History

India's independence marked the end of a regime of the ***Laissez-faire*** for the Indian banking. The Government of India initiated measures to play an active role in the economic life of the nation, and the Industrial Policy Resolution adopted by the government in 1948 envisaged a mixed economy. This resulted into greater involvement of the state in different segments of the economy including banking and finance. The major steps to regulate banking included:

The Reserve Bank of India, India's central banking authority, was established in April 1935, but was nationalised on 1 January 1949 under the terms of the RBI (Transfer to Public Ownership) Act, 1948. In 1949, the Banking Regulation Act was enacted which empowered the RBI "to regulate, control, and inspect the banks in India". It also provided that no new bank or branch of an existing bank could be opened without a license from the RBI, and no two banks could have common directors. The decisions touch the daily life of all Indians and help chart the country's current and future economic and financial course.

Origin of RBI	RBI at a Glance
The origin of the RBI can be traced to 1926, when the Royal Commission on Indian Currency and Finance-also known as the Hilton-Young Commission-recommended the creation of a central bank to separate the control of currency and credit from the government and to augment banking facilities throughout the country. The RBI Act of 1934 established the RBI as the banker to the central government and set in motion a series of actions culminating in the start of operations in 1935. Since then, the RBI's role and functions have under gone numerous changes—as the nature of the Indian economy has changed.	¾ Managed by Central Board of Directors ¾ India's monetary authority ¾ Supervisor of financial system ¾ Issuer of currency ¾ Manager of foreign exchange reserves ¾ Banker and debt manager to government ¾ Supervisor of payment system ¾ Banker to banks ¾ Maintaining financial stability ¾ Developmental functions ¾ Research, data and knowledge sharing

3.1.1 Bank Nationalization Phase (1960s)

The State Bank of India (SBI) was the only nationalized bank in 1950s under the SBI Act of 1955. Nationalisation of Seven State Banks of India (formed subsidiary) took place on 19th July, 1960. The State Bank of India is India's largest commercial bank and is ranked one of the top five banks worldwide. It serves 90 million customers through a network of 9,000 branches and it offers -- either directly or through subsidiaries -- a wide range of banking services. Despite the provisions, control and regulations of RBI, banks in India except the State Bank of India or SBI, continued to be owned and operated by private persons. By the 1960s, the Indian banking industry had become an important tool to facilitate the development of the Indian economy. At the same time, it had emerged as a large employer, and a debate had ensued about the nationalization of the banking industry. The Government of India issued an ordinance ('Banking Companies (Acquisition and Transfer of Undertakings) Ordinance, 1969')) and nationalised the 14 largest commercial banks[11] with effect from the midnight of 19 July 1969[12].

A second dose of nationalisation of 6 more commercial banks followed in 1980. The stated reason for the nationalisation was to give the government more control of credit delivery. Later on, in the year 1993, the government merged New Bank of India with Punjab National Bank. It was the only merger between nationalised banks and resulted in the reduction of the number of nationalised banks from 20 to 19. After this, until the 1990s, the nationalised banks grew at a pace of around 4%, closer to the average growth rate of the Indian economy

Nationalization and Impetus to Inclusion: The nationalisation of major commercial banks in 1969 was an important landmark in the history of financial inclusion. It was felt that the nationalised banks can make a big push into the rural areas. To some extent, this has happened. But the fact remains that despite a very focused expansion of branches in the rural and semi-urban areas, we have not been able to reach out to the poor farm households and therefore a rethinking has started now as to what more could be done.

- 1955 : Nationalisation of State Bank of India.
- 1959 : Nationalisation of SBI subsidiaries.
- 1969 : Nationalisation of 14 major banks.
- 1980 : Nationalisation of seven banks with deposits over 200 crore.

[11] These banks contained 85 percent of bank deposits in the country

[12] The Parliament passed the Banking Companies (Acquisition and Transfer of Undertaking) Bill and it received the Presidential approval on 9 August 1969.

3.1.2 Modern Banking Trends

The Financial Access Survey (FAS) for India (2012)

Access to & Use of Financial Services			
Commercial bank branches per 1,000 km^2	33.17	Commercial bank branches per 100,000 adults	11.38
ATMs per 1,000 km^2	32.67	ATMs per 100,000 adults	11.21
Outstanding deposits with commercial banks (% of GDP)	68.64	Outstanding loans from commercial banks (% of GDP)	54.24
Deposit accounts with commercial banks per 1,000 adults	1042.48	Loan accounts with commercial banks per 1,000 adults	151.06
Household deposit accounts with commercial banks per 1,000 adults	892.49	Household loan accounts with commercial banks per 1,000 adults	23.54

Source: IMF's The Financial Access Survey (FAS), 2012

Trends in Banking Parameters in India

Items		2007	2008	2009	2010	2011	2012
1. No. of Commercial Banks		183	173	170	168	167	173
(a) Scheduled Commercial Banks		179	169	166	164	16	169
Of which: Regional Rural Banks		96	90	86	83	82	82
(b) Non-Scheduled Commercial Banks		4	4	4	4	4	4
2. Distribution of New Branches (%)	**Total**	**100**	**100**	**100**	**100**	**100**	**100**
	Rural	9	14	18	19	24	33
	Semi-urban	31	31	32	33	41	37
	Urban	35	31	26	27	17	16
	Metro	26	24	24	21	18	14
3. Distribution of Deposits Accounts (%)	**Total**	**100**	**100**	**100**	**100**	**100**	**..**
	Rural	29	29	30	31	31	..
	Semi-urban	26	26	26	26	26	..
	Urban	22	22	21	21	21	..
	Metro	24	24	23	23	22	..
4. Distribution of Loan Accounts (%)	**Total**	**100**	**100**	**100**	**100**	**100**	**..**
	Rural	33	31	31	31	32	..
	Semi-urban	23	22	23	23	24	..
	Urban	14	13	13	14	14	..
	Metro	30	33	33	33	30	..
5. Average population per branch (in '000s)	**Total**	**15.7**	**15.1**	**14.5**	**13.8**	**13.3**	**12.6**
6. Number of Banked Centres (Scheduled Commercial Banks)	**Total**	**34399**	**34426**	**34636**	**34801**	**35151**	**36391**

".." : Not available.
Note: All the revenue centres (habitations) are classified in to four groups based on their population based on Census 2001 data. These groups are rural (centres having population < 10,000), semi-urban (10,000 <= population < 1,00,000), urban (1,00,000 <= population < 10,00,000) and metropolitan (population >= 10,00,000).

Source: Reserve Bank of India

3.2 Early Financial Inclusion Phase

Financial inclusion was envisaged and embedded in Indian credit policies in the earlier decades also, though in a disguised form and without the same nomenclature and emphasis. Increasing access to credit for the poor has always remained at the core of Indian planning in fighting against the poverty. Starting in the late 1960s, India was home to one of the largest state intervention in the rural credit market.

3.2.1 Social Banking

While the 'social banking' policies being followed by the country resulted in widening the 'geographical spread and functional reach' of commercial banks in rural area in the period that followed the nationalization of banks, the problems in the beginning of 1990s were two fold i.e. institutional structure was neither profitable in rural lending nor serving the needs of the poorest. Reaching the poorest, whose credit requirements were very small, frequent and unpredictable, was found to be difficult. The co-operative structure occupies an eminent position in the institutional framework of agricultural credit. It showed that without a strong primary unit at the base, effective organization, mobilization of resources and operational efficiency cannot be built in the credit structure.

3.2.2 Cooperative and Rural Credit

Perhaps the earliest signs of Financial Inclusion, though not in as many formal terms, in India could be sensed from the recommendations of **The All-India Rural Credit Survey Committee Report, 1954** that recommended an integrated approach to cooperative credit and emphasised the need for viable credit cooperative societies by expanding their area of operation, encouraging rural savings and diversifying business. While the early phases of Inclusion, though not financial inclusion, owes its origin to the Cooperative movement in India, the cooperative movement in India itself owes its origin to agriculture and allied sectors towards an attempt to fight the problems of rural indebtedness around the end of the 19th century. The farmers generally found the cooperative movement an attractive mechanism for pooling their meager resources for solving common problems relating to credit, supplies of inputs and marketing of agricultural produce.

Earliest Legislations on Cooperatives

- *The experience gained in the working of cooperatives led to the enactment of **Cooperative Credit Societies Act, 1904**.*
- *Subsequently, a more comprehensive legislation called the **Cooperative Societies Act** was enacted[13].*
- *Under the **Montague-Chelmsford Reforms of 1919**, cooperation became a provincial subject and the provinces were authorised to make their own cooperative laws.*

[13] This Act, inter alia, provided for the creation of the post of registrar of cooperative societies and registration of cooperative societies for various purposes and audit.

- ¾ *Under the **Government of India Act, 1935**, cooperatives were treated as a provincial subject*[14].
- ¾ *In order to cover Cooperative Societies with membership from more than one province, the Government of India enacted the **Multi-Unit Cooperative Societies Act, 1942.** This Act was an enabling legislative instrument dealing with incorporation and winding up of cooperative societies having jurisdiction in more than one province.*

Cooperative Consolidation: During 1960s, further efforts were made to consolidate the cooperative societies by their re-organisation. With the emergence of national federations of cooperative societies in various functional areas and to obviate the plethora of different laws governing the same types of societies, a need was felt for a comprehensive Central legislation to consolidate the laws governing such cooperative societies. Therefore, the Multi-State Cooperative Societies Act, 1984 was enacted by the Indian Parliament. The cooperative sector has been playing a distinct and significant role in the country's process of socio-economic development. There has been a substantial growth of this sector in diverse areas of the economy during the past few decades. The cooperatives have been operating in various areas of the economy such as credit, production, processing, marketing, input distribution, housing, dairying and textiles. In some of the areas of their activities like dairying, urban banking and housing, sugar and handlooms, the cooperatives have achieved success to an extent but there are larger areas where they have not been so successful. The failure of cooperatives in the country is mainly attributable to: dormant membership and lack of active participation of members in the management of cooperatives. Mounting over-dues in cooperative credit institution, lack of mobilisation of internal resources and over-dependence on Government assistance, lack of professional management, bureaucratic control and interference in the management, political interference and over-politicization have proved harmful to their growth. Predominance of vested interests resulting in non-percolation of benefits to a common member, particularly to the class of persons for whom such cooperatives were basically formed, has also retarded the development of cooperatives. These are the areas which need to be attended to by evolving suitable legislative and policy support.

3.2.3 Lead Bank Scheme

Genesis of Lead Bank Scheme can be traced to the Study Group, headed by Prof. D. R. Gadgil (Gadgil Study Group) on the Organisational Framework for the Implementation of the Social Objectives, which submitted its report in October 1969. The Study Group drew attention to the fact that commercial banks did not have adequate presence in rural areas and also lacked the required rural orientation. As a result, the banking needs of the rural areas in general and the backward regions in particular, could not be adequately taken care of by the commercial banks and the credit needs of rural sector of the economy, particularly agriculture, small-scale industry and services sectors remained virtually neglected.

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[14] The item "Cooperative Societies" is a State Subject under entry No.32 of the State List of the Constitution of India.

The Area Approach: The Study Group, therefore, recommended the adoption of an 'Area Approach' to evolve plans and programs for the development of an adequate banking and credit structure in the rural areas[15]. It recommended that in order to enable the public sector banks to discharge their social responsibilities, each bank should concentrate on certain districts where it should act as a 'Lead Bank'. Pursuant to it, the Lead Bank Scheme was introduced by RBI in December, 1969. The Scheme emphasized making specific banks in each district the key instruments of local development by entrusting them with the responsibility of locating growth centers, assessing deposit potential, identifying credit gaps and evolving a coordinated approach to credit deployment in each district, in concert with other banks and credit agencies.

Role and Responsibilities: The Scheme, significantly, did not envisage a monopoly of banking business by the Lead Bank in the district. The Lead Bank is expected to assume leadership role and act as a consortium leader for coordinating the efforts of the credit institutions and accordingly the various districts in the country were allocated among the public / select private sector banks, as the lead bank for the district[16]. The Lead Bank Officer was given the responsibility to prepare the district credit plan / annual action plan (DCP / AAP) for the district after taking into account the annual estimated commitments of individual financial institutions. The banks' envisaged loans for labor-intensive schemes which generated employment, increased productivity of land and other allied sectors so as to reduce underemployment and increase income levels, besides granting loans to the weaker sections of the population for productive purposes as also meeting in part their consumption needs.

3.2.4 Roadmap of FI under Usha Thorat Committee

Subsequent to the announcement in the Mid-term Review of the Annual Policy Statement for 2007-08, a High Level Committee known as Smt. Usha Thorat committee was constituted to review the Lead Bank Scheme and improve its effectiveness, with a focus on financial inclusion and recent developments in the banking sector. The High Level Committee on August 20, 2009, submitted its final report to the Governor, Reserve Bank of India.

Roadmap for Financial Inclusion: A Sub-Committee of the District Consultative Committee (DCC) may draw up a road map to provide services through a banking outlet (in any form, such as, brick and mortar branch, mobile banking, extension counters, satellite offices or Business Correspondents) at every village with a population of over 2000 at least once a week on a regular basis.

Role of State Governments: State Governments should ensure road and digital connectivity to all centres where penetration by the formal banking system is required, expedite use of IT solutions for disbursal of all social security payments and extend support to banks in the recovery of their dues.

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15. A Committee of Bankers on Branch Expansion Program of public sector banks appointed by RBI of India under the Chairmanship of Shri F. K. F. Nariman (Nariman Committee) endorsed the idea of area approach in its report (November 1969)

16. As at the end of March 2009, 26 banks (public and private sector) have been assigned lead responsibility in 622 districts of the country. The scheme presently does not cover the metropolitan cities of Mumbai, Delhi, Kolkata, Chennai and certain Union Territories.

Preparation of State Level / District Level Plan: A one-time comprehensive State Level/District Level Development Plan should be formulated for all the districts that should identify the enablers and impeders for banking development and indicate the specific actions to be taken by banks.

Strengthening SLBC and DCC Machinery: The Chief Secretary of the State concerned may co-chair the meetings of the State Level Bankers' Committee (SLBC), along with the CMD of the convener bank. The Deputy Governor / Executive Director of the Reserve Bank may participate in the SLBC meetings on a selective basis. At the District Consultative Committee (DCC) level, sub committees as appropriate may be set up to work intensively on specific issues and submit reports to the DCC for its consideration.

Financial Literacy and Credit Counseling: Each Lead Bank should open a Financial Literacy and Credit Counseling centre in each district by following the guidelines issued by the Reserve Bank.

Greater Role for Private Sector Banks: Private sector banks should involve themselves more actively by bringing in their expertise in strategic planning and leveraging on information technology. The Lead Banks, on their part, should also ensure that private sector banks are more closely involved in the Lead Bank Scheme, both while drawing up and in implementing the Annual Credit Plans.

3.2.5 Service Area Approach (SAA)

In the year 1989, the Service Area Approach (SAA) was adopted wherein service area villages were identified and assigned to bank branches based on their proximity and contiguity and by adopting a cluster approach. Credit plans were prepared on an annual basis for the service area of each branch which involved co-ordination between the various developmental agencies and credit institutions. Due to allotment of villages to designated bank branches, the activities of the 'service area branches' were restricted to the allotted villages and they were unable to provide financial assistance outside their service areas, despite being in a position to do so. Similarly, borrowers belonging to these villages were required to approach the 'designated bank branches' for their credit needs and were not in a position to avail of services of any other bank branches, irrespective of whether they were satisfied with the services provided by the designated bank branches or not. The Advisory Committee on Flow of Credit to Agriculture and Allied Activities (2004) observed that the Service Area Approach, introduced for planned and orderly development of rural areas, had developed rigidities and acted as a bottleneck despite built in measures to provide flexibility.

The Committee recommended that this feature of flexibility needed to be preserved and the service area concept made mandatory only for government sponsored schemes. Pursuant to the recommendations of the Committee, the restrictive provisions along with certain other aspects of service area were removed from December 2004, except for the government sponsored schemes. Over the almost four decades since the introduction of the Lead Bank Scheme in

December 1969, several changes have taken place, especially after 1991. The rates of growth witnessed have been unprecedented. At the same time, there are gaps in growth in agriculture and infrastructure. There has also been a greater level of devolution of expenditure to lower levels of Government. There are several regions of the country and sections of the society lagging in development. Accordingly, there has been a conscious shift towards more inclusive growth and financial inclusion. In banking, the use of Information Technology (IT) and intermediaries has made it feasible to increase outreach, scale and depth of banking services at affordable cost. However, during these years, the structure and monitoring mechanisms under the Lead Bank Scheme have remained more or less static. A need was therefore felt for a comprehensive review of the Scheme and its applicability in the changed scenario.

3.2.6 Regional Rural Banks (RRBs)

The main purpose of Regional Rural Banks (RRBs) is to mobilize financial resources from rural / semi-urban areas and grant loans and advances mostly to small and marginal farmers, agricultural laborers and rural artisans. RRBs are created with a view to develop rural economy and were established to take the banking services to the doorsteps of rural masses, especially in remote rural areas with no access to banking services. However, RRB's may have branches set up for urban operations and their area of operation may include urban areas too. These banks were originally intended to provide institutional credit to those weaker sections of the society who depended on private money-lenders at concessional rates. The banks were also intended to mobilize and channelize rural savings for supporting productive activities in the rural areas.

However, with effect from 22 March 1997, the RRBs were allowed to lend outside the target group by classifying their advances into 'Priority Sector' and 'others'. Similarly the interest rates on term deposits offered by RRBs have also been freed. RRBs are jointly owned by GoI, the concerned State Government and Sponsor Banks [27 scheduled commercial banks and one State Cooperative Bank]; the issued capital of an RRB is shared by the owners in the proportion of 60%, 20% and 20% respectively.

Currently, RRB's are going through a process of merger and consolidation 25 RRBs have been merged in January 2013 into 10 RRBs this counts 67 RRBs till 1st week of June 2013. On 31 March 2006, there were 133 RRBs (post-merger) covering 525 districts with a network of 14,494 branches. The RRBs were originally conceived as low cost institutions having a rural ethos, local feel and pro-poor focus. However, within a very short time, most banks were making losses. The original assumptions as to the low cost nature of these institutions were belied. This may be again merged in near future.

3.2.7 Primary Agricultural Credit Societies (PACS)

The main objectives of primary credit societies are given below.

1. Borrowing funds from members as well as others to be utilized in giving loans to the members for productive purposes.

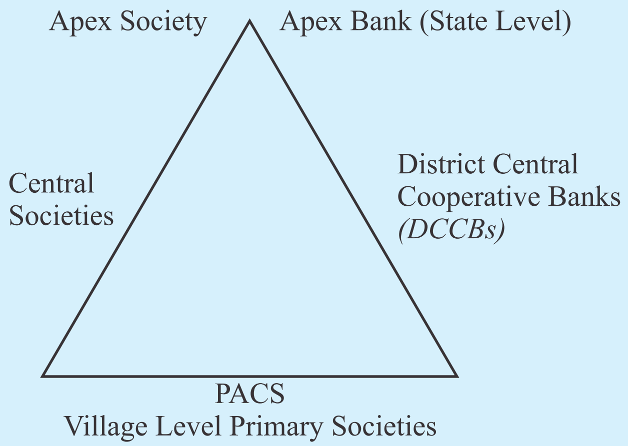
2. Acting as the agent for the joint supply of agricultural, domestic and other requirements of the members, and of the joint sale of produce.
3. Purchasing and owning implements, machinery or cattle for renting it to the members.
4. Disseminating knowledge of the latest improvements in agriculture, handicraft, etc.
5. Encouraging thrift, self-help and co-operation among the members.

Primary Agricultural Credit Society (PACS) has a significant role to extend credit to farmers. This unit abstracts the vitality and service potential of the co-operative movement in the country. Such societies are the kernel of the co-operative movement and were started not only with the objective of providing cheap credit but also to teach principles of co-operation to the members.

Functions: The main functions of the credit societies are to provide short and medium term credit; supply agricultural and other production requirements and undertake marketing of agricultural produce. In addition to these functions, the co-operatives help to implement the plan of agricultural production for the village and undertake such educative, advisory and welfare works as the members might be willing to take up. According to a committee on co-operative credit, following important recommendations are laid for the effective functioning of the society. These are:

1. To associate itself with the program of production;
2. To lend adequate amount to its members for their agricultural production and consumption purposes;
3. To borrow adequate funds from the central financial agencies for helping the members adequately for the above purposes;
4. To attract local savings for share capital and fixed deposits;
5. To supervise the use of loans (especially medium term loans) and to see that they are paid regularly;
6. To distribute fertilizers, seeds, insecticides, agricultural implements etc. either on its own or as agent;
7. To supply certain consumer goods in common demand such as kerosene, sugar etc;
8. To store the produce of the members till it is sold;
9. To collect or purchase produce, where necessary, on behalf of a consumers society, marketing society, or government; and
10. To associate itself with program of economic and social welfare for the village.

Multi Service Centers: In order to enable PACS to provide more services to their members and generate income for themselves, an initiative has been taken to develop PACS as multi service centres. This will enable PACS to provide ancillary services to its members and diversify its activities. Assistance under PODF is available to SCB/CCB/PACS for this purpose. Some of the PACS are also assisting farmers in marketing of their produce. It has been observed that PACS are generally meeting out the credit requirements of its members. However there is a need to provide other services to the farmers. The RBI as a matter of policy is providing credit through co-operatives at a concessional rate of 2 % to the agriculturists. Thus the rate of interest charged by the PACS from their borrowers is the lowest. However, they vary from state to state. It varies from 6.75% per annum to 9.38% per annum. The highest rate of interest has also ranged from 12 % to 15 per cent.



Co-operative credit structure is a type of Pyramid, the broad base of which is represented by the primary societies at the village level. At the top, are the apex societies at the state level and between these two are found the central societies.

The purpose of this federal type of structure is to strengthen the primary society which is at village or base level.

If the borrower in a village needs credit, he applies to the society. If the Primary Society has no funds at its disposal, it applies to the District Central Cooperative Bank (DCCB) and DCCB in need of fund applies to the State level (Apex) Bank. The fact that the structure is federal in character and that the institutions at different levels are independent legal entities, it also implies that the strength of the chain depends upon the strength of each of the links.

3.3 Formalization of Financial Inclusion

The term financial inclusion was first coined in 1993 by geographers who were concerned about bank branch closures and the resulting limited physical access to banking services. This idea grew but it was not until around 1998 that the term was first used in a broader sense to describe people who have limited access to mainstream financial services. It was in the same year that the Credit Union Taskforce was created by HM Treasury and the fourteen policy action teams were established as a result of the Social Exclusion Unit report “Bringing Britain Together: a national strategy for neighborhood renewal”. One of these teams was tasked with developing a strategy to increase access to financial services for people living in deprived neighborhoods. It was from this point that financial inclusion in its current form really took off in the UK.

The importance of financial inclusion, based on the principle of equity and inclusive growth, has been engaging the attention of policy makers internationally. Achieving universal financial inclusion is, indeed, a global objective and has multiple dimensions. While each jurisdiction will, perhaps, evolve its own delivery model, one needs to learn from each other and implement what is suitable in each constituency.

3.4 Contemporary Financial Inclusion in India

Current and the most contemporary financial inclusion as is know today mainly focuses on the poor who do not have formal financial institutional support and gets them out of the clutches of local money lenders. As a first step towards this, some of the banks have now come forward with general purpose credit cards and artisan credit cards which offer collateral-free small loans. The RBI has now modified the guidelines on opening of basic savings 'no frills account' with a '**Basic Savings Bank Deposit Account'** which will offer minimum common facilities to all the customers. The 'Basic Savings Bank Deposit Account' would be subject to RBI instructions on Know Your Customer (KYC) / Anti-Money Laundering (AML) for opening of bank accounts issued from time to time. If such account is opened on the basis of simplified KYC norms, the account would additionally be treated as a 'Small Account' and would be subject to conditions stipulated for such accounts.

Further, if a customer belonging to low income group who is not able to produce documents to satisfy the bank about her identity and address, can open bank account with an introduction from another account holder who has been subjected to full KYC procedure provided that the balance in all her accounts taken together is not expected to exceed Rupees Fifty Thousand (Rs. 50,000/-) and the total credit in all the accounts taken together is not expected to exceed Rupees One Lakh (Rs. 1,00,000/-) in a year. The introducer's account with the bank should be at least six months old and should show satisfactory transactions. Photograph of the customer who proposes to open the account and also his address needs to be certified by the introducer. With this facility we can channel the untapped, considerable amount of money from the low income group to the formal economy. Banks are now permitted to utilize the service of NGOs, SHGs and other civil society organizations as intermediaries in providing financial and banking services through the use of business facilitator and business correspondent models.

India on the Index of Financial Inclusion: On the first-ever Index of Financial Inclusion to find out the extent of reach of banking services among 100 countries, India has been ranked 50th. Only 34% of Indian individuals have access to or receive banking services. In order to increase this number, the RBI made the GoI take innovative steps. One of the reasons for opening new branches of RRBs was to make sure that banking service is accessible to the poor. With the directive from RBI, the banks are now offering “No Frill” Accounts to low income groups. These accounts either have a low minimum or nil balance with some restriction in transactions. The individual bank has the authority to decide whether the account should have zero or minimum balance. With the combined effort of financial institutions, six million new 'No Frill' accounts were opened in the period between March 2006-2007. Banks are now considering FI as a business opportunity in an overall environment that facilitates growth.

3.4.1 Initiatives of Reserve Bank of India

In India, the Central Bankers, the RBI first broached up the topic of financial inclusion by setting up the Khan Commission in 2004. RBI exhorted the banks with a view to achieving greater financial inclusion to make available a basic ***"no-frills"*** banking account[17]. Mangalam in Tamil Nadu became the first village in India where all households were provided with banking facilities. In 2005, RBI simplified the KYC procedure for opening accounts for those persons who intended to keep balances not exceeding rupees fifty thousand (Rs. 50,000/-) in all their accounts taken together and the total credit in all the accounts taken together was not expected to exceed rupees one lakh (Rs. 1,00,000/-) in a year.

General credit cards (GCCs) were issued to the poor and the disadvantaged with a view to help them access easy credit. In January 2006, the RBI permitted commercial banks to make use of the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions, and other civil society organizations as intermediaries for providing financial and banking services. These intermediaries could be used as business facilitators or business correspondents by commercial banks. The bank asked the commercial banks in different regions to start a 100% financial inclusion campaign on a pilot basis. As a result of the campaign, states or union territories like Puducherry, Himachal Pradesh and Kerala announced 100% financial inclusion in all their districts.

RBI's vision for 2020 is to open nearly 600 million new customers' accounts and service them through a variety of channels by leveraging on IT. However, illiteracy and the low income savings and lack of bank branches in rural areas continue to be a roadblock to financial inclusion in many states and there is inadequate legal and financial structure.

In India, the RBI has initiated several measures to achieve greater financial inclusion, such as facilitating no-frills accounts and GCCs for small deposits and credit. Some of these steps are:

1. ***Opening of no-frills accounts:*** Basic banking no-frills account is with nil or very low minimum balance as well as charges that make such accounts accessible to vast sections of the population. Banks have been advised to provide small overdrafts in such accounts.

2. ***Relaxation on know-your-customer (KYC) norms***: The KYC requirements for opening bank accounts were relaxed for small accounts in August 2005, thereby simplifying procedures by stipulating that introduction by an account holder who has been subjected to the full KYC drill would suffice for opening such accounts. The banks were also permitted to take any evidence as to the identity and address of the customer to their satisfaction. It has now been further relaxed to include the letters issued by the Unique Identification Authority of India containing details of name, address and Aadhaar number.

3. ***Engaging Business Correspondents (BCs)***: In January 2006, RBI permitted banks to engage business facilitators (BFs) and BCs as intermediaries for providing financial and banking services. The BC model allows banks to provide doorstep delivery of services, especially cash in-cash out transactions, thus addressing the last-mile problem. The list of eligible individuals and entities that can be engaged as BCs is being widened from time to time. With effect from September 2010, for-profit companies have also been allowed to be engaged as BCs.

4. ***Use of technology***: Recognizing that technology has the potential to address the issues of outreach and credit delivery in rural and remote areas in a viable manner, banks have been

[17] In India, financial inclusion first featured in 2005, when it was introduced by K.C. Chakraborthy, the chairman of Indian Bank

advised to make effective use of information and communications technology (ICT), to provide doorstep banking services through the BC model where the accounts can be operated by even illiterate customers by using biometrics, thus ensuring the security of transactions and enhancing confidence in the banking system.

5. ***Adoption of Electronic Benefit Transfers (EBT):*** Banks have been advised to implement Electronic Benefit Transfers (EBT) by leveraging ICT-based banking through BCs to transfer social benefits electronically to the bank account of the beneficiary and deliver government benefits to the doorstep of the beneficiary, thus reducing dependence on cash and lowering transaction costs.

6. ***General Credit Card (GCC):*** With a view to helping the poor and the disadvantaged with access to easy credit, banks have been asked to consider introduction of a general purpose credit card facility up to Rs. 25,000 at their rural and semi-urban branches. The objective of the scheme is to provide hassle-free credit to banks' customers based on the assessment of cash flow without insistence on security, purpose or end use of the credit. This is in the nature of revolving credit entitling the holder to withdraw up to the limit sanctioned.

7. ***Simplified Branch Authorization:*** To enhance the penetration of banking in rural and semi-urban areas, domestic scheduled commercial banks (excluding RRBs) are now permitted to open branches in Tier 1 to Tier 6 centres and in the rural, semi-urban and urban centres in North-Eastern States and Sikkim without having the need to take permission from RBI in each case, subject to reporting and also subject to the following:

   a. At least 25 percent of the total number of branches opened during the financial year (excluding entitlement for branches in Tier 1 centres given by way of incentive as stated[18]), must be opened in unbanked rural (Tier 5 and Tier 6) centres, i.e. centres which do not have a brick and mortar structure for customer based banking transactions.

   b. The total number of branches opened in Tier 1 centres during the financial year (excluding entitlement for branches in Tier 1 centres given by way of incentive as stated) cannot exceed the total number of branches opened in Tier 2 to 6 centres and all centres in the North Eastern States and Sikkim.

   c. RRBs are also allowed to open branches in Tier 2 to Tier 6 centres (with population up-to 99,999 as per Census 2001) without the need to take permission from RBI in each case, subject to reporting, provided they fulfill the following conditions, as per the latest inspection report:

      i. CRAR of at least 9%;

      ii. Net NPA less than 5%;

      iii. No default in CRR / SLR for the last year;

      iv. Net profit in the last financial year;

      v. CBS compliant.

[18] Banks may open branches in Tier 1 centres, over and above their eligibility as defined at (a) and (b) above, that are equal to the number of branches opened in Tier 2 to Tier 6 centres of under-banked districts of under-banked States, excluding such of the rural branches opened in unbanked rural centres that may be located in the under-banked districts of under-banked States in compliance with the requirement as indicated at (a) and (b) above.

d. Domestic SCBs have been advised that while preparing their Annual Branch Expansion Plan (ABEP), they should allocate at least 25% of the new branches in unbanked Tier 5 and Tier 6 centres i.e. (population up-to 9999) centres which do not have a brick and mortar structure.

e. RRBs have also been advised to allocate at least 25 percent of the total number of branches proposed to be opened during a year in unbanked rural (Tier 5 and Tier 6) Centres).

f. New generation private sector banks are also required to ensure that at least 25% of their total branches are in rural unbanked (Tier V and Tier VI) centres.

One District One Bank Model: To begin with around 2010 -11, Electronic Benefit Transfer (EBT) for servicing low value accounts and extending banking infrastructure to underserved low income areas was implemented in the states of Andhra Pradesh, Haryana, Karnataka, Orissa, Chhattisgarh, Himachal Pradesh, Uttarakhand, Bihar, Punjab, etc. on pilot basis in select districts under the "One District – One Bank" Model. Difficulties have been expressed by stake holders in scaling the model. The experience gained suggested that the **"One District – One Bank"** Model was unable to achieve the objective of financial inclusion. Allocation of villages amongst banks under the Financial Inclusion Plan (FIP), i.e. Roadmap for providing banking services to villages with population above 2000, was generally on the basis of the Service Area Approach. This led to a situation where in the designated bank for EBT and FIP in the same village differed. This issue was raised at various platforms by the State Governments and banks.

Need for Banks to Provide Variety of Services: Under the "One District – One Bank Model" the leader bank is expected to extend all types of banking services to the residents of the area. However, it was found difficult for a single bank to extend all types of banking services to all the residents of a district. Further, the BC model was intended to provide greater penetration to the banks at a reasonable cost. Services of BCs remained under-utilised as they were restricted only to EBT payment and disbursement. Banks would not earn required amount of income unless they also offered credit products. It was therefore necessary that EBT accounts should be optimally utilized for all other banking transactions. Since banks had invested in creating BC infrastructure for making EBT payments at the door step of the beneficiaries, they could provide banking facilities to non beneficiaries in those villages without any additional cost.

RBI Guidelines on Electronic Benefit Transfers (EBT) and Financial Inclusion Plan (FIP): Keeping in view the need to spread the banking habits to all villages, the RBI advised that one district – many banks – one leader bank model may be adopted henceforth for EBT implementation. In this model, all the banks present in the district participate in EBT, though for administrative convenience the State Government deals only with one leader bank. State Government shall designate the leader bank, in consultation with the Regional Office of RBI and the SLBC (State Level Banking Committee), who will obtain the funds from the State Government and in turn will arrange to transfer funds through interbank transfer to other banks for credit to the accounts of ultimate beneficiaries' account on a commission basis. The commission paid by the State Government may be from the amount which will accrue to them due to non-incurring of expenses involved in manually administering high volumes of small value payments. The revenue sharing model is to be decided mutually amongst participating banks.

Today, with the availability of various modes of EFT like RTGS, NEFT and NECS, the lead bank is in a position to transfer funds to other participating banks speedily and cost effectively. However, there is no prohibition on adoption of one district – one bank model approach where the model exists and is already working provided one bank is in a position to provide whole range of minimum banking services under this dispensation. However, all the operational glitches will have to be resolved mutually by the State Government and the concerned bank. EBT implementing bank, will in such case have to follow regulatory stipulation that brick and mortar branches are built within 30 km radius of each of the BC outlets in these villages. Needless to say, the FIP implementing bank's responsibility will be secondary in the allotted villages of such districts till they also obtain the EBT mandate. However, banks will continue opening banking outlets in the villages allotted to them under FIP and speed up enrolment of customers.

As EBT Scheme is a part of the overall FIP, the EBT accounts are required to provide whole range of permissible banking services viz. deposit scheme, preferably a variable recurring deposit will in-built Overdraft (OD), remittance and entrepreneurial credit products in the form of GCC / KCC. ***The State Governments should not stipulate any condition that prevents EBT accounts from being used for other banking transactions.*** Whenever the State Government plans to implement EBT scheme through banks in future, the details of the scheme should be first discussed in the SLBC. Further, as EBT accounts are regular no frills Savings Bank accounts, they will be subject to applicable regulatory guidelines. For example, these accounts cannot be opened as joint accounts of the beneficiary with a State Government agency. The concerns of the State Government which led to this demand may be addressed by devising permissible checks and balances. Similarly, in some states, EBT accounts are made dormant when there are no transactions in the account for 2-3 months. This is not permissible as per regulatory guidelines.

Thus in such cases, neither the account can be made inactive nor can the amount be returned to State Government. The concerns of State Government can be addressed by providing an exception report of those accounts where there is no transaction for 2-3 months. State Government shall designate a nodal department for administration of each of the social benefit schemes. The provisions of MOU signed between Government agency and the banks should be consistent with the extant guidelines and notifications of RBI.

The Nodal Department shall provide the list of beneficiaries for the district to be enrolled along with demographic details to the bank. Banks shall arrange for enrolment and creation of bank account of the beneficiary. The Nodal Department shall maintain a savings account in its name with the leader bank. The department's account in the bank will be credited with a consolidated amount by the Treasury Bank of the State Government. The department will send instructions to the leader bank each month containing with the updated list of beneficiaries in electronic form. The bank will then debit the savings bank account of the Nodal Department and arrange for crediting the accounts of beneficiaries. The Management Information System as required by the State Governments will be strengthened automatically as payment information will flow electronically and seamlessly from end to end so that a data base is created for generating various types of reports.

RBI Looking Ahead: The development role of the RBI will continue to evolve, along with the Indian economy. Through the outreach efforts and emphasis on customer service, the RBI will continue to make efforts to fill the gaps to promote inclusive economic growth and stability.

RBI's Tools	RBI's Financial Inclusion and Literacy
The RBI continues its developmental role, while specifically focusing on financial inclusion. Key tools in this on-going effort include: **Directed credit** for lending to priority sector and weaker sections: The goal here is to facilitate/enhance credit flow to employment intensive sectors such as agriculture, micro and small enterprises (MSE), as well as for affordable housing and education loans. **Lead Bank Scheme**: A commercial bank is designated as a lead bank in each district in the country and this bank is responsible for ensuring banking development in the district through coordinated efforts between banks and government officials. The RBI has assigned a Lead District Manager for each district who acts as a catalytic force for promoting financial inclusion and smooth working between government and banks. **Sector specific refinance**: RBI makes available refinance to banks against their credit to the export sector. In exceptional circumstances, it can provide refinance against lending to other sectors. Strengthening and supporting small **local banks:** This includes RRBs and cooperative banks **Financial inclusion:** Expanding access to finance and promoting financial literacy are a part of RBI's outreach efforts.	Expanding Access; Encouraging Education, Expanding access to and knowledge about finance is a fundamental aspect of the RBI's operations. These efforts are critical to ensuring that the benefits of a growing and healthy economy reach all segments of the population. RBI's work here includes: Encouraging provision of affordable financial services like zero-balance Basic Savings Bank Deposit Accounts, access to payments and remittance facilities, Pure savings account viz. Recurring Deposit, credit and insurance services. Expanding banking outreach through use of technology, such as banking by cell phone, smart cards and the like. Encouraging bank branch expansion in parts of the country with few banking facilities. Facilitating use of specified persons to act as agents to perform banking functions in hard-to-reach parts of the country RBI's work to promote financial literacy focuses on educating people about responsible financial management. Efforts here include: Information and knowledge-sharing: User-friendly website includes easy-to-understand tips and guidance in multiple languages; brochures, advertisements and other marketing materials educate the public about banking services. Credit counseling: The RBI encourages commercial banks to set up financial literacy and credit counseling centres, to help people develop better financial planning skills

3.4.2 Government of India on Financial Inclusion

The objective of Financial Inclusion of GoI is to extend financial services to the large hitherto un-served population of the country to unlock its growth potential. In addition, it strives towards a more inclusive growth by making financing available to the poor in particular. GoI's recent view on FI is focused towards the '**Expansion of Banking Infrastructure**'. As per Census 2011, 58.7% households are availing banking services in the country[19]. However, a significant proportion of the households, especially in rural areas, are still outside the formal fold of the banking system.

Historically, inclusive economic growth has been one of the priority agendas of the Government of India (GoI) over the past decade. It is widely acknowledged that inclusive economic growth cannot be accomplished without achieving financial inclusion for the nearly two-thirds of India's population who are unbanked. In order to develop a strategy for achieving financial inclusion and, therefore, inclusive economic growth the GoI set up two committees to discuss issues and recommend action.

1. In 2006, under the Chairmanship of Dr C. Rangarajan (Chairman, Economic Advisory Council to the Prime Minister) the Committee on Financial Inclusion was set up to suggest:
    a. A strategy to extend financial services to small and marginal farmers and other vulnerable groups, including measures to streamline and simplify procedures, reduce transaction costs and make the operations transparent.
    b. Measures including institutional changes to be undertaken by the financial sector to implement the proposed strategy of financial inclusion.
    c. A monitoring mechanism to assess the quality and quantum of financial inclusion including indicators for assessing progress.
2. The Planning Commission constituted a High Level Committee on Financial Sector Reforms in the year 2007, under the Chairmanship of Dr Raghuram G. Rajan, Current Governor, RBI of India. While its focus was on identifying emerging challenges in meeting the financing needs of the Indian economy as a whole, several of its recommendations also emphasized the need for strategies for achieving financial inclusion.

To extend the reach of banking to those outside the formal banking system, Government and RBI have taken various initiatives from time to time like:-

a. **Opening of Bank Branches**: Government had issued detailed strategy and guidelines on Financial Inclusion in October 2011, advising banks to open branches in all habitations of 5,000 or more population in under-banked districts and 10,000 or more population in other districts. Out of 3,925 such identified villages / habitations, branches have been opened in 3,402 villages/ habitations (including 2,121 Ultra Small Branches) by end of April, 2013.

[19] There are 102,343 branches of Scheduled Commercial Banks (SCBs) in the country, out of which 37,953 (37%) bank branches are in the rural areas and 27,219 (26%) in semi-urban areas, constituting 63 per cent of the total numbers of branches in semi-urban and rural areas of the country.

b. **Each household to have at least one bank account**: Banks have been advised to ensure service area bank in rural areas and banks assigned the responsibility in specific wards in urban area to ensure that every household has at least one bank account.

c. **Business Correspondent Model**: With the objective of ensuring greater financial inclusion and increasing the outreach of the banking sector, banks were permitted by RBI in 2006 to use the services of intermediaries in providing financial and banking services through the use of Business Facilitators (BFs) and Business Correspondents (BCs).

Business Correspondents (BC)

- *Business Correspondents are retail agents engaged by banks for providing banking services at locations other than a bank branch / ATM.*
- *BCs and the BC Agents (BCAs) represent the bank concerned and enable a bank to expand its outreach and offer limited range of banking services at low cost, particularly where setting up a brick and mortar branch is not viable.*
- *BCs as agents of the banks, thus, are an integral part of the business strategy for achieving greater financial inclusion.*

Who Could Be a Business Correspondent?

- *Banks had been permitted to engage individuals / entities as BC like retired bank employees, retired teachers, retired government employees, ex-servicemen, individual owners of kirana / medical / fair price shops, individual Public Call Office (PCO) operators, agents of Small Savings Schemes of Government of India/ Insurance Companies etc.*
- *Further, since September 2010, RBI had permitted banks to engage 'for profit' companies registered under the Indian Companies Act, 1956, excluding Non Banking Finance Companies (NBFCs), as BCs in addition to the individuals / entities permitted earlier.*
- *As on December, 2012, there were over 1,52,000 BCs deployed by Banks. During 2012-13, over 18.38 crore transactions valued at Rs.16533 crore had been undertaken by BCs till December 2012. (RBI Data)*

d. **The Swabhimaan Campaign**: Under the "Swabhimaan" - the Financial Inclusion Campaign launched in February 2011, banks had provided banking facilities by March, 2012 to over 74,000 habitations having population in excess of 2000 using various models and technologies including branchless banking through Business Correspondents Agents (BCAs). Further, in terms of Finance Minister's Budget Speech 2012-13, the "Swabhimaan" campaign has been extended to habitations with population of more than 1000 in North Eastern and hilly States and to habitations which have crossed population of 1600 as per census 2001. About 40,000 such habitations have been identified to be covered under the extended "Swabhimaan" campaign.

e. **Setting up of Ultra Small Branches (USBs)**: Considering the need for close supervision and mentoring of the BCAs by the respective banks and to ensure that a range of banking services are available to the residents of such villages, Ultra Small Branches (USBs) are being set up in all villages covered through BCAs under Financial Inclusion. A USB would comprise a small area of 100-200 sq. feet where the officer designated by the bank would be available with a lap-top on pre-determined days. While the cash services would be offered by the BCAs, the bank officer would offer other services, undertake field verification and follow up the banking transactions. The periodicity and duration of visits can be progressively enhanced depending upon business potential in the area. A total of over 50,000 USBs have been set up in the country by March, 2013.

f. **Banking Facilities in Unbanked Blocks**: All the 129 unbanked blocks (91 in North East States and 38 in other States) identified in the country in July 2009, had been provided with banking facilities by March 2012, either through Brick and Mortar Branch or Business Correspondents or Mobile van. As a next step it has been advised to cover all those blocks with BCA and Ultra Small Branch which have so far been covered by mobile van only.

g. **USSD Based Mobile Banking**: The Department through National Payments Corporation of India (NPCI) worked upon a "Common USSD Platform" for all Banks and Telecom companies who wish to offer the facility of Mobile Banking using ***Unstructured Supplementary Service Data*** (USSD) based Mobile Banking. The Department helped NPCI to get a common USSD Code *99# for all Telecom companies. More than 20 Banks have joined the National Uniform USSD Platform (NUUP) of NPCI and the product has been launched by NPCI with BSNL and MTNL. Other Telecom companies are likely to join in the near future. USSD based Mobile Banking offers basic Banking facilities like Money Transfer, Bill Payments, Balance Enquiries, Merchant payments etc. on a simple GSM based Mobile phone, without the need to download application on a Phone as required at present in the IMPS based Mobile Banking.

3.4.3 Sub Service Area

The Government of India has issued guidelines[20] regarding the 'Mapping of Gram Panchayats and Planning for BCA / CSCs for Direct Cash Transfer – Sub Service Area Approach. Accordingly, it shall be the endeavor to ensure that there is at least one bank branch / BCA in every Gram Panchayat. Since the population of Gram Panchayat varies across the States, Banks need to ensure that about 1,000 to 1,500 households are available in the sub-service area of BCA. In case of North-East, Hilly States and sparsely populated regions of other States banks may decide the households to be covered by each BCA appropriately. In case of larger Gram Panchayats more than one BCA could be appointed. In case of smaller Gram Panchayats more than one contiguous Gram Panchayat, taking into consideration the geographical area, could be assigned to each BCA. In every case, it should be ensured that the Gram Panchayat(s) to be covered by each bank

[20] http://financialservices.gov.in/download.asp?rec=176&NotificationType=C

branch / BCA is clearly identified as a sub-service area within the service area of the branch. Accordingly, banks were asked to revisit the exercise that they had earlier carried out of preparing Service Area Plans in which bank branch / BCA to service each Gram Panchayat(s) was indicated. The first step in this exercise would be to form sub-service area, based on the group of Panchayats taking the population and geographical conditions into consideration such that one Branch / BCA / CSC extends service to each sub-service area. In case any Panchayat requires more than one BCA / CSC, the sub-service area for each BCA / CSC, within the Gram Panchayat must be specified.

The guidelines further specified that wherever the existing BCA was functioning satisfactorily, the same should be continued and remaining households in the allocated sub-service areas should be covered through the BCA. Considering the larger benefits of the kiosk banking model, it should be endeavored to, in a phased manner, migrate the BCAs to kiosk banking system. In case the existing BCA was stationed at a place other than Gram Panchayat headquarters, there should be no need to change its location. It should, however, be ensured that the BCA serves the entire sub-service area allocated to it. Wherever there was either no BCA functioning or the performance of the existing BCA was less than satisfactory, the Common Service Centre, set up under aegis of the Department of Electronics and Information Technology, GoI, under the National e-Governance Programme, were required to be engaged as BCA. It may be located at a place other than the Financial Inclusion village in the same sub-service area. All PSBs had signed an agreement with M/s CSC e-Governance Service India Ltd., for engaging CSCs as BCA. CSC Services India Ltd. would ensure that the required information is furnished to the banks and that all CSCs are ready in terms of equipments, connectivity, biometric device, card reader and printer latest by 31.12.2012. In the sub-service area where neither a BCA nor a functional CSC was available, the M/s CSC e-Governance Services India Ltd. would establish a new CSC for which suitable advice would be issued by the CSC Services India Ltd. In case this was not feasible, the Banks could engage a new BCA.

3.4.4 Convergence of EBT with FIP

At this stage of Financial Inclusion, the intention of allocation of the unbanked villages, with population of more than 2000, amongst various banks was to ensure that these villages were provided with at least one banking outlet for extending banking facilities comprising of minimum four products i.e. Savings, Credit, Remittance and Insurance. This did not deny the opportunity for any other bank to operate in these areas and extend banking services based on the available business potential. For the Financial Inclusion Model to be a success it was necessary that there was a convergence between the EBT and FIP Models. For clearer conceptual understanding and based on detailed consultative meetings and interface with stake holders, ***"Operational guidelines on implementation of Electronic Benefit Transfer and its convergence with Financial Inclusion Plan"*** [21] were formulated by the RBI in August 2011. These guidelines are expected to give a fillip to financial inclusion efforts and lead to a scalable and sustainable financial inclusion model.

[21] The guidelines are available http://rbidocs.rbi.org.in/rdocs/content/pdfs/EBT120811FA.pdf

Views of Central Government: The Department of Financial Services, Ministry of Finance is the nodal agency from the side of the GoI that is administering Government policies having a bearing on the working of banks and the term lending Financial Institutions. The Banking and Insurance sub division deals with all policy matters relating to bank's credit linked self employment programmes implemented by Ministries / Departments of Central Government, operational and administrative matters of National Housing Bank (NHB) and coordination with the RBI on the above matters.

The key driver of India' vision of inclusive growth is Financial Inclusion. Financial Inclusion as defined by the Central Bank is defined as "the process of ensuring access to appropriate financial products and services needed by vulnerable groups such as weaker sections and low income groups at an affordable cost in a fair and transparent manner by mainstream institutional players."

Bank Model: In accordance with the vision of inclusive growth, RBI has adopted a "Bank-led" model for ensuring Financial Inclusion to provide low cost, efficient, ICT based banking services utilising multiple delivery channels including intermediary low cost brick & mortar structures, branchless banking through BCs and other modes like mobile vans, rural ATMs, etc. so as to cover all the villages of the country in due course. The Central and State Governments have institutionalized several welfare schemes like social security pensions, Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), National Old Age Pension (NOAPS) insurance scheme etc. for the benefit of the poor. Payments in such welfare schemes are being made directly either in kind / cash or through indirect subsidies like the PDS. Such payments are being routed by the governments through various agencies.

The success of any welfare scheme / State Benefit Transfers must ensure timely disbursal of the benefits without any leakages. The RBI, therefore, as part of its Financial Inclusion initiative encouraged governments to disburse social security payments through the banking channel leveraging Electronic Benefit Transfers for financial intermediation. EBT is one of the products offered under Financial Inclusion, which facilitates payments to reach the intended beneficiaries through bank accounts. This relieves State Government functionaries of cost and time involved in administering the high volume small value payments. Provision of door step banking services in remote areas entails a cost on the banks. The payment of commission by the State Governments for EBT transactions makes the model economically viable and also helps banks to extend their penetration to remote villages. It also provides banks with a business opportunity of linking credit products to the payments.

3.4.5 Direct Benefit Transfer (DBT)

The objective of DBT Scheme of the Government of India is to ensure that money under various developmental schemes reaches beneficiaries directly and without any delay. The scheme has been launched in the country from January, 2013 and has been rolled out in a phased manner, starting with 26 welfare schemes, in 43 districts. The scheme is now being extended to additional 78 districts and additional 3 schemes from 1st July, 2013 and would be extended to the entire country in a phased manner. The Government has also started the transfer of cash subsidy for domestic LPG cylinders to Aadhaar linked bank accounts of the customers with effect from 1st June 2013, in 20 pilot districts. About 75 lakh beneficiaries would be benefitted in these districts.

Banks play a key role in implementation of DBT and this involves four important steps, viz.

a. Opening of accounts of all beneficiaries;
b. Seeding of bank accounts with Aadhaar numbers and uploading on the NPCI mapper;
c. Undertaking funds transfer using the National Automated Clearing House - Aadhaar Payment Bridge System (NACH-APBS).
d. Strengthening of banking infrastructure to enable beneficiary to withdraw money.

Banks are ensuring that all beneficiaries have a bank account. All Public Sector Banks (PSBs) and RRBs have made provision for Aadhaar seeding in the CBS. All PSBs have also joined the Aadhaar Payment Bridge of National Payments Corporation of India (NPCI). Banks are also issuing debit cards to beneficiaries. Banks have also started action for strengthening banking infrastructure and providing business correspondents in areas, which were so far un-served. Banks have also been advised to provide an onsite ATM in all the branches in identified districts and a Debit Card to all beneficiaries to enable him / her to withdraw the money as per his/her ease and convenience. Issuance of a Debit Card to all beneficiaries to enable him / her to withdraw the money as per ease and convenience will also strengthen the withdrawal infrastructure.

Expansion of ATM network: Pursuant to the Budget announcement 2013-14, Banks are required to ensure an onsite ATM in all the branches. Out of 34,668 onsite ATMs thus identified to be installed by Public Sector Banks, 1,097 ATMs have been installed by end of April, 2013.

As per the instructions issued by the Central Government, an efficient Electronic Benefit Transfer (EBT) system should include

1. Compilation of information on benefit transfer that is compatible with the banking system;
2. Transfer of funds to the beneficiaries' accounts and
3. Facilities for the drawl of the amount by the beneficiaries as per their requirement.

Strategy and Guidelines for Financial Inclusion, issued by the GoI provide that in order to progressively cover the entire country under financial inclusion and to ensure business viability of BCAs, the entire area of a Gram Panchayat must be allocated to the bank branch or BCAs, as the case may be. Banks have separately been advised to prepare a Service Area Plan indicating the name of the Gram Panchayat, the villages therein, the location of bank Branches and BCAs etc., as the case may be. Banks have also separately been advised, to ensure that at least one bank account is opened for every house hold which could be a joint account in the name of the family members.

3.4.6 Financial Inclusion and Convergence

Full Financial Inclusion: Achieving full financial inclusion is crucial for implementation of DBT / EBT and direct transfer of subsidies. As some of the beneficiaries could be residing in a village with population less than 2000 requisite infrastructure should be planned and put in place to cover all the EBT beneficiaries. SLBC is required to prepare a plan of action to cover all unbanked villages including having population of less than 1000, the allocation of these villages may be done on the basis of geographical proximity. In respect of States / Districts where the EBT scheme is yet to be implemented, this presents an opportunity for the banks to put in place the requisite infrastructure to cover all the unbanked villages irrespective of the population criteria. This will strengthen the position of the banks to provide services to all the EBT beneficiaries whenever State Government decides to implement EBT.

Auto Realization of Convergence: Once banking services are extended to all villages under the FIP, convergence between the DBT / EBT Scheme and FIP would be automatically realized. Once FIP is fully implemented covering all the unbanked villages and a UID number is issued to all the villagers, a 'model' will emerge where the customer will have the option to transact with the bank of their choice in any village by using UID enabled Micro ATMs. This will make customers, less vulnerable to local power structures, and lower the risk of being exploited by BCs. Customers will be able to transact electronically with each other as well as with individuals and firms outside the village. This will reduce their dependence on cash, and lower costs for transactions. As banking is a public good, this is essential in the interest of public policy.

3.4.7 Ultra Small Branches (USBs)

Furthering financial inclusion in unbanked rural areas, the RBI allowed banks to establish 'ultra small branches' in rural centres from where Business Correspondents (BCs) could conduct operations on behalf of banks[22]. It mandated BF/BC entities to conduct their activities at places other than bank premises. It was decided that BCs could operate from such Ultra Small Branches as their association with the branch will increase their legitimacy and credibility in the area and give people increased confidence to use their services. However, banks were cautioned to ensure that such an arrangement did not result in BCs limiting operations to serving customers at such branches only, if, due to geographical spread, such arrangements may lead to BC services not being easily available in the entire area of their operations. These BC outlets could be in the form of low-cost simple brick and mortar structures. The RBI on July 1st 2013, also issued the Master Circular[23] on Branch Licensing – Regional Rural Banks (RRBs).

Government of India: Department of Financial Services under the Ministry of Finance, Government of India had issued Strategy and Guidelines on Financial Inclusion for 'Ultra Small Branches' in the under banked and other districts on 21st October, 2011. According to the guidelines banks shall within their service area in the under-banked districts, open a regular brick and mortar branch in habitations with population of 5000 and above by September, 2012 and in other districts, the banks must try to open as many brick and mortar branches, in their service areas, in habitations having population of 10,000 and above by September 2012. As per

22. RBI/2011-12/566 DBOD.No.BL.BC.105/22.01.009/2011-12. May 17, 2012 on "Financial Inclusion – Use of Business Correspondents". Available at http://www.rbi.org.in/scripts/NotificationUser.aspx?Id=7220&Mode=0

23. RBI/2013-14/98 RPCD.CO.RRB.No.BL.BC.8/03.05.90/2013-14. July 1, 2013 Master Circular on "Branch Licensing – Regional Rural Banks (RRBs)" Available at http://www.rbi.org.in/scripts/BS_ViewMasCirculardetails.aspx?id=8184

"Strategy and Guidelines on Financial Inclusion – Opening of branches / Ultra small branches in rural areas" issued by the Department on 28th December, 2012, banks were inter-alia advised that at places where opening a conventional brick and mortar branch is, presently, not viable, the bank may set up Ultra Small branch (USBs).

These guidelines provide that one of the officers of the bank will visit the USB on a predetermined day, at least once a week, along with a laptop which should have VPN connectivity to the CBS. The frequency of visit by the bank officer can be progressively enhanced depending upon the business growth in the service area of the bank. When the bank reaches the desired level of business, the Ultra Small branch can be upgraded into a regular bank branch. The GoI further clarified on 20th March, 2012 that in under-banked districts, all villages with population of 5000 or more need to have a bank branch. However, banks can start with an Ultra Small Branch (USB) in these villages and then convert it into a full-fledged branch. Banks may keep higher frequency of visit of staff in these USBs.

Revised Guidelines: On review[24] of the matter of visit of bank officer to a USB, it is noted that the weekly visit of the designated officer to a USB established in villages having population of 5000 or more in under-banked districts and 10,000 or more in other districts is insufficient and cannot provide required services to the customers. In order to provide services to all the customers of Ultra Small Branches established in villages with population of 5000 or more in under-banked districts and 10,000 or more in other districts, it is advised that :

i. The USB shall be managed full time by at least one bank officer with laptop having VPN connectivity supported by BCA.
ii. Manpower may increase with the increase in business volume.
iii. The branch shall have normal business hours as the base branch.
iv. The 'maker' and 'checker' system shall be followed at these branches. The designated officer at USB shall act as 'maker' and other officer at base branch will act as 'checker'.
v. BCA shall be present on all working days and shall deal with all cash transaction and other services assigned to BCA.
vi. Such Ultra Small Branches should have a pass book printer and a safe for cash retention.

However, the visit of designated officer to USBs established in villages with population less than 5000 and 10,000 respectively will continue to be governed by the existing guidelines.

[24] Revised as on 1st August 2010

Progress of Banks on Financial Inclusion Plan in India						
S.No.	Particulars	Year ended Mar 10	Year ended Mar 11	Year ended Mar 12	Quarter ended June 12	Progress April 11-March 12
1	Total No. of Branches	85457	91145	99242	99771	8097
2	No. of Rural Branches	33433	34811	37471	37635	2660
3	No. of CSPs Deployed	34532	60993	116548	120098	55555
4	Banking outlets in Villages with population >2000	37791	66447	112130	113173	45683
5	Banking outlets in Villages with population <2000	29903	49761	69623	74855	19862
6	Banking Outlets through Brick & Mortar Branches	33378	34811	37471	37635	2660
7	Banking Outlets through BCs	34174	80802	141136	147167	60334
8	Banking Outlets through Other Modes	142	595	3146	3226	2551
9	Total Banking Outlets	67694	116208	181753	188028	65545
10	Urban Locations covered through BCs	447	3771	5891	6968	2120
11	No Frill A/Cs (No. In millions)	73.45	104.76	138.5	147.94	33.74
12	Amount in No Frill A/Cs (Amt In billions)	55.02	76.12	120.41	119.35	44.29
13	No Frill A/Cs with OD (No. in millions)	0.18	0.61	2.71	2.97	2.1
14	No Frill A/Cs with OD (Amt In billions)	0.1	0.26	1.08	1.21	0.82
15	KCCs-Total-No. In million	24.31	27.11	30.23	30.76	3.12
16	KCCs-Total-Amt In billion	1240.07	1600.05	2068.39	2094	468.34
17	GCC-Total-No. in million	1.39	1.7	2.11	2.29	0.41
18	GCC-Total-Amt In billion	35.11	35.07	41.84	43.21	6.77
19	ICT Based A/Cs-through BCs (No. in millions)	13.26	31.65	57.08	62.77	25.44
20	ICT Based A/Cs-Transactions (No. In millions)	26.52	84.16	141.09	45.96	141.09

Source: Reserve Bank of India

3.5 NABARD, SHG Movement and Financial Inclusion

As mentioned earlier that the financial inclusion structures were 'quantitatively impressive but qualitatively weak', the need was felt for alternative policies, systems and procedures, savings and loans products, other complementary services and new delivery mechanisms, which would fulfill the requirements of the poorest. As a result National Bank for Agriculture and Rural Development (NABARD), in India, launched its pilot phase of the Self Help Group (SHG) Bank Linkage programme in February 1992.

The National Bank for Agriculture and Rural Development (NABARD) has designed, developed and has been facilitating SHG- Bank Linkage Program in India since 1992 with various partner agencies like Banks, NGOs, Government Agencies / Departments, etc. The SHG – Bank Linkage Program and other microfinance initiatives by NABARD has contributed much towards financial inclusion process in India. NABARD has been using a dominant Strategy of Self Help Groups (SHG) Bank Linkage and as a mandate of is broadly performing the following functions:

- Design savings and credit products, and systems associated with processes.
- To improve access to the poor of financial services which
  - reduce transaction costs of the poor
  - reduce transaction costs of the financing agencies
  - enhance participation by poor in decision making
- Build up handling capacities of the agencies who can provide these services
- Identify new partners
- Work out roles for different partners
- Integrate formal banking system to ensure sustainability

The core activities of the NABARD are to carry forward the agenda of financial inclusion of the excluded population at the national level as per the framework described by the Report of the Committee on Financial Inclusion in general and operationalising the Financial Inclusion Fund (FIF) and Financial Inclusion Technology Fund (FITF), in particular. The implementation is under the guidance of the two Advisory Boards set up for FIF and FITF respectively.

A. Prioritized activities / institutions for support from Financial Inclusion Fund (FIF)

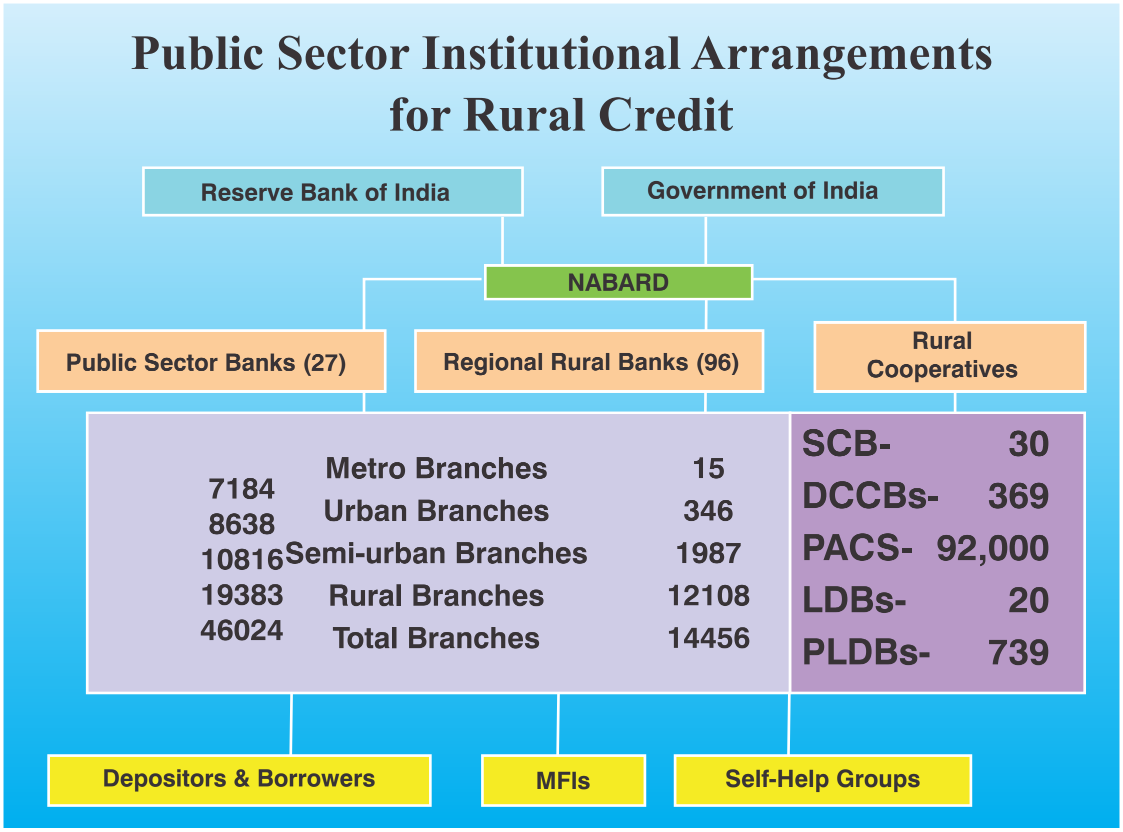
1. Training and Capacity Building of the staff of cooperatives including Primary Agricultural Cooperative Society (PACS)
2. Training and Capacity Building of the staff of RRBs / Business Correspondents (BC) / Business Facilitators (BF)
3. Financial Literacy Centres by Cooperative Banks and RRBs.
4. Financial Literacy Campaign/Programmes.
5. Projects involving awareness at field level and support in opening of accounts for micro insurance / pension.
6. Generic content to be developed on Financial Literacy.

B. Prioritized activities / institutions for support from Financial Inclusion Technology Fund (FITF)

1. Support to weak State Cooperative Banks (SCB) / Central Cooperative Banks (CCB) / Urban Cooperative Banks (UCB) for implementing Core Banking Solution (CBS).
2. Support to SCBs / District Central Cooperative Banks (DCCBs) / Regional Rural Banks (RRBs) for implementing Information and Communication Technology (ICT) based solutions.
3. Support for establishing ATMs for weak Cooperative Banks / RRBs.
4. ICT enabled Kisan Credit Cards (KCC) for both RRBs & Cooperatives.
5. On-boarding of Aadhaar Enabled Payment Systems (AEPS) for RRBs / Cooperative Banks.

3.5.1 Institutional Architecture for Rural Credit

As the chart depicts below, NABARD plays a pivotal role in making available the rural credit using the channels of the RBI as well as the Government of India. It uses the deep rooted base of the RRBs on one hand and rural cooperatives and Public sector commercial banks on the other.



Source: NABARD

3.5.2 Rural Self Employment Training Institute – RSETI

RSETIs are Rural Self Employment Training Institutes, an initiative of Ministry of Rural Development (MoRD) to have dedicated infrastructure in each district of the country to impart training and skill up-gradation of rural youth geared towards entrepreneurship development. RSETIs are managed by banks with active co-operation from the Government of India and State Governments. Dedicated institutions designed as to ensure necessary skill training and skill up gradation of the rural BPL youth to mitigate the unemployment problem.

Programme Structure and Contents: Each RSETI offers 30 to 40 skill development programmes in a financial year in various avenues. The programmes are of short duration ranging from 1 to 6 weeks and could fall into the categories listed below:

- Agricultural Programmes – agriculture and allied activities like dairy, poultry, apiculture, horticulture, sericulture, mushroom cultivation, floriculture, fisheries, etc

- Product Programme – dress designing for men and women, rexine articles, incense sticks manufacturing, football making, bag, bakery products, leaf cup making, recycled paper manufacturing, etc.
- Process Programmes – two wheeler repairs, radio/TV repairs, motor rewinding, electrical transformer repairs, irrigation pump-set repairs, tractor and power tiller repairs, cell phone repairs, beautician course, photography and videography, screen printing, domestic electrical appliances repair, computer hardware and DTP.
- General Programmes – skill development for women
- Other Programmes – related to other sectors like leather, construction, hospitality and any other sector depending on local requirements.

Training programmes are decided by the institute based on the local resource situation and potential demand for the products/services. A uniform standardized curriculum is developed and circulated among the institutes. There are two sets of training curriculums in all the RSETIs:

- Basic orientation programme courses for SGSY SHGs.
- Skill development programmes for micro enterprise and wage employment/placement.

Soft skill training is an integral part in all the training programmes. RSETI model is grounded on well proven 'rural EDP approach', which was first introduced in India in late-sixties. The basic approach of entrepreneurship development program ("EDP") is based on a theory, well-grounded on historical experience, that entrepreneurs are not only born but can also be trained and developed. The unique feature about RSETI model is that its bank led intervention, in which banks take a lead role in identifying, training and financially supporting entrepreneurs.

3.5.3 Micro Finance

Micro finance that originated in Bangladesh with the institution of Grameen Bank in 1983 has spread across the globe including India. The basic principles of micro finance that distinguish it from the earlier modes of credit delivery are small amounts of loan, lack of physical collateral but emphasis on social collateral or peer monitoring and focus on women borrowers. With these three factors, micro finance is expected to effectively tackle the three problems that are often encountered in any credit delivery programme designed for the poor namely, targeting, screening of borrowers, and enforcement of the credit contract. Under the model of micro finance promoted by the Grameen Bank, women borrowers are organised into Affinity Groups, which would be entitled to borrow from the lending institution either for their individual or group requirements. Such groups are normally created by women from similar socio-economic background that strengthen the solidarity among these women. The involvement of the entire group at each stage of seeking the loan and its repayment is essential in ensuring peer monitoring.

World over, micro finance is looked upon as means of credit-based poverty alleviation and financial inclusion. In several countries across the world, micro finance originated from the activity of Non-Governmental Organisations (NGOs) that were aided largely or partly by foreign donors for their lending operations. There were also cases such as in Indonesia, where micro finance was promoted directly through state owned banks/ organisations.

Indian Microfinance: Micro finance has been looked upon as an important means of financial inclusion in India. As has been discussed above, the Indian concept of micro finance encourages access of SHGs to banks both as means of savings and providers of loan services. Against this background, the Indian experiment with micro finance was different in mainly two respects. First, India involved its public banks network to provide micro finance. The commercial banking network, whose development after bank nationalisation in terms of geographical spread and functional reach is often deemed unparalleled in the world, was roped in for micro finance. The micro finance experiment in India has been described by NABARD as relationship banking rather than parallel banking elsewhere in the world. In this experiment, there exists a link between SHGs, NGOs and Banks. The SHGs are formed and nurtured by NGOs and only after accomplishing a certain level of maturity in terms of their internal thrift and credit operations; they are entitled to seek credit from the banks. There is an involvement of the concerned NGO before and even after the SHG-Bank linkage. This variant of micro finance is most popular in India.

Secondly, thrift first and not credit first was considered to be the basis for micro finance in India. SHGs in India were encouraged towards saving within the group and managing their own finances and giving loans internally and then to deposit their savings with a bank thus providing them access to the banking network and finally, negotiating with the bank for credit. The SHG-Bank linkage programme, which was undertaken since 1992 in India, had financed about 22.4 lakh SHGs by 2006. It involved commercial banks, Regional Rural Banks (RRBs) and cooperative banks in its operations.

3.5.4 Self Help Groups (SHGs)

An important development in the last two to three decades has been the organisation of Self-Help Groups (SHGs) or small groups of people who could borrow from the banking system. SHGs are small informal associations created for the purpose of enabling members to reap economic benefit out of mutual help, solidarity and joint responsibility. These small and homogeneous groups involved in savings and credit activities are capable of taking care of the risks through peer monitoring. The main advantage to the banks of their links with the SHGs is the externalization of a part of the work items of the credit cycle, viz, assessment of credit needs, appraisal, disbursal supervision and repayment, reduction in the formal paper work involved and a consequent reduction in the transaction costs.

Self Help Groups are playing a very important role in the process of financial inclusion. Usually they are working with the support of an NGO. The SHG is given loans against the group members' guarantee. Peer pressure within the group helps in improving recoveries. Through SHGs nearly 40 million households are linking with the banks. In some ways the SHGs movement has been a success. But it is also seen that it is concentrated much more in the South India and therefore there is a regional disparity in terms of the growth of the SHGs. The pace at which micro finance has spread in India has been undoubtedly impressive.

However, micro finance albeit its expansion has remained a minuscule of bank credit in India. Even after two decades since its inception in the form of SHG-Bank linkage programme, credit to SHGs constituted less than one per cent of the total bank credit from scheduled commercial banks. Secondly, the data for the last five years show that was a falling trend in the percentage share of bank credit to and loan accounts held by SHGs. Thirdly, there has been considerable regional disparity in terms of the spread of micro finance in India. The Southern region of India is way ahead of the other regions not just in terms of the absolute number of SHGs formed and the bank credit supplied to these SHGs but also in terms its coverage of poor persons residing in this region. Fourthly, as micro finance is primarily driven towards women, the coverage of women under the existing banking network can also be an indicator of the spread of micro finance. Though there are about 93 women per 100 men in India, there were only 21 loan accounts per 10,000 women as compared to 118 loan accounts per 10,000 men in the country. Further, on an average, the amount of bank credit outstanding per woman worked out to Rs. 20 for Rs. 100 outstanding per man.

3.6 Payment System in Financial Inclusion

With passage of time the means of achieving deeper and sustainable financial inclusion has shifted towards innovative methods and adoption of technology-led products. In this changed environment, Payment Systems (PS) have become a critical component of financial inclusion for bringing the unbanked into the formal banking channels, particularly as India move towards the second phase of financial inclusion that aims to cover the villages with population of less than 2000. Global Partnership for Financial Inclusion (GPFI), a forum of G20, defined financial inclusion as “a state in which all working age adults have effective access to credit, savings, payments and insurance from formal service providers.” “Effective access” involves convenient and responsible product and service delivery channels at a cost affordable to the customer and sustainable for the service provider so that the financially excluded population uses the formal financial services rather than the informal channels that provide convenient but costly services nearly for 24 hours a day, for all 7 days of a week. An efficient and ready-for-future payment and settlement system is expected to act as a catalyst to ensure this effective access and increase the pace of financial inclusion.

3.6.1 RBI's Payment System Vision Document – 2012 - 2015

The Payment system Vision Document, 2012-15 of the RBI envisages to proactively encouraging electronic payment systems for ushering in a ***less-cash society in India***. The vision is to ensure payment and settlement systems in the country are safe, efficient, interoperable, authorized, accessible, inclusive and compliant with the international standards. Payment systems would be driven by customer demands for convenience, ease-of-use and access that will propel the necessary convergence in innovative e-payment products and capabilities. Integration of various systems through unified solution architecture and current technology would lead to adoption and usage of resilient payment systems. Regulations would enable channelizing innovations and competition to meet these demands consistent with international standards and best practices. The overall regulatory policy stance would be oriented towards promoting a less-cash/less-paper society, in a way a "green" initiative. The emphasis would be on the use of electronic payment products and services that can be accessed anywhere and anytime by anyone at affordable prices. Thus, the seven cornerstones of financial inclusion, i.e., **A**ccessibility, **A**vailability, **A**ffordability, **A**wareness, **A**cceptability, **A**ssurance and **A**ppropriateness have been incorporated as basic principles to enable payment system to play a role of catalyst in furthering financial inclusion. The process of financial inclusion is influenced by both ***demand and supply side*** factors. Demand side factors include financial literacy and awareness, felt need for the products, credit absorption capacity, etc. On the other hand factors, such as, product availability, delivery methods, service providers, etc. influence the supply side. Payment systems have the potential of acting as a catalyst on the supply side of financial inclusion by way of appropriate designing and efficient delivery of products, processes and systems.

3.6.2 Cost Benefit Analysis of Electronic Payment System in India

The GoMP has created a model of financial inclusion bringing in an intersection of social protection and financial inclusion and in order to facilitate regular, consistent payments from governments and act as a catalyst for bringing beneficiaries more easily into the formal financial system. Electronic payments hold particular promise and the key question is: What is the cost-benefit for a government to connect all households to an electronic payment system.

One of the recently released report[25], Inclusive growth and financial security, talks about the benefits of e-payments to Indian society, estimates that automating all government payment flows could save the Indian government up to $22.4 billion annually, almost 10% of the total payment flows between the government and household (estimated to be $296 billion, or $250 per capita). These savings would cover the required investment within the first year.

Payment Inefficiencies: Where would these savings come from? The report identifies 3 current payment inefficiencies:

1. **Leakages** account for 75-80% of the total losses due to the diversion of benefits to unintended individuals. For example, beneficiary rolls were found to contain absentee workers and deceased people. Misrepresentation of man-hours in the public works programs also occurs frequently.

2. **Transaction costs** account for 15-20% of total losses due to the higher cost of making payments manually compared to electronic processing. The use of cash or checks increases the transaction cost for both the government and the beneficiary. For the government in transferring information between government offices, and for the beneficiary in the long distances to access the payment. ***The report estimates that for every 1 USD the government pays to a Mahatma Gandhi National Rural Employee Guarantee Scheme (MGNREGS)***

25. The report was done in partnership with the Bill & Melinda Gates Foundation and has been picked up in the Indian press.

worker, it spends about 6 to 7 cents of lost wages and travel costs for the worker to redeem the benefit.

3. **Administrative and Overhead Costs** account for 5-10% of total losses due to the manual processes used for auditing and payment reconciliation. For example, welfare budget planning can be cumbersome when the data to inform this analysis are maintained in manual records, making data aggregation and analysis costly and complex.

The report also identifies and quantifies additional indirect benefits of rolling out an electronic payment solution in India, such as increased tax collection and better monitoring of suspicious monetary flows. The report provides details of the 3 main actions that will be required to establish an e-payment system in India:

1. **Create the required infrastructure**: Such infrastructure includes basic computer and software application infrastructure, broadband connectivity, financial agents to carry out transactions, and an identity authentication infrastructure. The report estimates that this will entail a one-time cost of USD 13-15 billion that will pay for itself in a year against the potential savings of about USD 22.4 billion annually.
2. **Encourage commercial players to use the infrastructure:** It clearly follows that if the infrastructure is built, then the private sector should be incentivized to use it. For example, banks and other financial service providers should consider actively developing products suited to the average rural and poor households, and distribute these products over the e-payment infrastructure.
3. **Set guidelines in several areas to maximize the government's utilization of the payment infrastructure:** If the government expects commercial players to use the system, then they must practice what they preach and use it as well. As a start, for example, central and state governments could make all salary payments electronically into employee bank accounts.

Admittedly, creating an e-payments system is a huge task for any government to undertake. But as the report says, delivering government payments electronically to the poor will not only pay for itself but will connect households to a formal and secure financial grid. The basic infrastructure and connectivity this provides will also create an attractive business proposition to encourage private players to enter this space and provide services to the poor, an opportunity worth pursuing.

3.7 Branchless Banking in India

In keeping with this optimistic view of a still uncertain India venture, we conclude with three more positive items to highlight. Two reflect new changes by the government and one goes back to the fundamentals.

The Government of India has established a clearer vision for electronic payments and agents and aims to make a substantial investment to expand these capabilities across India. The Government of India recently released a task force report on a unified payments infrastructure linked to the biometric Aadhaar number. While many questions remain, this report establishes important policy points. It recognizes the value of electronic payments to both cut costs for the government and bring convenience to the end recipients. It also sees G2P as a major flow of capital which can prime the pump, while recognizing that much more ought to flow over branchless banking channels. The Government of India also proposes to pay a 3.14% fee to banks for delivering G2P payments – a significant shift in the business case for banks. Some of the insights in the task force report built off of international G2P experiences shared by CGAP.

As always, there are potential pitfalls in this system, including the risk of building a single-purpose G2P payments infrastructure that is not widely usable for other payments. A supply push too hard by the government could create disruptions in customer service. There are other questions to contemplate such as whether biometric authentication of every transaction might forestall easier to use payments systems, such as PIN-based mobile phone payments, from emerging. But these are all solvable challenges and the new momentum for branchless banking will shape the financial inclusion agenda in India in the coming months and years.

The RBI has removed restrictions on agent (customer service point) exclusivity. Earlier restrictions limited one agent to transact on behalf of only one specific bank, but this has now been lifted. Customers can now transact at customer service points (CSP) of one bank even if their accounts are held at another bank. This allows the entire banking system to be more efficient by sharing customer service points and lowering overall costs. It also brings agent interoperability on par with ATMs in India. Such interoperability is more consistent with the views of most other central banks around the world.

SEWA: A BC with a CSP

In the north Indian hill town of Almora, 35-year old Sangeeta Joshi rises most mornings at 4.30 am to complete her household chores before heading out for a day's work on foot. A member of the Self Employed Women's Association (SEWA), a legendary labor union established for workers in the informal economy, Sangeeta works on commission as a customer service point for the State Bank of India. Using technology provided by A Little World, Sangeeta has for the last 2 years opened nearly 500 accounts and now delivers regular pension payments to many people living along the hillsides in Almora. The work is physically *demanding as Sangeeta has to travel by foot to deliver and authenticate payments. The fingerprint-based POS machine that Sangeeta wields provides her with a means of transacting securely, giving the bank and the government confidence that the right person has received their payment.*

Sangeeta is one story among many thousands of new customer service points operators across India. But it is her effort that will make or break branchless banking. Despite the difficulties of being a CSP, it is a source of livelihood for Sangeeta. She also says that the job has given her respect in the community.

In the coming years one can expect Sangeeta's story to be repeated hundreds of thousands of time across India. Building a mutually fulfilling relationship with the Sangeetas across India will be the key to the success of branchless banking.

3.8 Indian Reality and Policy Approach

As the Indian financial system is pre-dominantly led by banks, the financial inclusion policy orientation has naturally been biased towards the bank-led model. The non-bank entities, however, play an important role in providing necessary support to expand the reach particularly for the banks, crossing the proverbial last mile. The issue is given the geographic spread of the unbanked and the low level of financial literacy, how do we step up the public policy objective of financial inclusion? One eminently feasible way to overcome the challenge is by tapping existing and innovative technologies, especially in the realm of payment systems. This can be accomplished by providing access to the formal banking channel for activities, such as, remittances.

Another method could be to provide alternate payment instruments, other than cash, for both P2P and P2B payments, such as, prepaid payment instruments (PPI). The payment systems, thus, can be considered as effective tools working on the supply side of financial inclusion by providing products and systems for fulfilling the payment needs of the financially excluded while the demand side is propelled by the desire of the excluded segment to make use of formal banking channel for their banking and payment needs. The RBI and the Government has been working to create an enabling environment for providing payment system infrastructure and services as supply side response to emerging demands for deeper financial inclusion arising out of heightened awareness, requirement of the Financial Inclusion Plans (FIP) being implemented by banks & the moves of the Government to electronically transfer large number of benefits/entitlements to the citizens.

3.8.1 Recent Indian Models

BC Model: One of the major experiment as the supply-side enabler for financial inclusion has been the Business Correspondent (BC) model. The BC model is meant to be a low cost alternate to the brick and mortar banking network with an ability to reach the unbanked/ under-banked population. In spite of the difficulties faced while implementing the first phase of FIP, as on September 30, 2012 banks could open 1,58,159 BC outlets providing access to financial services in 1,99,702 villages in the country. The experience, thus, gained has enabled evolution and further rationalization of the policy framework. There are, however, constraints which have to be addressed effectively for the successful implementation of the BC model.

Going forward, the challenges would be leveraging the products & processes now available or on the anvil (e.g. integration of financial inclusion server with CBS server, implementation of inter-operable micro ATMs, resource sharing with other banks and non-banks, use of RFID technology, expanded usage of Aadhaar enabled infrastructure, etc.) and adapting the innovations that can not only enhance the FIP but also prove to be a sustainable business model. This would require answers to questions, such as, whether banks need to innovate by tapping their own infrastructure and resources or is there a business case in setting up shared infrastructure. One is optimistic that innovations through such collaborations would definitely unlock the immense business potential that the Bottom of the Pyramid (BoP) customers offer through the ICT based BC model.

Aadhaar-enabled unified payment infrastructure: The issue of direct transfer of subsidies (DTS) and electronic benefit transfer (EBT) from the Government to the intended beneficiaries has been in focus of the policymakers in the recent times. Both the schemes are based on an innovative approach of using Aadhaar based platform as a unique financial address for transferring financial benefits to the accounts of beneficiaries and helping them to withdraw / use such benefits as per their convenience. The mechanism involves tapping the existing banking channels including the BC network to route all payments electronically to the accounts of the beneficiaries using Aadhaar as an authentication mechanism. BCs would be equipped with micro-ATMs and undertake transactions on the basis of Aadhaar number and bio-metric authentication. The financial transactions are routed through the Aadhaar Payments Bridge. The Aadhaar-enabled Payments System (AEPS) using micro-ATMs enables the beneficiaries to operate these accounts for withdrawal, deposit and remittance purposes. The volume of transactions that are likely to be routed through the AEPS is expected to register an exponential growth.

The report of the Task Force on Direct Transfer of Subsidies (DTS)[26] highlights the huge business potential this eco-system presents to the stakeholders with electronic benefit transfer/DTS payments adding up to roughly 3.5 per cent of the GDP and another one trillion estimated as business opportunities in the form of domestic remittances. Given such large numbers, one can be looking at huge transaction volumes. The issue, however, is whether the industry is geared for this expected surge in volumes by pro-actively taking measures to upgrade the processing capacities, mapping Aadhar with beneficiary account numbers and working in collaboration with Central and State Governments to digitize the data bases in quickest possible time.

26. Chairman: Shri Nandan Nilekani

Mobile penetration: Given the high level of acceptance and penetration of the mobile telephone in India, there is a case to further leverage this for providing banking services to the people at the bottom of the pyramid. Worldwide it has been recognised that the mobile telephony has the potential to universalise access to banking and payment services in a low-cost and seamless manner to the existing and potential customers. Available data[27] indicates that the use of mobile banking services amongst this huge base of subscribers is, however, very low. Even amongst the existing bank customers, less than one per cent are covered under the mobile banking services. Notwithstanding the existing low base of customers, the growth in mobile banking transactions has shown an increasing trend. It is, however, evident that the potential of mobile banking technology is yet to be fully exploited, even though the numbers may look impressive. It is also evident that mobile banking is yet to gain the critical take-off stage that would propel it to provide banking/payment services at a cheaper, secure and seamless manner to the existing and potential customers.

Interbank Mobile Payment Systems: The Interbank Mobile Payment Systems (IMPS) is a mobile based payments system and is owned and operated by the National Payment Corporation of India (NPCI). The IMPS facilitates access to bank accounts and transfer of funds through mobile phones. The system, launched in November 2010, provides real time transfer of funds between the customers of different banks on 24x7 basis. Initially enabled only for P 2 P remittance, NPCI has been given approval to use this innovative payment system for Person-to-Merchant (P 2 M) payments as well. This is expected to give a fillip for IMPS usage. Pilots are on to use IFSC code and bank account number or the Aadhaar number of the beneficiary for money transfer using IMPS. This important development is expected to make it easier for the customers to use IMPS as it is no longer a requirement that the beneficiary mobile number is registered with the destination bank and there is no requirement for a Mobile Money Identifier (MMID) for the beneficiary customer.

IMPS has also been enabled for usage over ATM and internet banking. The existing two factor authentication for both these channels have to be invoked while making payments through IMPS, viz. card plus PIN for ATM and user ID plus net banking / transaction password for internet banking. In view of its multi-channel capabilities it has now been rechristened as Immediate Payment Service. NPCI is now attempting to provide frontend consolidation to banks in the form of common Unstructured Supplementary Service Data (USSD) platform to enable the users to use low end mobile handsets that do not require any specific application to do mobile payments/banking. These innovations in IMPS

Digitization of KCC: The smart card linked, mobile based and Aadhar enabled KCC, popularly known as m-KCC, was launched in July 2012 and is seen as a great example of harnessing the latest technology for user friendly applications for financial inclusion of farmers. Anecdotal evidence, however, indicates that banks are yet to launch the product in a big way. Another

27. Telecom Regulatory Authority of India (TRAI): the mobile subscriber base of the country as at end-October 2012 is 904.23 million with the urban subscribers accounting for 62.68 percent (566.81 million) and the rural subscribers for 37.32 percent (337.42 million).

similar experiment relates to the Rupay Kisan Credit Card launched by the NPCI. The banks certified to issue such cards are found to be issuing only ATM cards and not Rupay debit cards. The PoS terminal network which has crossed 0.6 million has low acceptance of Rupay cards. The lack of infrastructure is causing limited use and acceptability of Rupay cards. It is rather surprising to note the lackluster response of the banks and their inability to identify the business potential in such innovative products.

Accessing Centralized Payment Systems by RRBs, DCCBs: An alternate mechanism of sub-membership has also been opened for accessing centralised payment systems for all licensed banks like the RRBs and Co-operative banks which have the capabilities but are not participating in centralised payment systems on account of either not meeting the access criteria or because of cost considerations. The sub-membership route has been provided to expand the reach to all banks even those located in smaller centres. This is expected to deepen the reach of the electronic payment systems and provide the benefit of modern electronic payments to people in smaller centres as well.

Domestic Money Transfer: Relaxations in domestic money transfer guidelines have been made to provide remittance facilities in a safe, secure and efficient manner targeting particularly the large migrant population. Three schemes involving cash pay-out / cash pay-in and card-to-card transfers have now been made available. These schemes are;

a. **Cash pay-out** arrangement for amounts being transferred out of bank accounts to beneficiaries not having a bank account with a transaction cap of Rs. 10,000 subject to an overall monthly cap of Rs. 25,000 per beneficiary;
b. **Facility for walk-in customers not having bank account** (e.g., migrant workers) to transfer funds to bank accounts (of say, family members or others) subject to a transaction limit of Rs. 5,000 and a monthly cap of Rs. 25,000 per remitter; and
c. **Facility of transfer of funds among domestic debit/credit/pre-paid cards** subject to the same transaction / monthly cap as at (b above).

The first two schemes involve a bank account at one end of the transaction for facilitating fund transfers. Simultaneously, the customer charges have been rationalised, especially for amounts up-to Rs. 10,000 in NEFT and the same has been now capped at Rs. 2.50. Taking advantage of these policy measures, one of the banks has implemented a 'green channel card' for walk-in customers who regularly send money to a particular account. Under the scheme, details of name and address of a walk-in customer along with the beneficiary's name, account number and the IFSC code of the beneficiary's branch are captured on a mag-stripe card. The cardholder can swipe the card at a branch/ATM/kiosk of the bank and remit money to an account holder of any other branch of the bank. This mechanism helps in avoiding repetitive filling up of forms by a walk-in customer & lowering the operational risk involving transactions based on inaccurate data in a cost effective manner.

3.9 CRISIL's Inclusix (Financial Inclusion Index)

Credit Rating and Information Services of India Limited (CRISIL), India's leading credit rating and research company recently (June 25, 2013) launched an index to measure the status of financial inclusion in India[28]. CRISIL Inclusix is a comprehensive index for measuring the progress of financial inclusion in the country, down to the district-level. A pro bono initiative by CRISIL, the launch of the index is in line with the company's goal of 'doing good with what it is good at'. With its ability to objectively analyse and measure inclusion, CRISIL Inclusix will be a key enabler in taking financial services to the bottom of the pyramid.

CRISIL Inclusix, whose methodology is similar to other global indices, such as UNDP's Human Development Index, is a relative index on a scale of 0 to 100, and combines three critical parameters of basic banking services — branch penetration, deposit penetration, and credit penetration — into one metric. The index uses parameters that focus only on the 'number of people' whose lives have been touched by various financial services, rather than on the 'amounts' deposited or loaned. CRISIL Inclusix is a one-of-its-kind tool to measure the extent of inclusion in India, right down to each of the 632 districts. The report highlights many hitherto unknown facets of inclusion in India. It contains the first regional, state-wise, and district-wise assessments of financial inclusion ever published, and the first analysis of trends in inclusion over a three-year timeframe.

Select Key Conclusions from CRISIL Study of 632 Districts

- *The all-India CRISIL Inclusix score of 40.1 (on a scale of 100) is relatively low. It is a reflection of under-penetration of formal banking facilities in most parts of the country. The bottom 50 scoring districts have just 2 per cent of the country's bank branches.*
- *Deposit penetration (DP) is the key driver of financial inclusion in India. The number of savings bank accounts, at 624 million, is close to four times the number of loan accounts at 160 million.*
- *Focused efforts to enhance branch presence and availability of credit are extremely critical. The bottom 50 scoring districts in India have only 2,861 loan accounts per lakh of population, which is nearly one-third of the all India average of 8,012.*
- *There are clear signs of improvement in the CRISIL Inclusix score over the past three years. The CRISIL Inclusix score at an all-India level has improved to 40.1 in 2011, from 37.6 in 2010 and 35.4 in 2009. Improvement in deposit penetration score is the key driver of this improvement.*
- *618 out of 632 districts reported an improvement in their scores during 2009-2011.*
- *Wide disparities exist across India and within states in terms of access to financial services. India's six largest cities have 11 per cent of the country's bank branches. At the other end of the scale, there are four districts in the North-Eastern region with only one bank branch each.*

28. The index- Inclusix- along with a report was released by the Finance Minister of India, P. Chidambaram at a widely covered program at New Delhi.

- *The key driver for the continued high performance of the top 50 districts is the significant increase in deposit and branch penetration (BP). The DP score for these districts increased by a significant 9.3 in 2011, over 2009. Also, these districts saw an addition of 2,824 branches in this period, nearly one-fourth of the total branches added in the country.*
- *Even in the districts at the bottom of the list, there is an encouraging improvement in branch efficiency. For the bottom 50 districts, the number of savings deposit accounts per branch has improved by 20 per cent to 6,073 as on March 2011 from 4,919 as on March 2009.*
- *Improvement in credit penetration (CP) is the key driver that enabled the improvement in score of 50 most-gaining districts*
- *The top three states and Union Territories are Puducherry, Chandigarh, and Kerala while the top three districts are Pathanamthitta (Kerala), Karaikal (Puducherry), and Thiruvananthapuram (Kerala).*

Chapter-4

Samruddhi - The Madhya Pradesh Financial Inclusion (MPFI) Model

This Chapter briefs about the model of financial inclusion designed and adopted by the GoMP. It provides for a backdrop of Samruddhi – the MPFI and introduces the concepts of 'Samruddhi' (Prosperity) and 'Samagra' (Integrated) solution for Social Security. It shows how the thinking of GoMP has evolved in transforming the conventional FI model to suit the idiosyncrasies of MP. The chapter also introduces to the various components of the MPFI model.

It should be distinctly understood that this chapter in no way provides a comprehensive model of financial inclusion for MP, as the same are integrated into the next three chapters. What it does is to provide the readers, the background and expected outcome of an integrated approach that are covered over the next three chapters.

Samruddhi - The Madhya Pradesh Financial Inclusion (MPFI) Model

4.1 Backdrop

Poverty and exclusion continue to dominate socio-economic and political discourse in Madhya Pradesh as they have done over the last few decades in the post-independence period in India. Poverty reduction has been an important goal of development policy of the Government at National as well as State level since the inception of planning. Various anti-poverty, employment generation and basic services programmes have been in operation for decades in India. The ongoing reforms attach great importance to removal of poverty and to addressing the wide variations across states and the rural-urban divide. Though the economy of MP has recorded impressive growth rates in GSDP over the past decade, until recently its impact has sadly not fully percolated to the lowest deciles. Despite being one of the five fastest growing states in the country, MP is still home to a substantial portion of India's poor. Further analysis also shows that poverty is getting concentrated continuously in the poorer districts and mostly in the rural areas of the state. Madhya Pradesh has however, registered a significant 12% fall in poverty in five years between 2004-05 to 2009-10 as against the national average of 7.3%; with poverty reduction in rural and urban areas remaining by and large equal.

4.2 *'Samruddhi'* – The Prosperity

The Government of MP has made a paradigm shift in its philosophy towards poverty reduction and has taken a more constructive and affirmative step towards its eradication. It uses a more positive connotation as '*Samruddhi*' – the Wealth. The word “*SAMRUDDHI*” is a Hindi word having a literal meaning of 'Prosperity' and in the context of MP Financial Inclusion model, it denotes ensuring prosperity and inclusive growth for all. Providing easy access to banking facilities such as credit, use of savings for a better livelihood, and bringing the deprived and disadvantaged into the mainstream of development is being facilitated through the ***Samruddhi*** model. The MP Model has shown the way for the far flung and inaccessible areas of the state to be brought under the net of Financial Inclusion. In MP, a network of so called Ultra Small Branches / Customer Service Points (USB/CSP) of banks and other financial institutions have been established to penetrate the un-banked area and expand the outreach in a very significant manner. MP has carved out a distinct identity in this field by evolving a pro-poor model of financial inclusion and 'Direct Benefit Transfer'. The MPFI Model has been built up on a Three Pillar approach and readers are advised to refer to the next three chapters in this report for getting a full insight into it.

4.2.1 Robust and Transparent Delivery System

Success of Social Sector Schemes depends on a sound and robust delivery system. The endeavor of the state government has been to create a robust and transparent delivery system where entitlements actually reach the targeted population. In order to identify the targeted beneficiaries, a common and integrated database of the population of individuals as well as households has been created. The database serves more like a platform to offer various services and products including the benefits of various government schemes by means of convergence. This is a massive convergence exercise taken up over the past three years to evolve inter-departmental arrangements for single point delivery of common objectives like scholarships, all types of pensions and other social security schemes, health and maternity related benefits, as also the entitlements for food security. The role of Government agencies ranging from the Gram Panchayats to the State Government has evaluated to simplify procedures.

Another significant effort has been a shift in payment mode of various welfare oriented schemes such as MGNREGA. A common Conduit of an electronic fund management system has been specially created to ensure direct payment to the registered beneficiary i.e. benefit transfer from the district account to the account of beneficiary whether a wage worker or material supplier. This did require lot of liaison with bankers, post offices & Co-operative banks.

4.3 *Samruddhi* – The MP Financial Inclusion Model

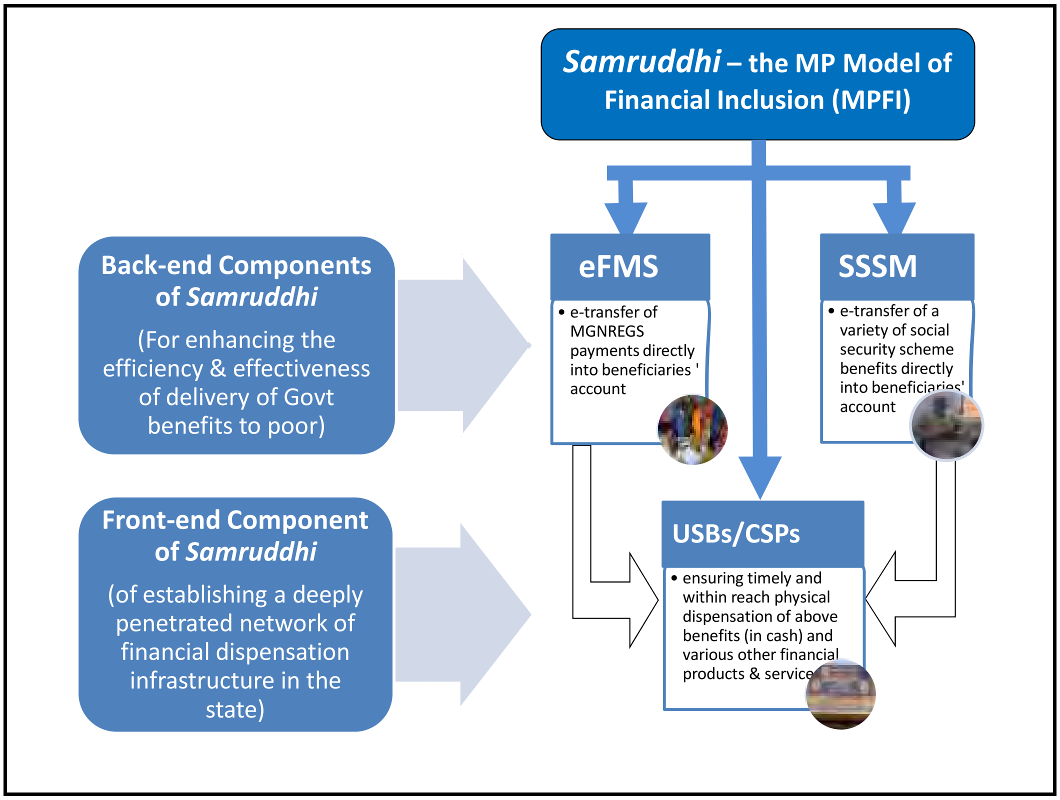
Samruddhi – the MP model of Financial Inclusion is an effort of almost half a decade of research and development that has positively digressed and diverted from the FI model envisaged for India by the Central Government and the RBI as discussed in the previous chapters. The biggest challenge today is to practice Inclusive Banking as an imperative part of effective public service delivery mechanism across the country. Banking the unbanked is a precondition to reach out to the needy population, offering them multiple benefits of the Government. The financial inclusion along with direct benefit transfer has now become a parameter of good governance and service delivery system. Positive

GoMP has also made significant progress in administrative reforms and public service delivery. This includes treasury computerisation, comprehensive monitoring and evaluation of social sector schemes, land record computerization, e-tendering, etc. However, a comprehensive administrative reforms agenda is required to make the government more effective, efficient and accountable, both at the state and the district level. While supply-side capacity development facilitates efficiency and effectiveness in service delivery, reforms enabling demand-driven approaches can foster greater accountability and responsiveness in public administration. In view of this and in order to provide door step delivery of integrated financial services to the rural poor, MP has carved out a distinct identity in this field by evolving a pro-poor model of financial inclusion and 'Direct Benefit Transfer' titled as '*Samruddhi*' i.e. Prosperity.

4.3.1 The Three Pillars of *Samruddhi* – The MPFI Model

Samruddhi – the MPFI Model basically constitutes following interrelated and interdependent entities:

1. A Common Database of All Individuals as well as Households of MP in the form of an IT Platform through an Integrated Social Security Mission – the *Samagra* Samajik Suraksha Mission (**SSSM**) commonly known as '***SAMAGRA***';
2. Common Conduit of an Electronic Fund Management System also known as ***e-FMS.***
3. Last Mile Connectivity through Ultra Small Branches (USBs) and the Customer Service Points (CSPs) for opening banking accounts for the beneficiaries and performing transactions.



Three of these components together form '*Samruddhi* – the MP Financial Inclusion (MPFI) model' and provides for an integrated solution to inclusive growth at the front and back end.

The component of Common Database through SSSM captures the database of all individuals as well as households of Madhya Pradesh without discriminating between APL and BPL; banked and unbanked; rural and urban; and beneficiaries and non beneficiaries. This is in the form a of an IT based platform that could be used to offer various benefits to the identified population based on certain linearly programmed criteria. Thus it is targeted to provide an entitlement based benefits and is aimed at improving the efficiency and effectiveness related issues in implementing a host of social security and other social welfare based schemes of GoMP, unifying various social security and social welfare schemes being implemented by different departments of GoMP, and finally, ensuring electronic transfers of the scheme benefits directly into beneficiaries' bank (and/or post office) accounts.

Similarly, **the Common Conduit of e-FMS** is aimed at improving the implementation of MGNREGS and various other schemes by enhancing the effectiveness and efficiency of its implementation and also by electronic transfer of MGNREGA wages and other payments directly into beneficiaries' bank (and/or post office) accounts.

The component of Last Mile Connectivity through establishing USBs / CSPs is aimed at creating a deeply penetrated network of financial dispensation infrastructure in the rural unbanked areas for dispensing the benefits thus transferred into beneficiaries' bank accounts under the other two components.

The components of SSSM and e-FMS work at the back-end towards enhancing the effectiveness and efficiency of the delivery of social security benefits and MGNREGA wages directly and electronically into beneficiaries' bank (and/or post office) accounts, respectively. The third component of the *Samruddhi* – the MPFI model i.e. establishing a network of USBs / CSPs in the unbanked rural areas operates at the front-end for dispensing the benefits thus transferred into beneficiaries' bank accounts under the other two components. The Three Pillars integrated with each other provide an end-to-end solution for the rural poor.

Under the MPFI model, while the objective of Financial Inclusion model was to usher Prosperity (*Samruddhi*), it could now be well achieved with the penetration of banking access to the deepest pockets. The Prosperity linked Banking inclusion model in MP, has been rolled out through the platform of SLBC and Department of Panchayat & Rural Development. With Beneficiary at the center stage, the concept of "*SAMAGRA*" with its multi utility database was initiated in the year 2010 where Individual-wise, Family-wise information was incorporated in its portal. To allow access to the banking products to the beneficiaries, it was necessary that the conduit for transmission of the Government Benefits was free of laxities.

4.4 Functions Performed at Various Administrative Levels under *Samruddhi*

The designing, roll out and implementation of *Samruddhi* involved a variety of functions being performed at various administrative levels viz. State, District, Janpad and Gram Panchayat levels. The table below lists some of the major functions performed at various levels under three pillars of *Samruddhi*. While going through the table, it may be noted the Banks being independent entities don't exactly follow the administrative levels being followed in the Government. It has its own administrative hierarchy viz. Head Office, Zonal Office, Regional Office, Branches, USBs, etc. It doesn't even have an Unit called State Office. For this reason, the functions performed at the bank's level need to be read with some cautions.

Admin Level	SSSM	e-FMS	USB
State	• Software development &regular improvisation • Coordination with various departments • Enrolment of various other services through Samagra Portal • Regular monitoring of whatever work has started so far in the districts – survey, survey feeding, beneficiary verification, account verification and freezing, etc. • Handholding and supporting the District teams • Training of the Staff at various level	• Systems development and improvisation • Budgeting and coordination with MoRD • Budgeting and fund allotment to Districts • Monitoring and Supervision of program implementation • Trouble-shooting • HR and Training	**(Includes Zonal Level)** • Coordination with HO in rolling out the FI plan in the State • Preparation of the Annual Expansion Plan for USB / CSPs and getting it approved from HO • Identification of the BC Partners and issuing the mandates to them • Regular monitoring of the USBs through BCs using MIS • Development of necessary materials, etc. for use at USBs • Coordination with other stake-holders of the USB roll out, most importantly the Head Office
District	• Still getting clarification on the specific roles and responsibilities • Broadly, it's monitoring the works done by Janpads i.e. survey, survey feeding, verification, etc. • In case of Pension Payments, the work is to compile the list forwarded by Janpads, vet the same and forward it to Treasury for payments	• Monitoring and Supervision of program implementation • Trouble-shooting to an extent • Training of the Janpad / Panchayat teams	**(Includes Zonal Level)** • Providing support to the identified BCs for opening the allotted USBs • Monitoring of the USBs • Communicating the issues to the State level
Janpad	• Detailed HH survey • Survey feeding • Account verification and freezing • Continuous updation in the portal • For pensions: generation of the beneficiary list and forwarding it to ZP for payments	• Entire implementation as detailed out in the Process Flow happens at this level • Entry of Demand & Allotment of Work in the MIS • Generation of e-Muster • Effective organization of the Rozgar Saptah in Janpad • Entry of attendance and MR in the MIS • Verification by the AAO & AE • FTO generation by AAO and CEO, JP	**(Including Base-branch Level)** • Fortnightly visits to the affiliated USBs/CSPs • Approving the A/cs being opened in USBs/CSPs

GP / Village	● Actually not much, as the applications for the new benefits including pension are accepted at 'Lok Sewa' Centres	● ● · Collection of the Demand of Work by the workers ● · Communication to workers after allotment of Work ● · Organization of Rozgar Saptah ● · Attendance recording ● Communication regarding payment-transfer to workers	**(at the USB/CSP Level)** ● Establishment of the USB / CSP ● Regular functioning of USB / CSP ● A/c opening ● Transactions in the A/cs

Note : Being at an early phase of roll out, the roles & responsibilities at different levels are yet to be frozen, but assumingly it is as above

4.5 Salient Features of Samruddhi – the MPFI

While the MPFI model prima facie look quite simple, it did involve a lot of deviations from the existing norms, practices and even existing ideologies. Some of the salient features of the *Samruddhi* are as below:

4.5.1 Paradigm Shift from Population Norm to Geographical Area Norm:

The financial service delivery system has for a long time been using the 'population' as a norm for deciding the financial inclusion or exclusion in the country. The RBI and the GoI have both been using this criterion for driving their financial inclusion efforts. RBI in their recent Circulars had instructed the banks to cover villages with 2,000 populations, (villages with 1,000 populations and thereafter in phased manner). However, because of the vast geographical area of MP and low population density, the criteria of population – 2,000 or 5,000 seemed to be unviable and unworkable. Instead, GoMP decided to shift the criteria from 'population' to 'geographical distance. The geographical norms for installation of Ultra Small Banks / Customer Service Points have been the hallmark of *Samruddhi* – the MPFI Model as far as the ***Outreach*** is concerned. The term ***'shadow area'*** has been coined to identify areas without cooperative bank / RRBs / Commercial Banks within 5 kms radius. The banks in MP accordingly were advised to open their USBs / CSPs in these shadow areas instead of using the population criteria. After a detailed mapping of all the districts of the state, a total of 14,767 villages were identified as shadow area villages; which were being accorded a priority for coverage by banking facilities by employing BCs and opening of USBs (Ultra Small Branches) / CSPs (Customer Service Points) by GoMP.

4.5.2 Re-introduction of the Banking Industry's Concept of 'Service Area'

Another important development in the evolution of *Samruddhi* was the re-invoking of the erstwhile **concept of Service Area** of the banking industry. In the recent past the concept of Service Area has practically been removed in the banking system, whereby, the banks were made free to open their branches at any place, as long as they follow other instructions of the RBI. However, after the detailed mapping of unbanked areas on the basis of geographical norm, this concept of 'service area' was revoked and all the banks including cooperative banks and RRBs were asked to mark all the identified 14,767 shadow area villages with their operational areas. As such, the concept of Service Area, though practically withdrawn, still existed in the state. However the problem was with the Sub-

Service Area, where permanent physical brick-and-mortar structure was required, especially in the Shadow Areas. The Service Area Approach is realized as more effective tool for the fixing the responsibilities of FI on banks and making them more accountable to the FI initiatives.

4.5.3 Common Database for an Integrated Approach to Social Security

The SSSM (*Samagra* Samajik Suraksha Mission) involved developing a common database of family with details of individuals. The database is developed after a detailed survey capturing of profile and parameters of the individuals and also the households. The database thus developed has been uploaded on a front-end portal named '*Samagra*', wherein the details of all such beneficiaries of Government Grants / Subsidies / Payment are present. It also contains the profile of all such persons who are still devoid of a Bank Account. The SSSM enables individual and family based data and family based entitlements like social security pensions, food security benefits, and toilets to household, Janshree scholarship to two children of a household. Thus, it is easily linked to all entitlements. This data resource not only distinguishes between BPL and APL families but also captures whether they are special groups like those enrolled in labour department etc.

4.5.4 The Common Conduit – The Electronic Fund Management System

A common conduit has been created under the *Samruddhi* – the MPFI where an electronic fund management system spells out a way of direct benefit transfer that is being implemented in schemes such as MGNREGS. From financial year 2013-14 the whole state is disbursing in MGNREGS through e-FMS. There are 104 lakh accounts of beneficiaries in the State and almost 67 lakh accounts have been verified and frozen till Dec 2013. All the nationalized banks have been synchronized on the single platform of core banking and put in system compatible with MGNREGA-Soft. DCCBs are come on the core banking solutions as a NEFT sub members . Post offices have created sanchay post software for credit of beneficiaries accounts & disbursement. Till now 9.20 lakh musters have been issued and against this 6.49 lakh FTO of workers have been delivered with wage disbursements to the tune of Rs.751 crore and total expenditure of Rs. 1115 Cr. Till Dec. 2013 through e-FMS.

4.5.5 Last Mile Common Plumbing for Access to Finance

Another important feature of the *Samruddhi* is a common plumbing that has been created in order to connect the database constructed under the SSSM and the NGREGA-Soft to the actual beneficiaries by means of banking solutions as conduit. This conduit has been specially developed for the devolution of funds. Normally, a large number of prospective beneficiaries have their accounts in Cooperative Banks and Post Offices that are not covered under the core-banking solutions. Thus, this conduit is developed to ensure devolution to even non-core banking institution and hence takes the Financial Inclusion drive at the doorsteps of the poor as a key to sustain equitable growth. Accesses to financial services shall provide the unbanked and poor people an opportunity to build savings, make investments, avail credit, etc. Also such access help them to ensure themselves against income shocks and equip them to meet emergencies such as, illness, death in family or loss of employment. Also it protects the poor from the clutches of the injurious money lenders.

Improving Access to Finance for MP's rural poor by means of a paradigm shift from the conventional financial inclusion model prevalent in India, the MPFI model also provides an opportunity to examine and improve upon the current level and pattern of access to finance largely for rural households in India, evaluating various approaches for delivering financial services to the rural poor, analyzing what lies behind the lack of adequate financial access for the rural poor, and identifies what it would take to improve access to finance for India's rural poor based on *Samruddhi*. Based on the analysis of a 'supply side' large-scale secondary survey of available literature and minutization of proceedings of various deliberations, in combination with an evaluation of the role of banking and financial institutions along with Government schemes, it also examines different forms of financial service provision, including formal, informal and microfinance, and raises questions about approaches used so far to address financial exclusion, and would finally make recommendations for policy advisors and financial service providers on how to scale-up access to finance for India's rural poor, to meet their diverse financial needs (savings, credit, insurance against unexpected events, etc.), in a commercially sustainable manner. Its conclusions will be of interest to anyone involved in social sector and economic policy and its implementation, microfinance, microinsurance and micropensions, cash transfers including CCTs and UCTs, and Direct Benefit Transfers and poverty reduction.

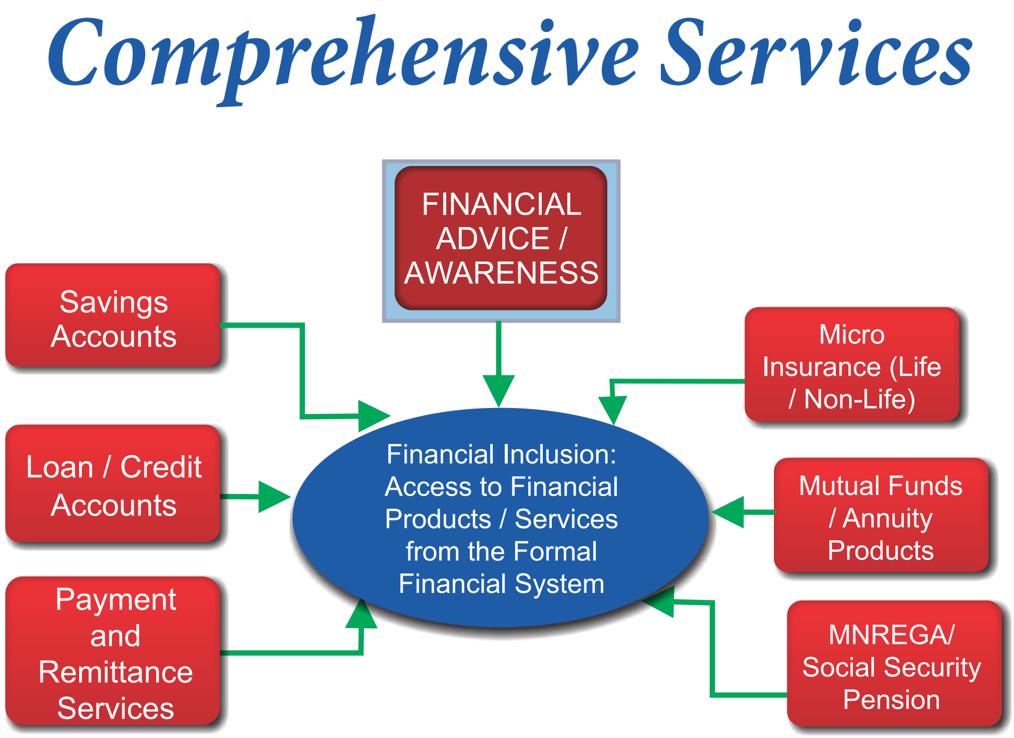
Access to finance remains only on papers if the accounts opened so vehemently under the special drive of banking inclusion remains under used for lack of knowledge. Hence financial literacy plays a predominant role in providing a meaningful access to finance. Financial literacy is the ability to understand how money works in the world: how someone manages to earn or make it, how that person manages it, how he / she invest it (turn it into more) and how that person donates it to help others. More specifically, it refers to the set of skills and knowledge that allows an individual to make informed and effective decisions with all of their financial resources. A separate chapter has been written in this report (Part I) to link the financial literacy with that of the *Samruddhi.*

4.5.6 Integrated and Comprehensive Financial Inclusion in Madhya Pradesh

Thus in a nutshell, the MP Financial Inclusion model does away with the limitation of merely opening up of bank accounts and transferring the EBT. It covers a comprehensive process for the following:

1. Creation of Database of all the individuals as well as households / families (SSSM)
2. Identification of Potential / Beneficiaries through a comprehensive and common database without compelling the masses to apply and testify KYC again and again (SSSM)
3. Providing door step banking and other financial services to the Potential / Beneficiaries including account opening and transactions (USB/CSPs)
4. Provides for financial literacy to the public at large as regard usage of banking and other financial products and scheme of the Government to Potential / Beneficiaries (FLCs)
5. Seamlessly and efficiently transfers of the benefits to the existing / Potential / Beneficiaries using the Treasury mechanism so that the money gets a direct credit in their bank accounts.

6. Seamless and efficient transfer of the MGNREGA wages to the beneficiaries using the e-FMS platform so that the money gets a direct credit in their bank accounts.
7. Allows the beneficiaries to seamlessly withdraw from and deposit into their accounts, the money as received from the Government.



Source: Presentation at the Special SLBC by the Central Bank of India

4.6 Analysis of *Samruddhi*

Owing to various causes and factors there has been a paradigm shift from population norm to geographic norm in order to provide banking access in MP that could be replicated and scaled across other parts of the country. The *Samruddhi* model of MP provides for listing of all social sector schemes under one roof cutting across various departments and schemes, avoid double dipping and provide the benefits keeping a track of each and every family as well as individual in context of the benefits provided to them under various schemes. However, the major challenge is still to draw a roadmap for smooth mechanisms of devolution of funds in terms of post-office and cooperative banks that are not on the platform of core-banking. The importance of the beneficiaries is the cynosure of the model that plays a pivotal role in integrating the social sector schemes of the Government with that of their banking accounts. The model does away with the conventional model of merely opening up of banking accounts or cash transfers to the beneficiaries and received prominence and the results remained a centre stage in the MP model. The most significant aspect of the MP model is that beneficiaries find the policy and implementing mechanism easy and friendly (Supplier's Views). The State was already in the discipline of devolving 86% of its funds through the bank accounts i.e. the cash disbursement was negligible.

It is expected that the MP Model of Financial Inclusion will be a viable and successful business model for the banks as well as for the public at large residing in rural remote and inaccessible areas. The Direct Benefit Transfer is ready to make a beginning for all the pensions that are to be devolved in the state directly from the treasury. The mechanism has been successfully tested in 15 districts and others will soon follow. The next step would be to devolve the scholarships and health benefits. The state will be doing it on a pan-MP basis with common data base model for all the schemes of the State as generated under the SSSM. The model creates a win-win situation for all the stake holders. It is a business model for bankers and not a charity. The access enabled not just the opportunity for devolution of money but also expand financial literacy pursued strongly by RBI and NABARD and the sale of other financial products especially savings and insurance. Some of the USBs / CSPs covering only three villages had a turnover of Rs. 75 lakh in just 5 months. The reported business done by operative USBs is around Rs. 600 crore.

Thus, as per the various documents the GoMP Model is now tested as a business model for holistic Financial Inclusion and thus makes Direct Benefit Transfer and not merely providing 'having greater access' but also 'gaining the access'. The gaining access means improving financial literacy, access to financial products, enabling devolution once a conduit is set for not just pension, MGNREGA payments but for scholarships etc. All benefits can be accessed at one stroke as the hallmark of the model is that the SSSM is highly dynamic. The arrangements to keep it updated will always make available real time data for the beneficiaries. This is a business model and will go a long way in transforming the rural MP bringing ***Samruddhi*** to the rural households.

Chapter-5

Single Platform in MP with *SAMAGRA* Samajik Suraksha Mission (SSSM)

This chapter provides for the First Pillar of Samruddhi – the MP Financial Inclusion (MPFI) model that deals with not only convergence of various social sector schemes but also creation of a unique database and a common platform that would provide entitlement based benefits rather than demand driven.

The first part of this chapter brings out in bold relief the current status of implementation of social sector schemes and highlights the need for rationalization of schemes and streamlining of the procedures involved in benefitting from the scheme.

The second part of the chapter discusses the need, rationale and evolution of the first pillar of MPFI namely, the Samagra Mission (Samagra in English means Integrated) and updates the reader with current status and how and why the Integrated family and resident database created and maintained under the SSS Mission is being used and could be used in future as a common platform by various depts./agencies to facilitate a meaningful and effective financial inclusion.

Single Platform in MP with *SAMAGRA* Samajik Suraksha Mission (SSSM)

5.1 Backdrop and Necessity for Integrated Solution to Social Security

As part of its commitment for a Welfare state, GoMP strives for the welfare and social protection of the low income informal sector workers and the vulnerable groups. This may include, but may not be limited to the low income working population and laborers of the State; people living below the poverty line; elderly including destitute; unmarried and or dependent girls; widows including those deserted by the families and handicapped persons. GoMP implements a large number of welfare schemes. One estimate based on the Department of Publicity (*Aagey Aayein Laabh Uthayein*) and other published material of various departments suggest a ballpark of 375 such schemes, including schemes for various category of persons.

List of Department With Number of Schemes		
S. No.	**Name of Department**	**No. of Schemes**
1	20-Point Implementation	2
2	Animal Husbandry	23
3	Backward Classes & Minorities Welfare	18
4	Bhopal Gas Tragedy Relief & Rehabilitation	1
5	Commerce & Industry	3
6	Co-operation	12
7	Culture	2
8	Energy	13
9	Farmer Welfare & Agriculture Development	30
10	Fisheries	7
11	Forest	8
12	General Administration	3
13	Higher Education	5
14	Horticulture & Food Processing	22
15	Housing & Environment	4
16	Labour	10
17	Law & Legislative Affairs	10

18	Mineral Resources	1
19	Narmada Valley Development	1
20	Panchayat & Rural Development	7
21	Planning, Economics & Statistics	3
22	Public Health & Family Welfare	22
23	Public Health Engineering	6
24	Public Relations	1
25	Rural Industries	37
26	SC & ST Welfare	40
27	School Education	8
28	Social Welfare	23
29	Sports & Youth Welfare	8
30	Tourism	1
31	Transport	1
32	Urban Administration & Development	5
33	Urban City Country Planning	2
34	Women & Child Development	19
35	Sundries and Miscellaneous	17
	TOTAL	**375**

Source: Various Publications of GoMP

Similarly, there are as many as 63 schemes for Women alone being implemented by 15 Departments:

1	Department of Women and Child Development	19 Schemes
2	Rural Development Department	05 Schemes
3	Cooperation Department	01 Scheme
4	Forest Department	02 Schemes
5	Village Industries Department	06 Schemes
6	MP Handlooms and Handicraft Development Corporation	02 Schemes
7	Directorate of Handlooms	05 Schemes
8	Public Health and Family Planning Department	11 Schemes
9	Department of Schedule Caste	04 Secheme
10	Higher Education Department	01 Scheme
11	School Education Department	01 Scheme
12	Sports and Youth Welfare Department	01 Scheme
13	Department of Industries	03 Schemes
14	Department of Animal Husbandry	01 Scheme
15	Social Justice Department	01 Scheme
	TOTAL Schemes Benefitting Women (15 Departments and Corporations)	**63 Schemes**

Source: Various Publications of Women and Child Development Department

5.1.1 Need for Integrated Solution & Common Platform to Social Security from 'Supply Side'

Most of the schemes that are being designed, implemented, regulated and governed by different relevant departments have common features and benefits and also practically target same category of beneficiaries due to seasonality and occupational portability of beneficiaries. Almost all low income informal sector workers profess multiplicity of occupations due to seasonal and livelihoods factors. Different government departments target different groups (including occupational groups) that are associated with their mandate and book the expenses by offering them the benefits. However, since most of the beneficiaries who are geographically as well as occupationally portable across these groups are booked as beneficiaries by these multiple departments. As a result of it while the expenditure is booked by all the implementing departments, the beneficiary in most cases remains one and the same. Under the following backdrop the need for an integrated database of residents was felt most necessary.

1. **Multiple Departments Offering Same / Similar Benefits:** While many of the Departments offer similar schemes and its eligibility to different category of people and the fact that the same person has portability of job and groups was being benefitted from all the departments. Since there was no monitoring system, one was not sure that the resident had actually received the benefits from one or many departments or not received at all. There was a huge possibility that these departments used to book their expenditure on the same beneficiary. For example the Department of Women & Child Development as well as Building and Other Construction Workers Board provide similar maternity benefits and while technically the scheme was mutually exclusive, the lack of an integrated shared data allowed the same beneficiary to pick up benefits from both the departments, since she could be going to an aanganwadi and be a construction worker at the same time.
2. **Lack of Coordination Between Departments, Schemes and Mapping of Beneficiaries:** As mentioned above there was a lack of coordination between various departments leading to an overlapping of benefits within various similar schemes. All the departments might have been maintaining the list of their beneficiaries under various schemes but there was no single unique identifier for them and there was no sharing of data between them. Similarly, there was a lack of effective monitoring, control and evaluation within the departments. Most of the departments have got the list of their schemes including the beneficiaries digitized, but in most cases it were only numbers that were being filled in on a day to day basis by the district officials. Thus while in most of schemes the expenditure was booked in the books of account by the department, there was seldom any proof of the subsidies/benefits being actually transferred to the deserving beneficiaries whether in cash or in kind.
3. **Multiple Agencies Insuring Single Person:** The study found that there were multiple subsidies being spent by the State Government to target a Single coverage for social security, for example the insurance industry. And to top it all, the beneficiary/resident

was not even aware of the benefits. In the bargain there was a drain of resources from the Government to certain agencies. For example, the Social Justice Department of the GoMP was the nodal agency for the Government of India's social security schemes of 'Janshree Bima Yojana' as well as 'Aam Adami Bima Yojana'. Though both the schemes technically target different strata of society and are supposed to have mutually exclusive coverage, yet the department itself accepts the fact that there were members who were covered in both the schemes and their premium paid in both the schemes[29]. The net result is that the State Government is paying Premium on life insurance cover of these people under both the schemes whereas in case a situation arises for a claim, the member gets claim only from one scheme and not from both as per rule. Now however, effective December 2012 the Government of India has announced the merger of both the schemes.

4. **Multiple Insurance But Single Benefit:** Within the scheme itself, there are many multiple agencies that used to cover the same person for providing an insurance cover under the JBY and / or ABY schemes. This is owing to the fact mentioned elsewhere that a low income informal sector worker earns her livelihoods through various means and occupations within a given time and space. Interestingly, in order to provide a life insurance cover (JBY/ABY) to a single worker the possibility was that the premium was paid by five different agencies / departments of the Government since the beneficiary might belong to five such agencies in different time and space. Every time a member was provided a life cover under the scheme premium was being paid to the Life Insurance Corporation of India. Thus while Rs. 100/-ought to have been paid by the GoMP towards providing a life insurance cover to one person, the GoMP landed up in paying five times due to lack of coordination, centralized recordkeeping and sharing of data of beneficiaries and multiple agencies. Due to lack of knowledge and literacy on the part of the beneficiary, no claim was made by the successors of the deceased since there was no knowledge about her being insured was available with the successors. This typically happens when targets are issued by the executing agency (here Departments of the GoMP) to the implementing agencies (NGOs, etc.) and the latter completes their target without educating the beneficiary.

5. **Impact on Claim Ratios Under Life Insurance:** Social Justice Department of GoMP alone was paying premium to cover more than 4.3 million lives under the two insurance schemes in the past every year. The Budgetary allocation for 2012- 13 was Rs. 18 crore under ABY and Rs. 25 crore under JBY. Thus an amount of Rs. 43 crore was budgeted to pay premium for 43 Lakh life insurance policies. This amount was Rs. 32 crore for 2011 – 12 covering as many as 32 lakh lives under the two schemes. Under normal circumstances and typically in a Life Insurance Industry the death claims in the insurable age group should range between 12 – 15% of insured. However, in case the GoMP it

[29] Aam Admi Bima Yojana ceases to exist in 2013 – 14.

should be seriously concerned about the logging of such claims themselves due to causes mentioned above. For, the study reveals that while the GoMP has been spending money on getting the individuals insured under the life insurance coverage the beneficiaries who have been receiving the claim benefits (both natural as well as accident death) were less than even 1%[30].

6. **Multiple Registration of Beneficiaries and Non Sharing of Data:** The study finds that certain bodies and agencies like the Building and Other Construction Workers Board, formed under the aegis of the Labour Department has collected cess with a corpus of Rs. 7800 million under the Act as on 2012 – 13 and have also registered more than 2.4 Million workers under its purview in order to implement about six schemes. Under its implementation of six schemes, while one is dysfunctional, other schemes have benefitted approximately 1.3 million beneficiaries and disbursed Rs. 2308 million till the end of the fiscal 2013. The average benefit disbursed by the board is Rs. 1790.00 and used its overall corpus only to the tune of 30% so far. The Board still is sitting over a corpus of Rs. 5492 million (Principal) and has an unspent balance of more that 70% that could be made available to the welfare of the registered members. However, the members registered under the board are entitled to receive certain benefits while the same benefits are being provided under different schemes of the Women and Child Development Department since the data is neither shared nor integrated.

   Thus it emerges that the implementation of these schemes in a proper and transparent manner is a major challenge as the entire work is being carried out manually and in an isolated manner. There was little accountability and transparency in the system and the citizens found it difficult to avail the benefits of the schemes intended for them in a prompt and hassle free manner.

7. **Multiple Service Delivery Points For Schemes Of Similar Nature:** It was observed that the applicant for a certain nature of scheme had to approach multiple offices for seeking the benefits of various schemes for which s/he was eligible. This can be easily understood if we take the example of scholarships. A student, who is eligible for more than one scholarship schemes, but s/he would still have to approach different offices for getting these scholarship sanctioned:

S. No	Scholarship Type	Sanctioning Department/Agency
1	Caste related	SC Department for SC Students; ST Department for ST students; OBC and Minority Welfare Department for OBC/Minority Students
2	Disability Related	Deputy Director, Social Justice
3	Labour Community	Labour Department in case of construction Workers, Mandi Board in case of Hammal and Tulawati workers, etc.

30. This does not include scholarships under the JBY which in any case were conditional and limited.

Thus in order to bring in efficiencies and effectiveness in Governance and provide transparency in its operations and for reasons mentioned above, a strong need for the following was felt:

a. Creation and maintenance of a detailed online, integrated and live database of all families and members of the State and their detailed profile covering various attributes and other information that can be used to create an enabling environment for automation of the processes and confirming the eligibility and entitlement of the family/person for various government schemes.

b. The database needed to be accessed in a secured and trusted manner by various authorized offices of departments/agencies to update the information about the person/family that is related to their department and also verify the details for which the department is authorized to certify. This one time verification will allow all other departments/offices to use this verified information like BPL status, Caste status, bank account, worker status, disability details, etc. for identifying the beneficiaries and sanctioning their benefits without initiating a fresh verification process again.

c. Need of a common and integrated online software platform designed around the core of the *SAMAGRA* database for all departments/agencies to facilitate the automation of various front-end and back-end processes, functions and work-flows involved in the proactive identification of the beneficiaries, capturing the applications, sanction of the benefits, generation of the bills/payment advise and tracking of actual payments. This platform shall also allow its users to maintain and check the history of the benefits extended to an individual/family by any department under any scheme. The history of benefits can be viewed by any office for taking an informed decision for confirming the eligibility and sanctioning any other benefits under the same or any other scheme

5.1.2 Need for Integrated Solution & Common Platform to Social Security from 'Demand Side'

While the section above brings out in bold relief, the need and obligation on part of the Government to design an integrated solution to delivery of social security services, there is a necessity felt at the demand side of the same. In fact, the demand side necessity is so vehement that it out numbers the cost associated with creating a one-time institutional architecture to deliver the services right at the door steps of the beneficiaries and the vulnerable groups. This section also leads to a fact that and explains as to why the GoMP moved away from a 'Demand Based Approach' to an 'Entitlement Based Approach[31]'

1. **Need for Improved Delivery Mechanism:** The delivery mechanism of the National Social Assistance Program in MP was quite complicated till recently. However, the simplification of

[31] Refer sub section 5.3.7 of the same chapter later

processes done by the Government is yet to reach to the common man at large. The scheme was being delivered through the city corporations as well as Nagar and Gram Panchayats and sometimes through the post offices. More recently, cash payment have been done away with the disbursement processes and the Electronic Benefit Transfer (EBT) has been used. Under the EBT, the concerned departments provide a list of the beneficiaries to the concerned bank which either opens the bank accounts of the beneficiaries or uses a banking correspondent to do so. The money then gets transferred to the individual bank account of the pensioner rather than being hand delivered in cash.

2. **Need for Better Targeting:** The Social Justice Department of the GoMP is responsible for implementation of National Social Assistance Program (NSAP). The National Social Assistance Scheme (NSAS) or National Social Assistance Programme (NSAP) is a flagship welfare program of the Government of India initiated on 15 August 1995 [32]. The responsibility for identification of beneficiaries, sanction of benefits and disbursement of the same vests with the respective State Government / UT Administration. Following schemes form part of the NSAP:

    - Indira Gandhi National Old Age Pension Scheme (IGNOAPS)
    - Indira Gandhi National Widow Pension Scheme
    - Indira Gandhi National Disability Pension Scheme, and
    - National Family Benefit Scheme (NFBS)

    They are all tested schemes where the responsibility of targeting and delivery vests with the GoMP. In the past there have been a lot of complaints regarding the identification and targeting of beneficiaries and corrupt practices have been reported from almost every corner of the state. While part of the problem lies with the corrupt practices where most of the undeserving start receiving the benefits of the NSAP, the other side of the problems lie in lack of a scientific criterion to identify the deserving poor. For, while there is an eligibility condition for the schemes under the NSAP, there was no such mechanism to identify and target the needy one, except the BPL data. Thus a scientifically constructed database is required to be able to exactly target the needy and deserving and throwing away the non deserving ones from its purview. The captioned story below speaks volumes about the argument.

3. **Plug in the Leakages in Payment:** As handling and transferring cash using the middlemen is subject to leakages and commissions, the best way for it to reach the beneficiary is her bank account that is located nearby and fully accessible to her at any given point of time.

4. **Incomplete Access to Social Security Information:** One important prerequisite for beneficiaries to access social security benefits is relevant information through reliable sources. Study performed by Bhopal based NGO 'Samarthan' reveals that in the urban areas, those who have availed the benefits got this information from their ward councilors. Around one-third of respondents got information from their relatives and neighbours. This trend leads two important conclusions:

[32] The NSAP was transferred to the State Plan w.e.f. 2002-03 and funds are now provided as Additional Central Assistance (ACA).

a. One, ward councilors can be important agents for facilitating social security schemes and this may well be because of their day-to-day interaction with the people, and

b. Secondly, people have little access to sources of information provided by the government. In fact, 57% of those respondents who are eligible but had not applied for the benefits, indicated that they were not aware of application procedures.

5. **The Application Procedure – Bottlenecks and Lacunae**: Accessing application forms and an application window is a potential bottleneck. However, the main bottleneck was that most beneficiaries, being illiterate are unable to fill out the forms themselves and need handholding support for that. It was found that municipal officials were extremely reluctant to provide such support. Applicants mostly face difficulties in preparing supporting documents such as age proof, death and disability certificates etc. Municipal officials fail to give clear instructions as a result of which applicants have to visit the concerned offices several times to complete the application process. Another serious lacuna is that the government staff fails to provide a receipt for the application, in absence of which, applicants are not in a position to lay a claim in the event of an irregularity.

6. **Sanctioning and Disbursement Process – Intricacies, Inefficiencies and Inertia**: Timely sanctioning and disbursal of benefits depend on the efficiency of the concerned municipal departments and the Janpad Panchayats. The process includes verification of applications, decision-making by the concerned authorities and formal communication of the decision of sanction or rejection to applicants. It is observed that the verification process of applications varies from one town to other. In Jabalpur it is carried out at monthly meetings of Zonal offices, while in Panna, it is done by the municipal council. In Datia, it is carried out by the Education, Women and Child Welfare Committee. Such variations indicate that state-level instructions given to the districts are vague. These variations also hamper the possibility of replication of good practice from one town to another.

7. **Turnaround Time:** Delays in intimation of the sanction also cause delays in receiving the funds as the beneficiary has to open an account in a bank or post office. Very few beneficiaries receive benefits within two months of application while it takes 2-6 months for a majority or even more for a few to receive the benefits. These kinds of delays point to the complexities and inertia in the intra-institutional processes of the government departments and not only create disincentives for applicants but also promote corrupt practices, as the applicants are forced to pay bribes to get what they are entitled to.

8. **Pension Disbursement / Fund Transfer and Withdrawal – Glitches and Delays:** The pension amount is supposed to be transferred each month to the beneficiary's account. It is generally observed that no mechanism exists for banks and post offices to inform the beneficiaries about the status of the funds transfer. The beneficiaries (most of whom are invalids) have to pay a visit to the bank / post office and if the funds have not been transferred, they have to return empty-handed. Although the distances of banks / post offices are not much in semi / urban areas, usually one has a bank / post office within a radius of 3 KM, the applicants have

to stand in long queues to withdraw funds. Many of the pensioners have to spend 2-4 hours each time to withdraw money. Absence of separate queues for the elderly, the disabled and for women compounds the problem. The status in rural areas, where in most of the cases, villages don't have any financial dispensation units within a radius of even 5 KM, is even worse.

Citizen's Report Card on Delivery of Social Security in Urban MP[33] (April 2012)

- *As many as 85% of the beneficiaries are dissatisfied with the delivery mechanism of social security in MP*
- *Less than 7.5% beneficiaries receive information about social security schemes from the municipality*
- *More than half of the beneficiaries get handholding support in filling up of applications from the ward councilor and local leaders while less than 10% are assisted by officials.*
- *One in every two beneficiaries has to visit government offices at least four times to get the social security pension*
- *Among the applicants whose applications are rejected, almost 60% are never told about the reason for rejection*
- *Major bottlenecks in receiving funds relate to banking procedures such as delay in funds transfer, long queues at the banks etc.*

Source: Samarthan – Centre for Development Support

9. **Convergence:** Very little convergence was observed in MP under the social sector schemes. However, there has been discussions on convergence at the level of various Ministries in the past decade and yet, very little was being been done until recently in synergizing the schemes. While convergence efforts were reported largely between MGNREGA and other departments like the Water Resources Department, Forest, Agriculture etc. in the sphere of economic activities very little was being done in social sector per se.

5.2 *Samagra* Samajik Suraksha Mission (Integrated Social Security Mission)

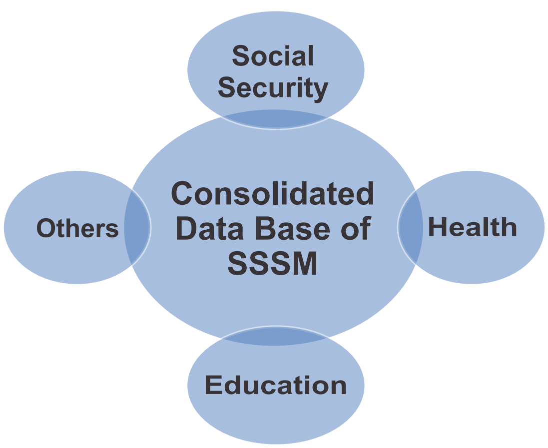
In order to address the critical issues raised in the previous sections and to bring in greater efficiencies and efficacy in the overall governance of the social security system in MP from the perspective of 'supply side' as well as 'demand side', nothing less than an integrated approach was required. The integrated approach on social security provides for an end-to-end solution to the supply as well as demand side. To extend beyond the parameters of social security schemes, the solution also lies in providing a conduit for devolution of funds by developing plumbing to

33. http://www.samarthan.org/wp-content/uploads/2012/11/Social-Security-Report-Card.pdf

ensure devolution to even non-core banking institution. It finally combines to make the financial dispensation facility accessible and feasible even at remotest location in order to realize the concept of Financial Inclusion in a holistic manner.

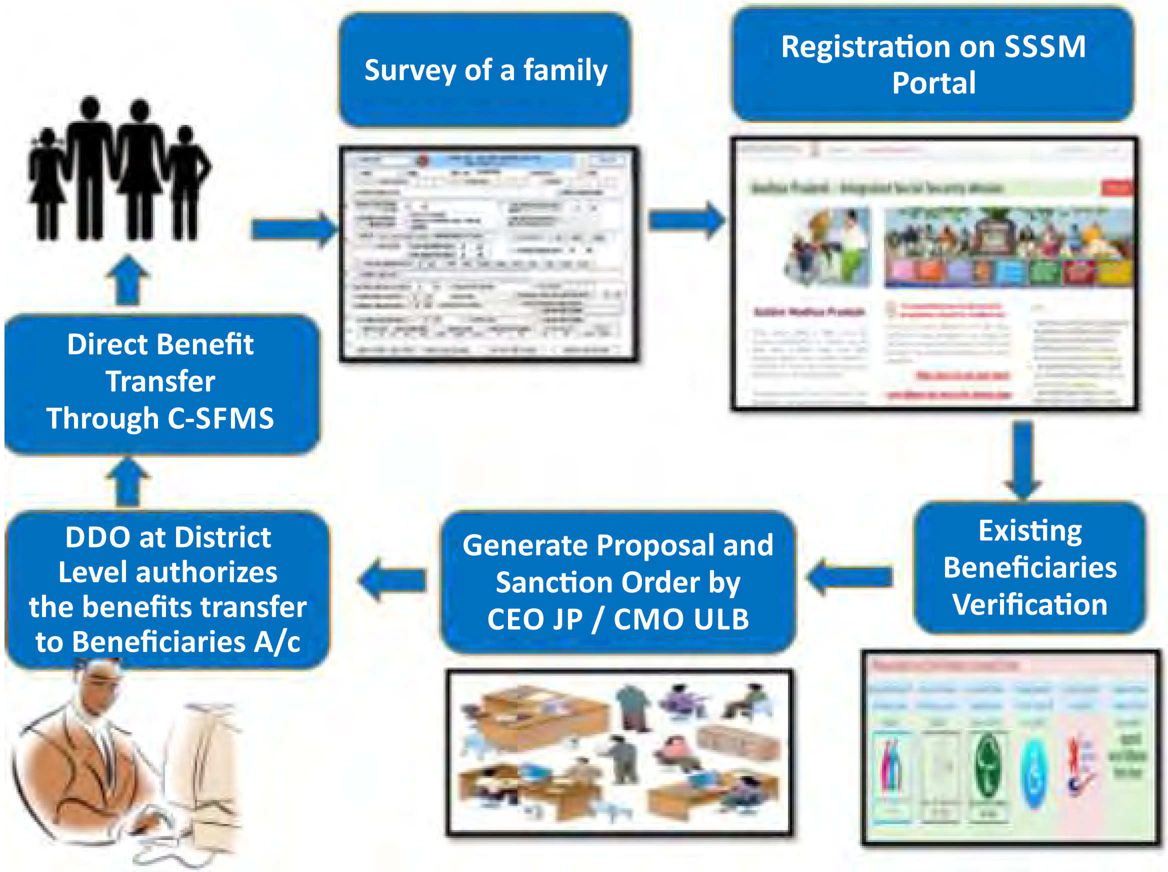
As a first step to identify the target group, the SSSM (*Samagra* Samajik Suraksha Mission) has built up a consolidated and integrated database of all families and residents with their general attributes of the entire population of MP that would enable to identify individuals and also the family data. The database is being used by all departments for implementing their schemes. It also has built-in mechanisms to remain live and updated. It has been achieved by integrating various schemes with the life-cycle events like birth, detail, marriage, migration, split of family, food subsidy, etc. The database can be used by all departments for automating and implementing their welfare schemes on a regular-basis. The data base have all the requisites to throw up the eligibility and entitlements that are either family based – like 100 days employment to a family, Housing, Food Security based on members in the family etc. or individual entitlements like health benefits, scholarships, pensions etc. This data resource not only distinguishes between BPL and APL families but also captures whether they are special groups like those enrolled in schemes of the labour department etc. The SSSM thus provides a common data base of family with details of individuals. Thus, one survey caters for all MIS for entitlements that are based on eligibility of individuals or that of family. This will become real time data.

Integrated Solution to Social Security and Inclusion



The *SAMAGRA* Portal under SSS Mission provides an umbrella for all social security and other beneficiaries welfare oriented programmes of the GoMP ranging from identification and targeting the beneficiaries and rationalization of social sector schemes on one hand to providing direct access to benefits being transferred into their mapped individual accounts held with banks and post offices. Specifically, it builds up an end-to-end solution by creating an institutional architecture where monetary benefits seamlessly flow into their individual accounts and can be described as under:

Process-flow of providing benefits under SSSM



A. Creation of Detailed Integrated Database and various mechanisms for the following

a. Detailed house-hold survey to capture the detailed profile of all families and members

b. Online registration of the survey formats and creation of online database

c. Mechanisms for adding missing families , split of a family, migration of families

d. Mechanisms for adding new member by birth

e. Mechanisms for reporting death of individuals

f. Mechanism for migration of a member from one family to another family after marriage

g. Profiling and Capturing of detailed information about beneficiaries in the form of a Database

h. Mechanisms for facilitating the capturing of the department specific additional attributes of families/members on the *SAMAGRA* database

i. Mechanisms to facilitate other departments to verify the attributes for which they are authorized

j. Availability of database in public domain

k. Mechanism for using the database for designing and implementing MIS to facilitate BPR and automation of the processes involved in the effective implementation of the welfare schemes

B. Business Process Re-engineering and Rationalization of Social Security Schemes

a. Identification of Common Eligibility, Features and Benefits of the Scheme

b. Rationalization of Social Security Schemes based on their characteristics.

c. Clubbing of social security schemes and then further

d. Classifying the Social Security Schemes into Different Categories

   i. Schemes with Health Oriented Benefits like Maternity and Medical Expenses

   ii. Education and Scholarship Schemes

   iii. Benefits under the Social Security through Insurance, Pension, Marriage Assistance and Cremation

   iv. Designating 'Education Department' to act as a nodal department for implementing and sanctioning all scholarships and education assistance related schemes being sponsored by various departments/boards (Tribal Development, SC welfare, OBC & Minority Welfare dept, MP Building and Other Construction Worker board, Mandi Board etc

   v. Designating 'Social Justice Department' to act as a nodal department for implementing and sanctioning all social security, pensions, insurance, Marriage, funeral and other related schemes being sponsored by various departments/boards (Urban Development, Rural Development, MP Building and Other Construction Worker board, Mandi Board etc

   vi. Designating 'Health Department' to act as a nodal department for implementing and sanctioning all health, child birth and other related schemes being sponsored by various departments/boards (MP Building and Other Construction Worker board, Mandi Board etc

C. Target and Map the Beneficiary Based on Database

a. Based on the profiling of beneficiaries and potential beneficiaries, facilitate a platform and mechanism for various departments and their offices/agencies so as to help them in identification of their target vulnerable groups and their entitlements.

b. Identify the potential beneficiary – populate, update, and verify the department and scheme specific attributes of the Individual and Families that will help the concerned department/ office to calculate the eligibility and entitlement of the individual/ family for that specific Welfare Scheme.

c. Availability of all individual and family specific information in Public Domain through the Web Portal on Schemes and their Beneficiaries.

D. Create an Institutional Architecture to Seamlessly Transfer and Facilitate Payment

a. Open the banking accounts for beneficiaries as well as potential beneficiaries by means of an extensive financial / banking inclusion drive

b. Map the Beneficiaries with their Banking / Post Office Accounts for Payment Facilitation

c. Create an Institutional Mapping for electronically transferring money to the Beneficiary

Under the SSSM the benefits of different schemes are rationalized and benefits of similar nature being sponsored/ implemented by different departments/boards are now being implemented and sanctioned by a single nodal department through a single window. The beneficiaries are offered financial access through basic banking accounts and direct benefit transfer (DBT) is made through financial inclusion in the state. While a 100% rollout has been achieved on DBT on MGNREGS (Mahatma Gandhi National Rural Employment Guarantee Scheme) and more than Rs. 2,330 crore have been paid in the current financial year i.e. 2013-14 (up to 22nd October, 2013) using the financial inclusion drive of the GoMP, the benefit transfer under the social security schemes have been partly achieved. The programme of transferring pension through this system is already in place in 15 districts and more areas would be added soon. Similarly, benefits such as health, housing, scholarships would be moved to beneficiaries through the DBT scheme soon.

5.2.1 Evolution of SSS Mission

The State Assembly of MP passed a resolution numbered 37 in May 2010 to set up an Integrated Social Security (*Samagra* Samajik Suraksha) program, with an objective of bringing all the social sector schemes of various departments having common features and benefits under a single umbrella for the purpose of simplification on processes and bringing in the transparency on the Social Security schemes. The idea was to bring about financial similarity between the schemes, create a single service delivery point for similarly placed schemes and improved monitoring and transparency in its dealing.

Extensive Brainstorming

An extensive brainstorming was done towards redesigning the structure of the social schemes. The establishment of a structure of SSSM itself was a historic step by the government in transparently designing and implementing such schemes. The initial stage of categorization, designing and implementation of the Social Security schemes created certain confusion amongst the stakeholders. The different departments who had role to play in the deliberation of creating the SSSM viewed it differently. The ideas were divergent ranging from viewing this as a new program to organize the schemes or limit it to merely simplification and rationalization of various social protection schemes of the GoMP. Deliberations were held with different departments at various stages to reach to a conclusion. The discussions were also held to consider the schemes being implemented by the following departments:

i. Women and Child Development Department

ii. Public Health and Family Welfare Department

iii. Food & Civil Supplies Department

iv. Panchayat and Rural Development Department

v. School Education Department

vi. Urban Administration and Development Department

vii. Labour Department

Finally an action plan was also prepared on 30th June 2010 on Integrated Social Security Scheme (*Samagra* Samajik Suraksha) and its objectives were clearly brought out.

Identification of Objectives of SSS

With the broad goal of providing a complete set of integrated social security service and efficient implementation of seamless transfer of benefits directly into the accounts of beneficiaries, the following specific objectives were identified:

- Creating a Common, Integrated , Intelligent and Self-learning Platform for efficient and effective implementation of all beneficiary oriented schemes in State
- Standardization and rationalization of schemes and benefits having similar features and common target groups
- Streamline and automate the back-end processes for efficient and reliable and timely service delivery
- Simplification of rules and procedures of various social security schemes
- Create a platform for proactive governance approach.
- Bring about convergence of schemes and single service delivery point for similarly placed schemes under one department and proper delivery. To provide services to the beneficiaries at one place and by one person for same type of benefits irrespective of the departments under which the schemes are being implemented
- Providing technological solution for attaining above objective
- Introducing and inculcating transparency and digitized information of Beneficiaries, both at the family level as well as at the individual level
- Better monitoring and publicity by creating awareness on the social sector schemes of government among masses
- Identify the persons/families that are not getting the benefits that are legally due to them (for e.g. the SC/ST/OBC/CWSN children not getting scholarships)
- Eliminate the possibility of same beneficiary availing the benefit of schemes of same

nature from different departments/boards

- Person/specific monitoring in place of number based monitoring

Discussions on Labour Centered Welfare Schemes

It was on 7th July 2010 that under the Chairmanship of the Honorable Chief Minister five (5) labour oriented important schemes were discussed:

2. Building and Other Construction Workers Board
3. Scheme for Landless Agriculture Labourers Security
4. Head Loaders and Porters Welfare Scheme
5. Urban Household Working Women Welfare Scheme
6. Handcart and Cycle Rickshaw Driver Welfare Scheme

Most of the features like eligibility and benefits of these schemes were of common nature and while all of the five departments were implementing the schemes differently at a standalone platform, it might have led to the double dipping as mentioned elsewhere. In order to improve Services under these schemes to the beneficiaries, create transparency in its working and rationalize the benefits of the schemes a meeting was organized at the level of Principal Secretary of various Departments on 14th July 2010.

Action Plan

After a series of meetings at the high level an action plan was prepared with following broad objectives of the SSS.

1. Rationalization of Programs and Schemes and the Benefits attached to them.
2. Simplification of Rules Regulations and Processes associated with the Schemes
3. Providing the data and computerized information and transparency on a web portal.
4. Providing all services to the beneficiaries under a one stop shop
5. Publicity of different schemes and programs of the government

5.2.2 The Task Forces

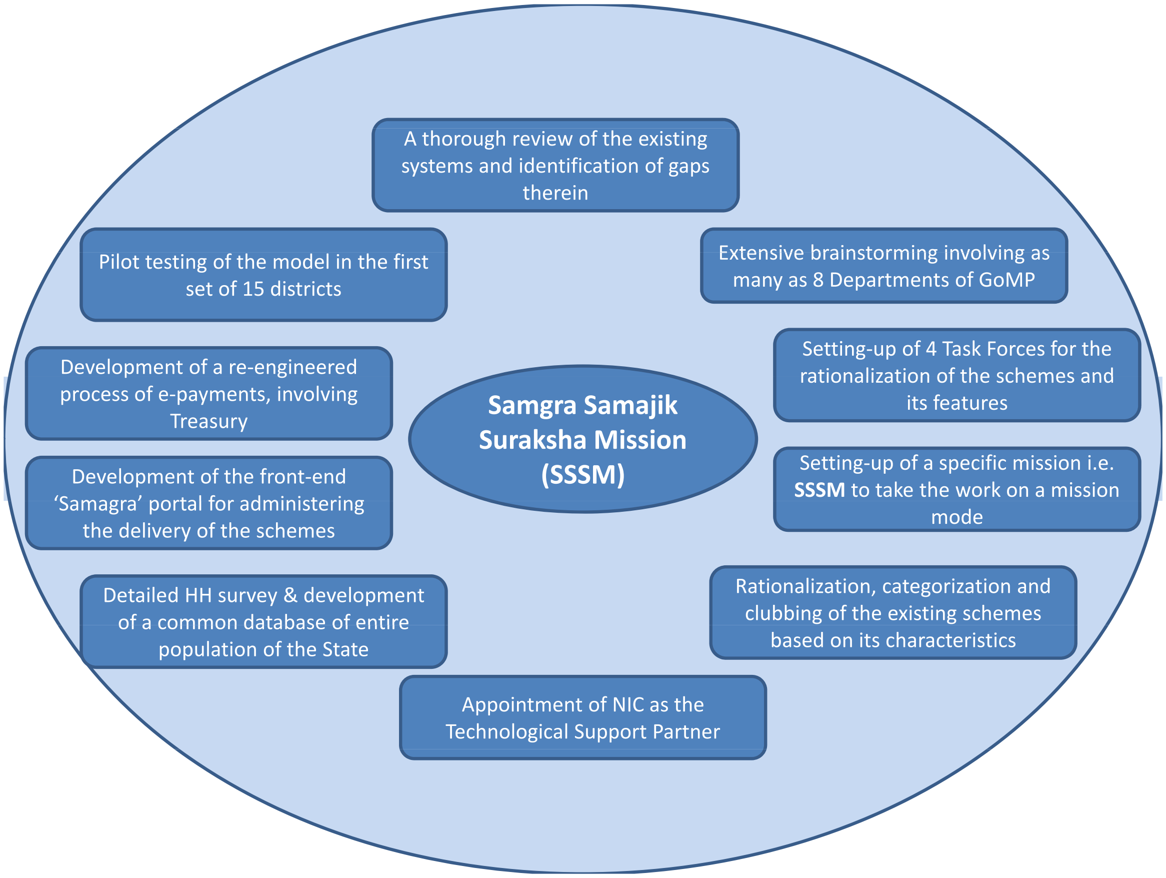
As mentioned in the first part of this chapter that almost one third of the social sector schemes, being implemented by different departments in MP were targeting similar beneficiaries and had common features and eligibility. Under the chairmanship of the Chief Minister of MP, the subject was being deliberated upon by different departments and it was found that there were more than 100 social sector schemes that were cutting across various departmental mandates. These schemes included health benefits by different department like Health and Family Welfare, Women & Child Development, Labour etc; Education and Scholarship schemes being implemented by different departments including Health, Education, Social Justice and Labor Departments; schemes and beneficiaries being covered as working class labourers and schemes being implemented by the Social Justice Department on the issues of life and general insurance, pensions, marriage assistance etc.

All these schemes were analysed for its targets, features and beneficiaries and finally under the instructions of the Chief Minister of MP, three task forces were organized to rationalize the schemes and streamline the features. The tasks forces were also mandated towards removal of complexities of the scheme and streamlining of benefits. While the task forces were formed for specific areas, traits and characteristics of social sector features like Health, they were kept immune from the inter-departmental mandate for scheme features responsible for its implementation. Thus four areas were identified by the deliberations and hence four task force groups were formed as follows:

1. The First Task Force was formed under the Principal Secretary, Health and Family Welfare Department for 'Health' related benefits and covered schemes such as Maternity benefits under the department of Health and Family Welfare Department relating to maternity benefits, maternity leave and medical benefits.
2. The Second Task Force was organized for 'Scholarship' issues and promotion of education under the scholarships / stipend ship schemes of the Department of School Education. The second task force was headed by the Principal Secretary, School Education
3. The Third Task Force was formed under the Principal Secretary, Social Justice to manage the issues related to 'Social Security'. It comprised schemes under the Department of Social Justice and covered schemes like pensions including IGNOAPS under the NSAS, (late) marriage encouragement, Insurance and Ex-Gratia, funeral assistance, etc.
4. Fourth Task Force was mandated to provide transparency by uploading the information of all schemes and benefits at the web portal; computerize and maintain the integrated and detailed database of all families/residents, maintain the information on the banking accounts of the beneficiaries and prepare a Card for them so that monetary benefits could be seamlessly transferred into their banking accounts by means of e transfer and provide all relevant information on the *Samagra* Portal. While the tasks were coordinated between the SSSM and the department of Information Technology, GoMP, this task force was headed by the Secretary, Information Technology.

The different Task Forces prepared the guidelines and circulated amongst themselves as well as the Finance department. There were certain queries from the Finance department and after having satisfactorily answering them, the three task forces had a series of meetings with the Chief Minister on 15th November 2010, 15th June 2011 and 16 February 2012. The consent of the Finance Department was received by the task forces and finally a cabinet note was prepared for attaining the status of *Samagra* Samajik Suraksha (SSS), an integrated solution for social security.

Steps/activities involved in the evolution and implementation of SSSM component of MPFI



5.2.3 Birth of SSS Mission

The cabinet of the Council of Ministers headed by the chief minister approved the same on 30th April 2012. Briefly put , the cabinet approved the following:

1. The Department of Social Justice[34] shall be the Nodal Department for the Integrated Social Security Scheme, the *Samagra* Samajik Suraksha (SSS).
2. All Health and Maternity benefit related Schemes being run by Health Dept, MP Building and Other Construction Workers Welfare Board, Mandi Board and other departments/boards shall be implemented by the Health and Family Welfare Department. These schemes also included hospitalization charges, 'Janani Suraksha Yojana' on maternal health, Maternity Leave Scheme, Loss of Compensation of Wages for Child Birth, etc.
3. The School Education Department has been made responsible for designing the processes and systems that would lead to a 'Single Application Form' and provide for timely payment of even multiple scholarships. School Education Dept will act as a nodal department for implementing and sanctioning all scholarships currently being

34. Responsibilities of the Social Justice Department: Welfare of Persons with Disabilities, Social Assistance, Correctional Services and Implementation of Other programs for Improvement and Welfare of Society

implemented by various other departments/ boards. However, the rate of scholarship was kept out of the purview of this.

4. Department of Social Justice has been designated as Nodal Department for implementing all social security related schemes being implemented by various departments/boards. The group of schemes includes schemes like (late) marriage encouragement scheme, Social Security Pensions, Insurance, Funeral Assistance, Ex-gratia on death/permanent disability, etc.

Thus while *Samagra* (Integrated) had grouped the beneficiary oriented schemes into three groups, there was still a missing element. And the missing element that brought these three groups together could only be brought in by means of Convergence using a common Information Technology (IT) Platform / support. This could also bring in transparency in the working of the government and create a common integrated Database for the beneficiaries/residents.

The mission's work in the first place was for providing IT support and database. The Government of India's National Informatics Center (NIC) was chosen as the technological partner for design and development of Software solution, *SAMAGRA* platform and other technological support along with IT Department of GoMP.

Interestingly, it was found that there did exist a Database and was vesting in almost all Departments that were catering to their mandate. Thus while all these departments had the data base of these beneficiaries, these data bases did not talk to each other and were never shared with each other. Converging these data base and creating a strong data base was also a mammoth task to be accomplished specially looking to the number of schemes that MP had, in the range of 350 plus.

In order to implement the decision taken by the Cabinet, and take the recommendations of the Task Forces to its logical culmination, a series of meetings were held under the Chairmanship of Chief Secretary. Finally, it was decided that the consolidation of these schemes should be implemented in a mission mode. With the appointment of the Mission Director on 28 August 2012, and to monitor and implement the different schemes, the *Samagra* Samajik Suraksha Mission was born.

Most of the welfare schemes being run by the government use the concept of families and their members for extending the benefits. There was no consolidated and integrated database of all families and residents with their general attributes.

The Aadhaar initiative of UIADI was considered for implementing the *SAMAGRA* initiative; however it could not be used as it does not support the concept of families. It issues identification to individuals and limits to the identification only. In addition to it, it also does not support any mechanism for capturing and maintaining other attribute data of the individuals and families that is quite often needed for ascertaining eligibility and entitlement of the individuals/families.

The mission also explored the option of getting data base of beneficiaries from their respective departments, digitizing them and using it for providing services to the beneficiaries as per the mandate of the mission. This option was explored and it emerged that this option will not provide a reliable and complete database. Moreover, family specific data was not available.

In order to create the first of its own kind of database that could capture individual as well as family level data and be integrated into a single platform to identify the eligibility of the beneficiaries, it was then decided to use National Population Register (NPR) since it identifies the person with family. However, after much of deliberations and calculating the pros and cons of the NPR, the GoMP took a bold decision to create its own data base without the NPR.

5.2.4 Survey and Database

A comprehensive format was prepared in October 2012 that covered the following categories under the matrix:

	Individual	Family
Urban	**Urban Individual Person datasheet** KYR+M-U	**Urban Family datasheet** KYR+F-U
Rural	**Rural Individual Person datasheet** KYR+M-R	**Rural Family datasheet** KYR+F-R

KYR-Know Your Resident, F-Family, M-Member

The survey form was so designed so as to capture the information separately for individuals as well as family / households since the beneficiaries were also divided between the two as some of the schemes were individual beneficiary oriented while others targeted household beneficiaries. Similarly, the obvious choice was to segregate the urban from rural since the schemes, eligibility and the benefits associated with the features of social sector schemes were different as well.

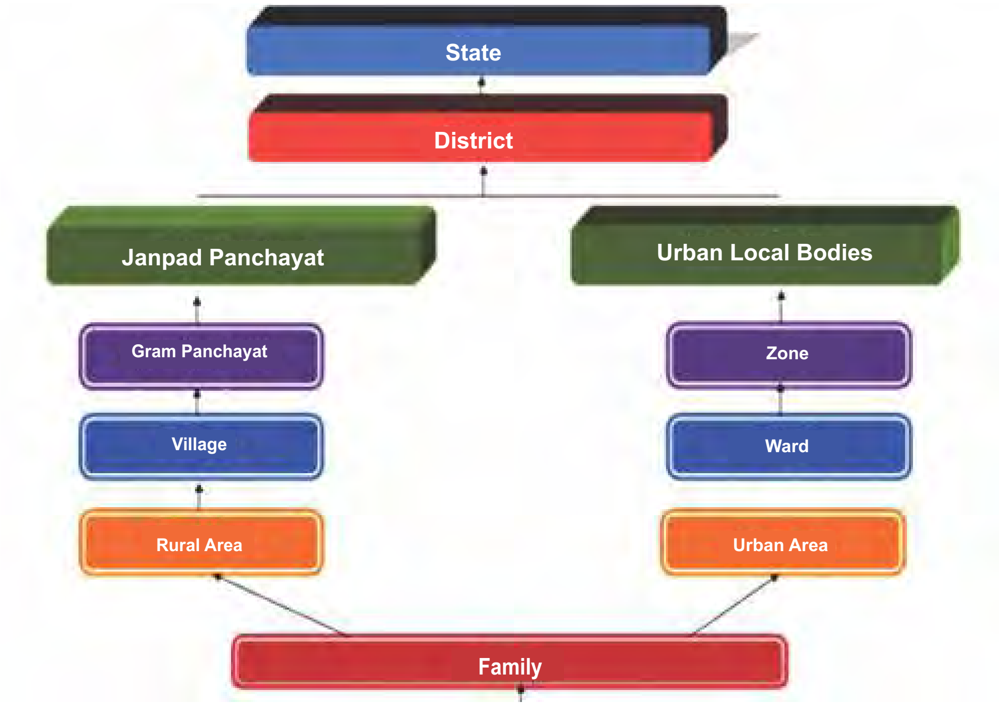
Reasons for Consolidated Database

The mission had the option of getting data base of all departments and digitizing them using the data base for providing services to the beneficiaries as per the mandate of the mission.

But then these data base will not be talking to inter-department but a stand alone for that particular department only. At a time it was not possible to get a data base of all departments and converge these database to form a family and so on as that was a mammoth task and the end result might not have been as desired. So there was a felt need to have a consolidated database of citizens with their general attributes so that all departments could use this consolidated database to link their beneficiaries with this database.

After lot of discussion it was decided to have a consolidated database and the data structure format designed by the mission was approved by the committee for field testing.

Weekly meetings were held with the Head of Departments under chairmanship of Additional Chief Secretary, P&RD & SJ in order to finalize the formats for the survey. After the format was finalized and tested in the field, Master Trainers were selected in every district and trained in a two-day training in December 2013. The survey work began extensively from the month of January 2013 and in the month of January itself the process of uploading the information of the family as well as the individuals of the family started. SSS Mission also fixed up a target to create a database of 725 million individuals, based on the Census survey of 2011. Between January and August 2013, a massive exercise was undertaken by the government machinery and more than 90 percent of the target was achieved by the month of September 2013 itself.



The need for the new database was also felt since different departments provided benefits to their targeted beneficiaries under different scheme and sanctioned by their respective department even though beneficiaries were under one roof. To avoid any type of duplication, increase a wider reach, perform a beneficiary assessment and also to create transparency in the dealings of the government were also contributing factors that ushered the government to create the database. This database cut across all the departments and it will be unique and all inclusive database which can be used by and for all the departments of the GoMP.

5.2.5 Different Approaches in Evolving Database

One way was to go to the field and undertake a house to house survey, and form a consolidated data base of the village and that of a ward, which would provide the tree of a Gram Panchayat / Zone. The other way was to get the database of National Population Register (NPR) and go to field and update the left out attributes of the individuals and families, so that later when NPR comes into place the same NPR code could be used as identification of the individual and family.

The SSSM found the NPR option a better one and had communication with Registrar General of Census operation for getting the NPR data of the state. Even after a lot of communication and meetings the availability of data for Mission's purpose was not sure and led to delay in executing the project.

It was decided to do pilot in a urban local body and rural local body till the time the Mission received the NPR data. 'Sanchi' Nagar Panchayat in Raisen District and 'Tilla' Gram Panchayat of Niwadi block, Tikamgarh District were selected for the pilot and the SSSM framed the time line for survey, understood and sought out field difficulties. After these field studies in November 2012 the Mission decided not to wait for NPR data. For, even after the availability of the NPR data the Mission had to go house to house and hence it was decided to do the survey without the NPR data. The state Government consciously decided that the database so created should be in a position to talk to the NPR and UID of Government of India and hence the same was so designed that the UID number could be added and incorporated and similarly, the merged with the NPR .

Finally, the SSS Mission used the beneficiary verification and identification schemes for the purpose, designed the training module after field study and trained the master trainer for training nearly 40,000 field staff on the survey and feeding module. The Rozgar Sahayak was used in rural areas for field survey and online data entry. District Technical Support Team was created under the District Informatics Officer of NIC and other technical staff available in the district. The block level technical team was headed by block level officer of IT department. All were trained at the state level and they in turn solved the technical problems at the block level. They were instructed that if they could not solve any of these issues they could simply escalate the problems to the District level technical team and later to the state level team in that order. In case of any urgent need they were allowed to even contact Mission Director of the project.

Within a short span of few months the SSS Mission could survey the households and residents and was able to register the detailed profile of all families and members on the online portal and covered almost 90% of the population online. This database will avoid wastage of precious time and energy of government servants and the same can be used for many more purposes.

5.2.6 Entitlement Based Approach

The GoMP by successful creation of the online and integrated database of all families and residents seemed to have moved away from the 'demand based' approach in offering social security[35] to proactive 'Entitlement Based' Approach. Having said that, the aim of the SSS Mission field survey was an all inclusive i.e., every family and resident of the state should be surveyed and added to the database so that no one is left out. When the Mission shall have the complete database of all families/residents of the state one can move away from demand based approach. In Demand based approach, the department/agencies work in isolation, accept the applications, verify the credentials using different certificates/documents issued by other

35. This sub section should be read along with sub section 5.2.2 that brings in the 'demand side' of the issues.

agencies, confirm the eligibility, sanction the benefits, calculate the entitlement, get bank account details and take-up the process further to make the payment and record the transaction in registers or localized MIS/spreadsheet. Thus, the departments/agencies needed a lot of manpower for assessing the applications and verifying the facts and providing the benefit to the beneficiaries since many of the ineligible beneficiaries always used to be applying again and again with a hope to get benefits.

On the other hand an 'Entitlement based approach' shall henceforth be adopted by the state government. The 'Entitlement' means Benefits guaranteed to an individual, such as dividends for shareholders or government aid for those who qualify. The integrated and verified database of the families has all the attribute information required to confirm the eligibility and entitlement of any scheme. It also stores the history of the benefits already extended to the individual/family for other schemes by other departments/agencies. Thus the database throws the list of the individuals entitled for a certain scheme. The concerned agency/office can now proactively approach the individual and extend the benefits after completing the verification and bare minimum formalities. Thus the person/family gets the benefits even if it was not aware of the scheme. Thus, in case of entitlement based approach since the probable eligible person is known, instead of waiting for the eligible person to stand in queue and apply, the government machinery proactively verifies the eligibility and provides the services to the citizen. In the holistic approach if the universe is known i.e., details of all families/residents, and basic attributes of all citizen, the software can throw the entitlements of the citizens using certain variables. In a planned way the officer in charge of the scheme can transparently verify the credentials of the citizen thrown by the software based on the attributes fed in the software and sanction the benefit[36] which is due to the citizen instead of waiting for the eligible person to run pillar to post.

5.2.7 Verification and e Payment

Before the setting up of the SSS Mission and model of Financial Inclusion, most of the benefits of the government scheme were paid through cheque, where the person would withdraw the money if and only if she had a bank account. In case the benefit was any lesser amount then the encashment in most cases could not take place. In the database of the SSSM the GoMP has now included bank account number or post office account numbers of the beneficiaries so that all the benefits to the beneficiaries can be transferred directly to their concerned bank accounts. In this system the benefit provided to an individual could transparently be tracked, at any given point of time and one can know how much benefit a particular person has received under various schemes. Once the bank accounts are provided with benefit transfers and some intervention of financial literacy is performed, it would also help the person to inculcate the habit of saving and joining the mainstream of financial inclusion. As per the MP FI model, the budgeted funds will be transferred from the treasury and non budgeted funds will be given to the mission by respective

36. The present beneficiaries of pension schemes are being mapped with the SSS Mission's database for providing benefit though direct transfer. The piloting has been done in Neemuch and Seoni districts.

departments and will be transferred through bank accounts that have been captured under the survey.

The IT Platform of SSS Mission, also known as the '*Samagra* Portal' has been created at the http://socialsecurity.mp.gov.in/ and the following have been achieved till date:

1. More that 1.3 million pension beneficiaries have been verified and attested and information about them have been uploaded transparently on the portal. The information of these beneficiaries also captures their bank account details for verification.
2. Pensioners in MP in the first phase of 15 districts are being paid their monthly pensions by means of the *Samagra* Portal directly into their individual bank accounts.
3. A successful pilot testing of processing and payment of pension to the beneficiaries in 15 district have been achieved.
4. In order to implement even the National Food Security Act 2013 the process of verification of families on a priority basis has already started
5. In the second phase scholarships of School Education Department and various services of other department shall also be paid online using the *Samagra* portal.

It was a major challenge to provide information and disclosures about the beneficiaries and their banking details in a transparent manner as was envisaged under one of the objectives of the *Samagra* Samajik Suraksha Mission. This task was accomplished by the National Informatics Centre (NIC) Madhya Pradesh State Unit Any potential beneficiaries of the schemes in future could seamlessly be verified to the existing comprehensive database that has been prepared keeping in mind the name, address, occupation, bank detail, etc. Using the same criteria a beneficiary can easily be identified and mapped for various services being provided by the GoMP including future announcements.

The *SAMAGRA* database has not been created on the basis of the 'Aadhaar' of the Unique Identification Authority of India (UIDAI), since MP model of Financial Inclusion warrants information and database for individual as well as that of family member whereas, 'Aadhar' only captures individualistic information and fails to provide family level / household level information. It also does not provide any other detail like caste, BPL status etc. However, as mentioned elsewhere in this chapter, the database is capable of capturing the 'Aadhar' number as well as the NPR details. As on date more than 99 percent information of individuals as well as their families has been uploaded on the *SAMAGRA* portal totaling nearly 720 million Citizens. The SSS Mission has also started the process of verification and exposition of these residents vis-a-vis their schemes for benefits.

The consolidated database and the entitlement based approach of SSSM bring about openness and transparency. The digitized data of the residents and benefits extended to them can be displayed in the web page of the departments' sites. After identification and verification of beneficiaries does not require any manual intervention till the payment to the beneficiaries. The benefits could be transferred to the designated account number available in the database, irrespective of departments or schemes. At any time the transfer to the account could be traced reducing the scope of human error.

The whole idea of SSSM is to target the beneficiaries and provide to them the services under of a '***One Stop Shop'*** concept so that the vulnerable population of the state does not have to run from pillar to post and repeatedly provide the same and identical documents for different schemes. On the supply side, human resources have been employed for a one time exercise to capture the data sets and later only to update and maintain them. This will be part of the Standard Operating Procedure (SOP) to keep Samagra database updated regularly. SSS Mission has provided at the district level one Samagra Organizer (SO) who is well versed in IT & will help in coordination & also one extension officer at the block level. While the headquarters of SSSM are located at the state capital, Bhopal, District Collector. The SSS Mission has provided at every block one computer operator 1 extension officer etc. while the headquarters are located at the state capital, Bhopal. The district collector has been nominated as the mission leader for the district and the chief executive officer of District Panchayat has been nominated as the deputy mission leader.

5.3 Benefits of SSSM

SAMAGRA Portal not only provides an online and a live database but also openness in governance in the era of complex multiple schemes and multiple agencies. It is in fact a live population register as it captures all events like birth, death, marriage, family split, family migration, etc. Previous sections of this chapter have clearly brought out the importance of the Mission SSS and the same is now expected to deliver the SSS program that would bring out the following benefits to the government:

1. Facilitation for an integrated and common platform to allow the migration from the 'Demand-based' service approach to the 'entitlement-based' service approach.

2. A comprehensive listing and ratification of beneficiaries shall prevent the government from duplicity of the social sector schemes and would avoid single / multiple beneficiaries with multiple benefits from two different departments under similar schemes

3. Rationalization, Process re-engineering, Streamlining and Automation of process involved in effective implementation of various welfare schemes

4. Creation of a front end as well as back end system that will help the functionaries in taking quick and informed decisions, avoid repetitive verifications, and automation of the back-end processes to being in significant improvement in their efficiency.

5. Identify ghost beneficiaries and keep the non deserving beneficiaries from these programs

6. The application architecture and database has been designed in such a manner that the individual departments / agencies can always add / verify more attributes / information about the family / individual and own it. The concerned department will have rights to manage (add/update/verify) columns / attributes that are specific to their department / domain but all other departments / agencies can always view and use these columns for taking decisions.

7. Option of one time verification of major attributes of any family and residents and then these verified attributes to be used by all other depts./agencies for sanctioning the benefits under various schemes.

8. Maintain history of benefits extended to an individual / family by any department under any scheme.

9. Platform to facilitate benefits to the eligible families/residents even if they are not aware of the scheme.

10. The beneficiaries shall receive immediate benefits based on their eligibility as declared and defined by the government.

11. The beneficiaries shall receive the money in her account immediately after the approvals and other sanctions being accorded by the competent authority. This would be in the form of e benefits to her bank account or post office account and that they do not have to run from pillar to post.

12. Globalization of budget across the State, irrespective of District / Block wise allocation of budgets will result in doing away with the issues of lack of allotment or improper distribution of allotment of funds.

13. The system shall provide a complete transparency being maintained in the whole process since all the information regarding the beneficiaries shall be available on the web.

14. It would provide a common and integrated portal for Social Audit.

15. It would facilitate the nationalized banks open their banking accounts since the documents could be used for KYC verification and that the lists provided by the government agencies shall directly help them open the bank accounts.

16. It will prevent the beneficiary from applying repeatedly for different schemes and getting their own verifications done for different schemes at different times. In other words multiplicity of applications and multiplicity of documentation for approvals of applications can at best be avoided.

17. It can also be used as the basis for identifying and authenticating a person's entitlement to government services and benefits through a single system rather than all government departments individually and independently investing in creating infrastructure, systems and procedures for verifying entitlement of residents under various schemes of the Government.

18. Informed planning for creation of new schemes for various target groups.

19. Identification of deserving /eligible families / members that have not been provided of any schemes.

20. MIS generated reports for analysis and decision making.

SSS Mission – Way Forward

In the first phase SSS Mission is targeting the Social Security Pensions, Scholarships, Health & Maternity related schemes. In future, it can also cover all individual beneficiary oriented schemes. All beneficiary oriented Rural Development and Urban Administration scheme can be merged with SSSM data base and effective delivery of benefits can be monitored.

The next stage could be the e-Uparjan (procurement) of wheat and paddy that can be integrated with this SSSM database so that the benefit of bonus can be availed by citizen of MP. In the same way, Agriculture department can plan for model form and distribution of sprinkler and drip and see the effect of modernization in income generation. The database has the qualification and occupation that it can be used to assess the training and skill development needs of the citizen.

Finally, though not a Magical Bullet, the database shall provide greater transparency and would plug the leakages in the system for sure.

Opening the gateway for mainstream payment systems like insurance are futuristic aspects which will be added to Samagra at a later stage. The State Government is in the process of issuing Samgra Smart Card to beneficiaries that will carry biometric and photograph identity. The card will carry Samgra Family number as well as Samgra individual number.

SAMAGRA SAMPLE SMART CARD

5.3.1 Multi Utility data base system for Direct Benefit Transfers (DBTs)

Special Features of SSSM allow it to capture the family as well as individual database.

Family UIDs and Individual UIDs: under the system, there is creation and management of Family UIDs and Individual UIDs with a comprehensive data base management system, through a software framework designed and developed by NIC. The state government though started using the census of India data base available in the form of national population registers. However, the primary survey that it did to collect the database as required for the purpose allowed them customize the same. The logic behind using the census data was that it identifies the person with family. The state has come out with a new Multi-utility data base system wherein Family details and UID is given more importance than Individual UID. Within a Family UID, individual UIDs are also created so that there is a link between the two and tracking of Direct Benefit transfers as well as other benefits provided by the state government to each family could be done.

Justification of Multi-Utility Data Base: Since the individual UID and information is not collected and stored in isolation and there is a link between the two; single and integrated database is used for providing benefits of all the all family and individual oriented schemes being run by various departments/agencies of the government.

Beyond Aadhar Card: GoMP is not dependent on Aadhar UIDs because Aadhar UID provides information about an individual and linking the same with family was not possible and it also does not provide exhaustive information of all the inhabitants and families required for confirming the eligibility and entitlement for various schemes. Since it is need based and UID is provided on demand therefore all the families are not covered under the programme.

Listing all the Schemes at one place – Data base cross cutting across schemes and departments: Since last couple of years, the state undertook a massive operation of SSSM (*Samagra* Samajik Suraksha Mission). In MP, all the schemes were linked. The endeavor was to cover the schemes of pension, scholarships and health benefits etc. spread within and across departments with common objectives. The SSSM enables creation and maintenance of individual and family specific data. The family based entitlements are housing, MGNREGA employment of 100 days, toilets to households, Janshree Bima Yojana, insurance, ex-gratia and other benefits.

Here the important point is that there is a comprehensive data base of families and individual members of the family on the demand side and data base of all the schemes on the supply side. With the operation of SSSM the tracking of all the schemes of government is possible and also it is easy to monitor family wise benefits provided under various schemes. NIC plays a key role in the whole scenario where special software platform and integrated database '*SAMAGRA*' is developed by NIC to facilitate the management of family and individual data and also effective implementation of various schemes for the transfer of benefits in a seamless, transparent and rule-based manner. Data base has general attributes of all citizens while the targeted consolidated data base provides for probable eligible persons for various schemes as it pro-actively verifies the eligibility and provide services on basis of entitlements as defined in the regulations of the scheme.

Chapter-6

Common Conduit of Electronic Fund Management System (e-FMS)

The chapter discusses the Second Pillar of the MP Financial Inclusion Model where the payments to wages etc. under the social safety net programs are routed through the bank / postal accounts as opposed to cash / cheque payments. The chapter describes in brief the payment gateway adopted by GoMP under the MGNREGS in all districts and clearly depicts the evolution of e-FMS as a tool to address the issues of delayed and ghost payments under the MGNREGS, etc.

Common Conduit of Electronic Fund Management System (e-FMS)

6.1 Introduction and Backdrop

Second Pillar of the Financial Inclusion Model of MP is the Electronic Fund Management System (e-FMS). While the phrase e-FMS sounds quite a generic term and can be used to describe all kinds of electronic fund management systems, in this specific context of FI model of GoMP, it is used to describe the electronic mechanism adopted for the direct transfer of wage payments including social safety net etc. to the enrolled workers under Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) in the State of Madhya Pradesh.

Electronic fund management system is a way of direct benefit transfer (DBT) being implemented in MGNREGS. From financial year 2013-14 the whole state is now disbursing the payments under the MGNREGS through e-FMS module. There are approximately 10 million accounts of beneficiaries in the State and till now and almost 90% of them have been verified and frozen. All the nationalized banks have been synchronized on the single platform of core banking and put in system amicable to NREGASoft. District Central Cooperative Banks (DCCBs) have recently been brought into the purview of the core banking solutions and the post offices have created a bridge Sanchay post for disbursement. MP has 6 nationalized banks – State Bank of India (SBI), Central Bank of India (CBI), Bank of India (BOI), Punjab National Bank (PNB), Bank of Baroda (BOB), and the Union Bank of India (UBI) on the platform of e-FMS. Thus the complete technical solutions for the e-FMS have been evolved.

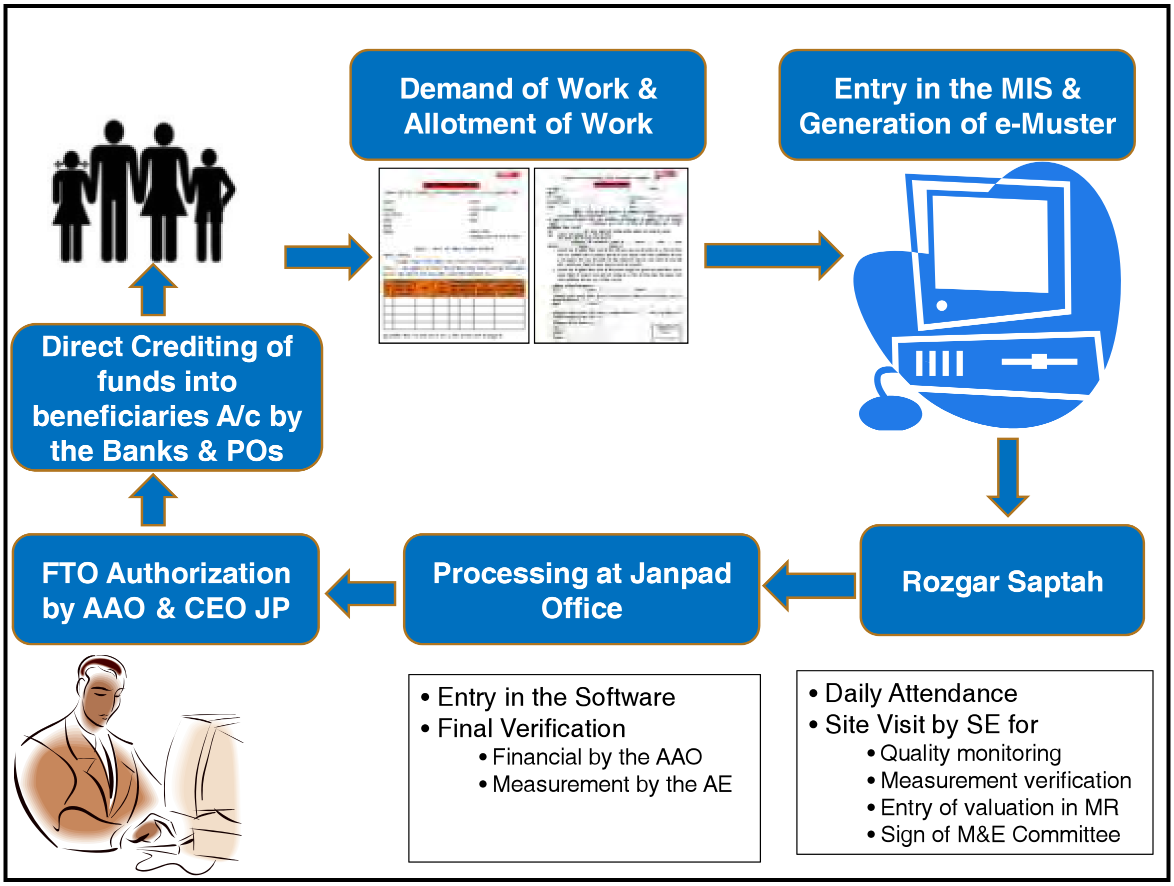
The e-FMS module of MP adopts following mechanism

1. Funds received from Central and State Governments under MGNREGS are pooled at the MP State Employment Guarantee Council (MPSEGC – the Council) dedicated to a single (one) account in one bank and disbursement to the districts level account.
2. Only a single bank account has been maintained at district level for the routing the MGNREGS funds. The core banking system has been integrated with existing NREGA-Soft to process the financial transactions and responses of the process or rejected transactions.
3. The district level account has been declared as an e-FMS account. On the e-FMS accounts, all the financial transactions related to the MGNREGS in a concerned district are debited. From the district accounts, e-transfer of funds is made for all kinds of expenses of MGNREGS.
4. Transfer of money from a single Bank Account directly remitted to the Beneficiary Account (MGNREGA worker) without any paper money or instrument changing hands.

Transfer of money from e-FMS accounts to the district level head Post Office or Cooperative bank accounts is credited in case of worker's accounts existed in Post Office or Cooperative banks or Co-operative societies.

5. It is based on Digital Signature Certificate (DSC) authorization and authentication. The digital signature certificates with class II signing and encryption has been used for enrolling the first and second signatory offices to sign the Fund Transfer Order. The Assistant Account Officer (AAO) at Janpad Panchayat has been nominated as first signatory officer and Programme Officer (PO) / Chief Executive Officer (CEO) of Janpad Panchayat has been nominated as second signatory for all financial transactions on works to be executed by different executive agencies including Gram Panchayats. The management of the first and second signatory in case of transferred or suspended / long leave has been handled from the State.

Process-flow of e-Payments of Wages to MGNREGS Beneficiaries under e-FMS



6.2 Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) and MGNREGS

The Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) aims at enhancing the livelihoods security of people in rural areas by guaranteeing hundred days of wage-employment in a financial year to a rural household whose adult members volunteer to do the manual work. To ensure the provisions of the Act, the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) came in force on 2nd February 2006. Starting in a phased manner, it has subsequently been rolled out in all the districts of the Country since 2008-09. The allocated budget for year 2013-14 is around 33,000 Crore for this scheme.

6.2.1 NREGASoft – Features and Issues

In order to address the planning and monitoring needs of such a huge scheme, a web-enabled Management Information System (MIS) named NREGASoft was conceptualized by the National Informatics Centre (NIC), the Ministry of Rural Development (MoRD) and other stakeholders. NREGASoft is a local language enabled, workflow based, transaction level system designed for all the activities of all stakeholders of MGNREGS across the country.

This system has made a good progress in ensuring transparency by making various registers, muster rolls, documents, available in the public domain. It is fully compliant with the requirements of the MGNREGA and maintains accounts, generates required registers, documents in the mandated formats. It has also proved useful in tracking the Panchayat-wise shelf of the works/projects, pattern of demand for work, allocation of work, muster-roll, social audit data, fund transfer to various implementing agencies, and facilitating information exchange and providing a platform for registering grievances of the workers. Overall, this system has had a positive impact and has been able to provide definitive inputs for planning purposes. The MoRD also relies on the fund utilization information generated through NREGASoft for releasing funds to States / Districts. State GoMP has also been using this particular software for the planning and monitoring of the Scheme.

While NREGASoft had been serving well, there were areas of improvement, which could subsequently improve the implementation of MGNREGA. NREGASoft had so far been providing transactional capabilities such as demand for work, work allocation, attendance on muster rolls, measurement book, generation of wage list, material procured, administrative expenses, and pay order etc. Though the design of software is capable of being used in fully tied workflow manner, owing to several factors such as ICT capability and availability at GP level, governance processes etc., the State Government had been using it, largely as an MIS i.e. entering the details when particular phase/task is over. The existing features when coupled with electronic data capturing (through handheld devices, laptops at Panchayats) and electronic fund transfer, is expected to provide a robust end-to-end system that would significantly hasten the processing and also address some of the other key implementation level concerns as being described in the next section.

6.3 Evolution of e-FMS: Countering Challenges in MGNREGA Implementation

The major challenge that could be identified in the implementation of MGNREGA was the **delay in payment of wages** to the enrolled workers. The broad primary reasons for the same were:

a. Delay in recording of measurements and calculations thereafter

b. Delay in crediting the accounts of workers (largely payments are routed through Banks/ Post office accounts) and

c. Delay in actual wage disbursal by the Financial Structure (Banks, Post offices, etc.)

Solution to issues (a) and (b), to a large extent, lies at automating processes involved at step (a) and (b). Field-level electronic data capturing through handheld devices would to a large extent, mitigate the issue (a) i.e. delay in recording of measurements and the subsequent calculations. The handheld device can easily be used for demand registration, attendance, record the work measurements and would directly upload these to the central MIS (NREGASoft).

The solution to the problem listed at (c) above lies in increasing the outreach of financial network to the (unbanked) Shadow Areas and has already been addressed through the rollout of USBs / CSPs and other channels of financial distribution in the State. The entire focus of the third pillar of component of the FI model of MP has been towards addressing this particular issue, and has been described in detail in the next chapter.

And to address the issue raised in point (b) above, the implementation of a comprehensive Electronic Fund Management (Transfer) System (e-FMS), duly leveraging the Core Banking infrastructure (NEFT/RTGS) of the commercial banks was envisaged by the GoMP. It was in this background, an **e-FMS module** of the FI model of MP was launched with an objective to ***'significantly reduce the delay in crediting the accounts of workers with their due wage payments, and also significantly improve the effectiveness and efficiencies of wage payments under MGNREGS, while automating the entire process of payments and leveraging on the Core Banking Infrastructure of the Banks'***.

6.3.1 Implementation of MGNREGA in the State and concerns thereof

As has been discussed earlier, more than 75% of 7.26 Crore population of MP resides in villages. Around 43% of the total population lives below the poverty line. It is this class of population, which comprises of the MGNREGA target beneficiary, and are the real needy persons yearning for socio-economic justice. MGNREGA, over time, has also been hailing as a social safety net, helping households tide over periods of distress and address seasonality of unemployment and poverty.

MGNREGA has pushed up the issue of financial inclusion and quick service delivery by virtue of its vibrancy of social engineering. In MP about 6 crore persons constitutes the rural population and approximately 67 million job card holders are part of the MGNREGA. The varied size of MGNREGA beneficiary is spread across approx 54,000 villages. As has been discussed in earlier chapters, 14,767 villages out of the 54,000 odd villages did not have any banking facility within their 5 KMs radius, and has been posed as an additional challenge for MGNREGA as regard financial inclusion. A large number of small and marginal farmers and landless MGNREGA beneficiaries had to forgo their daily wages to avail banking facilities, apart from spending a sizeable amount in commuting from their villages to the place of banking facility.

To implement the MGNRES successfully, the State government has constituted the MP State Employment Guarantee council (MPSEGC – The Council) in 2006. The council was registered under the MP Firms and Society Act. MPSEGC is responsible for implementing the MGNREG Act in the State. MGNREGA implementation in State has a wide scope. Outreach of MGNREGS programme and complexity in terms of its operational environment, compounded with large workforce, wide mix of stakeholders, and dependencies on external environments happen to be the pivotal issue of implementation. It is managed by a workforce of over 50,000 (dedicated staff and stakeholders) spread over 23,012 Gram Panchayats, 313 Janpad Panchayats and 50 Zila Panchayats.

Approximately 45 lakh households and approximately 73 lakh job cards holders board the MGNREGA. The volume of data to be managed is of the tune of approximately 20 lakh muster rolls, 15 lakh vouchers, 1.25 lakh fund flow transactions, 1.5 lakh data entry transactions on an average, every year. The approximate average expenditure target has been about Rs. 5,600 crore (which amounts to 14-17% or 1/6th to 1/7th of the total budgetary outlay of the Union budget for MGNREGS) and average expenditure has been about Rs. 3,500 crore per year. The magnitude of data poses the challenges as well as the opportunities to move further for cause of MGNREGS and quick deliveries. The implementation of MGNREGA has shown several anomalies when the scheme rolled out in its initial days. The issues and challenges of implementing MGNREGA have been from multiple fronts and at multiple levels. Initially the system was manually operated and most of the processes were unstructured, therefore the planning, monitoring and implementation of the scheme were the key challenges. Large number of complaints related to process and documentation were emanating from the same.

Up to October 2008 the mode of payment was 'Cash Payment', which had its own systemic problems. But when payment outlets shifted to banks and post offices, they too were having their own issues. **Section 3[3] of the MGNREG Act stipulates that wages to workers should not be delayed by more than a fortnight. Schedule-2 of the act argues for payment of compensation in case of extended delays.** This mandatory provision further casted deep concern on State Government. Timely catch on demand and work generation vis-a-vis wage payment under MGNREGA were crucial to realize the full potential of the scheme objectives. So were also the account opening of workers in the banks and post office and disbursement of wages within mandatory time limit became one of the biggest challenges in MGNREGA implementation. Apart from these concerns, receiving demand of work from job card holders, allotment of works to needy people, uncorroborated entries in documents including muster rolls and undue payments to workers and even some times fake payments were the additional problems to fight with[37].

Another set of concerns got unearthed, when the government realized the seasonality in the work demands by the beneficiaries. People were more inclined to seek work under MGNREGA, when they had no / little work in their fields and also when they needed hard cash to meet their needs in cash-crunch periods of the year. This nature of the seasonal variation in the functioning of MGNREGS, put forth the dire need of financial outlets, quick delivery for sustainability and development as well. It was further observed that the seasonal variation and dynamics of MGNREGA and not fulfillment of the financial requirement of the scheme beneficiaries cast multiple social ill effects on education of children and their survival. This was also observed to pave way for the distressed migration. Vicious circle again moves the beneficiaries into the clutches of borrowing from unauthorized money lenders.

6.3.2 The Existing Process-flow in MGNREGS and concerns thereof

In lay man's language, a typical process followed from the registration of MGNREGA aspirant / beneficiary to the final wage payments to him/her involves following steps:

Step 1 : Registration of Workers, Issuance of Job Card, Demand of the work by the worker, Work Allocation

Step 2 : Generation of Muster (e-Muster and/or Printed Muster), Daily attendance at work site, Preparation of MB by Engineer, Preparation of Wage List

Step 3 : Verification of the Wage List, Approval by the Sarpanch and Secretary of the Gram Panchayat (GP), Proceeds for cheque preparation

Step 4 : Cheque preparation at GP, Signature by the Authorized Signatories on the cheques (i.e. Sarpanch and Secretary), Dispatch of the cheques to respective branches where the beneficiaries have the bank accounts

Step 5 : Dispatch of cheque by the branch to the clearing house, Cheque clearance, dispatch of the clearance instruction to the worker's branch, Crediting of the worker's Account by the cheque amount

As mentioned earlier, there were various other kinds of operational level issues (concerning Step 1, and 2 above) in the implementation of the MGNREGS, which have been resolved through a very structured and streamlined process of re-engineering of MGNREGS implementation in the State. This entire operational process re-engineering, though very significant and important in the effective and efficient implementation of MGNREGS in the state, has been left out from detailed discussion under this document/exercise, for being out of the scope of this exercise.

37. They are out of the purview of this study and hence not discussed

It was the sub-processes involved in Step 3, 4 & 5 i.e. those related to the financial management of MGNREGS implementation, which posted significant challenges in timely payment of wages. Some of the issues resulting from the existing system of financial (mis / under) management in the MGNREGS have been listed below:

- **Various Issues related to Cheque Management –** There were various kinds of issue related to management of cheques while making payments to the workers.
  - Maintenance of cheques/cheque books in such large quantities was a task in itself. Physical storage of unused cheque books, written cheques, safe custody of both the unused cheque books and written cheques, proper stock maintenance, duly and timely requisition of cheque books in large quantities and various other avoidable works involved a huge task.
  - Writing such a large number of cheques and getting them signed by its authorized signatories was another time consuming task. The activity consumed a lot of time of both – the Secretary and the Sarpanch.
  - Cheque writing being a manual process involved various kinds of mistakes related to spelling, writing of names, and conversion of appropriate name from Hindi to English, etc. Such mistakes used to take a very long time to correct, as most of the mistakes were observed when the cheque was presented in the bank for the clearance. Returning the cheque and getting that reissued was almost like not-possible.
  - Differences in Signatures by the Authorized signatories was also observed, which lead to repetition of the entire process again.
  - Signatory Management of such a large number of Signatories was another factor delaying the payments. The change in Sarpanch and Secretary of the Panchayat and other signatories at various other levels was another time-consuming task to manage.
  - Expiry of the validity date of the issued cheque (because of various reasons being discussed) had its own problem, because it involved the entire process of re-preparing the cheque.
  - Clearance of Cheque was the maximum time consuming activity/process in entire system of payments. It used to take a minimum of two days to unlimited days (as quite a few cheques ultimately got missing) in some cases. This used to get delayed because of various regions:
    - Not all the villages have bank branches; so presenting the cheque to bank itself used to get delayed a long
    - The issuing bank and the depositing banks were different and thus needed to be send to clearing houses

- ○ The villages and their nearby block head quarters don't have clearing houses and thus sending cheques to clearing house used to take a lot of time in such cases
- ○ Manual transfer of Payment Orders / Cheques to Banks and Post Offices
- ○ Not all the banks, RRBs were core-banking branches
- ○ The Cooperative Banks and the Post Offices, which accounted for more than 40% of the beneficiaries' account, didn't have any core-banking solution
- ○ Many-a-times, the Banks and Post Offices (because of their internal Cash handling policy of not keeping cash of more than X amount) were found not to have enough cash to disburse the payments to the workers

This particular step in the entire cheque management processes, used to cause a lot of delay in the wage payments to the workers. **In quite a few times, the cost of writing / managing cheques (at the Government side) exceeded the amount to be remitted to the worker. Similarly, at times, the cost of availing cheques (at customer level) exceeded the amount to be remitted as wage payments to him/her.**

- The entire system being based on 'cheque payments' posed a huge risk of leakages of funds, and the same had been unearthed quite a few times
- Management of a large number of Banks and Post Offices Accounts was another issues in the entire process, which at one hand delays the payments to the beneficiaries and on the other hand, it unnecessary involved a huge workforce to manage the same
- Because of a large number of bank and post office accounts (50 district accounts, 313 block accounts, 23,012 Gram Panchayat Accounts and an equally large number of bank accounts of other execution agencies), a huge amount of funds remained parked in various inactive accounts. This itself resulted in various issues:
  - ○ A significant amount of money remained parked and locked in bank accounts. Quite a few of these accounts were inactive and no or very low work was being done in those Gram Panchayats
  - ○ The Panchayats and implementing agencies, which required funds by virtue of various works being done by them, could not be disbursed money because of the huge idle funds lying in the inactive bank accounts / inactive Gram Panchayats
  - ○ This insufficiency of funds in the active accounts, more so, at the time of actual requirement, resulted in further delay of payments to the workers
  - ○ The annual quantum of inactive funds parked in the bank accounts rose to as high as more than 1,000 crore

- Similarly, each of these bank accounts needed to be topped-up with funds at a regular frequency. This repeated topping-up of funds to the bank accounts of the executing agencies (including Gram Panchayat) had its own issues:
  - o Simple act of repeating the top-up for bank accounts was a task in itself and involved various sub-processes viz. assessment of fund requirement at the execution agency level, requisitioning the same to the competent authority, verification of the fund requirements at the sanctioning authority level based on various other reports viz. MIS, UC, etc, sanctioning of the same and then actual transfer of funds to the execution agencies. All this involved huge time for each of the sub-processes and meant huge delays, huge subjectivity in fund allocation and disbursements, etc.
  - o It also required dedicated resources at various levels to prepare and follow-up for above sub-processes
  - o The parking of un-utilized money in inactive bank accounts / inactive execution agencies resulted in un-timely supply of funds to other active bank accounts/ executing agencies
  - o It also involved / lead to a lot of subjectivity, while exercising the right of topping-up the bank accounts, and quite a few times resulted in unnecessary parking of funds to inactive execution agencies / bank accounts on the cost of active execution agencies
  - o In a quite a few ocassions, it was observed that the cheques issued by the active execution agencies to the workers were not honoured because of unavailability of funds into their account, which was resulting from the irregular topping-up of funds into their account
- Huge delay in releasing of fund by the districts to the Gram Panchayats and other implementing agencies due to differences in utilization certificates and MIS display, as the two things were prepared separately and there were huge reconciliation issues
- Inability to track the payment details of traditional blank muster rolls issued to the different implementing agencies against the works and sometimes erroneous use of muster rolls and payment
- Inability to track the actual work status and its financial impact implemented in the Implementing agencies, as the two things were prepared separately and had huge reconciliation related issues
- Inability to authenticate and validate the huge MIS data entered specially during the peak time
- Delay in receiving the funds from Government of India due to differences in actual utilization of the fund and the difference in the offline and online MIS. This was mainly because the two

things were not integrated and were prepared separately and thus had huge reconciliation level issues

- In addition to all this, the last-mile connectivity to dispense of the processed payments was still a great concern:
  - There were no branches of banks/post offices at reasonable distances to dispense off the cash to workers in many villages. The banks were un-evenly located in geographic sense
  - Existing workload at banks/post offices did not allow them to take on to this huge additional task of making smooth payments to workers, which was a low-ticket, high volume transactions
  - Poor record keeping of banks/post offices and also poor maintenance of passbooks, etc. at the workers' level making it difficult for them to keep their wage records, etc.
  - The banks/post offices required the workers to open the seed money account to be able to avail certain specific services
  - Absence of any kind of core-banking solutions, especially in the cooperative banks and post offices
  - Bank didn't like overcrowding customers (workers) to come to bank premises

All this ultimately used to result in huge delays in timely payments of wages to the workers and also in unnecessary parking of huge amount of idle funds into various bank accounts.

6.4 Concept and Process of e-FMS Implementation

It were these urgencies posed by the specific demographical and socio-economic characteristics of the MP, coupled with the existing issues and concerns in the implementation of MGNREGS and also that in the existing IT System i.e. NREGASoft that lead the GoMP to evolve a module of e-FMS for ensuring effective and efficient financial management in the course of MGNREGS implementation in the state.

While, there were a lot of other issues related to effective and efficient governance (including e-governance) of MGNREGA in the state, which have been / are being addressed separately by the GoMP, the module of e-FMS was evolved as one of the significant component of the FI model of the State for ensuring timely payments to wage payments to right beneficiaries under MGNREGA. The module of e-FMS for MGNREGA payments, coupled with the earlier described initiative of rolling out a large number of USBs/CSCs in the rural, unbanked, Shadow Areas of MP lead to the emergence of the unique model of financial inclusion of the state.

In the course of evolving this module of e-FMS for MGNREGA payments, following important steps were taken up, while resolving various policy and operational level issues:

- Realizing the systemic issues involved in the entire process of fund management and the resultant delays, a revised process flow was brainstormed at the level of MP State Employment Guarantee Council (MPSEGC – The Council). This revised process flow and the suggested solution involved quite a few shifts from the existing practices/processes viz.

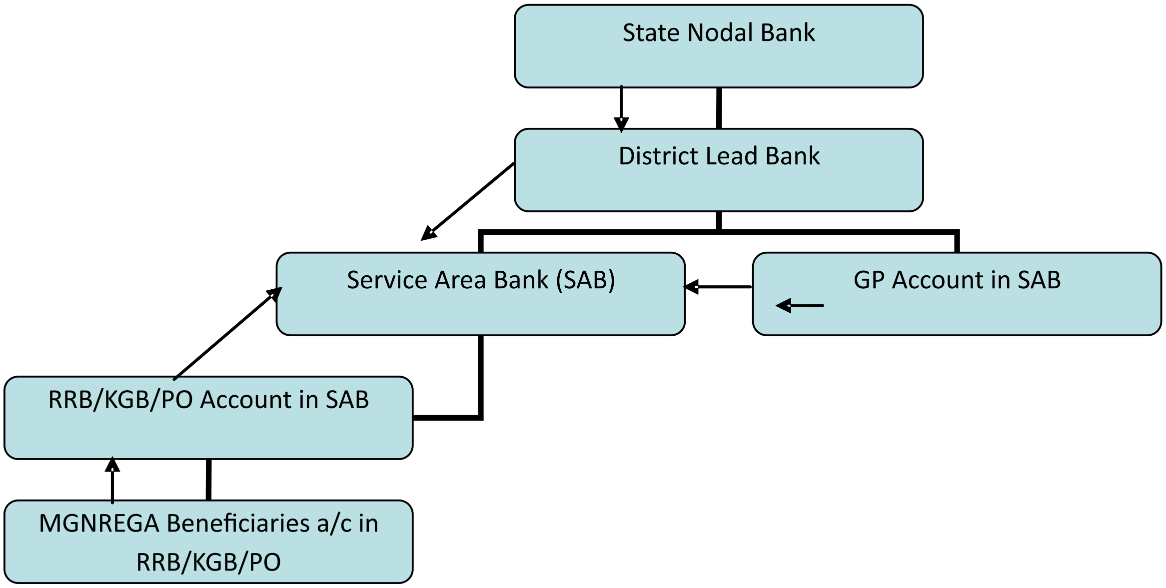
    - Integration of the entire sub-processes involved in the implementation of MGNREGS i.e. right from the registration of workers and issuance of job cards to the final FTO (Fund Transfer Order) generation, into one system – thereby increasing the authenticity of the data entered, culmination of the reconciliation issues of Utilization Certificate to MIS Reports to Funds availability, etc. Earlier almost three lines of reporting used to be followed. One was related with the actual utilization of funds. The other was the MIS, where data were entered post-event and thus a systemic delay was always there. And the other one was related to fund requisitioning i.e. topping-up of funds. The three lines of reporting hardly revealed the same position of funds and thus needed to be reconciled on a regular basis, thereby adding another leg into the entire processing.

    - It involved automation of quite a few steps which were done manually in the existing system viz. verification of wage lists at the execution agency level, preparation and signing of cheques on the basis of verified wage-lists, physical movement of cheques to the concerned banks, cheque clearances, etc.

    - The other set of steps that were automated or rather done away with were related to topping-up of funds i.e. – assessment of fund requirement at the execution agency level, requisitioning the same to the competent authority, verification of the fund requirements at the sanctioning authority level based on various other reports viz. MIS, UC, etc., reconciliation of the UCs with the MIS reports, sanctioning of the same, were all done away with. A single almost-real time system of e-FMS replaced the need for this entire sub-process. The entire information was now available online to everybody concerned and the implementing agencies are now able to withdraw (i.e. issue FTOs of) any amount based on the work done by them.

    - It also brought in the concept of almost real-time entry of data into the system, as the entire process up to the fund transfers into workers account were automated and thus it left no space for the delayed entry of data, as the system would not move to the next level until and unless the earlier steps are completed. There's no parallel system for record keeping i.e. MIS, UC, fund requisitioning/topping-up, etc. All the functions got integrated into this new system.

The improved process flow of fund management looked like below



As described in the flow-chart above :

- The entire funds received from Central and State Governments under MGNREGS are pooled at the one single bank account maintained at/by the MPSEGC and all the disbursements to the districts are routed though this single account only.
- Similarly, only one single bank account is maintained at district level for routing the entire MGNREGS payments. The core banking system has been integrated with existing NREGASoft to process the financial transactions and responses of the process or rejected transactions. This district level account is declared as a e-FMS account. On the e-FMS accounts, all the financial transactions related to the MGNREGS in a concerned district are debited. From the district accounts, e-transfer of funds is made for all kinds of expenses of MGNREGS.
- The Accounts of beneficiaries in Nationalized Bank is automatically credited through RTGS/ECS from the District's Bank Account
- The SSAB i.e. Sub-Service Area Branch (Post-Offices/CCBs/PACS/RRBs, etc.) maintains its account with Service Area Bank Branch
- And, the Accounts of beneficiaries in PO/CCB, etc. is serviced by Service Area Bank Branch, where the SSAB (Post-Offices/CCBs/PACS/RRBs, etc.) also have their account in. The cumulative amount of funds belonging to the workers in a particular SSAB (Post-Office/CCB/PACS/RRB, etc.) is credited into the SSAB's bank account in the Service Area Bank Branch. The amount thus credited was further credited into the individual workers' accounts in the SSAB (Post-

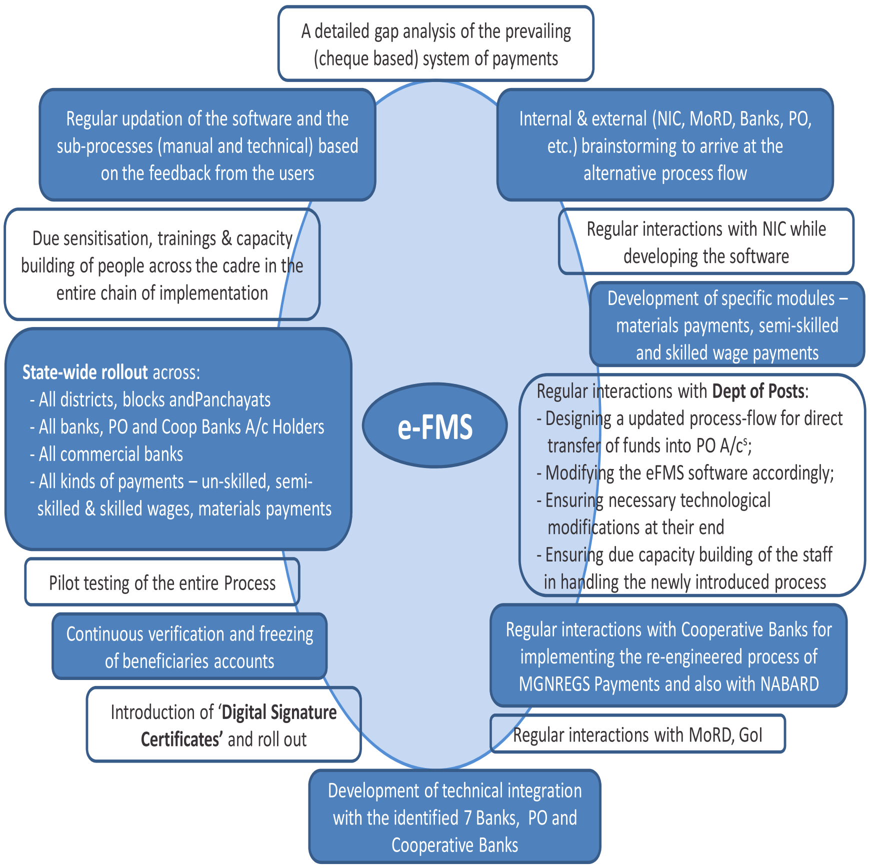
Offices/CCBs/PACS/RRBs, etc.). The entire process further curtailed a huge time taken in cheque clearances.

- In unbanked areas (Shadow Area), alternate arrangements like USBs/CSCs, BC, Bio Metric ATM, Banking KIOSK etc. have been arranged by Service Area Bank, as discussed in the detail in the earlier chapter, for dispensing cash to the ultimate beneficiaries.

- This revised process-flow of fund management, along with its detailed algorithm was then shared and finalized with the Ministry of Rural Development (MoRD) at the Central level. While the initial concept of e-FMS was pushed by MoRD , they were apprehensive about the pace at which GoMP was progressing on this front. Finally, they gave their go-ahead.

- After the final approval of the revised process-flow and the algorithm by MoRD, GoI, it was forwarded to National Information Centre (NIC), and then the entire systems development/modification in the existing NREGASoft was done by the NIC.

Steps/activities involved in the evolution and implementation of eFMS component of MPFI



6.4.1 Conceptual Issues and Solutions

While the entire process-flow was conceptualized and later integrated into the system, following major **conceptual issues and challenges** were faced and resolved:

- ***Module for the Material Payments*** – while the system for the wage payments to the workers was being automated, the issue of automation of materials payments (as is the concept in MGNREGA) also came-up. While the system involving vendors, etc. were tricky and cumbersome, it would not have made sense only to implement the wage-payment's automation, because the same issues as raised above i.e. multiple line of reporting, huge delays, leakages, etc. would have continued to be there. In fact, if this would not have been automated, the work-load of officers involved would have increased because they would have to maintain two parallel systems i.e. one manual system for the materials payment and another automated system for the wage-payments. Taking the MoRD, GoI and NIC into confidence, GoMP went ahead with developing and implementing the module of materials payments along with that of wage-payments module. The entire system consisting of two modules was implemented simultaneously in the state from 1st April, 2013 onwards.

- ***Feature of Semi-skilled and Skilled Workers Payments*** – Similar was the situation here. Because of the identification of workers into Skilled, Semi-skilled and Un-skilled workers, demand of different types of workers in different works, difference in their wages and other such issues, initially it was thought of to introduce the automated wage-payments only to un-skilled workers. But, again because of the issues of maintaining parallel systems and the inherent systemic issues of the manual system of payments, it was decided to automate the entire payments systems. Thus a feature of electronic payments to all three types of workers was developed and implemented simultaneously, along with the state-wide rollout of the e-FMS module from 1st April, 2013.

- ***Workers having Account in Post offices*** – In the state of MP, the Post Offices have more than 7,200 outlets (Post Offices), the highest number of outlets among Commercial Banks, RRBs, Cooperative Banks, PACS, etc. Because of such a huge infrastructure and such a deepening in the rural areas, a large number of MGNREGA Accounts of the workers were opened in Post Offices. After the introduction of wage-payments through cheques (from 2008 onwards) the wage-payments to Post Office Account holders, along with that of Cooperative Bank Account holders, used to take the maximum time. In many-a-cases, it exceeded the expiry date of the cheque and the entire payments had to be reprocessed. So, implementing the electronic fund transfer mechanism without involving Post Office Account Holder didn't really mean much, as a large number of real beneficiaries of such a facility like e-FMS would not have got any benefit of the same.

  Realizing the situation, a series of meetings with the Postal Department were organized to understand the situation and work out a feasible solution. And finally, a bridge system involving the CBS (Core Banking Solution) platform of State Bank of India and the e-MO (Electronic Money Order) Code and the Sanchay Post (SP) Code (Similar to IFS code of banking system) was developed. The bridge system was then installed and implemented across the state. The Postal Department has three-tiered structure – A Village Post Office (VPO) at the village level, Sub Post Offices (SPO) at Bigger Panchayat/Block and Tehsil level and Head Post Offices (HPO). In the Postal department, only the SPO and HPO have e-MO and the SP Code. VPOs have not been assigned these codes. Using the CBS platform of SBI and the bridge software, the payments were electronically transferred up to the level of SPO. The last two legs of Internal transfer from SPO to VPO (without involving any kind of clearing) and then to the worker is still manual. But, this entire mechanism also, significantly reduced the inherent gaps of the earlier manual system of wage payments.

The Postal Department is also in the process of getting into the CBS platform. The pilot testing for the same is already on. Post pilot phase, the core-banking would be rolled out in the entire state/country, making these e-payments even more effective and efficient.

- ***Workers having Accounts in Cooperative banks Structure –*** The Cooperative Bank Structure involving 1 State Cooperative Bank (SCB), 38 District Central Cooperative Banks (DCCBs), 852 DCCB Branches and more than 4500 PACS, LAMPS constitute the second largest financial infrastructure in the State, only after Post Offices. The issues involved with workers having their Accounts in Cooperative Bank structure are almost the same as that of workers having Accounts in Post Offices, and has been described in detail above. An additional issue was that like PO, the Cooperative Banks structure didn't even had the e-MO and SP code system, so even a bridge system would not have worked.

To deal with this a rather mechanical process was worked out. All the PACS and DCCBs branches were asked to open an Account in the nearest Service Area Bank Branch of the Commercial Bank. Funds (wage-payments) belonging to all the workers of a particular PACS or DCCB Branch was electronically transferred to the concerned PACS / DCCB Account in that Commercial Bank Branch. Here again, the last leg of final crediting of workers' account and final dispensation to them was done manually. This entire arrangement eliminated all the issues related to cheque management and also the issues related to cheque clearing. While this was the arrangement with the Cooperative Bank structure, when the e-FMS was rolled out in April, 2013, a lot of development has happened since then.

By the month of September, 2013, all the Cooperative Banks and the DCCB Branches have migrated to the CBS platform. They would soon be integrated in the e-FMS module of the NREGASoft enable direct payments to workers having accounts in DCCBs. For the workers having accounts in PACS, the present hybrid system of payments, as described above would continue for the time being. The concept of the designating the PACS as the

Banking Correspondents (BCs) of the DCCBs has been floated and is being discussed upon. If the concept is implemented, the PACS would be provided with a banking kiosk of the DCCBs and they would start functioning as an extended arm of the DCCBs. Then even the last leg of payments through PACS would be electronic payments.

6.4.2 Implementation Issues with e-FMS

After the successful development of the e-FMS module and also a successful pilot implementation of the same, the e-FMS was implemented in the entire state in one-go. Implementing such a module in the state was not an easy task. **Following implementation level issues and challenges** were faced and resolved in the course of implementing the module in the state:

- **Huge Resistance from all Corners** – The biggest challenge in the entire roll out process was the resistance from almost all the corners – be in at the Gram Panchayat level, Janpad level and also at the District. The resistances from different corners have been for various reasons, so there was no common solution to the same. Some of the these resistance have been for following reasons:
    - ***Fear of adopting new technology***, which is one of the most general / common form of resistances;
    - ***The change resistance***, which emerge from adopting to any new process modification, process change
    - ***Fear of losing control*** – the entire program of MGNREAGS involved dealing with huge quantum of funds. The existing process being manual, offered different degree of control to concerned people at various levels and thus naturally develops a lot of vested interests. The decisions like whom to top-up what funds, at what frequency, which payments to be cleared, which payments to hold involved a lot of subjectivity and thus a controlling power. All this was to go away in the electronic fund management system. All these decisions were subsequently to be based only on the approved budgets and the actual performance of the implementing agencies. This was the major reason for the resistance of the system.
    - ***Fear of increased accountability*** – While at one hand, the e-FMS system was withdrawing the controlling and decision making power from various levels, on the other hand, it was bringing in more accountability to all the people involved in the system. With logs being created in the system, the responsibility of delays and mistakes being traced to the actual person, this became the second major reason for the resistance of the introduced system

While, resistance of first two accounts could have been addressed through various means like trainings, capacity building, on-the-job training/handholding, round-the-clock trouble shooting, etc., it was proving really difficult to address the last two points. However, with the vision and commitment of top leadership both at the level of the Administration and government, it has been addressed quite effectively, and the results of the same are in front of all of us.

- **Training and Capacity Building of the Staff** – The training and capacity building of all the concerned staff about the entire module was another significant challenge. As has been mentioned above, adopting a new technology or adopting any process modification poses a lot of resistance in the system. Introduction of the e-FMS module involved both, and thus a lot of efforts were put-in in training the staff. Focused trainings were imparted from the level of Gram Rozgar Sahayak (GRS), Gram Sachiv and Sarpanchs up to the level of Collectors and CEO, Zila Panchayat. Due orientation, training and capacity building of banking staff was also taken up.

- **Signatory Management System** – In the implemented system of e-FMS, a thorough and comprehensive system of signatory management has been worked out to take care of timely issuance of FTOs. It is based on Digital Signature Certificate (DSC) authorization and authentication. The digital signature certificates with class II signing and encryption has been used for enrolling the first and second signatory offices to sign the Fund Transfer Order. The right of issuing the FTO (Fund Transfer Order) is vested with Janpad Panchayat. The Assistant Accounts Officer (AAO) at the Janpad Panchayat and the CEO, Janpad Panchayat have been nominated as the first and the second signatories for issuing FTO from one the District's central Bank Account of the District, for all the works executed by different executive agencies including Gram Panchayats in their Janpad Panchayat. So, depending upon the number of Janpad in the district, those many sets of first and second signatories can operate (only for issuing the FTO) this Central Account. The thing to note is that these signatories can only issue the FTOs and cannot operate the account for any other purpose including for withdrawal, fund transfers to any other accounts, etc. The management of the first and second signatory in case of transferred or suspended / long leave has been handled from the State.

- **Integration of the NREGASoft with the identified seven Banks –** Along with integrating the core-banking platform of the identified seven banks at the state level with NREGASoft, the banking officials, their IT persons having different banking IT architect were brought to the same platform.

- **Cleaning and Verification of Workers Accounts** – the GoMP has around one crore registered workers under MGNREGS. A one-time cleaning and verification of workers account to ensure the crediting into right account and also to ensure the fund-transfer success rate was to be done. These accounts being maintained in various kinds of financial institutions – commercial banks, private banks, cooperative banks, PACS, RRBs, Post office, cleaning and verifying these accounts was a mammoth task.

6.5 Benefits of the e-FMS module

The e-FMS module involving automation of the processes involved in directly crediting the accounts of the beneficiaries under MGNREGS has been rolled out in the entire state with effect from 1st April, 2013. No single wage-payment has since been made through cheques in the entire state. The module is operational in all the 50 districts, all the 313 blocks, 23,012 Gram Panchayats and more than 54,000 villages, involving more than 73 lakhs job-card holders. More than Rs. 2,330 crore of wage-payments have been routed through this channel in FY 2013-14 (up to 22nd October, 2013). It has started resulting in fulfilling the thought-out objectives and also in various unthought-of advantages (i.e. by-products). Some of these have been listed below:

- Significant reduction in the TAT (Turn-around-time) **of wage processing and payments**
- Significant reduction in the workload of staff at Block Program Office (BPO) and the Gram Panchayat (GP) level. The workload at the district level has almost been removed.
- Various issues related to Cheque Management including cheque clearance and cheque bouncing has completed been abated.
- Increased Accountability – with various logs being created in the system, and the responsibility of delays and mistakes being traced to the actual person, it brought-in the increased accountability of the people involved in the entire system.
- Increased Transparency – the system brought-in transparency in funds allocations to the Panchayats and other executing agencies. In fact, it has done away with the concept of fund allocations – whoever (Gram Panchayat / Executing Agency) is doing whatever work, subject to prior yearly approvals, is able to draw upon the required funds, without any approvals, allocations, etc. from anybody. Earlier, this topping-up of funds to Panchayats and Executing agencies involved a lot of subjectivity and thus a biased approach to funds allocations.
- Significant reduction in the large number of bank accounts currently being operated by the Gram Panchayats and other Implementing Agencies. There were many more than 25,000 bank accounts being operated earlier, which have now been reduced to 50 bank accounts at the district level and 1 bank account at the state level.
- Efficient Fund Management – huge reduction in the idle funds (which was lying in more than 25,000 bank accounts), easy maneuvering and management of funds, better liquidity management, etc.
- Real-time availability of data at all levels of governance is paving way stricter monitoring of physical as well as financial performances. It is also resulting in timely and qualitative decision making at the strategic level.
- With most of the data available in the system, a quality data mining has now been

possible, which can be used for designing better products, services and also better processes.

- Similarly, with various kinds of data, data logs, etc. available from the system itself, very effective audit trails are possible now.
- With the stoppage of use of huge amount of paper and also cheques/cheque books, it's been a very effective move towards Greener Technology
- One time cleaning and verification of the workers' bank accounts was a necessity and was an important by-product of the e-FMS implementation.
- Financial Literacy – It is also proving out to be a very good financial literacy tool, as the worker visiting the branch/USB/CSP/BC for withdrawing his/her wages is exposed to and made aware of various other products and other useful banking information
- A huge improvement in the quality of the Departmental Audits and the Social Audits
- With the implementation of the e-FMS module, coupled with ensuring the last-mile connectivity through the roll out of USBs / CSPs, it is ensured that right person (identified through the bio-metric enabled a/c's) is credited right (actual) amount in right (appropriate) time. Earlier, the system posed a lot of leakages in the entire wage-payments system.

MP has ventured with a true spirit of direct benefit transfer not in terms of money but also with shape of dispensation of justice enshrined in the preamble of Constitution of India. The MGNREGA has become the prime mover to this sublime philosophical idea. e-FMS is also increasing the Financial literacy among MGNREGA beneficiaries. The e-FMS introduced in MGNREGA has brought in the radiance of financial literacy and security and this is ultimately stirring itself and other stakeholders like banks to show their existence at every financial outlet. The issue of shadow area has been enveloped with the vehement energy of MGNREGA evolving in complete Financial Inclusion Scheme management catalyzed by induction of e-FMS and financial inclusion will achieve its brilliant images as the time moves ahead.

With the on-field implementation of e-FMS module in MGNREGS, MP has become one of the first states in truly implementing the entire MGNREG Act in letter and in spirit.

6.6 The Uniqueness of the e-FMS rollout in MP

The broad concept of e-FMS has actually been the concept of Ministry of Rural Development (MoRD) of the Government of India (GoI), which they had been proposing to be implemented for the MGNREGA payments. While the concept got originated from the MoRD, GoI, it was never detailed down to the implementation level. GoMP, not only just took a keen interest in the concept, but also took a lead in the entire country to take it to its logical conclusion of being implemented at the field level. While, the module has now been implemented at various degrees in various other states, the GoMP occupies a pioneering position in the e-FMS implementation in the entire country. Some of the unique points of e-FMS implementation in MP, which sets it apart from the rest of the states, are as below:

- ***One-stroke roll out in the entire state –*** after the successful pilot testing of the e-FMS module, it was rolled out in the entire state in one go. This did mean stretching a bit more, but the issues involved in state-wide roll out were identified, discussed-upon and strategized to handle well in advance. The strategies lead to successful implementation in the entire state. In other states, it is being rolled out in phased manner.

- ***One-stroke roll out across all banks*** – Unlike phased roll out of the e-FMS with different banks in different phases, in MP, the module was rolled out with all commercial banks in one-go.

- ***Simultaneous roll out with Post Offices and Cooperative Bank Structure*** - As discussed earlier in the report that in MP, bridge systems/software/mechanism has been adopted to take care of electronic payments to workers having their accounts in Post Offices and Cooperative Bank structure. This particular arrangement was also rolled out simultaneously with the roll out with the Commercial Banks. This ensured that the 100% of wage-payments are done through electronic fund transfers only.

  This development and deployment of bridge software and mechanism with the post offices and cooperative bank structure gave an additional advantage to entire roll out, as the workers having accounts in Post Office and Cooperative Banks didn't need to move their accounts to Commercial or Private Banks. This greatly reduced the work of re-entering the bank account details in the system and also re-cleaning and re-verifying the workers' accounts.

- ***Simultaneous roll out for the Materials Payments sub-module –*** The entire sub-module of payments for materials was also designed before hand and was launched along with the e-FMS roll out. Other states did this also in phased manner.

- ***Simultaneous roll out of the Skilled and Semi-skilled wage payments sub-module*** – As is the case with the material payments sub-module, the feature of wage payments to skilled and semi-skilled was also designed along with the overall e-FMS module and was rolled out along with the roll out of the e-FMS module.

- ***No parallel system of fund transfers was allowed*** – Through all the above measures, it was ensured that no parallel system of funds transfers (i.e. through cheques) would be allowed in any case – be it in any particular district/block/GP/village, be it in any particular bank, be it in any other channel i.e. Post Office, Cooperative Bank structure, be in for materials payments or be it for skilled and semi-skilled wage payments, once the roll out is done.

Because, allowing parallel system for even a single worker or even a single Gram Panchayat, or a single category of payments (say material payments, skilled workers' payments, semi-skilled workers' payments, etc.) would mean continue to maintain those many bank accounts in the entire chain, continuing with the system of topping-up the funds, continue with the unnecessary parking of idle funds, continue with the issues related to cheque management, etc. With two parallel systems running simultaneously, one would never be in a position to realize the real benefits of the e-FMS solution. Realizing the situation well in advance, GoMP rolled out the program in one go in the entire state. It did face the initial teething problems, but were all resolved in the process. It was this decision of GoMP, supported with the preparedness and demonstrated ability to resolve the issues, which helped it acquire the pioneering position regarding e-FMS implementation in the country.

6.7 Recognition of e-FMS

The effort taken up by GoMP in designing and rolling out e-FMS in the State has been attracting appreciations from different circles. Some of these have been listed below:

- Impressed with the implementation of e-FMS in the state, GoMP has been invited to be a member of the task force that has been set up to speed-up the process of e-FMS implementation in the entire country.
- Delegates of various other states are continuously visiting Madhya Pradesh to have a first-hand look at the module implementation and learn from the same.
- GoI has put Madhya Pradesh in rolling out e-FMS in category one state.
- The Skoch award 2012 has identified the e-FMS and bestowed upon the appreciation citation at Delhi in month of October 2013.

The trend of recognition has also attracted the notice of computer society of India and the appreciation award has been given on 14th December 2013.

Chapter-7

Last Mile Connectivity Through Ultra Small Branch (USBs) / Customer Service Points (CSPs)

This chapter presents the Third Pillar of the MP Financial Inclusion model that facilitates the front-ending of services providing the last mile connectivity to customers. The chapter gradually builds the concept of USB/CSP and depicts evolution of the shift in the norms issued by the GoI/RBI to customize the requirement of MP. It also discusses the challenges faced by the GoMP, and benefits that accrue to the end customer post customization. The pillar of the model thus created is an integral part of the overall module of FI is also clearly depicted in the chapter.

Last Mile Connectivity Through Ultra Small Branch (USBs) / Customer Service Points (CSPs)

7.1 Backdrop

The Ministry of Finance, Department Of Financial Services, Government of India, and the RBI have introduced the concept of Ultra Small Branches (USBs) in remote areas as part of their commitment towards attaining Financial Inclusion. RBI has clarified the definition of an Ultra Small Branch vide its Circular dated May 17, 2012[38]. wherein an Ultra Small Branch should have minimum infrastructure such as a Core Banking Solution (CBS) terminal linked to a pass book printer and a safe for cash retention for operating large customer transaction and would have to be managed full time by bank officers/ employees. These Ultra Small Branches may be set up between the base branch and BC locations so as to provide support to about 8-10 BC Units at a reasonable distance of 3-4 kilometers. It is expected that such an arrangement would lead to efficiency in cash management, documentation, redress of customer grievances and close supervision of BC operations. Further, BCs can operate from such Ultra Small Branches, as their association with the branch will increase their legitimacy and credibility in the area and give people increased confidence to use their services.

7.2 USBs / CSPs for Outreach

It may be noted that while the Circular from the RBI, clarifying the definition of USBs came only in May, 2012, a lot of work towards establishing financial dispensation units in the name of USBs / Customer Service Points ((CSPs) was already done in the state of MP. As one has a detailed look at the chronology of evolution of this particular component of *Samruddhi*, one would realize that the above Circular from RBI was more towards legalizing the developments in MP regarding USBs / CSPs and also to have an standard definition of the USBs across the country.

Ultra Small Branches (USBs) / Customer Service Points (CSPs) are one of the three and the front end components / initiatives of the FI model of GoMP. USBs/CSPs, as the name suggests are very small branches / financial dispensation units, set-up in the unbanked rural areas of the state.

The typical characteristics of the **USBs/CSPs being set-up in MP** are as below:

- It's a physical Unit with brick and mortar structure, bringing in more credibility to the banking channel, as against that of mobile van, BC outlet, kiosk, etc.
- Located in between the 'shadow Villages' to cater to the shadow villages in its 5 KM radius; 'Shadow Villages' are the villages, which do not have any banking facility/outlet

[38] (RBI/2011-12/566 DBOD.No.BL.BC.105/22.01.009/2011-12

within the radius of 5 KM. *Bringing-in the concept of 'Shadow Villages' was the major paradigm shift of the model, which made the 'geographical distance' as the basis for defining financial exclusion than the existing 'population' norm*

- Operated by and linked to the base Service Area Bank-branch of the location, where the USB/CSP is located
- Housed in a room with a minimum of 100 Sq ft space; The space being provided at the Panchayat Bhawan, wherever required by the operating bank
- Having proper IT enabled dispensation equipment – A Handheld device or a Laptop/Computer with a Printer and VPN Connectivity. The internet connectivity (wherever available) is provided by the e-Panchayats
- Having the feature of working in offline as well as online mode
- Manned with either a full-time employee of the operating bank or with a BC appointed person, with a mandatory once-a-fortnight visit by the Branch Manager of the Base (the Service Area Bank) Branch
- To act not only as the financial dispensation centre but also at the provider of various other financial and banking services
- To also act as the centre for financial literacy, providing due information to its clientele in the area

7.2.1 Causes, Factors and Circumstances for Customization

The process of bringing the USBs / CSPs from the 'initial concept' to its 'pragmatic and logical culmination' has not been as simple as the name suggests. While the concept of USB was not new to the GoMP nor to the RBI, its customization to meet the needs of MP was an initiative taken up by MP.

There have been various efforts made at different levels to implement it in its present shape. The issues, concerns and processes adopted for resolving these have been explained in detail in following pages.

Typical Characteristics of the State of MP and the existing Financial Inclusion efforts of RBI and MoF, GoI: The population of MP is 72 million (2011 census) and the population density is 196 people per square kilo meter. More than 75% of state population resides in villages, where main occupation is agriculture. The banking facilities were almost non-existing due to low density of population forcing more than one-third of the villagers to cover a distance of 20 to 90 km for doing financial transactions.

There are 54,903 villages in the state of MP. Out of which, 50,396 villages were identified as unbanked villages under the Financial Inclusion program, way back in year 2009-10. This meant more than 91% of the villages in the state were not having the banking facilities. This calculation however did not include the Post Office network, which was also offering some of the basic banking services in the villages. Even if we consider the 7,200 odd rural Post Offices (without discounting the overlaps), the outreach of the banking and post office network, together, was still not reaching out to more than 79% of the villages in the state. Similarly, if we also consider the branch networks of Cooperative Banks, PACS, LAMPs, etc., the total branch network in the State reaches out to 15,018 branches in the rural and urban areas (without discounting the overlaps). This still means that more than 72% of the villages in the state have just no financial-dispensation network. There were a huge number of unbanked villages and a large number of unbanked populations.

With this background, came the directives from the RBI and the Ministry of Finance, GoI to provide banking services through the Business Correspondence Arrangements and other means to villages having a population of more than 2,000 by March 2012 (which was later modified to cover villages with population of more than 1,000 and below in graded manner).

Coverage of unbanked villages in the State: As mentioned earlier, there was a major issue with this directive and typical characteristic of the villages in the states. When the total number of unbanked villages with more than 2,000 populations was figured out, it came to only 2,736 villages out of the total 50,396 unbanked villages in MP, which again was a very low number. This meant that there would still be 47,660 villages with no banking facilities available to its residents. The banks, however, continued with this intermediate target of 2,736 villages and covered them with 2,439 BCs, 105 Branches and 192 Other means (mobile vans, kiosks, etc.) by March, 2012. A roadmap to cover all the 47,660 unbanked villages in the State was prepared by the SLBC after the process of mapping all the unbanked villages was done in each district through a Special DLCC. Under the roadmap, doorstep banking services would be provided in every village through a combination of 1,006 bank branches and 9,239 BCs. The progress is being monitored by SLBC and also by RBI.

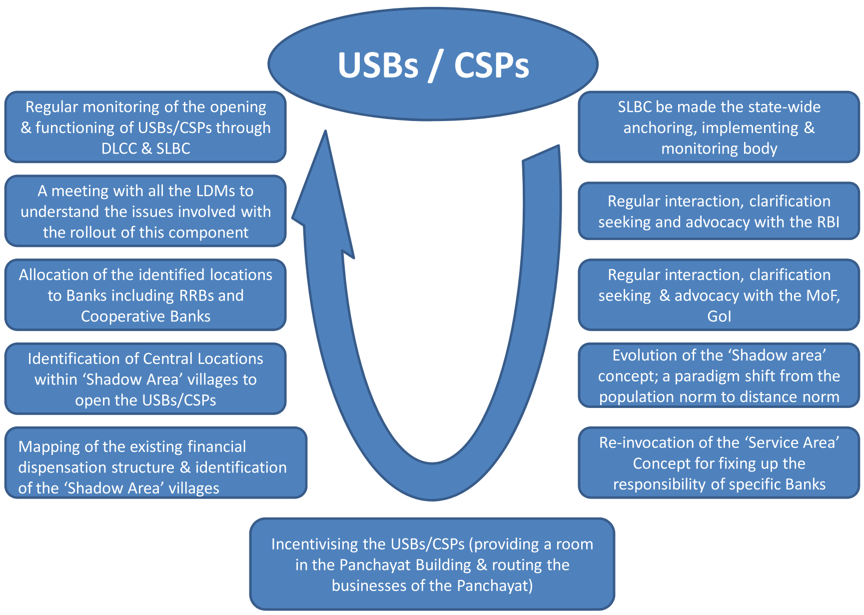
Issues with Definition and Bankers' Dilemma: Similarly, when the status of unbanked villages was put-up in SLBC, the SLBC with due deliberations approved the opening of 300 new bank branches by March 2012, in the state of MP. Out of which, it mandated at least one-third of these branches i.e. 100 branches to be opened in the rural areas. The definition of unbanked rural area has been clarified by RBI as: An unbanked rural centre would mean a rural (Tier 5 and Tier 6) centre that does not have a brick and mortar structure of any scheduled commercial bank for customer based banking transactions. However, practically, each bank defines 'unbanked area' as the area which is not yet covered by its own branch network. So, a particular area would still be defined as 'unbanked area' by a bank 'X', even if the same area has 'n' other bank branches. Such definition prohibited banks to open the branches in the 'real unbanked areas'.

7.2.2 Evolution of Alternative Concept of USB/CSP and the Process Adopted

It were these specific geographical characteristics of the state of MP and the current status of the banking services that prompted the GoMP to evolve its own model of Financial Inclusion in the State. Consequently, the Ultra Small Branch (USBs) / Customer Service Points (CSPs), which evolved as the financial dispensation centre in the vast and unbanked areas of rural MP, became one of the significant components of the unique model of financial inclusion of the state.

While a broad evolution of this component of *Samruddhi* has been depicted in the diagram below, the same has also been described in detail in continuum:

Steps/activities involved in the evolution and implementation of USB/CSP component of MPFI



In the course of evolving this alternate channel of financial dispensation, following methodology/processes were adopted, while resolving some of the typical policy and operation level issues:

- Reaching out to a very large number of unbanked areas and unbanked population was one of the highest priority item for the GoMP, as being 'unbanked' was becoming one of the major hindrances for various other initiatives of the GoMP.
- For implementation of the ambitious Direct Benefit Transfer (DBT) and smooth and seamless, timely and correct payouts of wages under the MGNREGA and also the inclusion of various other schemes of GoMP, the system had to be primarily dependent on outreach of banking services to a very large number of target populations.
- Even developing efficient and 'state of the art' technological and operational systems would not have meant much, if a considerable number of target populations were not reached through the financial dispensation points.
- It was for this reason that the GoMP had to put up its utmost emphasis on developing an appropriate financial service delivery channel, a conduit that would provide solution to most, if not all of the issues of cash transfers to the right beneficiary in the right time and space.

Prior to evolving new channel like USBs and CSPs, it gave its due emphasis on existing channels of financial service delivery viz. Banking Correspondents (BCs), Mobile Vans, Setting up of banking Kiosks, Bio-metric ATMs and various others means that were being used in other parts of the country. However, it yielded little results as has been the phenomena across the country. Barring a few notable achievements in select pockets like the mobile vans in the district of Anoopur, Hoshangabad and Betul; Mobile Post Offices in Seoni district, shifting of accounts to commercial banks and disbursement of funds in the district of Balaghat, etc., most of the channels delivered very little and the expected results of financial inclusion were belied.

Fragmented Existing Approach: As described above, little could be achieved using the existing model of financial inclusion in MP if each of its components were fragmented and were performing its own defined duty in a standalone manner. There were many reasons for the existing model to be either doomed or achieve very little. The first and foremost reason was the lack of a comprehensive and coordinated effort amongst the stakeholders. While each of them was performing their duties as assigned in the eco system, none was capable of producing a concerted effort targeted to attain the desired and significant objective of complete financial inclusion alone. Lack of coordination was later addressed in the new innovation through an integrated 'model' approach.

On the demand side the model was unable to enthuse the actual beneficiaries for a variety of reasons including credibility of the service provider themselves, distance from home etc. Getting the so far deprived target-audience ready to accept to such modern tools and equipment was another challenge that the bankers and their associates including the BCs had to face. To top it all, there was a vast ignorance amongst the beneficiaries as to why and how to use their banking accounts due to lack of financial literacy. Credibility of the 'mobile' and 'irregular' nature of these channels was another issue of failure to deliver. Also, all these models required active participation of local banks and catered to devolution of funds only. Other products of financial inclusion remained out of focus.

7.2.3 Redefining Concepts: Shadow Area Mapping

It was in this background of the fragmented ecosystem of financial inclusion and the need for an integrated system that the first major effort was initiated by the GoMP. It put forth the concept of **'Shadow Area'** with-in the administration and later among bankers at the level of the SLBC. The same was discussed in the meeting with Deputy Governor, RBI, CMD, Central Bank of India and the Chief Secretary, GoMP in June 2011. **'Shadow Area'** was defined as the area, which does not have any brick-and-mortar financial dispensation structure, with-in a radius of 5 KM. It included branches of the commercial banks, private banks, RRBs, cooperative banks, etc., with-in a radius of 5 kilometers from the dwelling units. Having discussed the concept in the SLBC, the DLCC was entrusted with the task of mapping all the existing branch network of the financial system in the district.

Special DLCC meetings were convened in all the districts of the state to map the villages. The DLCC is chaired by the District Collector, convened by the Lead Development Manager (LDM) of the Lead Bank and has all the bankers and district level development officers as members. This ensured that the mapping exercise had the local knowledge and was done with the involvement of both the District Administration and the Bankers. In total, 14,767 villages were identified as the unbanked villages, which did not have any physical brick-and-mortar financial dispensation centre (including branches of the commercial banks, private banks, RRBs, cooperative banks, PACS, post offices, etc.), with-in the radius of 5 km.

7.2.4 Re-invocation of the Concept of Service Area of the Banks

It was for this mapping of villages with the branches of the banking system, that the erstwhile **concept of Service Area** of the bank was revoked. In the recent past the concept of Service Area has practically been removed in the banking system, whereby, the banks were freed to open their branches at any place, as long as they follow other instructions of the RBI. For this mapping of unbanked areas, this concept was revoked and all the banks including cooperative banks and post offices were asked to mark all the areas, which did not have any of the mentioned institutions within the radius of 5 kms. Subsequently, in a specially convened SLBC meeting held on 15th July, 2011, in the presence of Chief Secretary, GoMP, the CMD – Central Bank of India and the Deputy Governor, RBI, it was agreed to evolve a unique MP Model of FI, based on the **Service Area Approach**. As such, the concept of Service Area, though practically withdrawn, still existed in the state, but the problem was with the Sub-Service Area, where permanent physical brick-and-mortar structure was required, especially in the Shadow Areas. The Service Area Approach was later realized as more effective tool for the fixing the responsibilities of FI on banks and making them more accountable to the FI initiatives.

S.No.	Name of Bank	No. of Villages
1	Regional Rural Banks	4434
2	State Bank of India	3257
3	Central Bank of India	2110
4	Allahabad Bank	924
5	Zila Sahkari Kendariya Bank	735
6	Union Bank	696
7	Bank of India	487
8	Bank of Maharashtra	471
9	Punjab National Bank	460
10	CCB	401
11	UCO Bank	294
12	Bank of Baroda	172
13	Syndicate Bank	91
14	Canera Bank	73
15	Punjab & Sindh Bank	37
16	Oriental Bank Of Commerce	34
17	AXIS Bank	24
18	BACHAT Bank	19
19	ICICI Bank	16
20	Dena Bank	15
21	HDFC Bank	8
22	Bank of Rajasthan	6
23	Corp. Bank	2
24	Andhra Bank	1
	Total	**14767**

Having two major deviations from the existing norms i.e. the population norm and the free area norm (non Service Area norm), the mapping of villages was done. The 14,767 shadow were mapped to various institutions as per the table above:

The district wise pattern of the Shadow Area Villages is as below:

S.No.	Division	District	Total
1	Indore	Alirajpur	257
2		Badwani	163
3		Burhanpur	56
4		Dhar	655
5		Indore	134
6		Jhabua	333
7		Khandwa	249
8		Khargone	152
9	Ujjain	Dewas	24
10		Mandsaur	149
11		Neemuch	149
12		Ratlam	185
13		Shajapur	44
14		Ujjain	467
15	Gwalior	Ashok Nagar	316
16		Datia	299
17		Guna	330
18		Gwalior	158
19		Shivpuri	369
20	Chambal	Bhind	13
21		Morena	510
22		Sheopur	126
23	Rewa	Rewa	91
24		Satna	1154
25		Sidhi	426
26		Singrauli	412

S.No.	Division	District	Total
27	Shahdol	Anupur	137
28		Dindori	101
29		Shahdol	262
30		Umaria	174
31	Sagar	Chhatarpur	129
32		Damoh	316
33		Panna	73
34		Sagar	95
35		Tikamgarh	216
36	Bhopal	Bhopal	22
37		Raisen	736
38		Rajgarh	112
39		Sehore	299
40		Vidisha	396
41	Narmada puram	Betul	813
42		Harda	152
43		Hoshangabad	50
44	Jabalpur	Balaghat	386
45		Chhindwara	1324
46		Jabalpur	557
47		Katni	214
48		Mandla	668
49		Narsinghpur	82
50		Seoni	232

7.2.5 Identification of the USB / CSP Locations

As mentioned above, under the SLBC, it was proposed to reach out to the identified 'Shadow Area' villages through a network of newly designed channel – the Ultra Small Branches (USBs) / Customer Service Points (CSPs). An implementation plan was chalked out towards enforcement of decision taken at the SLBC Meetings. However, it was soon realized that it did not make much sense to open these branches in all the 14,767 shadow villages. Instead, these villages were further grouped and certain Central locations were identified to open the USBs / CSPs, in such a manner that all the 14,767 villages were covered from these USBs / CSPs, while lying with-in the radius of 5 kms from the USBs / CSPs. Again a massive exercise was taken up in the DLCCs at the District level to figure out such locations. A total of 2,998 such locations were identified, where USBs / CSPs were to be opened, in order to cater to all the shadow villages in the state. This was a major paradigm shift from the previous norms. For the first time, ***the existing 'population norm' of expanding banking network was replaced by the more logical and more appropriate 'geographical distance norm'.***

The distance of 5 kms was worked out on certain parameters. The first logic came from the MGNREG Act. The Act mandates Government to provide employment to the eligible person, within a radius of 5 kms of his / her residence / panchayat. If it is unable to provide the employment within this radius, the Act provisions for providing an additional conveyance charge to the eligible person. The basic premise is that the workplace should be easily accessible from the place of his / her residence. The same logic has been adopted here, that the proposed USB / CSP location should be easily accessible from his / her residence. The other premise is that the proposed location should have sufficient number of customers / account-holders so as to enable the center to become viable and profitable and thus become sustainable over a period of time.

7.3 Challenges Faced

Had the state been smaller with a dense population in certain pockets the course of financial inclusion would not have been that difficult and mammoth a task to reckon with. Similarly, if it would have been a matter of only a few branches, it would have been a different story altogether, but the task was enormous. Expanding the banking network by 2,998 USBs / CSPs in such a short period of time had many challenges too:

7.3.1 Supply Side Challenges and Solutions

SLBC, Not Supreme Authority: While the decision on deviating from existing norms been adopted in the SLBC, the first and foremost challenges opened flood gates for the bankers. While the bankers are regulated by the central bank, the RBI; the zonal or state level bankers are governed by their head offices and the zonal offices had limited power and authority to implement decisions taken at the state level and hence a strong backing up by the respective Head Offices of the bankers was required. The same was applicable for other offices and stakeholders who too were responsible to their Head Office.

Different Regulators: Further, most of the entities in question were regulated through different regulators and agencies and not being dictated by the SLBC or State Government. In certain cases, a single entity was regulated by different regulators for a variety of products and services. Some of the decisions of the SLBC regarding the FI model of MP were a deviation away from the existing guidelines and norms issued by respective regulators. In view of this, getting the strategic direction for the banker's et al to open such a large number of branches of a special nature was a big challenge.

Getting GoI and RBI on Board: Both the Ministry of Finance at the Central Government and RBI had issued instructions and regulations that the state was supposed to deviate from and hence both these authorities were approached by the State Government in order to bring them on board. Both of these organization issued necessary instructions to their agencies and to the GoMP in order to allow them to move forward in the direction that was being envisaged and designed by the Samruddhi. Various correspondences between the State Government and the MoF, GOI and the RBI have proved the fact that they are in synch with each other and have a clear understanding of the same.

7.3.2 Internal Challenges and Solutions

Poor Infrastructure: Besides the challenges faced on the supply side of the Samruddhi that pertained to various stakeholders like the bankers as well as state government, there were a few challenges that are internal to the state of MP itself. Besides the large geographical area inhabited by thinly spread population in various pockets and hamlets of the villages, MP also lacks in physical infrastructure such as generation and supply of power, poor tele-density and poor bandwidth on internet connectivity. Lack of a concerted effort in creating an HR MIS of sort in capturing the data of individuals as well as family households till the new model was envisaged was also a hindrance in reaching to the poorest of poor and targeting the beneficiaries. Further, the physical infrastructure and thus the capital investment required for opening such a large number of branch outlets was huge.

Initiatives of State Government: Realizing the situation, the State Government came forward to address these issues and facilitate the external stakeholders to seamlessly attain the status of total financial inclusion. It proactively proposed to provide rent-free accommodation in each Panchayat for opening up USBs in the shadow area. It also agreed to provide a separate fully furnished e-Panchayat room for the USB/CSP, with free internet connectivity, upon construction. This was a major booster for unrolling the USBs / CSPs in the shadow area villages. Thus the issue of brick and mortar structure for USB as well as internet connectivity was resolved by the initiates of the Rural Development department of the State Government. The government also marched ahead beyond providing the infrastructure at the village Panchayat level and created an enabling environment for the bankers and other stakeholders to achieve the objective.

Sustainable Business Model: Apart from the initial capital investment, which was appropriately addressed by the state government, the other major challenge was to unroll this as a business model for the banks. State Government did not want these branches to be opened through a 'push', but through a 'pull' factor. The State Government decided to work out arrangements that would institutionalize the entire system on a sustainable basis. A meeting with the Lead Bank Officers of the entire State was convened to understand the issues faced by them at the field in detail. In discussions, it was expressed that a single BC operated center, involving a minimum of fortnight visit by a regular Bank official, breaks-even at a business volume of at least Rs. 45 lakhs per annum. To ensure this level of business volume on a regular basis, a decision was taken to open all the accounts falling under the 5 KM radius including that of Panchayat in the USB. This ensured that the USBs get the minimum required business volumes and that the system of USBs gets properly institutionalized in the banking structure in the state.

7.3.3 Demand Side Challenges and Solutions

The first and foremost demand side challenge was on the knowledge and application of the bank accounts and banking activities by the customers. While opening of banking accounts could be performed at the supply side, the accounts normally remain dormant for lack of any transactions since the account holders are neither aware of the benefits of the banking accounts, nor are conversant in holding the transactions and taking optimal benefits of various products and services from the bankers.

The demand side challenges could initially and to a great extent be addressed by means of interventions using financial literacy. To foster Growth Momentum in the state of MP, SLBC decided to leverage the platform of R-SETIs and FLCs, which in turn, strengthened the Demand Side. In pursuance to this agenda, SLBC is regularly calling Conclave of R-SETI Directors and FLC In-charges in consonance with RBI, GoMP and NABARD.

Financial Literacy Centres (FLCs): As mandated by the RBI vide Circular dated June 6, 2012, Lead banks are required to set up FLCs in each of the Lead District Manager (LDM) Offices. As on date all the 50 districts in MP have opened a FLC. FLCs and rural branches of banks are now conducting outdoor Financial Literacy Camps at least once a month. The RBI has advised banks to conduct FLC activities by all the 2548 rural branches in the State besides 50 FLCs. While the outdoor activities are being conducted by the FLCs are being reported by the SLBC to the RBI, however, the reporting and monitoring mechanism of outdoor Financial Literacy activities conducted by the rural branches is yet to be institutionalised.

Additional Credibility and Viability: As would be discussed in detail in the subsequent component of the FI model of MP, the State Government is continuously mandating all the benefits, including that of wage payment of MNERGA, to be transferred directly to these accounts in the USBs/CSPs. Similarly, the USBs/CSPs are continuously adopting mechanisms for not just devolution of funds but also for selling a whole lot of other financial products. All these mechanisms are bringing in additional business volumes at these centers, taking them forward from the breaking-even stage to profit-making stage. The channeling of various schemes by the government is bringing in additional credibility into the institution.

7.4 Present Outreach and Performances of the USBs/CSPs

Backed by the initial infrastructural support from the GoMP and the assurance of the required business volumes to break even, a large number of USBs and CSPs are being opened in the shadow area villages. Quite a few banks, like SBI have realized the potential of expanding their business through this channel and have taken the lead in expanding their CSP network in the entire state. They have opened their CSPs in various other areas, not necessarily mandated by the SLBC.

Regarding coverage of the identified 14,767 shadow villages, as reported in the latest SLBC meeting organized in September, 2013, 10,730, i.e. around 73% of the shadow area villages have been covered by 2,144 BCs / USBs deployed by the Commercial Banks.

Similarly, as we see the table below, the number of FI accounts opened in Commercial Banks, in the first half of the FY 13-14 itself has got increased by around 40% to 64 lakh, as against to 46 lakh accounts until last year. The number of transactions in these accounts got increased by 667% in first half of the year to 46 lakh transactions against just 6 lakh transactions done in the whole of last year. Similarly, the value of transactions in these accounts got increased by whopping over 1700% to INR 585.74 Cr. from INR 32.37 Cr. worth of transaction done in the entire last year. This clearly depicts that while the numbers of bank accounts are being opened in the banks from last two-three years, significant activity in these accounts started happening from this financial year only.

S. No.	Details	As of 31.03.12	As of 31.03.13	As of 30. .09.13
1	Total No. of FI A/cs Opened	0.06 cr.	0.46 cr.	0.64 cr.
2	No. of Transactions	0.02 cr.	0.06 cr.	0.46 cr.
3	Value of Transactions	12.41 cr.	32.37 cr.	585.74 cr.

Source: MP-SLBC Minutes, September, 2013

Further, the products offered at these USBs and CSPs have no longer been restricted to just the No-frill bank accounts. Realizing the opportunities posed to banks, a lot of other products than just the Basic Savings Accounts like Recurring Deposits, Flexi Recurring Deposits, Term Deposits, Tiny Fixed Deposits, Remittance Facilities, Accidental Insurance, Life Insurance, ATM Cards, Credit, etc. have started being offered to villagers in these unbanked areas. Banks are increasing looking forward to including more and more products and services through these outlets. The month-on-month incremental business volumes of all these products are seeing an increasing trend in all the banks. As envisaged, while conceptualizing and implementing the concept of USB / CSP, a 'pull' factor from the banks has started taking effect, at least by those banks, which have been in this channel for some time now.

As quoted by a banker *'What started as a mandated activity has now turned into a full-fledged business domain. The model creates a win-win situation for all the stakeholders'*. It is a business model for the bankers and not a charity or a mandated forced-upon activity. Seeing the business opportunities, there has even been a 'pull' from progressive people in the villages, who wanted to get into the business of financial inclusion by becoming Service Provider of the CSP in their villages. As has come out in discussions with the bankers, quite a few of the CSP operators have started earning to the tune of Rs. 10,000/- and more and this number is going to go up only. While, there would still be the issue of break-even for many of the CSPs, they're heading fast to get into profit making mode.

7.5 Caveats to the Third Pillar

It may be distinctly understood that the Third Pillar mentioned in this chapter is not a standalone of modular composition of the *Samruddhi*. The same has to be seen in conjunction with the first two pillars namely, SSSM and e-FMS. However, the fact that this pillar addresses quite a number of challenges to the geographically spread regions cannot be denied by any means. Thus this third pillar, if used as a modular chunk of financial inclusion may only serve limited purpose i.e. reaching at the front end of the customers using the banking channels such as USB/CSP etc. However, having left alone the pillar would not serve the back end service processes adopted in cash transfers by the welfare state. Thus unless the database, as created in the first pillar of SSSM is complete and accurate in all respects and captures the bank details of the individuals on one hand and provides for an active banking on the other by means of financial literacy etc. the same could not be optimally used for delivering an integrated financial module. And this is evidently proven from the business statistics provided in the previous section. When left alone to Banks to do the financial inclusion as a standalone module, the activity to a large extent remains limited to opening of the bank accounts; but when the financial inclusion is implemented in an integrated manner as in the case of MP, it starts yielding marvelous results, as evident from the increased business activities in these accounts.

It is thus imperative to use this third pillar with extreme cautious by the GoMP as well as other states if they wish to adopt the model. The integrated model of *Samruddhi* is thus on a 'take it full – or leave it full' basis.

Chapter-8

Financial Literacy Ushering *Samruddhi* – MPFI

This chapter brings out the essential pre-requisites for financial inclusion that most governments and agencies tend to ignore due to higher concentration and focus on FI drive and then links as to how and why financial literacy should be treated as an essential prerequisite to financial inclusion in MP. The chapter describes financial literacy and aligns its goal with that of inclusive financing. Providing for need for customization and strategizing financial literacy, it also details the initiatives action taken by the Central Bank in India.

Financial Literacy Ushering *Samruddhi* - MPFI

8.1 Backdrop

Financial literacy is the ability to understand how money works in the world: how someone manages to earn or make it, how that person manages it, how he/she invests it (turn it into more) and how that person donates it to help others. More specifically, it refers to the set of skills and knowledge that allows an individual to make informed and effective decisions with all of their financial resources. Financial Literacy has emerged as a focus area for policy makers not just in India, but all across the globe, particularly in the aftermath of the global financial crisis. Success in dissemination of financial literacy has been identified as key to meeting the critical objectives of financial inclusion and consequently, financial stability. The absence of financial literacy can lead to making poor financial decisions that can have adverse effects on the financial health of an individual. The advantages or disadvantages of variable or fixed rates are a typical example of an issue that will be easier to understand if an individual is financially literate. Similarly, real rate of return versus nominal (absolute) rate of returns explains why the intelligent and financial literate prefer a higher real rather than a higher nominal with a high dosage of inflation.

8.2 Financial Literacy : Definition and Concept

The literature often uses three terms – financial literacy, financial education, and financial capability -- whose overlap can cause confusion. They are, however, distinct pieces of a puzzle, parts of the whole, or steps towards the goal of financial inclusion. Financial literacy is associated with the consumer who has a responsibility to inform himself of the products he purchases and to understand the contracts he signs. It incorporates knowledge, skills and attitudes. Financial education is a key tool to reach this multidimensional goal. Financial capability, on the other hand, is about the context; it engages the financial services sector in its responsibility to offer the right products to its various target markets. Financial inclusion implies an alignment of supply and demand, where financially literate consumers have opportunities to apply their knowledge in a marketplace of appropriate product options.

Financial literacy is not a new term in India and while most have heard a number of definitions of financial literacy, we suggest using the one given by OECD, which defines it as ***"a combination of financial awareness, knowledge, skills, attitude and behaviours necessary to make sound financial decisions and ultimately achieve individual financial wellbeing."*** Financial literacy is expected to impart the wherewithal to make ordinary individuals into informed and questioning users of financial services. It is not just about markets and investing, but also about saving, budgeting, financial planning, basics of banking and most importantly, about being ***"Financially Smart".***

8.3 *Samruddhi* – the MPFI Model and the Need for Financial Literacy

The state of MP is under the transformation phase from a non banked population towards attaining *Samruddhi*, the complete solution to inclusive growth. While the supply side of products and services are ready to be offered the demand generation is yet to be articulated. The demand could only be generated if there is money to buy products and enough knowledge and information to do so. While the G2P model of *Samruddhi* provides for supply of money into the banking accounts of the beneficiaries, lack of knowledge and financial literacy prevents them to participate in the inclusive ecosystem of the financial investments. Together with Financial Inclusion and Consumer Protection, Financial Literacy forms a triad, which is necessary for ensuring financial stability. Not only do the three have a bearing on financial stability, they also have a strong interplay among each other, with each having a vital impact on the other. Thus, financial literacy has significant relevance for financial inclusion and consumer protection.

Without financial literacy, one cannot expect to make major headway in either financial inclusion or consumer protection. Basic knowledge and regular habits on banking, its utility and benefits could be inculcated into them only by means of a pragmatic approach towards money. The state of MP would do well to imbibe the same as 'Teachable Moments' while transferring the G2P payments and apprising the benefits of the same for future.

Financial inclusion, essentially, involves two elements, one of '**access'** and the other of '**awareness'**. It is a global issue, and the relative emphasis on the two elements varies from country to country. For developed countries with widespread financial infrastructure, the access to financial products /services is not a matter of concern. It is more of a financial literacy issue in that market player / consumers are required to be educated about the characteristics of the available financial products / services, including their risks and returns. In developing countries like India, however, the access to products itself is lacking. Therefore, here, both the elements, i.e. access and awareness need to be emphasized, with improving access assuming greater priority. MP has already achieved and to certain extent in the process of achieving the phenomenon of 'Access' by means of *Samruddhi* and money has been seamlessly reaching to the rural population. However, the state still requires to create 'Awareness' in a big way and provide for a handhold support to the beneficiaries by building their capacities to better understand the importance of such financial products in their lives.

8.3.1 Target for Financial Literacy

All Users of Financial Products and Services: In the state of MP, everyone who is associated with the financial system and FI need to be financially literate ranging from the model designers up to the providers of the last mile connectivity. This includes all users of financial services, be it the financially excluded resource-poor, the lower and middle income groups or the high net worth individuals; the providers of services; and even the policy makers and the regulators. However, the focus under the *Samruddhi* should be population of low income informal sector workers and women. For the resource-poor population, which operates at the margin, vulnerability can be acute due to constant financial pressures. Household cash management can be daunting under difficult circumstances, with few resources to fall back upon. Financial literacy efforts, in case of such population groups that target *Samruddhi*, essentially, involves educating them about the benefits of being part of the formal financial system and managing short term volatility in incomes and meeting unexpected emergencies without getting trapped in unnecessary debt.

NCAER and Max New York Life Study

A study by NCAER and Max New York Life has shown that in India, around 60 per cent of labourers surveyed stored cash at home, while borrowing from moneylenders at high interest rates; a pattern of saving money that is bound to aggravate financial vulnerability of these labourers. The process of educating these excluded sections would involve addressing deep entrenched behavioural and psychological factors that are major barriers to participating in the financial system.

Middle and Lower – Middle Income Group: For the middle and lower-middle income groups that are participating in financial markets as either savers or borrowers or both, i.e. the financially included, financial literacy efforts should aim at enhancing their knowledge about the market and new products / services. For instance, there is a large section of Madhya Pradesh's population comprising shopkeepers and petty businessmen that has a bank account but refrains from participating in the banking products and capital market on account of lack of knowledge. Financial literacy, in such cases, would focus on creating awareness about the way the money and capital market functions and also about the fact that the equity market provides relatively higher returns as compared to other investments, over a longer time horizon.

Banks and Financial Institutions: While the need for financial literacy for the users of financial products / services is a well accepted fact, one would emphasize that even banks, financial institutions and other market players need to be financially literate and be fully aware of the risk and return framework. It might include understanding the risks involved in their businesses and products they offer to customers. As market players, they need to understand risks inherent in complex financial products and choose wisely while committing funds. For service providers, financial literacy also involves understanding the needs of existing and potential customers and creating products and services suited to those needs.

Opinion / Policy Makers: Finally, financial literacy is also relevant for opinion makers and policy makers. Literacy is a must to gauge the needs of the population and financial institutions; to understand the risks inherent in products and markets; and to create a policy environment conducive to attainment of the national goals. Only such an approach would ensure that physical and financial resources are put to their optimum use to generate higher economic growth, while minimizing the financial stability risks.

8.4 Customizing Financial Literacy for Financial Inclusion

Effective financial education is relevant and it addresses issues of critical and immediate importance to the learners in a way that acknowledges and incorporates their specific financial realities. Research suggest that the value of investing in some form of client-focused research to identify existing individual behavior and community practice should be the starting point for financial education, the aim of which should be to move from the existing behaviors to desired behaviors, from passivity born of lack of confidence, information and opportunity to pro-active, informed decisions.

The ***'use'*** factor is an element of effective financial education because when the client applies new knowledge and skills, she increases her chances of retaining them. Therefore, some of the best opportunities for financial education occur when the target group faces new financial situations or decisions. These are ***'teachable moments'*** that the learner might be in transition from the familiar to the unfamiliar, (e.g. the widow who loses her assets to her in-laws), or have an opportunity that will be enhanced with relevant information and skills (e.g. the student who joins an after-school savings club). Identifying these 'teachable moments' for financial education when someone first opens a bank account, transitions to mobile banking, or becomes a recipient of a government cash transfer program certainly makes the education relevant, immediately useful and reinforces behavior changes.

The feminization of migration (for factory jobs, domestic work et al) provides teachable moments as these women struggle with a host of new financial opportunities and challenges. Despite exploitative working conditions, young women desire factory work for the income it brings at a time in their life when they are unencumbered by the roles and responsibilities of wives and mothers. The opportunity to work for wages exposes them to social, financial and educational experiences with positive outcomes including delayed marriage, increased mobility, strong peer networks of fellow workers seeking to 'modernize' and experience managing money that result in more empowered, capable young adults. However, such outcomes are often in conflict with family expectations for the migrants' income that is needed for dowry, siblings education or other family demands. Under pressure to send regular remittances, migrants often have to borrow at high interest rates in order to survive in their host country. Thus designing financial education for migrant workers requires careful selection of target groups and solid understanding of how each confronts different financial stresses.

Different Approaches to Help Girls to Save: The Nike Foundation

The Nike Foundation has supported a multidisciplinary approach to promoting girls' saving in the Dominican Republic, Mongolia, Burundi, Kenya and Uganda. In each country, a consortium of MFIs or banks, schools and NGOS collaborated to design and implement an integrated program combining financial education and savings opportunities. Microfinance Opportunities provided technical assistance in financial education for all teams, but in each location a slightly different approach was used. Financial education was offered to girls either in school or by NGOs outside of school, while a local bank offered a special savings account designed for them. However, in Burundi, girls got access to financial education as members of CARE sponsored savings groups which provided their vehicle for saving.

Cash Transfer Programs offer Teachable Moments. They now exist in more than 50 countries across the globe including India are and largely targeting women –as heads-of-household, caregivers, and elderly pension recipients. Their core purpose is to raise the income of the poor and protect vulnerable households. Conditional cash transfers (CCTs) use incentives and program conditions to link immediate economic assistance to long term behavior changes. Those for whom access to a regular cash payment is a new experience may need to learn to manage this new resource to balance competing demands of risk protection, investment and consumption, as well as plan for longer term financial security and an ***"exit route"*** once the CCT program ends. Increased use of mobile banking and debit cards as a means for dispersing cash transfers as well as direct deposits in the new bank accounts of these ***'unbanked'*** will require training to ensure participants' use of not only the technology, but also the bank services to which it provides access. New program opportunities for financial education are emerging as policymakers explore the potential of CCTs to enhance economic inclusion through linkages to bank accounts and opportunities for asset accumulation.

8.4.1 Know the Target Group

The basic tenets of money management-- save often, spend carefully, borrow cautiously and invest wisely -- may be universal, but to be meaningful to a given audience, they must be nuanced to respond to the specific needs or stresses that group faces. For example, the value of saving is foundational to many of the lessons of money management. However, for someone operating outside the financial system, the relevant educational message may focus on the benefits of saving in a safe place. For someone who already saves, the relevant content may target the difference between a passbook savings account and a certificate of deposit and how to use each to meet different savings goals.

Relevance: Ensuring the relevance of financial education necessitates understanding the financial behaviors of the target audience. It may range from one to many or all such questions:

- What are their sources of income?
- How do they spend their money?
- What influences these expenditures?
- Who controls them?
- What beliefs or cultural practices shape their financial decisions?
- What is the context and what are the possibilities for changing behaviors that contribute to financial stress?

Market research has been used effectively to gather data that sheds light on these questions; findings have been invaluable in informing the curriculum design of specific financial education programs.

Ecuador Remittance (Senders & Receivers)	*Dominic Republic - Adolescent Girls*
Research on remittance senders and receivers in Ecuador revealed that sender and receivers often pursue disparate goals with respect to remittance income. *Receivers come to depend upon and use remittance income as if it were permanent. Failing to acknowledge its temporary nature, they relinquish other income streams, spend remittances for daily consumption, don't save and have scant contingency plans for any interruption in the flow. Over-indebtedness as a result of purchases of big ticket consumer items (e.g. appliances and electronics) on credit is common. Meanwhile, the sender makes sacrifices to send money intended to purchase land, invest in a business or accomplish other goals for the return home. As a result of these findings, curriculum on managing remittances included communication, goal setting and planning with senders and receivers.*	*In the Dominican Republic, market research focusing on the financial circumstances of adolescent girls revealed that they typically don't save any of the money received from parents and part-time employment. Researchers learned that these girls' biggest expense is weekly visits to the beauty salon. In the financial education program that was designed for them, girls identified steps they could take – like exchanging services among friends that could cut in half their trips to the beauty salons -- to reduce these expenditures and have a little to save*

Everywhere, the poor are vulnerable to unexpected events that unleash pressure to find a lump sum of money, but vary how they prefer do this.

In Vietnam, people often purchase livestock to sell in times of need, and do not view selling assets as a strategy of desperation. In contrast, in Colombia, people would resist selling an asset, preferring to borrow money to cope with unexpected expenses

For potential insurance clients, a significant misunderstanding lies in the need to renew the policy if no claims were made during the policy year. Some clients expect to get their premium refunded in the event of no claims. Curriculum to impart information about insurance therefore targeted the concept of pooled risk, starting with local mutual aid practices that operate on similar principles but may be more familiar to potential clients.

8.4.2 Technology

Technology is creating perhaps the most widespread teachable moment. Around the world, cell phones are replacing landlines and substituting for bricks and mortar bank branches. Yet, older customers, intimidated by the technology, give their children access to their accounts and report theft or fraud. Young people, in contrast, are quick to master the technology's functionality, but understand little about the management decisions that the keypad contains.

New access to convenient debit cards and ATMs presents challenges to those trying to control their spending. Despite their great potential, the introduction of electronic cards and mobile banking without information, orientation, and education presupposes knowledge and experience that many a low income families do not have. This may explain why the level of bank transactions by the previously unbanked has not met expectations, with providers of cell phone banking reporting active usage rates of less than 30% over a 90 day period[39]. Through its research of mobile banking in four countries, Microfinance Opportunities found the reasons for low usage include mistrust of ***'faceless'*** banking, confusion over the PIN, and a lack of knowledge of banking functions, off and on the cell phone. To date use of cell phone 'banking' is largely limited to money transfers and adding airtime. Financial education can bridge the gap between product marketing and effective product use.

FINCA's Financial Education

FINCA Mexico introduced a financial education program to build clients knowledge and confidence about its pre paid card, and ultimately branchless banking. FINCA's comprehensive FE program addresses the clients' level of technical knowledge and enhances their trust in mobile banking and other financial technologies. FINCA has reached 10,500 people with prepaid cards. All received financial education training.

(Microfinance Opportunities and Genesis Analytics)

8.5 Financial Literacy – A Tool for Financial Inclusion

Embracing the related goals of financial capability and financial inclusion requires a multi-stakeholder framework built around consumers, the financial services industry and government. Financial education is the nexus linking their interests in these common goals. Non-governmental and community-based organizations use it to promote livelihoods and asset building for the poor, integrating it into a range of activities that includes extension services, health education, business-development training, or mentoring. Financial institutions use it to enhance their community profile, increase adoption and use of their products and ultimately, improve performance. Central bankers and regulators embrace financial education to protect consumers from fraud and abuse.

Financial education and the financial literacy build a winning proposition at multiple levels, for multiple stakeholders. On an individual level, financial literacy helps households to use scarce resources more effectively, choose the financial products that best meet their needs and become pro-active decision makers. At the institutional level, informed consumers make better clients, lowering institutional risk and contributing to a stronger bottom line. At the market level, financially literate consumers are a key element in effective consumer protection; placing pressure on financial institutions for services that are both appropriately priced and transparent. With multiple stakeholders, financial education is beginning to fill a hitherto empty space in the movement towards financial inclusion.

39. CGAP – 2010

Target groups for financial education can be defined by age, gender, employment status or relationship to a specific financial product. Financial education targeted to youth is more likely to focus on negotiating with parents about spending money, the value of saving, and planning for the future than it is on investing. Migrant workers may need help budgeting new income sources and managing expenses as they move through the various stages of migration, from initial travel and settling expenses to sending remittances home and eventual return. Some learners are brought together by interest in a specific product like a home mortgage or insurance. In this field of limitless possibilities yielding impressive variety in both what is taught and how, there is still much to learn about which types of financial education are needed by whom, which methodologies are most effective in changing knowledge, skills, attitudes and practices, and how financial education can be combined with other opportunities to reinforce long-term behavior change.

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8.5.1 Factors Affecting Quality of Financial Literacy

The two elements of effective financial education discussed in the previous sections above – '**relevance' and 'use'** are also the defining criteria of its **Quality**. Yet, the quality of financial education also depends on good trainers who can facilitate two-way dialogue with learners and engaging them actively in the content. To do this, they need to embrace a pedagogy that is significantly different from the traditional lecture method that still dominates formal educational systems and relies on one-way communication whereby the teacher / expert delivers the content to the passive recipient. While curriculum is now available to help trainers navigate through more participatory approaches, most of it needs some adaptation to respond to specific learners abilities (e.g. literacy levels) and the local context (reflecting local currencies, common businesses, place names and actual products offered by local financial institutions, etc.)

Do It Yourself Approach: Research has have found that a good investment in the quality of financial education is to offer it to trainers themselves. Realizing its relevance to their own lives, trainers become motivated to share it with others. However, they have been challenged by the task of curriculum adaptation cited above, and we have learned by experience not to underestimate this part of the process. Experiences of offering micro pensions like the NPS Lite products of the PFRDA regulated entities have suggested that if the motivators / sellers themselves buy and experience the products they are more likely to be selling the same as if they themselves own the product.

Quality education also requires attention to the mundane – logistics, location, schedule. Getting these details wrong can easily sink a program. All aspects of an education program must reflect the participants' priorities.

The Camp Approach: This kind of approach on imparting financial literacy is very common in large population base countries like India. The objective of conducting of financial literacy camps is to facilitate financial inclusion through provision of two essentials i.e. **literacy and easy access**. It should aim at imparting knowledge to enable financial planning, inculcate saving habits and improve the understanding of financial products leading to effective use of financial services by the common man. Financial literacy should help them plan ahead of time for their life cycle needs and deal with unexpected emergencies without resorting to debt. They should be able to proactively manage money and avoid debt traps. In order to ensure that the knowledge provided through awareness results in inculcating banking habits, literacy inputs need to be synchronized with access to financial services so as to enable the common man to use the information effectively to gain control over financial matters. It should also result in enhancement of their economic security aided by use of banking services.

Banking Services through Banking Literacy: The banks as providers of financial services have an inherent gain in the spread of financial inclusion and financial literacy, as it would help them capture the untapped business opportunities. Small customer is the key and banks should harness the business opportunities available at the bottom of the pyramid. Hence, banks must view the financial literacy efforts as their future investments. Banks must provide a bouquet of banking services comprising of a small overdraft facility, variable recurring deposit account, KCC, remittance facilities to the account holders in order to make the accounts transactional. People should be encouraged to make transactions in these accounts so that the cost of maintaining the accounts is recovered to make it a viable and profitable business of the banks. The provision of adequate credit is also important not only in the interest of the customer, but also for the banks as the income earned through interest would make the exercise a commercially viable proposition. Banks must provide credit at a competitive though non exploitative rate but certainly not at a subsidised rate.

8.5.2 RBI's Guide to Financial Literacy

The RBI has released on its website on January 31, 2013, a comprehensive Financial Literacy Guide, which, banks have been advised to use as a standard curriculum to impart basic conceptual understanding of financial products and services. The financial literacy guide consists of Guidance Note for trainers, Operational guidelines for conduct of financial literacy camps, and financial literacy material, including posters. The guide also contains a financial diary to be distributed to the target audience, so as to enable them to keep a record of their income and expenses, as a first step towards financial planning. Financial Literacy creates demand for financial products and services, thereby accelerating the pace of financial inclusion as it enables the common man to understand the needs and benefits of the products and services offered by the banks. All segments of the society need financial literacy in one form or the other. However, considering that a large segment of Indian society is financially excluded, financial literacy programs, should primarily focus on the individuals who are vulnerable to persistent downward financial pressures due to lack of understanding in the matters relating to personal finance.

Source: Reserve Bank of India's Financial Literacy Guide

The primary challenges in improving the effectiveness of financial literacy programs was the non availability of standardized basic curriculum to be conveyed to the target group. In order to address such issues, the RBI has issued a guide that has been prepared to ensure consistency in the messages reaching the target audience from various sources, thus making them more focused and purposeful. If the same has been delivered well, it is expected to create huge demand for banking services from the common man. The guide is meant to be used by branch managers of rural branches of banks and Lead District Managers (LDM) for their monthly financial literacy camps. The guide can also be used with suitable customization for educating various segments of urban excluded people. Banks need to gear up their machinery for conduct of financial literacy programs and simultaneously provide their customers affordable and user friendly access. This is the time to upgrade financial inclusion model as a sustainable, scalable and viable business opportunity which would enable the transition from poverty to financial empowerment, while ensuring profitable business opportunity to banks.

Creating awareness and knowledge about various products and providing these products at their doorstep would be the first step in capturing the accounts. The objective of the Financial Literacy Guide is to create awareness and educate masses in a lucid manner about management of money, importance of savings, advantages of saving with banks, other facilities provided by banks and benefits of borrowing from banks. The guide is a ready-reckoner for trainers involved in Financial Literacy and Financial Inclusion and is used as a standard text to be imparted to financially excluded people during the monthly financial literacy camps.

In line with the objective of bringing the unbanked people into the banking fold, the strategy of conducting the literacy programs also incorporates opening of accounts in camp mode followed by close monitoring of usage of accounts. In addition, a granular review helps in identifying the factors inhibiting the frequent use of accounts. The strategy also includes sorting out all such issues at the earliest. Moreover, while organizing financial literacy events, the involvement of Local Government officials and other prominent persons in the villages is also highly recommended. The banks also consider associating NGOs with proven track record in the field of financial literacy. However the contents of the guide issued by the RBI to be followed by the banks are used as a standard text to be imparted to exclude people during the monthly financial literacy camps.

8.6 Strategy for Expanding Financial Literacy

Promotion of financial literacy and the role of key stakeholders and players in it, is as important an area as the campaign itself. As already argued, financial literacy is required for each player in the economy, albeit in different degrees, forms and modules and should be customized to target different people at different stage of inclusion in their lives. World over, countries have targeted programmes for schoolchildren, teachers, research institutions, among others. Further, they have also launched mass media campaigns/websites providing simplified information, often in vernacular mediums, which can be used by the public to learn about the monetary and banking system. A global problem requires a global approach. Realizing this, the Organisation for Economic Cooperation and Development (OECD) created the International Network on Financial Education (INFE) in 2008 to promote and facilitate international co-operation between policy makers and other stakeholders on financial education issues worldwide. Currently, more than 200 institutions from 90 countries have joined the OECD/INFE.

Financial Stability and Development Council (FSDC) In view of the sheer magnitude of the task at hand, it is beneficial to have a strong institutional architecture guiding and coordinating the efforts of various stakeholders towards spreading financial literacy. India has this advantage through the Financial Stability and Development Council (FSDC), which is chaired by the Union Finance Minister with heads of all financial sector regulatory authorities as members. FSDC is mandated, inter alia to focus on spread of financial inclusion and financial literacy. The RBI, besides its role as a member of the FSDC, has also taken numerous initiatives for spreading financial inclusion and financial literacy, both in terms of creating an enabling policy environment and providing institutional support. Under the aegis of the FSDC, the draft National Strategy for Financial Education (NSFE) for India has been prepared. The Strategy envisages ways of creating awareness and educating consumers on access to financial services; availability of various types of products and their features; changing attitudes to translate knowledge into responsible financial behavior; and making consumers of financial services understand their rights and obligations. The Strategy calls for active involvement of individuals, financial sector regulators, educational institutions, NGOs, financial sector entities, multilateral international players and the Government at both Centre and State.

School Curriculum: The Strategy envisages a time frame of five years for its massive financial education campaign. It envisages that financial education will be delivered to different target groups through trained users. Basic financial education is aimed to be included in school curricula up to senior secondary level. This is based upon the premise that the most effective way is to weave financial education into the normal content of curriculum. Accordingly, India is engaging with the curriculum setting bodies like the National Council of Educational Research and Training (NCERT), Education Boards like the Central Board for Secondary Education (CBSE), Central and State Governments to try and embed such concepts in the school curriculum.

Mass Outreach: Simultaneously, the Strategy aims at establishing initial contact with 500 million adults, educating them on key savings, protection and investment related products so that they are empowered to take prudent financial decisions. It also seeks to create awareness about consumer protection and grievances redressal machinery available in the country. All the above measures would be undertaken through various stakeholders including NGOs, civil society and by using all available channels of mass communication. As a first step towards increasing financial education, the NSFE envisages conducting a National Survey on Financial Education to provide a holistic assessment of the need for financial education in the country.

8.6.1 Initiatives of the Reserve Bank of India

Since the challenge in India is to link large number of financially excluded people to the formal financial system, the focus of our strategy at the base level is to create awareness of basic financial products. Some of the steps that have been taken by the RBI and other stakeholders to promote financial literacy in India are as under:

1. **Outreach visits by Top Executives of RBI to remote villages**: The objective of these visits is to understand the ground level position, spread awareness about benefits of being connected to the formal financial system and disseminate information about the functioning of RBI.
2. **RBI Website:** Provides a link on Financial Education in the RBI website, containing material in English, Hindi and 11 vernacular languages, which includes comic books on money and banking for children, films, messages on financial planning, games on financial education and link for accessing the Banking Ombudsman Scheme.
3. **Awareness** - Distributing pamphlets, comic books, enacting plays and skits, arranging stalls in local fairs, exhibitions, participation in information / literacy programmes organized by Press. Books on financial planning for students and new professionals have also been released.
4. **Financial Literacy Centres (FLCs)** have been opened by various banks with focus on the spread of Financial Literacy, to create awareness about financial products and provision of counseling facilities for customers of banks. There were 575 FLCs in the country as on September 30, 2012.
5. **Conducting Town Hall events across the country**, including in Tier II and smaller cities, bringing together commercial banks and other stakeholders. News exhibition on Mint Road Milestones has become the focal point for financial literacy activities with all activities relating to financial literacy coalescing at a common forum at each centre.
6. **Setting up of a monetary museum** by RBI to create awareness about money and banking among general public and spread knowledge about the history of money.
7. **Use of mobile Financial Literacy** vans by banks in the North Eastern States and elsewhere
8. **Awareness programmes on various Governments sponsored** self employment schemes involving bank loans and subsidy by Government agencies like KVIC, DICs and SC/ST corporations.

9. **Mass media campaign** tie ups with educational institutes, financial awareness workshops/ help lines, books, pamphlets and publications on financial literacy by NGOs, financial market players, etc.

10. **National and State level rural livelihood missions** have large number of field functionaries for proper handholding support to large number of Self Help Groups.

11. **Large number of websites / portals** of banks/ State Level Bankers Committees disseminating information on banking services

12. **Conduct of Financial Literacy programmes** by Rural Self Employment Training Institutes

In line with the 'catch them young' strategy for our financial education initiatives, the RBI launched the RBIQ, an all India inter school quiz competition, in 2012. The quiz seeks to be an effective platform for disseminating financial education by creating awareness and sensitization about the history and role of the RBI, about banking and finance, economics, current affairs, etc., besides seeking to build a 'connect' between the RBI and the young student community enrolled in schools across the country.

As part of its efforts to gain from international perspectives on financial literacy initiatives, the RBI, in association with the World Bank and the OECD, organizes Regional Conferences on Financial Education. These Conferences are among the various events organized globally to disseminate the knowledge and products developed through the Financial Literacy and Education Trust Fund, managed by the World Bank and the OECD, for strengthening the capacity for planning and implementation of financial education programs. One of the objectives of the NSFE is to standardize the messages that various stakeholders seek to disseminate through their financial education initiatives. The draft NSFE document identifies certain simple messages such as why save; why invest; why insure; why save with banks; why borrow within limits; why repay loans in time; why borrow for income generating purposes, what is interest and how moneylenders charge very high interest rates, etc. It is a well recognized fact that the standardization will help in ensuring consistency in the messages reaching the target audience from various sources and making them more focused and powerful.

8.7 Financial Literacy and Capacity Building in Samruddhi

MP has seen enormous progress and growth in the past decade. While the growth story and financial inclusion drive has been impressive, there are still causes for concern on the dimensions of credit and lower utilization of capital. Low-income MP households in the informal or subsistence economy often have to borrow from friends, family or usurious moneylenders. They have little awareness and practically no access to insurance products that could protect their financial resources in unexpected circumstances such as illness, property damage due to man-made / natural disaster or death of the primary breadwinner. The state of Madhya Pradesh is low in literacy rate and even lower in its financial literacy and hence one may doubt that even the financial literacy programs like the classroom courses, teachable moments due to cash transfer etc. may or may not work. Hence there is a strong need for building up the capacities of the stakeholders on financial literacy at all level.

The GoMP and/or support agencies like the UNDP should ideally take up this initiative separately and independently of the bankers / NABARD efforts on financial literacy. Since MP requires a specialized and customized financial literacy, it should be more in the form of capacity building and hand hold support for a medium term plan rather than a one-time effort. On a more scientific note, the state would do well to pilot such training cum capacity building by mapping a baseline on traits of financial behavior to get preliminary background information to understand the resources available, existing intervention, understand the role of each stakeholder, identify gaps in the strategy, design and plan the intervention. On the demand side, the state could even hire an independent credible agency for Community Mobilization and awareness meetings that would make people aware about DBT and its process and banking processes and the process of opening accounts on one hand and using them for enhancing their wealth on the other.

Chapter-9

Critique of Financial Inclusion in India

This chapter intends to highlight the recent trends, the current challenges and the emerging issues in fostering new payment methods and instruments with focus on the inter-linkages between a robust payment system and a sustainable financial inclusion.

Critique of Financial Inclusion in India

9.1 Indian Banking Ecosystem Today

The Indian banking eco-system has about 95,000 branches, about equal number of ATMs across the country and 278 million debit cards; more than 1,50,000 Post and Sub Post Offices. Yet a large proportion of our population remains financially excluded. Data indicates that only about 40 percent of the adult population in the country has a bank account; only 25,000 plus villages have a bank branch out of the 600,000 villages in the country. Access to a range of quality financial services at affordable prices, delivered with convenience and dignity, can change the course of an individual's, family's, or business's future. Financial inclusion as a concept, process and business proposition is not new for the banking sector of India and, in fact, it dates back to the phase of nationalization of banks and even following the recommendations of the All India Rural Credit Survey Committee (AIRCS) in 1954. One of the objectives of nationalization was aimed at taking banking to the masses. Financial inclusion, thus, has been and continues to be at the centre of the policy priority of the country.

In sync with the international developments, India has also been witness to some efficient and effective innovations - both in the field of access channels and products. In the payment system landscape of the country, the RBI acts as regulator, supervisor and, also at times, as a service provider. Certain major payment systems initiatives, such as, ECS, NEFT and RTGS have been game changers that have helped millions of people to use electronic medium for faster transfer of money from one place to another, and, to a large extent, the RBI played a critical role in the development of these products. It has, however, been observed that benefits of these facilities have not yet reached the vast segments of the population who are unable to access formal banking channels. The Business Correspondent (BC) based business model using low cost ICT has opened up an opportunity for the banking sector to provide appropriate payment system products at affordable cost.

The continuous shrinking of prices of ICT based solutions can be used to provide the financial services using multiple delivery channels, such as, ATMs, kiosks, mobile phones, internet and contact and contactless cards through PoS. Innovations in product design and delivery channels have provided a fillip to the process of financial inclusion and the need for deeper and search for sustainable financial inclusion has paved way for many innovations. Traditional payment services no longer make a business case for large volume of small ticket transactions. This has led to many innovations, such as, special bank accounts or pre-paid accounts, use of BCs, use of technology for initiating and authenticating transaction, etc. At the same time, it is important to realize that innovations have taken place and have been successful due to initiatives of all the stakeholders, partnerships of banks and non-banks and creation of an enabling business environment by the regulator and in the process have opened up new avenues for tapping the unreached markets.

Banks and Government in India are fighting to fulfill the Financial Inclusion dream. The main reason is that the products designed by the banks are not satisfying the low income families. The provision of uncomplicated, small, affordable products will help to bring the low income families into the formal financial sector. Banks have limitations to reach directly to the low income consumers. Correspondents can be considered to be an excellent channel which banks can use to distribute their product information. Educating the consumers about the financial benefits and products of banks which are beneficial to low income groups will be a great step to tap their potential. Banks are now using new technologies like mobile phones to reach low income consumers.

Another reason for financial exclusion is the lack of a regular or substantial income. In most of the cases people with low income do not qualify for a loan. The proximity of the financial service is another fact. The loss is not only the transportation cost but also the loss of daily wages for a low income individual. Most of the excluded consumers are not aware of the bank's products, which are beneficial for them. Getting money for their financial requirements from a local money lender is easier than getting a loan from the bank. Most of the banks need collateral for their loans. It is very difficult for a low income individual to find collateral for a bank loan. Moreover, banks give more importance to meeting their financial targets. So they focus on larger accounts. It is not profitable for banks to provide small loans and make a profit. Thus there is a strong need for **'innovations to unlock the next decade of banking'** to attain a meaningful financial inclusion and provide for micro transactions at most efficient cost and effective manner.

9.2 Critical Analysis of Financial Inclusion in India

9.2.1 Definitional Issues

India does not have a standardized definition of Financial Inclusion and that provides the flexibility and freedom to the stakeholders to design and report the quantum and quality on their own and takes credit for the same.

RBI having pioneered the concept of Financial Inclusion and is totally committed in achieving it. The developmental activity of Financial Inclusion is quite uniquely endowed upon RBI unlike other Central Banks which have niche activities and mandates to fulfill. A standard and working definition according to RBI is as follows: “Financial Inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular at an affordable cost in a fair and transparent manner by mainstream institutional players”[40].

Need for a Clear Cut Definition: Without a clear definition of financial inclusion and good ground level data, much of what one says in terms of inclusiveness in the financial sector is analogous to writing on water. Additionally, without proper baseline data, quoting facts and figures is

[40] (Source : Presentation on Financial Inclusion and Financial Literacy-made by Dr. Deepali Pant Joshi, Executive Director, RBI, during the Yuva Parivartan's 3rd International Summit held in Delhi on April 17, 2013)

meaningless as then, one would not be able to attribute whether financial inclusion occurred because of something one did consciously or it was simply an accident and / or act (of GOD)[41].

9.2.1 Database Issues

Generation and Sharing of Database: Having an internally consistent definition of financial inclusion is very critical. And generating data based on the same is even more important. Together, these can form the basis for our opinions and judgments, which in turn can shape policy and subsequent implementation appropriately. It therefore follows that we first need a reliable and valid definition of financial inclusion in terms of type of products and services (for example, it could be loans, savings, insurance, remittance, literacy and financial education services, ombudsman services etc) accessed through different institutions (Banks, Insurance Companies, SHGs, MFIs, Business Correspondents, Cooperatives etc) by various kinds of mutually exclusive individuals / households from different segments of society (especially, low income and excluded groups). However, some of these financial inclusion services could be one time services (like going to an ombudsman), others (like loans) may be repeat services and some others like savings accounts (or pension accounts) could even be continuous long-term services. Likewise, several institutions may combine to form a channel – for example, one could get a loan from an SHG that is linked to a bank which has been refinanced by a DFI like NABARD. One could also get a loan from an MFI that has borrowed from a DFI (SIDBI) and is on-lending to different people. The permutations and combinations are endless here but the above distinction between channels and institutions is very important for determining correct outreach of financial inclusion.

9.2.3 Static versus Dynamic

Dynamism of Financial Inclusion: Most stakeholders assume financial inclusion is a one time or static phenomenon. On the contrary, it is a dynamic one where people float in and float out of the financial inclusion eco system. To substantiate it further, with the 2010 AP micro-finance crisis where most of the clients in AP who did not pay back at the height of the crisis were classified as defaulters (both in general terms as well as in the credit bureau) – as a consequence, no formal or quasi formal financial system will touch them hereafter.

9.2.4 Governance Issues

Transparency for Better Regulation and Governance: In fact, the real outreach of the financial inclusion services through the various channels and institutions is not transparently known today. This is because there is an overstatement of outreach figures through double and triple counting as sometimes data of different institutions within a channel is added up to give an incorrect outreach figure. Sometimes, people have genuinely accessed services through different channels as well. This again provides an exaggerated picture of total outreach and penetration with regard to financial inclusion. Given the fact that there is so much double and

[41] Ramesh S Arunachalam: 'A practical agenda in financial inclusion: What RBI Governor Dr Rajan needs to do?' – Moneylife.

triple counting and exaggeration in the outreach data, it is imperative that one knows the real outreach in terms of mutually exclusive individuals first and as mutually exclusive households next.

The RBI should set in motion appropriate processes so that transparent data which can lend itself to objective field verification is publicly available. One need to know how many mutually exclusive individuals / households have been reached by various financial inclusion efforts and this would also entail significant coordination with other regulators like IRDA and PFRDA et al that would need to ensure through appropriate mechanisms. AS RBI is implementing a bank led model for Financial Inclusion and Financial Literacy, data furnished by banks is collated and processed at our Regional Offices and Central Office.

Linkage Between Financial Inclusion and Inclusive Growth: The arguments substantiated above also implies that the linkage cited between 'financial inclusion' and 'inclusive growth' is at best tenuous because of the following aspects:

- Not all people who are financially included stay that way all the time. They float in and out of the financial eco system due to circumstances beyond their control and this is especially true of low income people in the urban informal sector and the rural poor
- Not all financially excluded people are poor and vulnerable. Fox example, a large number of medium sized traders and farmers in small shanty towns tend to be excluded for the formal financial system but they are not necessarily poor or vulnerable. And it is such people who have a better chance of staying financially included, once they have gained access to a formal financial service

Recent empirical evidence highlights that access to basic financial services can make a substantial positive difference in improving poor people's lives. Accordingly, financial sector reforms that promote financial inclusion are increasingly at the core of policymakers' agendas. CGAP and the World Bank Group, in response, launched the Financial Access project, including a cross-country database on financial inclusion topics and an annual report to inform the policy debate. Using this database, this paper (i) counts the number of unbanked adults around the world at 56 percent, (ii) analyzes the state of access to deposit and loan services as well as the extent of retail networks, and (iii) discusses the state of financial inclusion mandates around the world.

a. India is in an urgent need of a proper working definition of financial inclusion that can lend itself to reliable and valid measurement,
b. India require data on mutually exclusive individuals and households who have been financially included (in a given year),
c. India also needs to have data on how many such mutually exclusive individuals and households who were financially included in a given year stayed included in the subsequent years, and

d. Lastly, India also needs data on how many new mutually exclusive individuals and households enter the financial inclusion eco system in any given year

And all of this data must be capable of disaggregation by products/services, channels (and their institutions), states/regions and so on. Only then will we be able to make meaningful analysis of all the hype surrounding financial inclusion.

Necessary Immediate Steps on Financial Inclusion

Step 1. Define Financial Inclusion

1. Ensure that the RBI puts out a proper working definition of "financial inclusion" and ensures that all stakeholders promoting and / or looking at financial inclusion use the same consistent definition. Otherwise, outreach figures on financial inclusion would be meaningless and cannot be evaluated or compared in a serious manner.

Step 2. Create Database

2. Ensure that proper data (which can then become a baseline going forward) is available with regard to financial inclusion.

A. Priority task would be to know ASAP: How many mutually exclusive individuals and mutually exclusive households have been financial included in any given financial year?

- *(i) Disaggregate the so called financially included figure in terms of services / products accessed by the mutually exclusive individuals / families through different channels (and their institutions) and across various regions / states in India.*
- *(ii) Once this basic data becomes available, then, one can analyse the data to get better analytics about the rural-urban divide, demographics and so on.*
- *(iii) Members of JLGs / SHGs need to be more transparently and accurately estimated. Create an objectively verifiable data on the number of well functioning SHGs, their demographics with transactions on loans and savings, overlap of members across SHGs*
- *(iv) Create transparent and accurate data with regard to MFIs and their clients to avoid overlap in clients across MFIs and avert multiple lending.*
- *(v) Share the data across the MFI, the SHG Bank linkage, Cooperative and other models. All of these lead to significant exaggeration in outreach data.*
- *(vi) Avoid outreach exaggeration by sharing data on KYC, priority sector lending including to agriculture, BC models, insurance services and pensions.*

Step 3. Identify Continuity of Financial Inclusion

3. Once the basic data is constructed, one can then get to understand whether people who were financial included in a given year continued to be included in the subsequent years. Remember the fact is that anyone who is included financially need not stay included always.

9.2.5 Policy On Anvil

It is a significant move for the policy makers to precipitate hastening of the process of financial inclusion through supply side payment system enablers. One of the key variables as one can notice in Indian Payment System Vision document is the emphasis on promoting access and inclusion. To this end, the RBI has indicated an intention to provide a regulatory framework for the introduction of technology based innovative products for the use of all. RBI has also noted the need for ensuring the availability of low-cost and safe domestic remittances to large number of unbanked population and migrants through appropriate technology and affordable cost has also been emphasized.

The proposed introduction of International Bank account Number (IBAN) /Basic Bank Account Number (BBAN) is expected to result in efficiency in the system through introduction of a single parameter (i.e., the account number) that would replace different types of bank/branch codes (e.g., IFSC, BSR code, MICR code, SWIFT BIC code, etc.). IBAN's primary purpose would be to facilitate (i) domestic / cross-border inter-bank electronic payment, (ii) avoid routing errors in domestic / cross-border payments, (iii) facilitate straight through processing, and (iv) enable making payment in a reliable manner as remitter can validate the beneficiary account number. This is being studied by a committee[42] which is looking at the entire gamut of bank account number system[43]. A committee has also been constituted to recommend feasibility of paper based and electronic GIRO payment system, dovetailing the existing payment system infrastructure[44]. In the case of cheque GIRO, the model is essentially to facilitate customer of one bank to deposit cheques drawn on another bank at the counters of the branch of a third bank for collection/ realisation of proceeds through the existing clearing infrastructure. Providing an organizational framework for proliferation of PoS so as to expand the card acceptance infrastructure is another priority area of the RBI. The regulatory stance thus would continue to facilitate innovations to achieve the goals of inclusion, accessibility and affordability while remaining technology neutral. Convergence in innovation would, however, be the key area of focus.

9.3 New Indian Wave of Financial Inclusion Technology Driven

For years, India has been seen as lagging behind, with Kenya pointed to as the poster boy of mobile money and financial inclusion, even though India had all the components of a conducive environment — large unbanked population, stable banking system, growing tele-density with a competitive mobile landscape, and significant technological capabilities. The several regulatory roadblocks here have recently been eased at a sizzling pace — the push on business correspondents, the first step away from the branch model of expansion, has increased with progressive relaxation in guidelines, and last September corporate were allowed to act as BCs for banks, a big breakthrough in providing a comprehensive eco-system for financial inclusion.

The Inter Bank Mobile Payment Service can revolutionise the way payments are made. With corporate coming in as business correspondents, banks, telecom players and companies can work

42. Chairman: Shri Vijaya Chugh

43. The GIRO is a payment instruction effected by a payer for credit to payees account through any bank branch. It is akin to anytime anywhere payment.

44. Chairman: Shri. G. Padmanabhan

out a viable model for financial inclusion in India. Universal financial inclusion, talked of for decades by policymakers, finally may be coming to fruition. All the requisite pieces have been coming together, some rather rapidly in the past few years, and some of the most dramatic changes to sweep the economy have happened in the payment and settlement system.

9.3.1 Mobile Services Potential

While large multi-player telecom and banking sectors augur well for competition, the flip side is the need for inter-operability to allow payments and settlements seamlessly across service providers. This link is in place now with the Inter Bank Mobile Payment Service (IMPS), provided by the National Payments Corporation of India (NPCI), a service that is set to revolutionize the way payments are made across the country. The speed with which the service has picked up is remarkable — from a pilot project involving four banks last August, to 20 banks and 10 million members now. Since May, merchant payments have been allowed. While this opens possibilities of mobile payments for grocery and vegetables, to begin with, customers will limit these payments to known vendors, such as utility bills. One of the critical elements in expanding this service is the need to keep the IMPS interchange fees low so that there are no disincentives for low-value transfers — an environment conducive to low-value transactions is the one that will move faster across the population.

While banks were experimenting with ways of servicing customers, the mobile market was burgeoning - achieving unprecedented penetration across all customer segments. In India alone the total number of mobile subscribers by March 31, 2008 was 261.08 million, as against 2007's 165.09 million (an increase of 58.14 percent). This figure shows that in just three years, the number of mobile subscribers has grown over 4.5 times. India is adding more subscribers per month than any other country. This trend is not isolated to India. It is a reality in almost all developing economies in Africa, Latin America, and Asia Banks soon realized the potential of leveraging on this reach. This led to the emergence of Financial Inclusion programs powered by mobile phones. The mobile-led financial inclusion has different flavors based on the service offer mode. The primary ones are highlighted below:

Agent/ correspondent mobile as the delivery device – *In this mode of offering, the customer gets assisted service for transactions and the agent services the customer using a mobile device. Security was achieved through the innovative use of Bluetooth enabled biometric scanners, innovative modifications to pre- generated One-time passwords using a combination of a PIN grid and static PIN. This model is very popular in many parts of Asia and Africa*	***Customer mobile as the identity element –*** *In this mode of offering, the customer's bank account would be loaded into the customer mobile phone. Customers could visit business correspondents or other delivery channels and follow simple procedures on their mobile phone to process transactions. These simple procedures used ubiquitous technology such as SMS and USSD and did not introduce complexities such as device limitations and hardware footprint on customer mobile. This model is quite popular in Africa*

For customers, individual banks are allowed to set their own charges and currently, there are no fees as the market is nascent; despite fast growth, there are just 10 million registrations out of the 350 million bank account holders. More significantly, this service is open only to those who have bank accounts. So for optimal outreach, banks need to roll out into the unbanked segments across the country and take full advantage of the relaxed BC requirements. Here the UID is expected to play a crucial role for segments like migrants who have stayed out of the system so far.

Banks also have to raise awareness amongst their own customer base. Axis Bank and ICICI Bank lead with the number of registered customers for IMPS, but all banks need to get into the fast track mode to allow maximum use across sectors and people. The service needs to be marketed aggressively, with tie-ups with other trusted service providers, like LIC, that can help raise the comfort and trust levels for users.

9.3.2 Non Bank Model

One school of thought is that there is no lack of demand for financial services in India. Banks have typically refrained from innovating for the bottom of the pyramid, deterred by the low values here. On the other hand, mobile operators are in sync with transaction-based business models for low value transactions that are the need for those out of the formal financial system. There is, therefore, a perfect synergy here to be exploited and with the RBI pushing for financial inclusion now, it is for the telecom operators, banks and merchants/companies to work out a sustainable business model.

World over, countries such as Philippines and Indonesia are allowing non-banks into the fray, experimenting with new models for financial inclusion. Unlike a bank-based model, where customers have a direct contractual relationship with a bank (even though a customer may deal only with BCs), in a non-bank-based model, there is no direct contractual relationship with a bank, and the customer exchanges cash for electronic value recorded in a virtual account on the non-bank's server. Yet, in both cases, banks and non-banks have roles to play. Regulations for non-bank e-money issuers vary across countries and generally include provisions for 'fund safeguarding' (maintaining unencumbered liquid assets equal to the amount of issued electronic value), 'fund isolation' (insulating funds underlying issued e-money from institutional risks of claims by issuer creditors), minimum initial capital requirements, etc.

While so far the RBI has focused on a bank-led approach, it has also maintained that a regulated non-bank model can kick in, if banks fail to deliver on the financial inclusion front. This could well happen someday; after all, despite all the resistance, for-profit companies have been let into what is today the most happening space in finance and banking.

Chapter-10

Opportunities and Way Forward

The final chapter of Report I presents the Opportunities and Way Forward for 'Samruddhi' – the MP Financial Inclusion Model and provideds for a section as to how inclusive growth could be achieved by the state, once the model is fully and successfully implemented. The chapter also discusses the scaling up issues in Government to Person (G2P) payment space with special reference to the unique position of MP. Finally, the chapter ends by hypothesizing two related enunciations from the model that are to be tested further in part II of this study.

Opportunities and Way Forward

The state of MP has evolved a unique inclusive financing model that is not only different from the commonly accepted parlance of financial inclusion but also carries in itself a greater efficient and effective delivery mechanism that is capable of offering the same level and standards of services that are being offered to the civil servants in MP. For, the octogenarian Munni Bai, (imaginary name) who resides in some remote corner of a tribal village in Balaghat district of MP receives her right of social security safety net pension using the same channel that is being used by a retired Chief Secretary of the state to receive pension. In other words, from the supply side there is seldom any difference in the payment channel as the same Treasury mechanism has been used to disburse benefits to the low income informal sector workers by means of an achievement of an electronic financial management system that the GoMP devised over the last decade.

10.1 Opportunities for Inclusive Growth

Though too early in its stage to prove it as a success, it certainly poses tremendous opportunities to a paradigm shift in inclusive finance. While this report only covers the supply side of the financial inclusion processes, the demand side of the same is yet to be tested. Even the test of the institutional architecture where the monetary benefits seamlessly flow from the coffers of the Government Treasuries to the individual accounts of the actual beneficiaries is yet to be tested at the ground. However, if the inclusive finance model is pragmatically applied in heart and soul, it would throw tremendous opportunities for the growth within the ecosystem of inclusive growth. Some of them could be as follows:

10.1.1 Opportunity to Create Independent Financial Entity

Imagine if every citizen of MP was connected to an e-payment system. In that world, all MP residents would have an independent financial identity that they could call their own. They would no longer be deprived of basic financial services which are taken for granted by a more privileged section of the Indian population. In effect, one would reach the cherished goal of financial inclusion. Financial inclusion of the poor has long been high on the state government's agenda, however, MP now has an unprecedented opportunity to achieve this goal. The state has all the ingredients of what it could produce as an integrated approach to inclusive finance.

Financial inclusion of the poor means access to a full suite of formal and reliable financial services including credit, savings, insurance, payments and remittances, as well as some form of financial education. Financial inclusion promotes financial security. Increased financial security in turn implies greater ability to weather unexpected events, reduced reliance on government / NGO assistance, and increased economic self-determination.

Ensuring reliable financial services to poor households in India including the state of MP has been an important and long-standing policy imperative of the government. Despite sustained efforts, millions of rural and urban poor continue to lack opportunities to receive (whether remittances or G2P), borrow, save, insure themselves, and access the numerous services of India's formal financial sector. Now, the Indian government as well as the state of MP has the unprecedented opportunity to achieve this fundamental but protracted goal of financial inclusion. Advances in technology and new business models have provided them with a powerful tool—an electronic payment or "e-payment" system. There is a compelling case to be made for automating government payments, which includes efficient and reliable financial interactions with poor households in the informal economy as well as full financial inclusion of India's poor.

10.1.2 Opportunity to Reduce Costs Drastically

Globally, cash transfers to the beneficiaries have substantially reduced the transmission and distribution (T&D) costs as well as leakages in the ecosystem of payment with special reference to the Government subsidies and payment to person. There are considerable country wide variation in the level and effectiveness of the spending, the fact remains that all Developing Nations do spend on and for the poor. Concerns over the cost of universal social protection are deterring some countries, but well-targeted safety nets are not prohibitively expensive. For example, government's cash transfer program to uproot extreme poverty costs less than 0.5% of the Philippines' GDP, yet reaches 15 million people[45]. After just three years of implementation, evaluation findings show positive results on elementary education, school enrollment and beneficiary households spending more on the health and education of their children. While safety nets, and particularly cash transfers, can reduce poverty, some countries including India still prefer to retain food and fuel subsidies for their social programs. The government distributes food, fuel, and fertilizer instead of cash but these subsidies are vulnerable to misuse and leakage. In addition, such subsidies generally cost more, benefit the better-off relative to the poor and are politically difficult to unwind.

A recent report from Mckinsey[46] explored the current inefficiencies in government payment systems and quantified the potential financial and strategic benefits of making government payment flows electronic. It found that an e-payment model, (like that adopted by MP) can reduce current payment inefficiencies estimated to be Rs. 1 lakh crore annually (US$22.4 billion), with a large share of that amount—Rs. 71,000 crore (US$18.3 billion)—attributable to welfare schemes disbursed by the government. Top-down analysis suggests that setting up the infrastructure to enable an e-payment model will entail a onetime cost of Rs. 60,000 to 70,000 crore (US$13 billion to 15 billion)—an amount that can potentially be paid back within one year from the savings incurred through an e-payment infrastructure.

45. The program makes regular cash payments to mothers conditional on their children attending school and public health clinics.
46. See more at: http://mckinseyonsociety.com/inclusive-growth-and-financial-security/#sthash.e9CLAn5P.dpuf

10.1.3 Opportunity for Efficient Government to Persons (G2P) Payments

Government to person (G2P) payment schemes present an opportunity to provide access to financial services to unbanked beneficiaries by channeling a consistent flow of money into financial accounts. Branchless banking is one way to make such payments and services more accessible while at the same time decreasing the cost and increasing the efficiency of the payment process itself. Although this is a concept whose potential has been discussed at length, there are only a few countries that have experimented in making this link between government payments and bank accounts, and even fewer that are doing it at scale. However, MP in particular has just started with this phenomenon and has a long way to go in attaining scales.

10.1.4 Opportunity to Develop a True Welfare State

While the Government payment schemes in India[47] are organized into three categories: welfare schemes; government salaries; and small savings schemes, the largest flow of payments comes from traditional welfare schemes.

The traditional Welfare Schemes themselves break down into those that provide direct cash, subsidies, and services. In 2008-2009, 22 welfare schemes in India paid out a total of $65 billion. What follows is a quick overview of some of the largest welfare schemes in each of these three categories.

Direct Cash: The most prominent cash welfare scheme in India is the National Rural Employment Guarantee Scheme (MGNREGS), which provides employment to qualified rural households for 100 days per year. MGNREGS has a yearly budget of $6.7 billion and is administered by the Ministry of Rural Development. Other schemes that provide direct cash transfers include Indira Awaas Yojana (IAY), a rural housing subsidy, and the National Social Assistance Programme (NSAP), which includes the National Old Age Pension Scheme (NOAPS) (known more commonly as SSP (Social Security Pensions)).

Subsidies: Welfare subsidies include 12 schemes, the biggest of which is the Department of Public Distribution's Targeted Public Distribution System (TPDS) for national food security. Fertilizer subsidies from the Ministry of Chemicals and Fertilizers also account for a large proportion of welfare subsidies ($16.9 billion out of a total of $30 billion for all subsidy programs). Swarnjayanti Gram Swarozgar Yojana (SGSY) provides income-generating assets through bank credit and government subsidy from the Ministry of Rural Development.

Services: Welfare services to individuals include several schemes that provide payments to service providers that then deliver services or supplies directly to beneficiaries. The Ministry of Human Resources promotes universal primary education through the Sarva Shiksha Abhiyan (SSA) program by paying for school infrastructure, teacher salaries, and school supplies. The Ministry of Health and Family Welfare provides various health schemes including Janani Suraksha Yojana (JSY) which provides rural women with financial incentives to have safe childbirths. Rashtriya Swasthya Bima Yojana (RSBY) is a health insurance scheme offered by the Ministry of Labour and Employment for below-the-poverty-line (BPL) families.

47. The data for this section is drawn largely from Inclusive Growth and Financial Security: The benefits of e-payments to Indian society; McKinsey & Company, November 2010.

More recently, the National Rural Livelihood Mission (NRLM) was launched in June 2011 and aims to create self-help groups in rural areas and enhance poor families' livelihood options through access to easy loans, capital grants and skills training. NRLM seeks to offer more sustainable livelihoods to households that rely on MGNREGS. Individual state governments also run their own welfare schemes independent of those sponsored by the central government. Out of all of these welfare schemes, the two that dominate the G2P payments space for banks and BCNMs are MGNREGS and SSP. The Indian G2P sector is complex due to not only the various schemes that exist, but also due to the complex interaction between the central government and the state governments in the management and implementation of these schemes.

10.2 Way Forward-Towards Self Sustainability

Looking at the ecosystem of the *Samruddhi*, it can be easily concluded that future holds very bright prospects for MP towards attaining a welfare state status. Marching forward, the model is heading towards self sustainability provided certain issues get resolved and the stakeholders including the GoMP bankers, India Post etc. perform well to the expectation of the model per se. Sustainability could be brought through greater volumes and higher frequency of transactions including G2P and marketing of diversified products. Understanding the value and importance of a basket of diversified products could be inculcated only by means of furthering the cause of financial literacy in the state. Financial literacy should not be confined to the classroom courses at the village or USB / CSP level alone but by using means such as 'teachable moments' as in case of cash transfers and its utilities.

Fifteen years ago, 'financial inclusion' would likely have referred to an institutional issue such as portfolio growth, mirroring a common question “How many clients do you have?” Today the term is more centered on clients, encompassing both access (the institutional responsibility) and use -- clients' ability to choose and use the services available to them. It implies financial capability. Financial education is essential to both of these overlapping concepts. Yet, fifteen years ago, few in the developing world including India had ever heard of financial education. Today, it is coming to TV; Banks frequently send text messages reminding to save; local newspapers run weekly financial advice columns; governments are mandating that financial institutions publish transparent product prices. The return of the consumer that these developments indicate is welcome. So too, are the ways to build their capacity to manage money that have not yet been invented but will be at our doorsteps next week.

While a number of measures have and are being taken across the country including MP, given the enormity of the task, a lot of ground still needs to be covered. Apart from the Government and the regulatory bodies, there is a need for involving the civil society and all other stakeholders in spreading financial literacy. India needs to evolve distinct strategies targeting the school children and the adult population. India is still in the process of evolving a formalized curriculum for schools, which teaches the schoolchildren the basic principles of money, credit, savings and investments and introduces them to the way our financial system operates. After all, while one-time, targeted programmes are useful, including financial education into school curriculum in an on-going manner would hold the key to making future generations financially literate.

10.2.1 Way Forward – the Sustainability of Banking Model

Initial indications of the model suggest that paradigm shift in MP will certainly carve a niche for itself, provided it adheres to the basic principles of business to make it sustainable.

Current Banking Status: Presently 2144 BCs have been deployed by the Commercial Banks in Shadow Area Villages and 10730 villages have been covered by these BCs / USBs. 64 Lakh accounts have been opened through the BC Channel only which indicates that an additional 10% of the population is brought into the Banking Channel through newly initiated efforts. This progress was made during last two years only and does not include the Basic Saving Bank accounts that have been opened through the Branches, Post Offices and Cooperative Banks.

Transaction Status: It is also interesting to track the growth path of the banking inclusion activities in MP. The FY 2013 witnessed a growth of FI bank accounts by almost 4 million. From 6 lakh FI accounts at the end of March 2012, the number rose to 46 lakh by end of March 2013. However, it further grew to 64 lakh within the first six months of the current fiscal showing an annualized growth of 78% for the current fiscal. In the corresponding period, the number of transactions tripled during the FY 2013 from 2 lakh (FY 2012) to 6 lakh. While in percentage terms, the number of accounts grew by 667% in the FY 2013, the number of transactions grew only by 200%. One of the reasons that could be explained is also the lag between opening up of accounts and its capacity for transactions including transfers of G2P to their accounts. The number of transactions however grew rapidly in the first half of the current (FY 2014) fiscal to 4.6 million registering an annual growth rate of 1333%. In terms of the value of transactions, while the FY 2013 witnessed a phenomenal growth of 161%, (from Rs. 12.41 crore to 32.37 crore) the first half of the current fiscal has seen an above 3400% growth from Rs. 32.37 crore to Rs. 585.74 crore. However, the numbers in percentage carry much less meaning when they are compared with a weak base or the one where the banking inclusion or new initiatives have recently begun.

On analyzing certain ratios, it may be concluded that while on an average, one third (33.3%) accounts were active (Transaction Per Account) in the FY 2012, it dropped considerably to 13.04% in the fiscal 2013 and again grew to a level of 71.88% in the first half of the current fiscal 2014. Similarly, the average amount per account (Not Transaction) remained Rs. 206 in FY 2012, it dropped down to Rs. 70.37 in the fiscal 2013 and jumped to Rs. 915 in the first half of the current fiscal. Trends were similar in the average transacted amount (Amount Per Transaction) that remained Rs. 620 for the FY 2012, marginally dropped to Rs. 540 in the FY 2013 but grew to Rs. 1273 in the current fiscal.

10.2.2 Business Correspondent Network Managers (BCNMs) Sustainability

Not surprisingly, though, this is only the start of the story, some of the bankers in MP like the State Bank of India's have developed their kiosk model to attain sustainability right from the beginning. While the ambitious link of G2P payments to bank accounts is exciting and can be a source of learning and inspiration for other states, challenges and complexities persist. Some of the key points that are being adopted in MP range from the following:

- While the state governments exercise significant control over the management and administration of central government-mandated G2P schemes, and there is great variability in the fees paid by state governments to banks for disbursing funds to citizens, some states pay 2% of values disbursed (or more), but others refuse to pay anything. It is interesting to note that MP is one of the few states in India which has not been making any payment to the Bankers towards meeting their costs on banking activities like opening and maintaining the bank accounts, directly subsidizing for the existence of USBs / CSPs etc. Instead, it provides infrastructural facilities and an enabling environment for the USB / CSP to make a business out of providing the last mile connectivity through G2P. The whole idea is to create and facilitate the model reach self sustainability by taking up professional and managerial oriented business model rather than subsidizing them and making the value chain dependent on a perpetual funding. This has already started displaying positivity as few of the outlets especially in the form of kiosks et al have started making profits and move out of the Red.

- Allowing the banks to charge a fee and not subsidizing the banking operations strengthens the business case for banks and refuses to be overly dependent on Government subsidies. Bankers are aware that will have to generate enough money to feed the many mouths in the G2P value chain and in order to do so, they have nothing but to perform.

- While the Business correspondent network managers (BCNMs) are particularly squeezed, as they must compensate their network to keep them engaged and reliable, the current fee structures from banks leave little money left over. However, the *Samruddhi* model posses immense opportunities for the BCNMs to make money not only through the G2P, but also by offering a diversified range of products and services ideally suited for the rural poor.

- *Samruddhi* is uniquely placed to offer business revenues to the banks. In the absence of transaction fees, many banks appear motivated to disburse G2P transfers because they view this as a “foot in the door” for future business from governments, an especially compelling prospect for private banks who have traditionally been boxed out of this business by public-sector banks.

- Banks also hope that new customers and Basic Savings Bank Deposit Account accounts opened as a part of G2P initiatives can eventually generate revenue, through fees or float, but so far many accounts are dormant and empty. It remains to be seen whether banks (or nonbanks) will find ways to activate these accounts, perhaps by channeling new products or services through these accounts and improving the value proposition for customers.

- In most other states despite the use of electronic payments and front-end technology solutions in the payment process, there continues to be an inherent messiness to the G2P payments space due to the ongoing need for manual reconciliation, lack of standardization, existing duplication, and suboptimal coordination among various stakeholders. The integrated database platform of the SSSM at the backend does away with such situation in the state. Several new initiatives like the dynamism of '*Samagra*' seek to change this and show exciting promise, and improve the current situation, particularly in light of ongoing technical and political challenges.

Business Correspondent Network Managers (BCNMs)

Similar to the banking sector, there is a long list of Business Correspondent Network Managers (BCNMs) that work on behalf of banks to distribute G2P payments to the end beneficiaries through their network of customer service points.

FINO is one of the largest of these companies, having opened over 20 million no-frills accounts and providing services for 23 banks, 10 MFIs, 5 insurance companies, and 17 government agencies. It reaches 309 districts through 12,400 transaction points, and serves 4 million MGNREGS and SSP beneficiaries in 5 states.

A Little World (ALW) has 8 million no-frills accounts, 5.2 million of which are held by SBI.

Other significant BCNMs include SEED, BEAM, Eko (who has only just started processing G2P transfers in Bihar), and Sub-K (affiliated with Basix).

BCNMs and their corresponding CSPs are responsible for many critical activities in the payments process, namely the enrollment of beneficiaries, KYC compliance for Basic Savings Bank Deposit account opening (though banks remain ultimately liable under regulation), smart card issuance and distribution, point-of-sale deployment to CSPs, cash disbursement to beneficiaries, and MIS submission and reconciliation. In addition, CSPs serve as the bank's main point of contact with the beneficiaries, and therefore play an essential role in any bank's strategy to acquire new clients or sell additional products and services.

Since BCNMs receive their revenue from the banks, the problem of compensation (or lack thereof) from the state governments might also affect their business model. Several BCNMs have the impression that banks do not push back enough on state governments to demand compensation because there are lines of banks that governments can turn to as alternatives. As a result, the business model is weak for most of these BCNMs. Some of them, however, negotiate contracts on the basis of a breakeven minimum revenue per account, hoping for a flat fee to compensate for the per account expense.

In the current context, it seems that the viability of banks and BCNMs rests on building beyond the G2P business to a broader range of products and services for this client segment.

Currently, BCNMs see themselves only as service providers to banks, but some BCNMs wish that the customer belonged to them instead of to the bank. This would enable them to directly offer products and services to customers in order to make their business case stronger. Under this scenario, the BCNMs would perform the KYC to open accounts and would take on the risk and return of any products they offer. However, regulation still requires a bank-based approach which complicates the nature of the relationship BCNMs are able to develop directly with customers.

Postal Outlets India Post is in the process of implementing a Core Banking Solution (CBS) in the post offices to facilitate its customers in the advanced technological era. With core banking, customers who have their savings account in the post offices will be able to carry out transactions from any of the member branch post offices, anywhere in the country. They will also be able to avail other facilities like mobile transfer of money. The significant feature will be the setting up of Indian Post ATMs etc. Indian Post already has a large network reach, where people from the rural sector still find it convenient to keep their accounts in the post offices. It shall provide for a 'Real Time Processing' and a multi channel support like ATMs / Mobile Banking etc. and shall have the process automation and simplification to reduce service response times.

As on March 2013, there were as many as 2,07,78,936 live accounts in MP circle that were up from 1,50,78,657 as on March 2011 which is an addition of 57,00,279 accounts in the past two years.

10.3 The USP of Samruddhi and Way Forward

10.3.1 Scalability Using Economies of Scope

MP is one of a handful of states in India that is implementing financially-linked G2P payments at scale and intends to cover financial inclusion for its entire population on 70 million. While the yearly budget of MGNREGS in MP is around Rs. 5600 crore and NSAP in MP itself is quite huge respectively, the most excitingly from inclusion and research perspective is the fact that these schemes are leveraging emerging branchless banking models to disburse these payments in MP, moving from the former branch- and cash-based distribution model to the distribution of funds into no-frills bank accounts serviced by business correspondents outside of branches. While the state governments usually receive the mandate from the central government to implement the central schemes, receiving approximately 6% of the program's budget for administrative fees, the banks work on behalf of the state governments to manage the payments process to beneficiaries.

Most commonly, governments provide the funds to banks, who funnel payments into beneficiaries' no-frills accounts for withdrawal, although some payments are still made as direct cash disbursement not linked to accounts, MP is one state that has achieved a 100% payment through the non cash banking or postal accounts. GoMP uses the ***e-FMS*** module for passing the payments using the Treasury mechanism and uses the bank accounts for delivery at the door steps of the beneficiary. The BCNMs (Banking Correspondent Network Managers) work on behalf of the banks to process cash withdrawals from beneficiaries' no-frills accounts. The customer service points (CSP) work on behalf of the BCNMs as the last-mile touch point with the beneficiary to provide the actual cash payment.

At various points along this payment process, issues are raised about the type of technology that is used at the retail level, the platforms that connect the various systems used by stakeholders, the implications of regulation, the payments and financial services that are offered, the fees that are paid, and the overall business case for the profitability of the banks, BCNMs and CSPs. Most of such issues are resolved in case of MPFI model and the same seemed to be now heading for a seamless delivery of G2P using the three pillars of *Samruddhi*.

There is a long list of banks that distribute government payments, including some of the largest public and private sector banks. Despite the volume of payment flows going into an increasing number of no-frills accounts, the G2P business case for banks is still very uncertain in many states. Banks that have been distributing G2P payments for some time choose to work only in states where they receive compensation. For example, Axis was one of the first private banks to do this and now only works in states that pay, such as AP which offers a 2% commission on G2P disbursements. If SBI uses the BC model of payment, they require payment from the state governments; whereas if they use branches, they do not receive payment. The manner in which states pay can vary however; Orissa pays SBI Rs. 2,500 per CSP instead of a percentage commission. Other banks cannot be as choosy and newcomers to this space, like ICICI, must work in states where no compensation is offered in order to get their foot in the door. They seem to justify the business activity by arguing that they are building out the infrastructure and making an investment in rural development. Of course, the usage of no-frills accounts, not just the uptake, is the goal of banks.

Since the state of MP has created an enabling environment to continuously pay through the G2P, the bankers have realized that there does exist a business proposition for them if and only if they could expedite on the savings pattern of the beneficiaries. While the SSP payments are actually more regular than MGNREGS payments since they are guaranteed every month, whereas MGNREGS payments are dependent on the amount of work completed and are often seasonal, the state of Madhya Pradesh has performed exceedingly well in regularizing the MGNREGS Payment using the e-FMS module under the MPFI Model. However, if payments simply pass through the account, without additional transactions or steady account balances, banks does not hold the float long enough to provide revenue. The usage of the accounts (and the accompanying fees, if any generated) is therefore a key component of the business model in MP. When payments are credited to beneficiaries' no-frills accounts only to be fully disbursed within a few days by the banks at the request of the governments, there is little potential for increased usage. The cause of financial deepening by creating the 'demand side' of the model using financial literacy shall certainly hold the key for profitability of these banks in MP.

10.3.2 Compatibility Between SSSM and Central Government's Common Platform for G2P

At the national level platform between the government and the banks, National Payments Corporation of India[48] (NPCI) is building the Aadhaar Payments Bridge to enable the central and

48. NPCI is a section 25 company (nonprofit) formed in 2009 by the RBI and funded by contributions from ten banks. Its mandate is to manage the payments infrastructure of India (ATM, POS, etc.) and over time NPCI is expected to create an ACH to replace the current RBI-managed system.

state governments to disburse G2P payments. The platform gets integrated with the Unique Identification Authority of India (UIDAI), by using the beneficiary's unique identification number (known as an "Aadhaar" number) and a bank identification number. The *Samagra* portal of MP under the SSS Mission is fully compatible with that of the UIDIA and the seeding of Aadhar in MP's *Samagra* portal facilitates payment using the APB. Once the beneficiary's account gets credited, the beneficiary can withdraw the payment through the bank's BCNM and CSP network (USB / CSP in MP) using the Aadhaar Enabled Payment System (AEPS), a new service that enables the receipt and transfer of funds at CSP locations using a customer's Aadhaar number and biometric authentication. The continued roll-out of the unique identification number (known as the "Aadhaar" number) by the Unique Identification Authority of India (UIDAI) makes it easier for banks to complete know-your-customer (KYC) requirements at account-opening and will enable the central government to post beneficiary payments to NPCI's central Aadhaar Payment Bridge platform. Both the Interbank Mobile Payments Service (IMPS) and Aadhaar Enabled Payment System (AEPS) platforms have the potential to integrate the payment systems of various G2P schemes[49] and enable the mobile phone to be used more consistently as a front-end technology instrument.

10.3.3 Potential and Way Forward for SSSM

As mentioned earlier while the SSSM offers a dynamic and robust platform to create en 'Entitlement Based' G2P services and is fully capable of seeding the *'Aadhaar'* it carries huge potential of identification and transferring the benefits to the target population. The GoMP has already initiated the process of payment using the '*Samagra*' portal and expects to include more and more welfare schemes into its purview.

Students and Scholarships: Back end automation of various processes involved in the operationalization of over 35 scholarships schemes and other education assistance schemes being offered by various departments / boards of State Government through the *SAMAGRA* portal has been completed. Over 8 million students are likely to be benefitted and over 15 million students are being mapped with their schools. *SAMAGRA* Portal shall further identify the out of school Children for further bridging, mainstreaming and enrollment.

Consolidation: Education Department has been designated as the Nodal department for the implementation of all Scholarship schemes. The budget heads of scholarships of other departments like Scheduled Caste Welfare, Tribal Welfare Department, OBC Dept, Social Justice have been allocated to the School Education Dept. Similarly MP Building and Other Construction Workers Board and Mandi board are in the process of transferring their scholarship budget to the SSSM.

Portal: A special portal for education related activities is being designed and developed to facilitate various work-flows and functions involved in managing, schools, mapping of students with schools, capturing the scholarship form, sanction and disbursal etc.

49. The central government is investigating distribution alternatives for fuel and fertilizer subsidies, potentially converting these in-kind transfers to direct cash transfers, which would add tens of billions of dollars of cash volumes into the G2P ecosystem.

***SAMAGRA* Smart card:** Planning for distribution of *SAMAGRA* Smart card having chip is underway. This smart card shall contain the master data / identity information and biometric of each beneficiary on the chip. It will also be used by all other departments like the Food and Civil Supplies, Health etc for storing their departmental specific schemes, master information as well as the transaction information. It will allow offline authentication of biometric and facilitate as a dynamic ration card. In order to make compatible at the Central level, it shall also contain the Aadhaar number of the individual.

Implementation of Schemes of Other Departments: Implementation of several other beneficiary oriented schemes of Agriculture department, Tribal department, MP Minor Forest Produce Federation etc. is also planned to be under taken in the next phase. Thus the SSSM is proposed to implement all the beneficiary oriented schemes in a phased manner on the *SAMAGRA* platform. Implementation of National Food Security Act (NFSA) is underway using *SAMAGRA* platform. Food Department proposes to use the *SAMAGRA* Smart Card to be used as the Smart Ration card in MP.

10.3.4 Idea of PACS as USB / CSP of DCCBs

Going forward the Government of MP can build up the capacities of some of the Primary Agriculture Cooperative Societies (PACS) and train their staff to become a USBs / CSPs of the DCCBs. Though PACS are self sufficient as far as the physical infrastructure is concerned, it may be a worth a chance to provide them with greater connectivity and use them as USBs / CSPs. This would not only provide greater access to the poor for banking and financial services, but also would equip them better to liaison with the DCCBs and other banks that they are attached to.

10.4 Diversification: Products and Services

The paradigm shift in MP will certainly carve a niche for itself, provided it adheres to the basic principles of business to make it sustainable.

From the supply side of the product and services manufactures, the MPFI model strives to be making the USB / CSP a sustainable business model for banks in attaining the overall objectives of Financial Inclusion. In MP, the process of FI is an ongoing long term process and is not limited to merely opening bank accounts and provide for a direct transfer of social / financial benefit and devolution of benefits but it is providing of financial literacy and all other financial services as core products. Besides core banking structure, non-core banking financial institutions like the post offices and cooperative banks are also being used as a conduit to transfer the benefits and offer financial services to the poor. ***The central focus of the Samruddhi is not on access to banks and their convenience to reach out the masses, but to provide services to the clients at the door steps / in their own vicinity and mostly using their own people to provide for Samruddhi***. However, this version is yet to be tested at the ground level as this part of the report only covers the desk study.

One of the important ways forward to provide sustainability to the model is also financial deepening and providing a diversified portfolio of products using the last mile connectivity. It could include banking, insurance, mutual funds (Micro SIPs), National Savings Schemes Products and pension products (NPS Lite). The fee based third party products could be marketed at the rural USB / CSP outlets through a proper training and capacity building of the BCs and other stakeholders.

10.5 Challenges Ahead

As mentioned earlier, MP is one of few states that is implementing financially-linked G2P payments at scale. In addition, these schemes are using branchless banking systems of BCNMs and CSPs to make the final payments to beneficiaries outside of bank branches. Already this is a huge accomplishment. Yet there are still many obstacles and challenges to the system and significant challenges exist around its definition, operations, viability and political willingness to eradicate corruption by means of direct transfer of benefits. *Samruddhi* – the MPFI model has overcome most of the obstacles including displaying a strong political will to implement the institutional structures.

10.5.1 Definitional Challenges

The Definitional issues of 'Rural Unbanked Areas' versus the 'Shadow Area' still posses challenges both to the state government as well as the bankers. Each bank defines the rural unbanked area based on their own interests and opens branches / BCs based on existing business interest rather than creating a business interest.

Similarly there are issues between the RBI and others as regard the term USBs and hence the Government of MP has rightly decided to take a shot and call their USBs under the model as USB / CSP in order to avoid any further confusion. Though RBI says that unless it (USB) is manned by a bank employee it cannot be called a branch, the government says within the 5 km radius some structure should be available so that between the base branch and that place, the customer should have some place to visit. GoMP has started providing space in panchayat houses for the same. As per the RBI, the BC outlets may be in the form of low cost simple brick and mortar structures. Every BC is under the oversight of a base branch. Accordingly, the base branch will have to provide oversight to the BC outlets which will include periodic visits by officers of the base branch to these outlets as well as to other places of functioning of BCs.

With expanding access to banking services, it is also important that quality services are provided through the ICT based delivery model. Thus it would be necessary to have an intermediate brick and mortar structure (Ultra Small Branch) between the present base branch and BC locations so as to provide support to a cluster of BC units at a reasonable distance. These Ultra Small Branches may be set up between the base branch and BC locations so as to provide support to about 8-10 BC Units at a reasonable distance of 3-4 kilometers. These could be either newly set up or by conversion of the BC outlets. Such Ultra Small Branches should have minimum infrastructure such as a Core Banking Solution (CBS) terminal linked to a pass book printer and a safe for cash retention for operating large customer transactions and would have to be managed full time by bank officers / employees. It is expected that such an arrangement would lead to efficiency in cash management, documentation, redressal of customer grievances and close supervision of BC operations. These could be satellite offices (as envisaged in circular DBOD No. BL.BC. 72/C-168(64D)-87 dated December 14, 1987) or regular branches as the case may be.

BCs can operate from such Ultra Small Branches as their association with the branch will increase their legitimacy and credibility in the area and give people increased confidence to use their services. However, banks should ensure that such an arrangement does not result in BCs limiting operations to serving customers at such branches only, if, due to geographical spread, such arrangements may lead to BC services not being easily available in the entire area of their operations.

10.5.2 Operational Challenges

Despite the use of electronic payments and front-end technology solutions, there continues to be an inherent messiness to the entire G2P payments space in India. While in many states there is a lack of integration among the various initiatives and among their implementation at the central and state levels of government, the *Samruddhi* model stands ahead of all such issues and have created a near perfection synchronization between the front end (USB / CSPs) and the back end pillars of e-FMS and SSSM. Although the government tells banks not to pay beneficiaries without an account, this is problematic in practice since beneficiaries would have to wait for their payments only after they have signed up for and opened their account, a process which can take several weeks since the physical registration papers have to make their way back to the bank branches. As a result, some payments and reporting still have to be carried out manually.

The manual systems of many weaker state governments also make the payments process difficult, and often require the banks and BCNMs to convert the records to an electronic system themselves. ***One of the biggest operational challenges is simply mapping the right person to the right payments and avoiding duplication, multiple accounts and ghost accounts***. Many of these operational problems emanate from the outdated tools used for data capture and digitization including the work reports from MGNREGS, etc. The state of MP has in the past overcome such issues using its backend e-FMS module. The *Samruddhi* Model on electronic payment system is as robust as the information that is fed into it and its integration into new e-payment platforms provides for seamless reconciliation. However, going forward there are still certain challenges that the model needs to work upon, especially at the frontend level.

Beneficiaries Mapped to CSPs: Even with the use of technology, operational challenges persist on the front-end side of the payments process as well. Most beneficiaries are mapped to particular CSPs, only allowing the beneficiary to transact at that particular transaction point. In the case of MGNREGS, government procedure requires that a muster role be issued listing beneficiaries, their payment amount and the specific CSP that is assigned to make that payment.

The CSP is required to collect the signature of the beneficiary, effectively creating both a manual verification process in addition to the biometric verification that the technology enables. In addition, CSPs are not permitted to service multiple banks per the current regulation[50].

Offline Payments: Another front-end operational challenge is that most payments are carried out in offline mode whereas online payments in real-time would greatly simplify the payments and reconciliation process. Beneficiaries could have greater flexibility in the number of CSPs that disburse the payments and BCNMs would have a quicker reconciliation process with the banks and state governments. There are two main reasons why payments are made in offline mode. First, there is an ***absence of a single entity for centralized biometric authentication***. Each BCNM deploys its own proprietary, closed-loop application for smart card authentication, rendering the reconciliation process difficult for the banks. The smart cards that are issued with offline functionality are not integrated into the mainstream financial infrastructure, rendering them useless for ATM withdrawals, merchant payments and other financial transactions. Mobile solutions have not yet gained enough ground to offer more flexible payment options to the beneficiaries, especially since the payments are not integrated into the infrastructure of NPCI, such as IMPS or AEPS. Second, the ***network connectivity infrastructure*** does not extend to all rural locations, making real-time online transactions impossible. All of these challenges significantly limit the ease of accessibility that branchless banking models attempt to create for customers and the ease of operations for the payment service providers.

10.5.3 Political Challenges

Many state governments appear to have very little incentive to weed out the corruption and duplication that result from the operational messiness of the system, which conveniently masks some of the leakage that electronic systems intend to uncover. Initiatives that seek to clean up the system may very well meet with resistance from some governments which lack the political will for reform. However, the GoMP has moved ahead and forward beyond any political issues and have adopted the ***e-FMS*** as has been described in one of the chapters earlier.

10.5.4 Business Case Challenges

One wonders how long banks can take a loss on the G2P business while waiting for more government contracts. Banks seem intent on determining how best to extend credit to G2P beneficiaries beyond simply overdrafts on no-frills accounts since they see credit products as potential money makers. One wonders the same about the business case of the various BCNMs that all seem to be in fundraising mode, looking for capital to keep their businesses running. The same question arises with how long CSPs will continue to provide door-step banking simply out of a desire to provide a service to their community before they start asking for more compensation, especially given the risks associated with handling large volumes of cash and ensuring sufficient liquidity at the time of disbursal. Although the massive flow of G2P payments could provide a strong basis for a positive business case, the lack of consistent and adequate

50. Regulations indicate that while a BC can be a BC of more than one bank, at the point of customer interface, a retail outlet or a sub-agent of a BC shall represent and provide banking services of only one bank." (Circular 217, September 2010).

compensation from governments constrains the potential.

The main challenges stem from the variability in fees that banks receive from state governments to deliver G2P payments to beneficiaries. The branchless banking-enabled payments value chain includes many mouths to feed from banks to BCNMs to CSPs, but not enough money is entering the system to fully satisfy all parties. Inactivity of no-frills accounts continues to be a challenge that banks are up against, along with developing innovative financial products that can be affordably offered to clients while responsibly managing risk. BCNMs struggle to manage and retain thousands of customer service points and deploy expensive biometric technology for offline payments. Yet India is a dynamic market that produces new initiatives at a fast pace. NPCI and UIDAI could very well change the way G2P payments are managed and implemented. The possible shift from in-kind subsidies of fuel and fertilizer to cash could add significant volumes to the pool of G2P payments. But the technical challenges and political opposition to all of these new schemes could undermine or seriously delay their impact.

Samruddhi has already answered a lot of questions about the link between G2P payments and financial / banking services, and is appropriately viewed as an ideal example to be adopted in other states. Further experience and new experimentations will hopefully answer questions raised about the type of technology that is used at the retail level, the platforms that connect the various systems used by stakeholders, the implications of regulation, the payments and financial services that are offered to the unbanked, the fees that are paid, and the overall business case for the profitability of the banks, BCNMs and CSPs. The same is likely to be clearer when one studies the implication of the model at the field in Part II of this report.

10.5.5 Challenges of Multiplicity of Instructions and Orders

At a district level while the district rural development is headed by the Zila Panchayats, the bank branches are governed by the banks that are regulated by the RBI. In the case of MP, it was observed that the GoMP has been taking the bankers as well as the RBI in synchronization as far as their policies and coordination between them was concerned. However there have been cases reported where the Government of India had issues certain instructions that were not endorsed by the state government or sometimes even by the RBI. As a consequence of this the lowest level of administration namely, districts get a multiplicity of instructions and most of the time contradictory to each other thus leading to inefficiencies. This should at best, be avoided and hence a coordination between the Government of Sate as well as Central and the RBI should be treated as an important prerequisite for financial inclusion drive. Similarly, there should be a single line of instructions for the banking channel as well.

10.5.6 Financial Literacy and Products: Win-Win Situation

One of the areas where MP still has to go a long way forward, though started already is Financial Literacy. For, any kind of financial or banking inclusion remains incomplete unless the people own their bank accounts in true sense. They would own the same if and only if, they are aware of the benefits of the financial inclusion and can use their banking accounts for purposes other than simply receiving the benefits.

Due to its paramount importance, a full chapter is dedicated to financial literacy in this report. Though apex bodies like the RBI as well as NABARD have been doing their bit in this area a lot has to be achieved in MP going beyond their model.

NABARD / RBI Initiatives for FLCs through Banks / Directly: NABARD as a Development Financial Institution is organizing camps at various places to create financial awareness among peoples. Apart from that, it provides support to the Banks to strengthen the FLCs. In the initial phase NABARD provided grant to the tune of Rs. 5 Lakh to each FLCs which was utilized for purchase of vehicle for the FLCs. The sponsoring Bank is providing the recurring cost of the vehicle.

RBI has provided grant of Rs. 1.00 crore to SLBC s of each State for printing and distribution of Financial Literacy materials to each FLC of the State. Besides that, RBI on its own is conducting Financial Literacy camps at various places.

Financial Products: As mentioned earlier, unless the MP model of inclusive finance makes people understand the benefits of using their banking accounts and offers a number of products and services, it could neither induce the end user to optimally attain financial inclusion, nor would it be in position to offer sustainability at the last mile connectivity. If the USBs /CSPs offer a plethora of products like the savings, recurring deposits, term deposits, credit and loans, remittances, insurance and even micro pensions like the NPS Lite et al, it would allow the bottom of the pyramid to participate in Nation's growth and allow them to grow along with the Nation. In doing so, the CSPs themselves can create a robust and sustainable model for themselves. Thus it could be a win–win situation for the provider as well as consumers.

Micro Pension Experiment

An experiment was made in Odisha between a company that was offering micro pensions as a SEBI regulated product to the vast base customers of State Bank of India using the CSPs of the BC namely, Zero Mass Foundation. The concept and product did very well but the CSPs were reluctant in promoting the product since they were not being adequately remunerated by the BC.

The IIMPS SBI ZMF struck a deal that the incentives of the CSP should be directly paid into their account bypassing the BC and the BC would be entitled for their share as agreed upon. This worked and finally the product manufacturers were able to incentivize the CSPs directly aligning their interests with the BC.

Many of the CSPs realized that the model was to provide an extra income to them and worked well. But the issues were more from the side of the ZMF as BC rather than at the ground zero level. Similarly, some of the Insurance products of the MFIs and the micro *insurance was also attempted to be promoted using the BC model, but unfortunately the issues again vested with the BCs and not at the last mile connectivity at the CSP level.*

Unless the revenue model of the Bankers, their BCs, BCNM, CSPs are aligned and the incentives of the CSPs is adequately addressed, the huge potential lying at the helm of rural India could not be tapped in an efficient manner.

10.5.7 Institutional Architecture

Under an ideal condition and with infusion of financial literacy the institutional architecture could be designed where the bank account holders could issue standing instructions to debit their accounts for buying various financial products and the same could be used at the Core banking level, greater pursuance at the state level is required. In many cases, it was reported that the state prohibits the use of the EBT account for other purposes. However, states have no role and business in banning the use of no frill accounts from other banking products. The RBI has issued clear guidelines over the issues of banking accounts opened under the EBT platform. The RBI guidelines state that as EBT Scheme is a part of the overall FIP, the EBT accounts ***are required to provide whole range of permissible banking services viz. deposit scheme, preferably a variable recurring deposit will in-built Overdraft (OD), remittance and entrepreneurial credit products in the form of GCC / KCC.*** Thus all regular services are permitted in these bank accounts. On the issue of restricting the EBT account to provide services that are limited to EBT only, the RBI comes down heavily on the scheme implementation agencies and instructs them not to restrict the bank accounts only to that particular EBT scheme. The RBI states that the ***State Governments should not stipulate any condition that prevents EBT accounts from being used for other banking transactions.*** As per the RBI whenever the State Government plans to implement EBT scheme through banks in future, the details of the scheme should be first discussed in the SLBC.

RBI also unequivocally further states that ***as EBT accounts are regular no frills Savings Bank accounts, they will be subject to applicable regulatory guidelines.*** For example, these accounts cannot be opened as joint accounts of the beneficiary with a State Government agency. The concerns of the State Government which led to this demand may be addressed by devising permissible checks and balances. Similarly, in some districts, EBT accounts are made dormant when there are no transactions in the account for 2-3 months. ***The RBI states that this is not permissible as per regulatory guidelines and no EBT account shall become dormant or inactive if there is no transaction for a certain period.*** In fact all these accounts rest at the core banking and there is no provision to close the accounts for want of transactions.

Opening of Bank accounts and mapping the Beneficiaries: The GoI is of the opinion that the service area of the banks may be revised, wherever required, to align it with the Gram Panchayats, as already advised in the Strategy and Guidelines for Financial Inclusion issued by the Ministry of Finance. Within the Service Area of banks, the service area of the BCAs, as indicated in the Service Area Plan, must be clearly demarcated. In order to ensure that every beneficiary of the Government schemes has a bank account, the banks must start mapping the list of beneficiaries under every scheme, already available with the concerned departments of the State Government, with the bank account details. Wherever the beneficiary does not have a bank account, a new bank account for the family in the service area branch should be opened. However, if the area has more than one bank branch, the choice of bank must be left to the beneficiary. In case a member of the family already has a bank account, there may be no need of opening a new bank account and the name of the beneficiary may be added, if required, in the existing bank account. However, in case the beneficiary wants a separate bank account to be opened, the same may be allowed. **However, only one account for receiving benefits under various schemes may be opened.** Separate accounts for each scheme shall in no case be opened.

In many cases the beneficiaries might be having account in the post offices. Since the post offices, as yet, do not offer the facilities of electronic benefit transfer, the beneficiaries may be persuaded to open account with the banks for the purpose of electronic benefit transfer. While opening the bank account, in case the beneficiary has been allotted an Aadhaar Number, the same should also be recorded along with bank account details. The exercise of opening of new accounts, wherever required, must be undertaken and completed for each scheme. As new accounts get opened and the beneficiary gets mapped, the need of opening new accounts for remaining schemes would progressively decline.

10.5.8 Way Forward with VSAT Connectivity

VSAT Connectivity at Gram Panchayat: The major problem in functioning of the USBs / CSPS is the lack of connectivity due to which transactions could not be effected at all USBs / CSPs through online mode which reduces the confidence level of the customers on the BCs. Gram Panchayat office also requires the internet service for various reporting and MIS reporting of the Govt. To overcome this, the State Government is exploring to provide VSAT at each Panchayat, where USBs are operating. To make the same viable for the Banks, the government of MP will be required to bear the cost of the VSATs.

10.6 Generation of Hypothesis for Field Study

As mentioned elsewhere, this report is a mere documentation of facts of the financial inclusion in MP, from the perspectives of the supplier side including the supplier of products as well as services. Based on the documents and information provided, the Three Pillar model of financial inclusion as designed and implemented in MP is further to be tested from the 'demand side' of the products and services. The same would be performed in part two of the investigation and report. In other words, following hypothesis is to be tested by means of a field study at four representative districts:

1. The Three Pillar Model of Financial Inclusion Designed and Implemented in MP is
    a. Technically Feasible and Sound,
    b. Financially Viable and Sustainable
    c. Frugally Created and

    d. Capable of providing Integrated Financial Inclusion to the Rural Population in an Efficient and Effective manner.

2. The Three Pillar Model of Financial Inclusion Designed and Implemented in MP has already made an Impact on the Lives of the Vast Rural Population of Beneficiaries in the state of MP by means of

    a. Financially Literate and Understands Transactions

    b. Holds and Uses Banking Accounts for Financial Deepening

    c. Receives Benefits at Convenience – Time, Place, Efficiency, Cost etc.

    d. Credibility in Government Schemes and Payment System

PART II

Part II – Evaluation of *Samruddhi* & Recommendations

Executive Summary II
Evaluation of
'Samruddhi
The MPFI' & Recommendation

A. Backdrop

MP has embarked upon an ambitious plan to provide access to finance to each and every household as well as individual resident of the state by means of designing a financial inclusion model that is robust and dynamic and is founded on a solid bedrock of banking infrastructure. While the complete financial inclusion model has been described in the Part One of the report, it is worth mentioning here that the financial inclusion model that has been designed, evolved, developed and implemented in MP is a paradigm shift from its peer states. For, the criterion for providing banking access has shifted from population-based to geographical area-based and proposes to reach out to the identified 'Shadow Area' villages through a network of newly designed channel – the Ultra Small Branches (USBs) / Customer Service Points (CSPs). A roadmap to cover all the 47,660 unbanked villages in the State was prepared by the SLBC after the process of mapping all the unbanked villages was done in each district through a Special DLCC. Under the roadmap, doorstep banking services would be provided in every village through a combination of 1,006 bank branches and 9,239 BCs. The progress is being monitored by SLBC and also by the RBI.

As mobile banking and other technological innovations fuel the expansion of financial services in MP, policy makers in MP should focus on products and services that benefit the poor, women and other vulnerable groups the most. No-frills savings and payment accounts, for example, offer a safe place for people to store and transfer money and help them maintain a relatively stable living standard. While evidence is mixed on microcredit and micro-insurance products, the report suggest that MP should also consider looking beyond banking and bankers. The MP model hovers around the Principles of G – 20 on Financial Inclusion and has imbibed many of its principles. However, the way forward is to also link the insurance and other products with the financial inclusion model.

B. Early Evaluation

Since the model was designed and implemented only a few years back, most of the tasks at the drawing board level have been achieved. Its implementation at the field has begun only recently and hence it should be distinctly understood that the financial inclusion model of MP is still at its nascent stage and hence the current assessment has its own limitations. The efforts that started a couple of years back are yet to display remarkable changes in the lives of the population. However, the state seemed to be geared up to bring about changes in the financial behavior of the population. Information that would help evaluate a model can be broadly categorized as those at Proposal / Definition stage, Environmental stage, Implementation stage, Monitoring stage and Overall Assessment stage.

The model has already crossed the proposal / definition stage as well as the environmental stage as the same has been envisaged and designed well and is ready to be functional. An environment within the ecosystem has already been created by the GoMP in conjunction with the banking industry in MP towards setting up the systems and designing of the processes. The model, which is still at its early implementation stage, has provided early indications of a strong foundation. MP has not reached a stage where it could be monitoring products and services including monitoring products, data on number of products, types of products, return on products and their related characteristics that are extremely important in the penultimate stage.

The basic framework for assessment of financial inclusion and the standing of the *Samruddhi* model as on date has been covered on the following important dimensions:

Supply Side Evaluation: financial inclusion, financial literacy and consumer protection as three major planks of financial stability. While financial inclusion acts from the supply side, providing the financial market / services that people demand, financial literacy stimulates the demand, making people aware of what they can ask for. The supply side issues also cover financial markets, network of banks and other financial institutions, appropriate design of products and services, etc. In case of the model designed and developed by MP, the supply side has been served only by the bankers to a limited extent. However, since this is just a beginning as the model has been conceptualized only very recently, even the supply side of the products and services would take time to mature. For lack of financial literacy **customers treat their banking accounts not as a tool to optimally use them for inclusive growth, but as a means to collect their payments being passed through the USB / CSP.** There is clear evidence that wherever financial literacy efforts had been initiated by RBI and NABARD, there is remarkable evidence of increased transactions beyond savings in terms of credit and subscribing to insurance products.

Demand Side Evaluation: The demand side issues in financial inclusion include knowledge of financial products and services, credit absorption capacity, etc. While in the MPFI model there is a provision of providing financial literacy, much has to be done to effectively impart the same. These issues are universally faced by both urban and rural MP. **There is a strong need for financial literacy to be designed and delivered based on customization to the requirement in MP, considering the newly framed financial inclusion model.** A framework for financial inclusion needs to take into account various aspects such as the demand and supply side; assessment of enabling environment; issues in penetration, barriers to financial inclusion, etc. and resolve them based on the local requirements rather than 'one size fits all' approach.

Evaluation on Product Availability: The availability of appropriate but regulated financial products, including at the very least, savings products, emergency credit, payment, insurance products and entrepreneurial credit are important aspects of the financial inclusion environment. As on date and purely based on the field survey, currently the Financial Inclusion model in MP provides for a G2P and savings product. Credit is being routed through only a few USBs / CSPs as of now and remittances are limited to certain kiosk based outlets such as SBI kiosks etc. where the customers are charged to remit. In addition to this, the fairness and appropriateness of products is also an important dimension in the context of financial education of customers and for consumer protection.

Customer Protection: On the evaluation side of the protection of customers, it is only a macro mechanism that is currently functional. This is to say, the financial regulators in India (RBI, SEBI, IRDA and PFRDA) provide for certain norms of customer protection. However, it was found that except the normal and routine regulatory framework there was no information dissemination regarding rights and duties on customer protection under the *Samruddhi* model.

Monitoring o f Products and Service: Monitoring framework needs to be further developed that would cover transaction level, customer level and products and services level monitoring, at the micro level. Again, as mentioned earlier, there is a monitoring of such tenets at the macro level within the regulatory framework, there is no similar action at the micro level. In future, and as is suggested in this report, if more and more financial products shall be offered to the client at the grass-root level using the USB / CSP channel, there would be a greater role of the supply side stakeholders as well as that of government to monitor such action. The *Samruddhi* is required to be geared up to monitor and supervise the products and services offered by the multiple regulators.

Robustness of *Samruddhi* – the MPFI Model: A robust financial inclusion design depends on a multiplicity of parameters encompassing varied socio-economic backdrops and feasible financial service delivery mechanism that would vary from region to region. This is particularly so for the state of Madhya Pradesh, which is distinguished by its vastness of topographical, demographic as also socio-economic diversity. The model developed in MP is robust in the sense that it is technically feasible and has been piloted well for its internal processes and systems. There is no failure on the processes except that it still requires certain improvement and fine tuning. This may include, but not be limited to providing a uniform set of frontend technological convenience, allowing joint accounts and SHGs to open banking accounts at the USBs, development of guidelines for the technology service providers, especially to cater to a uniform set of principles and benchmarks at the frontend. Like any broad based financial system, financial inclusion measures and performance monitoring system require a rich body of performance data and analytics. Such data is currently not being generated by the system and the same has been recommended with a specific format in this report.

C. Summary of Recommendations

Out of the three pillars of financial inclusion, while SSSM and the USB are still evolving and are mid way to mature, the e-FMS module has attained near optimality. If the design and implementation of the e-FMS module is any indication of an early success of the financial inclusion model, undoubtedly the nitty-gritty has been founded well at the strong backend pillars. With continuous focus from the top level conceptualization and implementation team, the e-FMS module seems to have completely been internalized among the implementation team at the districts, blocks and panchayat level. It is strongly recommended that this unrelenting focus and effort that was demonstrated in case of e-FMS implementation ought to be continued to take the other two important components of the financial Inclusion model of the MP to its logical ends. A beginning towards this has already been made by devolution of benefits under pension on a pilot basis. The same data is used to decide entitlements under food security. The same data is also presently being cross checked and soon scholarships would be disbursed through the SSSM data base.

C 1. Generic Recommendations

PPP Approach Beyond Banks: While the *Samruddhi* rests on a sound foundation of the three pillars of the model, relying purely on banks for banking inclusion may be like risking the model without diversification. Report suggests that GoMP should consider a variety of options in implementing financial inclusion model and not limit itself to banking and G2P system. It should start a dialogue with the expert bodies and agencies that have worked and delivered results at the grass-root level and are achievers in providing the last mile connectivity. It should be open to inviting credible self regulatory organizations (SROs) and institutions like the MFIN / Sa-Dhan and other agencies including social entrepreneurs and the MFIs active in the state of MP as part of the PPP model and offer them a level playing field to operate in MP on offering regulated financial products and services. GoMP should also consider harnessing the potential of corporate MP and use corporate houses for offering their services as part of the CSR in a tie-up with such organizations / Banks / USBs etc for creating awareness and financial literacy on products, processes, and above all, the benefits of banking, for creating greater relevance for the MP Financial inclusion model.

Seamless Internet Connectivity: In terms of infrastructure requirement, the Internet Connectivity seems to be the all pervading issue in the implementation of the entire model and it is recommended that GoMP take up the issue of seamless internet connectivity with higher authorities at the IT department, BSNL and other internet service providers to provide seamless connectivity to implement the entire model in an integrated and comprehensive manner in MP.

C 2. Systemic Recommendations

Designing a Minimum Standard for Unifying Frontend for Technology Service Providers (TSP) : There is a strong need to define the minimum standards of technology at the frontend of the USB / CSP that provides interface at the customer level. Currently, while some TSPs frontend technology is entirely online, few operate in an offline mode only, while there are certain USBs where the TSP has provided both offline as well as online modules. Thus it is highly advisable that at the frontend, different technologies should not be used and a minimum standard be adopted.

Introduce Regulations for the TSP for Standardization of User Interface Technology: While the

Reserve Bank of India regulates the Banks which on their part govern and supervise the functions of the Banking Correspondents and while the RBI has issued guidelines for the Ultra Small Branches / Banking Correspondents, there are no guidelines issued by any authority for managing the standards of the Technology Service Providers under the BC model. As a result, all TSPs are free to design their own technology from the front to the back end. While this flexibility is a prudent step in this direction and creates a healthy competition between the TSPs at least at the back end, it fails to provide a standardized set of services to the customers at the frontend.

Facilitate Opening of SHG Accounts at the USB / CSP level: While individuals are able to open accounts through the USBs / CSPs, opening of joint accounts by family members as well as opening of group accounts as in Self Help Group (SHG) were not allowed by the system. It deprives the family members from enjoying the services of a joint bank account and compels the chairperson and secretary of the SHG to walk miles to the bank branch in order to operate their SHG bank accounts as joint signatories. This also dims the possibility of a possible SHG-bank linkage within the ecosystem of *Samruddhi*.

Inter USB / CSP and Branch Portability: While all bank accounts opened at the USB as well as at the branches are in the core banking solutions (CBS), they are deprived of talking to each other. As a result, an account opened at one USB can neither be operational at another USB, nor at the branch and *vice versa*. It is recommended that GoMP take lead in discussing and resolving the issues involved in the inter-operability of the USB / CSP and branch accounts with the RBI and Head Offices of the Banks.

C 3. Parametric Recommendations

Basic Infrastructure for USB / CSP: As Panchayat Bhawan brings in additional credibility into this newer set of institutions in the villages paving way for greater coordination with the Panchayats, GoMP need to constantly monitor the progress of providing such promised space in Panchayat Bhawan to USBs / CSPs and take necessary steps in providing the same, wherever it has not been provided yet. Similarly, availability of a seamless connectivity in rural MP was a major issue in handling the customers at the USB / CSPs. GoMP should take up the issue on priority and coordinate with the appropriate authority to provide seamless internet connectivity.

Avoid Urban Crowding: While banks are hesitant and taking time in opening the USBs / CSPs in rural areas, more particularly in shadow area villages, they are quite eager to open the USBs / CSPs in the urban and semi-urban areas of the district. The LDMs should be advised to monitor the trend and ask the banks to open USB / CSPs at the specified locations on priority.

USB / CSPs to be made Fully Operational on Immediate basis: It was found that at many locations no USB / CSP have been appointed by the concerned bankers till the beginning of November 2013. There are also instances where the USBs have been established, noticeboards installed, CSP identified and selected, yet the CSP has not started operating at the location. In such cases, no bank accounts have been opened by the CSP. Finally, there are locations where the CSP has also opened bank accounts, but there are no transactions in those accounts for various reasons. It is thus recommended that an MIS in basic terms be generated at the Block / District level that could be sent to the SLBC and be monitored at the state level. The format for such an MIS has been provided for in the report.

Greater and Smoother Coordination between Head / Regional Office and the Branches: There seems to be gaps in understanding between the Regional offices and that of Zonal / branch offices. Bankers in the field lack ownership of FI model as they have had very little say in activities at the local level like selecting the BC, identification of shadow villages etc. However, these are more of HR issues rather than issues connected with the setting up of the USB and yet, it should be borne in mind that unless the head offices do not take the branches into confidence they would find it difficult for the branches at the grass-root level to take the ownership of the system.

Similarly, there is also a need for a push from the side of the Zila Panchayats. Until and unless a constructive dialogue is established with the head office, not much change in products, policies and orientation can be envisaged in the functioning of the banks. For this reason, it is recommended to initiate discussions and dialogues with the Head Offices of the banks to discuss, analyze and resolve various issues that have emerged in the course of implementing the USB/CSP component of *Samruddhi*. It is also recommended that a greater participation of the branches should be ensured so as to bring in a sense of ownership of the USB amongst the service branches.

Banks to Create Public Goods by Investing into Financial Literacy: Financial inclusion should be treated as a multi-dimensional, pro-client concept, encompassing better access, better products and services, and better use. The challenge lies in the last element as without its use, the earlier elements are of limited relevance. The MPFI model should use financial education as an important tool to address this imbalance and help consumers accept and use the products to which they increasingly have access. Properly designed financial education should be tailored to the client's specific context, helping them to understand how financial instruments, formal or informal, can address their financial concerns, from the vagaries of daily cash flow to risk management.

Thus the banks should be advised to take proactive steps in the drive for financial education since financial inclusion without imbibing the tenets of financial literacy would be a futile exercise. Merely opening of bank accounts will not help the customers since they need to understand the benefits of opening them. It can simply not be brought in or inculcated amongst the target group by merely conducting training classes or organising camps. It should be brought as a practice in their daily lives. They should be reminded about the concepts of financial literacy as and when customers take any monetary decision. The customers should have the ability to make informed judgements and to take effective actions regarding the current and future use and management of money.

Post Offices to be Provided with Funding for Financial Literacy: Post Offices and sub-post offices in MP are an inevitable part of the financial inclusion model. Though in future it is proposed that the post offices shall be covered under the core banking solution the current status lacks as far as providing financial literacy is concerned. Under the funding from NABARD or Finance Ministry / Rural Development Ministry / India Post should be provided with suitable funds for financial literacy. These funds could be used to initially train and build capacities of the staff and Grameen Dak Sevaks of the Postal department who could potentially be used for marketing the financial products of the postal department. India Post has a huge army of more than 3,00,000 Grameen Dak Sevaks (GDS) who on a part time and commission basis perform the basic tasks of the department. This would lead to financial deepening with greater availability of liquidity in the ecosystem and allow customers to perform more transactions using the channel.

Immediate Freezing of USB / CSP Operated Bank Accounts for transfer of government benefits under different schemes: While most of the rural workers and wage laborers under the MGNREGS were being paid their wages through the USB / CSPs, there was still a section of people for whom the wages were being paid either through the bank branches or post offices. For areas where they would continue to receive their wages in the postal accounts, little could be done at this stage since it would take a while for the post offices to be covered under the Core Banking System. However, there is a major chunk of workers who have opened their bank accounts under the USB / CSP mechanism on the promise that henceforth they would receive their wages at the USB located in the nearby village and yet their payments are not being channeled there. There have also been instances where frozen accounts of MGNREGS and Pension beneficiaries in USBs / CSPS have migrated back to Post Offices and earlier branch banking (located at significant distances) because of various issues like lack on internet connectivity, difficulty in bio-metric identification of old customers, frequent attrition of BCA, not-so-good services by the BCAs, etc. Thus, there is a need for stricter action so that bank details of all the USB account holders are linked with the Fund Transfer Order (FTO) that the Janpad Panchayat issues towards payment of MGNREGA wages and other entitlements.

Gender Balance in Appointment of CSPs by the BCs at USBs: As the team of consultants visited the four identified districts, they could seldom find a BC who was female. While there are definite merits in having a woman BC handling the USB / CSP, she would also be in a position to mobilize more and more women to open bank accounts at the USB. The savings habit amongst Indian women is well established where women are more prone to save than their male counterparts. Even imparting financial literacy to women by a woman would be a far preferred idea than being imparted by men. It is thus suggested that bankers be advised to not only provide equal opportunity to women as regard appointment of BC at the USB / CSP location, but also provide certain initial incentives for them to quickly break even and create a role model. Sewa Bank in Ahmedabad and Sewa as banking correspondent in Uttarakhand are typical examples of this.

Review the Role of BCs: A good number of banks have signed agreements with BCs such as MPCON Ltd and subcontracted the task of opening large number of the USBs / CSPs of the banks in the entire state. However, because of various reasons, not a single MPCON USB / CSP was observed in any of the four districts visited. They are still at different stages of rolling out their

USBs / CSPs viz. development of hardware technology to be used at the front-end, back-end integration of this hardware technology with the CBS platforms of banks, hiring and training of a large number of staff at various levels i.e. from the CSP Operators to technical, managerial support providers to Supervisors, managers, etc and development of SOPs for various sub-components etc. In view of this, it is strongly recommended that GoMP should review the role and responsibilities assigned to such BCs who have performed well or sub-optimally. Quite a few banks have not only developed sincere partners but have demonstrated it through the roll out of USBs / CSPs in non-mandated / shadow area villages. Banks should be given time-bound responsibility to open USBs/CSPs in the state.

C 4. Recommendations on Sustainability / Viability of USBs / CSPs

Third Party Products be Offered by CSP / USB: There is a strong need felt for the USBs to cross sell banking and other financial products such as remittances, credit, insurance and co-contributory pensions etc. All the banks including RRBs are aggregators licensed by the PFRDA and can immediately offer the Swabalamban benefit of the GoI under the NPS Lite schemes to their clients. This would not only provide for financial deepening at the demand side, but would also allow the rural population to participate in the development of the Indian economy. As this would have a direct bearing on the revenue model of the BC, it creates a win-win situation for all the stakeholders in the eco system.

Beyond G2P: While there is a comprehensive and clearly adopted policy of GoMP to harness the BC model of USB / CSP in delivering the benefits to the public, the Government to People (G2P) model on its own may not bring laurels to the Financial Inclusion model of MP for want of financial viability amongst the BCs. For the *Samruddhi* model to become self sustainable, it is extremely important that the BCs / CSPs make a profitable business model out of it. Offering savings products alone is simply not a viable arrangement for the bank. A minimum ideal revenue model has been suggested in the report for the BCs / CSPs to be self sustainable, where, if the USB / CSP make sincere efforts, can generate revenue that would allow them to make their operations self sustainable. However, the model vests on the basic premise that financial literacy should be an indispensible intervention.

C 5. Sundry Recommendations Specific to Model

Define a Turn Around Time (TAT) for account opening: To mitigate the lengthy process being adopted by the banks it is proposed that the GoMP take up the issue at the appropriate level at the banks (i.e. its Head Offices), as there are some banks where this process is quite simplified and takes just a few days, whereas, in some other banks it take more than 46-60 days. For mitigating huge delay in account opening, it is also proposed that the 'Account opening' in banks (USBs, CSPs, Branches, etc,) and post offices be brought under the **'Lok Sewa Adhiniyam'**, with SDM (who is also the chairman of the BLCC) being the first appealing authority and the DM (who is also the chairman of the DLCC) being the second appealing authority. There may be bank-specific timelines for opening of bank accounts (as prescribed by its internal SOPs), within which the banks should necessarily open the accounts of its customer, otherwise the customer should be free to appeal to the appropriate authority.

Provision of Passbooks and Passbook Printing Facilities at the USBs/CSPs : It is recommended that the possibility of providing passbooks to the USB / CSP customer must be explored with the banks, as it has emerged as one of the major demands from the field. While some banks like CBI do provide passbooks to its USB/ CSP customers, however, its printing/updating is possible only at the bank branches. Thus, the possibility of providing passbook printing facility also needs to be explored with the banks.

Besides, the report also provides several recommendations relating to the three pillars of the financial inclusion model that cannot be described in the executive summary. They pertain to the following:

1. **Electronic Fund Management System (e-FMS)**
   a. Identification and removal of infrastructural gaps
   b. A rigorous re-assessment of the entire process line (read, production line) of the MGNREGA payments.
   c. Continuous and regular trouble-shooting and improvisation of the system
   d. Internet Connectivity
   e. Financial Dispensation Infrastructure
   f. Freezing, de-freezing and re-freezing of Accounts
   g. New Critical Paths and Critical Activities
   h. Software Related Issues

2. **Payments through Post Offices**
   a. A massive sensitization exercise
   b. A detailed process-map (of the manual processes being followed) for crediting the beneficiaries account
   c. A continuous follow-up and troubleshooting with the Central Processing System of Post Offices at Mysore
   d. Resolve some of the clearing level issues/delays of Post Office based FTOs;
   e. Continuous improvement in the e-FMS software to resolve issues regarding Post Office related FTOs, presentation in the software, etc.
   f. The issue regarding cash-carrying limit
   g. The specific issues of FTO rejection and continued reflection of earlier-rejected-and-subsequently-processed FTOs
   h. Features like 'viewing facility through internet banking' and 'daily mailing of account statements'.

i. Faster processing of funds at SPO level, this being a very small activity, need to be immediately taken-up with appropriate authority at the Department of Posts.

j. Option of reflecting (i.e. printing) the UTR No. and the FTO No. of the MGNREGA transactions in the bank statement.

k. Significant reduction in the time taken up at the SPO level to manually reconcile its account before crediting the amount to the individual beneficiary's account in post offices.

3. Payments through Cooperative Banks: While some accounts are still being maintained at the Cooperative banks, by virtue of it being manual, it still takes maximum time in dispensing cash through them. However, with the operation of Cooperative banks being rolled out through core-banking platform, all such issues are expected to be resolved soon. However, leadership team at GoMP needs to ensure its early roll out in all the banks and all the branches across the state.

4. Integrated Social Security Mission (SSSM)

a. Use Of Experience And Expertise developed during e-FMS Implementation

b. Full-fledged Rollout of SSSM

c. E-payments module: e-payments through CSFMS:

- Need for a bridge system / solution between *Samagra* Portal and CSFMS.
- The due modification in CSFMS to capture the Post Office and Cooperative Bank details
- Processing e-payments belonging to accounts in Post Offices and Cooperative Banks, as is the case in e-FMS.

d. Internalizing SSSM in the regular routine functioning of the Zila and Janpad Panchayats :

e. Effective communication and training regarding SSSM's internalization in the regular functioning at the District and the Block level

f. The Household Survey and Verification and Freezing of Pensioners' Accounts

g. Freezing, De-freezing and Re-freezing of Accounts

h. Recommendations on further development of the *Samagra* Portal:

- The e-payments module or the bridge module to auto-feed the information fed and stored in *Samagra* portal to be accessed and used in the CSFMS portal of the State Treasury
- A bridge module to get the whole set of reverse information regarding e-payments, viz. date, amount, time and bill of payments, back from the CSFMS portal i.e. something similar to FTO related information;
- A comprehensive Reporting module

Chapter-11

Revisiting Approaches to Financial Inclusion

The objective of this chapter is to recapitulate the different approaches to financial inclusion as described in part one of the report. It briefly captures some of the international initiatives adopted towards financial inclusion including briefly capturing the MP model of Financial Inclusion. The intention behind the chapter is not a reproduction of the summary described in part one, but is to provide a reference to context in measuring the current status of Samruddhi.

Revisiting Approaches to Financial Inclusion

11.1 International Initiatives

The origins of the current approach to financial inclusion can be traced to the United Nations initiatives, which broadly described the main goals of inclusive finance as access to a range of financial services including savings, credit, insurance, remittance and other banking / payment services to all 'bankable' households and enterprises at a reasonable cost. The Report of the Centre for Global Development (CGD) Task Force on Access to Financial Services (October, 2009) laid down the broad policy principles for expanding financial access, including institutional mechanisms, with particular emphasis on the need for ensuring data collection, monitoring and evaluation. The G20 Toronto Summit (June, 2010) had outlined the **"Principles for Innovative Financial Inclusion**", which serves as a guide for policy and regulatory approaches aimed at fostering safe and sound adoption of innovative, adequate, low-cost financial delivery models, helping provide conditions for fair competition and a framework of incentives for the various bank, insurance, and non-bank actors involved in the delivery of a full range of affordable and quality financial services.

Initiatives for financial inclusion have come from the financial regulators, the governments and the banking industry. While the banking sector has taken several steps to promote financial inclusion, legislative measures have also been initiated in some countries. For example, in the United States, the Community Reinvestment Act (1977) requires banks to offer credit throughout their area of operation and prohibits them from targeting only the rich neighborhood. The German Bankers' Association introduced a voluntary code in 1996 providing for an 'everyman' current banking account that facilitates basic banking transactions. In South Africa, a low cost bank account called 'Mzansi' was launched for financially excluded people in 2004 by the South African Banking Association. In the United Kingdom, a 'Financial Inclusion Task Force' was constituted by the government in 2005 in order to monitor the development of financial inclusion.

World Bank Group Report Lays Out Road Map for Financial Inclusion November 2013

As mobile banking and other technological innovations fuel the expansion of financial services in many developing countries, a new World Bank Group report urges policy makers to focus on products that benefit the poor, women and other vulnerable groups the most.

No-frills savings and payment accounts, for example, offer a safe place for people to store and transfer money and help them maintain a relatively stable living standard. Evidence, however, is mixed on microcredit and micro-insurance products.

"When well designed, efforts to foster financial inclusion can be an effective way to empower people," said World Bank Group President Jim Yong Kim. "Whether you are a public sector financial regulator or a private sector bank, it is in your interest to get everyone access to financial services. This is good for the world and will help us end poverty."

The 2014 Global Financial Development Report: Financial Inclusion is the most comprehensive report yet on the topic. It comes as policy makers are pushing to reach the world's unbanked – 2.5 billion people who make up about half of the world's adult population. More than 50 countries recently set targets to improve financial inclusion. Last month, Kim announced a new initiative to provide universal financial access to all working-age adults by 2020 – with the help of technological innovations such as e-money accounts and e-mobile wallets.

Progress in Financial Inclusion

Mobile banking has played a key role in expanding financial inclusion among low-income populations in countries such as Kenya, the Philippines and Tanzania. Brazil increased financial access to people living in remote areas by promoting technology-based **"correspondent banking"** – financial services provided on behalf of banks by retails stores, gas stations, and agents on motorcycles and boats on the Amazon River.

The poor benefit the most from technological innovations, which make financial services cheaper and easier to access, the report says. Low-income economies, especially those with remote, sparsely populated areas, have much to gain from allowing the provision of financial services outside of established bank branches.

Many countries have made progress in expanding account use among the poor, women, youth, and rural residents, even without tapping into advanced technology. Some policies have proven to be especially effective, such as requiring banks to offer low-fee accounts, waiving onerous documentation requirements and using electronic payments to deposit government assistance into bank accounts. South Africa, with a public-private framework, increased the number of bank accounts by six million in four years. Brazil's regulatory reforms led to a dramatic expansion of places offering financial services – now in every municipality in the country.

Challenges in Expanding Financial Inclusion

But challenges remain. While several countries have quickly rolled out basic bank accounts for the unbanked, in some cases, millions of those accounts have remained dormant. Even more troubling, without healthy competition and effective regulation, credit is often overextended to people not qualified to receive it. And promoting credit without regard to cost actually exacerbates financial and economic instability, the report shows

Low-income countries face particularly daunting challenges. Thirty percent of the adults there saved in 2011, compared with 58 percent in high-income countries, according to analyses of the World Bank's Global Findex database included in the report. And 11 percent of adults there saved using a bank account, compared with 45 percent in high-income countries. In addition, about 9 percent of the adults worldwide originated a loan from a formal financial institution, but those in developing countries are three times more likely to borrow from family and friends than from banks.

"Financial services are out of many people's reach because market and government failures pushed the costs of these services to prohibitively high levels," said World Bank Director of Research Asli Demirguc-Kunt, who co-authored the report. "In many cases, the services are unavailable because of regulatory and legal hurdles."

Addressing Market and Government Failures

To promote financial inclusion responsibly, the report urges policy makers to **improve the standards for information disclosure and support innovative, well-designed financial products that address market failures, meet consumer needs and overcome some behavioral hurdles.**

For example, commitment savings accounts, where access to cash is possible only after a period of time or after a goal has been reached, can promote savings. And if well designed, index-based insurance, which links payouts to a well-defined index, such as the amount of rainfall or commodity prices, reduces moral-hazard problems, because payouts reflect a measurable index beyond the control of the policyholder.

Policy makers can also improve financial access by embracing new technologies, which not only include mobile banking, but other innovations such as borrower identification based on fingerprinting and iris scans, the report says. They should, however, strike a balance between providing incentives for the development of new payment platforms and requiring them to be open to competition.

Financial Literacy

Responsible financial inclusion also requires consumers to better understand finance. The study finds that standard, classroom-based financial education aimed at the general population has little impact. But financial education can be effective during key moments of a person's life, such as when starting a new job or when applying for a mortgage loan. People also learn better when financial messages are delivered though social networks and engaging channels, such as soap operas, according to evidence highlighted in the study.

The World Bank Group is committed to supporting countries in their efforts to bolster access to finance. It currently conducts financial inclusion projects with public and private partners in more than 70 countries.

11.2 Financial Inclusion – National Initiatives

The history of financial inclusion in India is actually much older than the formal adoption of the objective in the current century. The nationalization of banks, Lead Bank Scheme, incorporation of RRBs, Service Area Approach and formation of Self-Help Groups - all these were initiatives aimed at taking banking services to the masses. The brick and mortar infrastructure expanded the number of bank branches multiplied ten-fold - from 8,000+ in 1969, when the first set of banks were nationalized, to 99,000+ today. Despite this wide network of bank branches spread across the length and breadth of the country, banking has still not reached a large section of the population. The extent of financial exclusion is staggering. Out of the 600,000 habitations in the country, only about 36,000+ had a commercial bank branch. Just about 40 per cent of the population across the country has bank accounts.

The National Sample Survey data (2002-03) revealed that nearly 51 per cent of farmer households in the country did not seek credit from either institutional or non-institutional sources of any kind. A number of rural households are still not covered by banks. They are deprived of basic banking services like a savings account or minimal credit facilities. The proportion of rural residents who lack access to bank accounts is nearly 40 per cent, and the figure rises to over three-fifths in the eastern and north-eastern regions of India. Accordingly, the primary objective is to take banking to all excluded sections of the society, rural and urban.

A more focused and structured approach towards financial inclusion has been followed since the year 2005 when RBI decided to implement policies to promote financial inclusion and urged the banking system to focus on this goal. The focus has, specifically, been on providing banking services to all the 600 thousand villages and meeting their financial needs through basic financial products like savings, credit and remittance.

India has adopted a bank led model in India to introduce a bouquet of products related to savings, payments & credit together. It is recognized that only the mainstream banking institutions have the ability to offer the suite of products required to bring in effective / meaningful financial inclusion. Other intermediaries and technology partners such as mobile companies have been allowed to partner with banks in offering services collaboratively. In this context, it is necessary to point out that MFIs/NBFCs/NGOs on their own may not be able to bring about financial inclusion, as the range of financial products and services which are considered as the bare minimum for financial inclusion purposes, cannot be offered by them. But they play an extremely important role in furthering financial inclusion in the sense that they bring people and communities into the fold of the formal financial system. Further, the initiatives are technology driven so as to make the financial services deliverable in a cost effective manner, tailor made by the market participants to best suit their requirements. RBI has encouraged the ICT model which would enable banks to overcome the barriers of geography and ensure efficient financial inclusion. The ICT based delivery model adopted should be technology-neutral to facilitate easy up-scaling and customization, as per individual requirements.

Against this background, the major initiatives taken by RBI include the following:-

- Encouraged the SHG-Bank Linkage Model, one of the largest micro finance models in the world, under which 4.79 million SHGs have been credit linked, covering 97 million poor households (till March 2012).
- Mandated Commercial Banks including RRBs to migrate to the Core Banking Platform.
- Substantially liberalised the BC based service delivery model in phases.
- Permitted domestic scheduled commercial banks to freely open branches in Tier 2 to Tier 6 centres.
- Mandated banks to open at least 25% of all new branches in unbanked rural centres.
- Substantially relaxed the Know Your Customer (KYC) documentation requirements for opening bank accounts for small customers.
- Encouraged Electronic Benefit Transfer for routing social security payments through the banking channel.
- Pricing for banks totally freed; Interest rates on advances totally deregulated.
- Separate programme for Urban Financial Inclusion initiated.

Some important features of the strategic initiatives for spreading financial inclusion in India included:-

- A roadmap for providing banking services covering villages in a structured way. In the first phase villages with population above 2000 was targeted. The focus shifted to villages with population less than 2000.
- Introduction of New Products – Making available a minimum of four banking products through the ICT based BC model.
- strategy to create an ecosystem comprising a combination of branches and ICT based BC outlets for evolving an effective financial inclusion delivery model.

Financial Inclusion Plan - Achievements so far

- Banking connectivity to more than 1,88,028 villages up-to June 2012 from 67,694 villages in March 2010.
- All unbanked villages with population of more than 2000 persons, numbering around 74,000 are now connected with banks.
- Number of BCs increased to 120,098 from 34,532.
- More than 70 million basic banking accounts have been opened to take the total number of such accounts to 147 million.
- About 36 million people/families have been credit-linked.

11.3 Initiatives in Madhya Pradesh on Financial Inclusion Model

The model of financial inclusion in the state of MP is a paradigm shift from the conventional model in Indian context mentioned above. The major switch over has been a shift from the population criteria to that of Geographical criteria. Under the conventional financial inclusion model and as per the instructions of RBI, a roadmap for providing banking services in villages having population more than 2000 was prepared by the State Level Banking Committee (SLBC) in MP. Under the roadmap, a total of 2736 villages were identified and allotted to various banks for providing banking services. In the next phase and as per the instructions of RBI, a roadmap for providing banking services in all villages having population less than 2000 through a combination of bank branches and BCs, prepared by the SLBC , was approved in the Special meeting of SLBC on Financial Inclusion. While all this was conventional financial inclusion model (pan India), the state of MP for various reasons mentioned in part I of the study, switched over to the parameters of geographical distance as opposed to that of population. The SLBC prepared a roadmap for covering all unbanked villages having a population less than 2000 through a combination of bank branches and BCs in a phased manner. Under the roadmap, a total of 47660 villages were identified and allotted to banks for providing banking services through 1006 bank branches and 9239 BC outlets by 2015 and beyond. The progress is being monitored by the SLBC on a quarterly basis. Similar committees are formed at the district level (DLBC) and block level (BLBC) to monitor the progress under the *Zila* and Janpad Panchayats respectively.

11.4 Chapter Construction

This report provides a comprehensive update on the progress of the Financial Inclusion model of MP based on the field experiences of the team of consultants at four districts. Chapter 12 of this report provides for Methodology of the field study including the tools and techniques used whereas Chapter 13 crisply throws light on the assessment aspect of the Financial Inclusion model in MP. Chapter 14, presents the evaluation of the three pillars of financial inclusion model namely, and in that order the electronic fund management system (e-FMS), the Integrated Social Security Mission (*Samagra Samajik Suraksha Mission* – SSSM) and the last mile connectivity through the Ultra Small Branches (USBs) and / or Customer Service Points (CSPs). Finally, Chapter 15 provides for recommendations to the MP model of Financial Inclusion in terms of Systemic and Parametric Recommendations.

Chapter-12

Methodology and Field Visits

This chapter describes the methodology used in evaluating the MP model of financial inclusion from the perspective of 'Demand' meaning thereby at the field level. It provides for an insight into the data and information gathering from the primary as well as secondary sources; the field visits to the various districts and blocks and the stakeholders met during the visit. It also provides for the tools and techniques used for the purpose of evaluation including the focused group discussions and interviews.

Methodology and Field Visits

12.1 Backdrop

Part of the study had captured the 'supply' side of the MP Financial Inclusion model wherein it brought out in bold relief the design, evolution and the tenets of the model including its implementation planning at the field. It also described in brief the concept of financial deepening and rolling out of banking products and benefits under the inclusion plan. However, since the report (Part I) was a mere documentation of the facts and figures, as made available from the supply side of the products manufacturers and services providers it did not capture what is actually happening at the ground level. While that report did provide an insight into a helicopter view of the model it was not based on the field experiences and practical realism. In order to understand the nuts and bolts of the financial inclusion model it is essential to understand the realism from the field perspective including the districts, Janpad, gram Panchayat and the village level. Part of the report deals with the observations made and evaluated at the field. While the scope of evaluation and the observations thereof are also covered in the subsequent chapters, this chapter briefly describes the set of activities taken up and the methodologies adopted for taking up this evaluation at the field level.

The second phase of the assignment and the report thereof is mainly focused on the evaluation of the Financial Inclusion model of GoMP. It is supposed to field test the hypothesis generated in the first phase of the report. It begins with the premise and assumptions of what has been concluded in the first phase regarding the FI model and is purely based on and appurtenant to the hard rock foundation of the conclusions of the phase one. While a detailed set of tools and techniques used to evaluate the model have subsequently been discussed, the broad set of activities was involved at two broad levels.

12.2 Secondary and Primary Data Gathering

At the State level, it involved meeting and interacting with the state / zonal level officials involved in the implementation of the entire model. The objective was to discuss the existing level of implementation of the model and the various issues involved in the implementation of the same. It also involved collecting and reviewing various kinds of progress reports and other implementation documents to get an idea of current level of the implementation. Since there was a need to understand the evolution of the FI model itself, the relevant documents and letters of correspondence related to its development and fruition were also studied. The list of people met and interacted with in the course of the assignment is annexed as annexure 1 in the document.

While, the evaluation did involve interactions with the state level teams as well, the first-hand feel and the realities of the model implementation was obtained through the visits to a set of sample districts, Janpads and villages. **At the district level**, it involved meetings and interaction with the district level officials of the banks, Zila Panchayat and the Janpad Panchayats. It also involved visits to villages and in turn to the USBs / CSPs to understanding the functioning and the rollout of all the three components of the *Samruddhi*. It also involved collection and analysis of various status, progress and monitoring reports at the district and the Janpad levels for all the three components of *Samruddhi*. The visits to villages and USBs involved interactions with BCAs, CSP Operators, Panchayat level officials and also with the MGNREGA and Pensions beneficiaries and customers of the USBs.

The state of MP has a 3-tier system of Panchayati Raj and consists of:

- Village-level Panchayats
- Block-level Panchayats
- District-level Panchayats.

It was therefore necessary to visit at each of this tier at the district, block and village level to gather the primary source of information and data.

12.3 Districts of Field Visit

A sample of four districts was identified to be visited in discussions with the Department of Panchayat and Rural Development team and the UNDP. The identified four districts were visited in the second half of October and the first two weeks of November, 2013, as below:

S. No	Name of District	Geographical Location	Rationale for Selection	Date of Visit
1	Dhar	Western MP	Tribal and Rural Population; MPRLP developed Livelihoods opportunity, warranting FI	27th & 31st October, 2013
2	Gwalior	North MP	One of the better performing districts again the *Samruddhi* Intervention	28th & 29th October, 2013
3	Hoshangabad	Central MP	Tribal and Agrarian Population; with pilot testing on SSSM and DBT as well	6th to 8th November, 2013
4	Chhindwara	South Eastern MP	Tribal district with certain interventions of FI including SSSM pilot testing	11th to 13th November, 2013

Since, the exercise was not to evaluate the specific performance of visited districts against the *Samruddhi* implementation, but only to see the broad functioning of the entire model in the field and understand the issues in its implementation, it was left to the districts to take the visiting team to various blocks to show the functioning of various components of the MPFI model. It seems, invariably they had taken the team to some of the better performing areas in terms of *Samruddhi* implementation. However, the consultants were keen to visit the best and the worst performers in the one district and mediocre or above performance in the other. Within the districts itself the plan was to visit the two extremes and understand the nuts and bolts. For, the reality always lies somewhere between the two extremes. However, while the selection of the districts were made in consultation with the P&RD Department and the UNDP Bhopal unit, the choice of the blocks and the villages were finalized in consultation with the Lead Development Manager (LDM) and the district Panchayat officers.

12.3.1 Visit to the Districts and Zila Panchayat

Within the Panchayati Raj system, district Panchayats play a predominant role of policy implementation and strategizing various programs. The governing system at district level in Panchayat Raj is also popularly known as "Zila Parishad". Chief of administration is an officer from IAS cadre or a senior official of the State Civil Services cadre.

The visits to the districts, which essentially formed the basis of the evaluation, involved visiting and interacting with people at different levels:

People Met and Interacted with

At the district level, people comprising the implementation team for the three components of *Samruddhi* were met and interacted with.

Map of Base Branch and USBs at Gwalior District

At the level of banks, a detailed discussion and interactions with the Lead Development Manager (LDM) was taken up to understand the entire issue of roll out of the MP model of financial inclusion. Then with the support of the LDM, detailed interactions with the district level in-charges of various banks were taken up to understand the existing status of the roll out of the USBs / CSPs and also to understand the issues involved in its roll out. While in some districts, there were individual meetings and discussions with the LDMs and other bankers, in other districts, group meeting with all the bankers were organized. Various set of information related to progress of USBs / CSPs, existing level of operation of these USBs / CSPs, reasons for not-opening of the USBs / CSPs were obtained in these meetings.

Regarding roll out of e-FMS and the SSSM components in the districts, detailed interaction with people in-charges of MGNREGS and SSSM as well as Social Justice Implementation in the Zila Panchayat were taken up. Project Officer (MGNREGS) and other officials in MGNREGS implementation team at the Zila Panchayat provided useful information on e-FMS implementation. Similarly, Deputy Director (Social Justice) and Data Feeding Operators and other Assistants in the Social Justice department at Zila Panchayats were met and interacted with for obtaining various information on SSSM roll out.

In one of the districts (Dhar), the consultants were also fortunate to attend the Block Level Bankers Committee (BLBC) meeting that was specially organized for the purpose and was chaired by the CEO Zila Panchayat instead of the CEO Janpad Panchayat. This was meant to provide for greater interaction with all the bankers of the Janpad which was also the district head quarter as a result of which the consultants were able to meet the *de facto* team of the District Level Banking Committee members (DLBC).

The Elections time in the State and Election engagement of the senior officials at the district did cast its effect on the people who could be met in the districts and also on the quality of the interaction. While, we could meet the CEO, Zila Panchayat in all the districts except in Chhindwara, where she was designated as the 'Returning Officer' in the Elections and was busy during all the three days of the visit. Similarly, we could interact with the Collector in the district of Hoshangabad only to get his views on the implementation of the entire model of *Samruddhi*.

12.3.2 Visit to Blocks at Janpad level

A Janpad Panchayat at the block level (also known as the Panchayat Samiti) is a local government body at the block level in MP. This body works for the villages of the block / tehsil that together are called a Development Block. The panchayat samiti is the link between the gram panchayat and the district administration[51].

In the course of field visits to the sample districts, a total of 10 blocks were visited. It also involved field visits to a few villages and the USBs in these Blocks.

Districts	Janpad Panchayat
Dhar	Dhar, Manawar, Nalchha
Gwalior	Barai, Murar
Hoshangabad	Hoshangabad, Kesla
Chhindwara	Chhindwara, Tamia, Parasia

Greater Responsibilities at Block / Janpad Panchayat Level: While the details of visits to villages and USBs / CSPs are described under the sub section, the visit to Blocks had a very important component of interactions with the Janpad Panchayat teams. It may be noted that it is these teams at the Janpad Panchayats, which now have the maximum responsibilities in terms of the e-FMS and SSSM implementation in the State. The role of district officials has now been restricted to facilitating the entire rollout, monitoring and supporting the Janpad level teams and providing troubleshooting support to them. In view of this, detailed discussions with the Janpad Panchayat teams involved in and are responsible for the roll out of the e-FMS and SSSM components of *Samruddhi* in their Janpad Panchayats was carried out. The current status of and the issues involved in its roll out are discussed in detail. The Janpad Panchayat team being the real implementers of the *Samruddhi*, quite useful comments, feedback and suggestions were obtained from these discussions.

The Janpad Panchayat teams being one of the major stakeholders (more as users) in the USBs / CSPs roll out, also provided useful feedback on its functioning.

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51. There are a number of variations of this institution in different states. It is known as Mandal Praja Parishad in Andhra Pradesh, Taluka panchayat in Gujarat, Mandal Panchayat in Karnataka, Panchayat Samiti in Maharashtra etc. In general, the block panchayat is a form of the Panchayati raj but at a higher level.

People Met and Interacted with

CEO, Janpad Panchayats, Assistant Accounts Officers , Janpad Panchayats, Assistant Program Officer, MGNREGS, SEs, RES, Data Entry Operators, MGNREGA, Pensions In-charge, SSSM in-charge (wherever appointed), Data Entry Operators, Pensions/Social Justice/SSSM were the group of people, who were interacted with while visiting Janpad Panchayats.

12.3.3 Visits to the Villages and USB/ CSP

Under the Panchayati Raj system of governance Gram Panchayats (GP) are the basic units of administration. In MP, a gram Panchayat may consist of one or more than one villages called as Gram Sabhas. The visits to villages and the USBs/CSPs was one the most important aspect of the entire field visits. While the interaction at the 'State' level and then the visits to and interactions at the 'district' and even at 'block/Janpad panchayat' level were very important and provided a lot of information on the *Samruddhi* implementation, but it were all the 'supply side' version of the issues of MPFI implementation. It was the visits to the villages and the USBs/CSPs, which gave the first-hand exposure to the real 'demand side' issues on the entire model. It also helped evaluating some of the claims being made by the 'supply side' by interacting with the real users of various services of the *Samruddhi*.

Villages and USBs/CSPs visited

A total of 11 villages and 10 USBs/CSPs spread across 9 blocks and a municipal area in four sample districts were visited in the course of field visits to the districts. All these USBs/CSPs belonged to three of most active banks in the field of establishing USBs/CSPs in the State.

District	Janpad Panchayat	Gram Panchayat	USB / CSP Location	Bank	Base Branch	Distance from the Base Branch
Dhar	Manawar	Tonki	Tonki	BOI	Manawar	10 KM
Dhar	Nalchha	Bedwapura	Bedwapura	BOI	Bagdi	4 KM
Gwalior	Barai	Mohna	Badagaon Jagir	CBI	Mohna	6 KM
Gwalior	Municipal Area of Gwalior		Hazira	SBI	Industrial Estate	0.5 KM
Hoshangabad	Hoshangabad	Raipur	Raipur	SBI	Meenakshi Chowk, HBD	6 KM
Hoshangabad	Hoshangabad	Jasalpur	Jasalpur	CBI	Hoshangabad	10 KM
Hoshangabad	Kesla	Kala Akhar	Kala Akhar	SBI	Kesla	10 KM
Hoshangabad	Kesla	Madiko	Madiko	CBI	Kesla	7 KM
Hoshangabad	Hoshangabad	Nitaya	Nitaya	BOI	Hoshangabad	12 KM
Chhindwara	Chhindwara	Chinhaikala	NO USB / CSP			15 KM
Chhindwara	Parasia	Khirsadoh	Khirsadoh	CBI	Parasia	4 KM

People Met and Interacted with

A very diverse set of people were met during the visits to the Panchayats/Villages and the USBs / CSPs.

- The BCAs and/or the USB / CSP Operators formed the first set of people, who were interacted with.

- The Sarpanchs, Panchayat Secretaries, Gram Rozgar Sahayaks (GRS), who are playing the dual role of being the implementers of *Samruddhi* from the 'Supplier Side' and also the demander and users of various services of *Samruddhi* on behalf of beneficiaries of their villages, were also one set of people met and interacted with.

- The MGNREGA Group Mates, MGNREGA beneficiaries, Pensioners, USB / CSP Customers, who were the real users of the services offered through *Samruddhi* were another set of people interacted with.

- Non-users of the *Samruddhi* services, which actually means non-customers of USBs / CSPs (as the other two services viz. e-FMS and SSSM of the *Samruddhi* are bundled services and thus are mandated to be availed in a particular way only without any option) were also a set of people who were interacted with during these visits.

12.4 Tools and Techniques

12.4.1 District Level

Following specific tools and techniques were used while visiting and interacting with the officials at the district level:

A. **Individual and / or group meetings** with the bankers and officials, seeking clarifications and state of affairs on various materials viz. progress reports, status reports, etc., cross-checking the progress reports with the demographic, topographic and socio-economic profile of the districts, brainstorming on some of the specific issues, were the major tools of interactions with the bankers and officials at the District level.

B. **Review of the changing role of 'District level' in the roll out and the functioning of the *Samruddhi*:** A review of the roles and responsibilities of the 'district level teams' in the roll out and the functioning of the *Samruddhi* was taken up to understand the changing role of this layer in the execution of the three components of MPFI. A brief discussion on the current level of HR and the requirements of HR, if any was also taken up. This becomes important especially because of the changing role of the district level teams, especially in the implementation of e-FMS and the SSSM modules.

C. **Review of various reports generated at the district levels:** A thorough review of various reports viz. DLCC minutes, progress reports containing outreach, outreach coverage, etc., business volume reports, financial (income/expenses) reports, etc. was taken up.

12.4.2 Janpad Level

Following specific tools and techniques were used while visiting and interacting with the officials at the Janpad Panchayat level:

A. **Joint surfing on the Portals:** Joint surfing on, and running-through of the NREGASoft and SSSM portals was performed, to have the first hand experiences of the functioning of the portals and also to understand various issues involved in it. Similarly, a joint run-through of the existing Excel-based reporting and record keeping, especially of Pensioners was also done to understand the existing level of workings, record keeping and reporting regarding Pensions in the Janpad Panchayats.

B. **Individual and / or group discussions:** Individual interviews and / or group discussions / interactions, as the case may be, was taken up with the Janpad Panchayat officials to understand various issues involved in the rollout of the two specific components viz. e-FMS and SSSM in the Janpad Panchayats. Clarifications and state of affairs on various materials viz. progress reports, status reports, etc., cross-checking the progress reports with the demographic, topographic and socio-economic profile of the districts, brainstorming on some of the specific issues, was also done during these interactions with the officials at the Janpad Panchayats.

C. **Review of the changing role of Janpad Panchayats:** A review of the functioning of the Janpad Panchayats including the roles and responsibilities of the Janpad Panchayat in-general and specific persons within Janpad Panchayat in-particular was taken up to understand the issues involved in the roll out and the implementation of the two particular components of *Samruddhi*.

D. **Review of various reports:** A thorough review of progress reports containing outreach, outreach coverage, etc., business volume reports, financial (income/expenses) reports, etc. was taken up to understand the existing status of implementation of the two components in the Janpad.

12.4.3 Village Level

Following tools and techniques were used during the visit to villages and the USBs / CSPs:

A. **Focused Group Discussions (FGDs)**: informal FGDs with the groups of users and non-users of the *Samruddhi* services were organized in the villages of visits. The groups of people thus interacted with had good representation of beneficiaries of all the three components of the FI model viz. USBs, e-FMS and SSSM.

The checklist of issues discussed among Users included the kinds of services available to them through the existing improved model of FI, the awareness about the services on offer, broad timeframe of delivery of the mentioned services, status of the delivery of services prior to the introduction of the new model, a quick comparison of the costs (monetary and otherwise) involved in availing these services – presently and earlier, response system and response mechanism of the service providers, instances of disruption of the promised services, reasons quoted for such disruptions – exit of the service provider, failure of the infrastructure (electricity, internet connectivity, etc.), if known/communicated, other benefits of the newly introduced system, various other issues and concerns in availing the service, the scope of improvement in the system, if any, overall satisfaction level in availing these services through the recently modified channel, etc.

Similarly, the checklist of points discussed among Non-users included the reasons of still being/remaining the Non-users of these services, are there supplies side issues, demand side issues, the costs related issues, eligibility related issues, or other issues, the awareness about the services on offer – banking, remittance, payments, e-FMS, availing of SSS services, the feeling about these services on offer in the villages/locality, suggestions to bring the Non-Users into User group and to make these services more effective and efficient, etc.

B. Interviews with the Individual User and Non-Users: Apart from the FGDs, separate interviews and discussions with the Users and Non-users of various services of the newly introduced model of FI was also taken up. A similar checklist as that of the FGDs was used during these interviews, discussions. Despite being the similar checklist, the responses during the personal interviews and discussions were found to be more personal and based on one's own experiences than on feelings as is generally the case in FGDs.

C. Interactions with the 'Supply' side of the Implementers: Individual / personal interviews / interactions with the 'Supply' side of the Implementers viz. the Sarpanchs, Panchayat Secretaries, Gram Rozgar Sahayaks (GRS) and Sub Engineers (SEs) were taken up to understand the issues in the implementation of *Samruddhi* in-general and the issues at their level in-particular. In addition to using the similar checklist as used in the FGDs above, additional issues regarding their specific roles and responsibilities were raised in these interactions.

D. Review of the functioning of the USBs / CSPs: The USB / CSP being the front-end for the delivery of various services including the ones promised through the two other components of *Samruddhi* i.e. e-FMS and the SSSM, a detailed review of the functioning of these institution of financial service delivery was taken up. It involved developing an understanding of and the review of processes being followed, products being offered, turn-around time for the delivery of various services, broad fixed and variable expenses, break-even size of the operation, issues pertaining to handling the new technological options, response from the higher-up channels in the delivery related issues and trouble-shooting, emerging operational gaps, if any, scope of improvement, if any, etc.

E. **Interactions with the USB / CSP Operators:** USB / CSP being the front-end institutions for the delivery of financial services as envisaged in the *Samruddhi*, interactions with the Operators of these institutions has its own significance. These interactions included discussions on various issues as raised in the point above to understand the functioning of the USBs / CSPs. In addition, it included discussions on issues like viability of the USBs / CSPs, effectiveness of the model to reach out to the poorest of the poor and most marginalized sections of the society, additional services that can be offered and delivered through these USBs / CSPs, operational level issues, concerns in managing the delivery of various services in a time-bound and responsive manner, scope of improving it further, if any, the revenues from USB / CSP operation, issues of abandoning the activity, etc.

F. **Review of Record Keeping and Reporting at USB / CSP:** A thorough review of various records that are kept in the USB / CSP along with various Reports generated / available at the USB / CSP was also done. The reports under review included the Customer acquisition/enrollment, other monthly progress reports containing outreach, outreach coverage, business volumes and financial (income/expenses) information regarding USB/CSP.

Chapter-13

Assessment of *Samruddhi*

This chapter provides a broad assessment including context and framework of the financial inclusion model in MP. It starts with a caveat pointing out to the initial stage of evaluation since the phenomena is very nascent and is yet to mature. It also provides for various issues that may be considered while evaluating the model in future after all the pillars are fully functional and are being used extensively by the beneficiaries.

Assessment of *Samruddhi*

13.1 Initial Assessment

While it is a fact that information needs vary and are purely based on progress in implementation of financial inclusion initiatives, it should be distinctly understood that the financial inclusion model of MP is still at its nascent stage and hence the assessment has been done based on the *Samruddhi* model being at its initial stage. The efforts that started a couple of years back are yet to display remarkable changes in the lives of the population. However, the state seemed to be set and geared up to bring such changes in the financial behavior pattern of the population.

In order to attain a meaningful assessment, information needs can be broadly categorized as those needed at Proposal / Definition stage, Environmental stage, Implementation stage, Monitoring stage and Overall Assessment stage.

Current Evaluation Pattern of Madhya Pradesh Financial Inclusion Model

Stages of Evaluation of FI Model	*Status of Samruddhi* – the MPFI Model	Status / Remarks
Proposal / Definition Stage	Causes, Factors and Circumstances for Paradigm Shift have been well defined, defended and justified	√
Evolution Stage	The MPFI model evolved from discussion, piloting and incorporating learning and revisiting	√
Design & Articulation Stage	Well defined & articulated model with a vetting of the GoMP & RBI	√
Environmental Stage	Environment created for setting up of infrastructure, systems and processes within the ecosystem	√
Implementation Stage	Currently at an early implementation stage with establishment of most of the USBs / CSPs, database of beneficiaries (SSSM) and transfer to funds / benefits under the G2P mode	Ongoing
Monitoring Stage	Penetration of financial inclusion by studying the growth / changing pattern of customers and products, volume of transactions, returns on the products, etc.	Data Not Captured / Available
Overall Assessment Stage	Impact Analysis on customer behavior, their financial savings, credit and inclusive (remittances, insurance, contributory pensions) pattern; financial viability of the USB / CSP; Robustness and Dynamism of database under SSSM	Future Studies Only

At the current stage, the MPFI model has already crossed the proposal / definition stage as well as the environmental stage as the same has been envisaged and designed well and is ready to be functional. An environment within the ecosystem has already been created by the GoMP in conjunction with the banking industry in MP towards setting up the systems and designing of the processed. However, the *Samruddhi* model is still at its early implementation stage but a strong foundation has been provided to it in recent times. MP has not reached to a stage where it could be monitoring products and services including monitoring products, data on number of products, types of products, return on products and their related characteristics that are extremely important in the penultimate stage. Some of the most basic indicators to assess access for brick & mortar structures include number of branches per 1000 population and number of ATMs per 1000 sq.km. On the other hand, for alternate banking outlets such as the Information and Communication Technology (ICT) based Business Correspondent (BC) Model, basic indicators include ratio of branches to BC outlets, number of villages covered per BC, etc. In case of M.P. [52], besides covering 2736 villages having population more than 2000 in the first phase, banks have now been mandated to cover the remaining 47660 unbanked villages having population less than 2000 through BCs and bank branches in a phased manner.

13.2 Context and Framework

An essential pre-requisite for assessment of the MPFI model is to understand the context and framework of financial inclusion in relation to the action taken up by MP. Any effort to evaluate the various dimensions of financial inclusion is not possible without explaining the context and framework. The basic framework for evaluation of financial inclusion and the standing of the *Samruddhi* model as on date should cover some of the following important dimensions

a. **Supply Side Evaluation:** First, financial inclusion, financial literacy and consumer protection are the three major planks of financial stability. While financial inclusion acts from the supply side, providing the financial market / services that people demand, financial literacy stimulates the demand side, making people aware of what they can demand. In case of the model designed and developed by MP, the supply side has been taken care of by the bankers. However the penetration of services could enable strengthen of demand side as more and more access will be created. This is ascribed not only to the fact that there is a mandate from the top but also a need to open banking accounts as transfer of benefits should be routed through them. Thus the customers treat their banking accounts not as a tool to optimally use them for an inclusive growth but as a means to collect their payments being passed through the USB / CSP. The supply side issues also cover financial markets, network of banks and other financial institutions, appropriate design of products and services, etc. These are also the issues that are mostly faced by rural MP. While the financial markets are more of a macro issue and the capital and money markets are fairly well developed in India, the network of bank including the USB / CSP has been a very recent phenomenon in MP and as mentioned earlier, shall need time to mature

b. **Demand Side Evaluation:** The demand side issues in financial inclusion include knowledge of financial products and services, credit absorption capacity, etc. While in the *Samruddhi* there is a provision of providing financial literacy, much has to be done to effectively impart the same. These issues are universally faced by both urban and rural

52. State Government realised that the directions issued by RBI and Ministry of Finance (DFS), GoI, were required to be fine tuned as per the requirements of the State

MP. There is a strong need for financial literacy to be designed and delivered based on the customization of requirement in MP including the newly framed financial inclusion model. A framework for financial inclusion needs to take into account various aspects such as the demand and supply side issues; assessment of enabling environment; issues in penetration, barriers to financial inclusion, etc. and resolve them based on the local requirements rather than 'one size fits all' approach.

c. **Evaluation on Product Availability:** Thirdly, availability of appropriate financial products, including at the very least, savings products, emergency credit, payment products and entrepreneurial credit are important aspects of financial inclusion environment. As on date and purely based on the field survey currently the Financial Inclusion model in MP provides for a G2P and savings product. Credit is not being routed through the USB / CSP as of now and remittance are limited to certain kiosk based outlets such as SBI kiosks etc. where the customers are charge to remit. Further, regarding ease of access, the various dimensions like timely access, distance, pricing and terms and conditions provide a smoother integration with in the model. In most cases despite frequent hiccups over the internet connectivity and issues of offline / online transactions, most of the people found greater access to financial services when compared with a scenario of three or four years back. In addition to this, the fairness and appropriateness of products is also an important dimension in the context of financial education of customers and for consumer protection.

d. **Customer Protection:** On the evaluation side of the protection of customers, it is only a macro mechanism that is currently functional. This is to say, the regulator such as the RBI in India provides for certain norms of customer protection. However, it was found that except the normal and routine regulatory framework there were no norms and information dissemination on customer protection under the MPFI model and should follow in the next stage.

e. **Monitoring of Products and Service:** Fifthly, the monitoring framework needs to be developed that should cover transaction level, customer level and products and services level monitoring, at the micro level. Again, as mentioned earlier, there is a monitoring of such tenets at the macro level within the regulatory framework, there is no such action at the micro level. Since monitoring at the macro level is also an important dimension for assessment of the outcome of policy, viability of delivery models, etc. it might further call for impact analysis and penetration studies. In future and as is suggested in this report if more and more financial products shall be offered to the client at the grassroots level using the USB / CSP channel, there would be a greater role of the supply side stakeholders as well as that of government to monitor such action. For example, while the RBI is responsible for regulating the banking products and services, any insurance product that shall be offered through the outlets shall be regulated by the IRDA. In case the NPS Lite is offered using the USB / CSP, the product shall be regulated by the PFRDA while the mutual funds are regulated by the SEBI. Hence a situation would arise when the MPFI model shall be required to be geared up to monitor and supervise the products and services offered by the multiple regulators.

f. **Robustness of *Samruddhi* – the MPFI Model:** A robust financial inclusion design depends on a multiplicity of parameters encompassing varied socio-economic backdrops and feasible financial service delivery mechanism that would vary from region to region. This is particularly so for the state of MP, which is distinguished by its vastness of topographical, demographic as also socio-economic diversity. The model developed in MP is robust to the sense that the model is technically feasible and has been piloted well for its internal processes and systems. There is no failure on the processes except that it still requires certain improvement. This may include, but not limited to providing a uniform set of frontend technological convenience, allowing SHGs to open banking accounts at the USBs and designing of guidelines for the technology service providers, specially to cater to a uniform set of principles and benchmarks at the frontend [53]. Like any broad based financial system, financial inclusion measures and performance monitoring system require a rich body of performance data and analytics. Bankers / Post Office have to penetrate their financial literacy efforts to accelerate the use of other financial products.

Many a times, it is observed that country comparisons brought out by international bodies based on their dedicated database dwells on much aggregative data comparison which, when seen granularly, bespeaks a different story. This is very relevant in financial inclusion analytics, which requires new kinds of identifiable indicators based on the evolving needs of financial inclusion plan and program. Besides this basic framework the model mentioned above, the same has been apprised over the next few chapters in details.

Recommended Futuristic Study and Assessment: At the implementation and assessment stage, it is important to measure progress of initiatives through impact analysis and penetration of financial inclusion by studying the growth / changing pattern of customers and products, volume of transactions, returns on the products, etc. It is important to note that for macro and micro level impact studies, appropriately designed periodic surveys would be a useful tool. Impact studies are also needed for assessing viability of delivery models, sustenance of initiatives, gauging the spread of financial literacy and measuring barriers to financial inclusion.

[53] Readers might want to refer to the chapter on recommendations to understand its greater implications.

13.3 Issues in Evaluation of Financial Inclusion Model

13.3.1 Concepts and definitional issues

The fact that financial inclusion concepts have different meanings in different parlance has often led to difficulty in using a standard yardstick for benchmarking its policy parameters. The associated difficulties are that the targeted variables used for financial inclusion may differ from one country or organisation to another because of different institutional set up. Inherent weaknesses in the linkages between the financial inclusion database and welfare parameters of the society add to the complexity. Moreover, there are no agreed composite measures of financial inclusion which could facilitate comparisons across time and geography.

In the MPFI model, there are three pillars that serve the foundation of the overall model. While two of the pillars work from the backend and are seldom exposed to the masses, the third pillar that provides for the last mile connectivity is the only public interactive and mass utility tool. However, even if the backend pillars are well established and throw the entitlement based benefits based on a robust and dynamic data, the non performance of the third pillar would nullify the achievements of the first two. Hence it is equally important to evaluate all three pillars in individual as well as totality.

Therefore, in order to ensure consistency and accuracy in assessment of financial inclusion parameters, it is essential that the parameters concerned are objectively defined in the first stage of the assessment process. As a way forward, one needs to assess financial behavior and understand where the challenges and opportunities lie for the future. To do that, one requires a high quality, multi-dimensional, comparable financial inclusion data based on internationally standardized terms and concepts. As such, the assessment needs also include analytics for correct interpretation of data and establishment of international benchmarks.

As mentioned earlier, the MP model of financial inclusion is in its nascent stage and SLBC has started monitoring the database as regard, volume of transactions and quantum of savings etc.

13.3.2 Various dimensions of data on Financial Inclusion

There are several structural dimensions in the process of building up data on financial inclusion. These include:

a. Assessment of the progress in financial inclusion initiatives by way of building up suitable indictors such as data on access to (supply of) and usage of (demand for) financial services as well as their coverage and penetration cannot be performed at this stage. Measuring availability and actual use of deposit accounts, payment services, credit for poor households (micro-credit schemes), micro-level insurance products that ought to be part of the framework are currently missing.

b. The second aspect relates to understanding constraints or barriers for financial inclusion and development of indicators for assessing the same, and is being taken care of in the chapters that follow.

c. Another important dimension is the collection of transactional data on amount of credit extended, deposits placed, remittances made, etc. This is important in order to gauge the effectiveness of the financial inclusion initiatives. Merely opening of accounts without ensuring transactions undermines the beneficial impact of the financial inclusion measures. The kiosks opened by the State Bank of India provides for a financially viable model and also provides for a basket of products including remittances et al. however the data at this stage Is too meager to be analyzed.

d. Finally, diverse data are required to be pooled and benchmarked at international level. In this respect, one needs to take a stock of current status of data relevant for building up globally applicable indicators. While the global indicators are available to be used in Indian context, mere quantitative data would not be sufficient to perform the exercise as of now.

Basic Qualitative and Quantitative Data

Basic data covering both the quantitative and qualitative aspects can be obtained through self-reporting templates by the formal financial intermediaries or by means of household surveys. One of the recommendations mentioned in the last chapter requires the bankers to create an MIS by means of self reporting templates. There is also a need for international benchmarking of financial inclusion indicators as practices followed across the developed and developing economies can vary considerably. It is necessary to develop standard statistics on a comparable and consistent scale in order to set benchmarks and best practices for structuring plans for financial inclusion.

International Databases on Financial Inclusion Indicators

Financial Inclusion is fast emerging as a candidate for being a core driver of sustainable long-term economic growth and is, therefore, attracting the attention of central bankers and various global developmental and financial institutions. It is, however, emerging that a lot of ground remains to be covered in understanding the reach of the financial sector, and particularly, the degree to which vulnerable groups such as the poor, women, and youths are excluded from formal financial systems. Availability of systematic indicators of the use of different financial services needs to be improved in most economies and consequently, at the global level. It is heartening to note that multilateral organisations such as the World Bank and the International Monetary Fund (IMF) are paying attention to the development of relevant database, besides focusing on the issue of financial inclusion through policy prescriptions and guidelines. The World Bank database, known as the Global Financial Inclusion database (Global Findex), provides survey based data as part of the annual Gallup World Poll [54] .

While the state of MP is in its initial stage of rolling out the model of financial inclusion, it is highly recommended that they should adopt the parameters of the global findex right from the

54. The survey conducted in 2011 covered at least 1,000 adults each in 148 economies using randomly selected, nationally representative samples.

beginning so that the data could be captured in the required formats and information dissemination can be efficiently effected using a standardized template. The focus of the Global Findex Database encompasses a set of indicators that measure how adults save, borrow, make payments, and manage risk, stressing thereby on how a well-functioning financial system serves the vital purpose of offering savings, credit, payment, and risk management products to people with a wide range of needs. Inclusive financial systems allowing broad access to financial services, without price or non-price barriers to their use, are especially likely to benefit poor and other disadvantaged groups. Without inclusive financial systems, poor must rely on their own limited savings to invest in their education or for entrepreneurial activities, while small enterprises would need to rely on their limited earnings to take advantage of promising growth opportunities. This can contribute to persistent income inequality and slower economic growth. The GoMP should start creating database right from its inception of the model on the pattern of the Findex reports data in terms of the proportion of people (of age 15+) for a number of parameters such as

a. who have saved money with financial institutions or other sources,
b. taken loan from financial institutions or other sources,
c. paid for health / agriculture insurance and
d. used cheques / electronic payment / mobile payment systems for financial transactions.

Likewise, the IMF has initiated the “Financial Access Survey” (FAS) in 2009, in an endeavor to put together cross country data and information relating to the issue of financial inclusion and has published the data in July 2012. According to IMF, the FAS is the sole source of global supply-side data on financial inclusion, encompassing internationally comparable basic indicators of financial access and usage. It is the data source for the G-20 Basic Set of Financial Inclusion Indicators endorsed by the G-20 Leaders at the Los Cabos Summit in June 2012. The FAS database currently contains annual data, for the period 2004-2011, for 187 jurisdictions, including all G20 economies. The FAS data covers data on country-wise availability of bank branches and ATMs per 1000 sq.km. and per 100,000 adults, number of deposit and loan accounts with banks per 1000 adults and deposit-GDP and credit-GDP ratios.

Macro and Micro Data

While such initiatives are most commendable and fill a major data gap at macro level, it has to be reckoned that data on financial inclusion is needed at both macro and micro levels. The latter can provide distributional characteristics of financial inclusion and is, therefore, crucial in the context of policy initiatives and assessing their outcome. Moreover, the IMF data reveals significant gaps at individual country level, which needs to be bridged so as to improve its utility.

Data on Barriers for Financial Inclusion

Even within the existing set of account based financial services, lot of variations exist in actual delivery models because of varied levels of technological absorption and cost of operation. No less binding are the legal and bureaucratic constraints and lack of appropriate infrastructure and financial literacy which requires to be countered in order to bring the financially excluded segments within the formal financial access network. For example, identifying unbanked segments for making them bankable is a challenging task, be it habitation, land ownership title or adopting a common authorized identification code. Benchmarking the data on constraints hindering progress in the financial inclusion initiatives would immensely help in identifying common concerns and replicating successful ideas across jurisdictions. In this regard, concerted international initiatives would help build up requisite data for good policy making.

13.4 Challenges in Evaluation of Financial Inclusion

Before considering the evaluation of financial inclusion, one would do well to analyse the constraints to spread of Financial Inclusion itself.

13.4.1 Constraints to Financial Inclusion

In MP, quite clearly, the task of covering a population of 72 million with banking services is gigantic. It is clear that out of 23,043 Panchayats, and almost four time more villages, centres that could be covered by brick and mortar bank branch network are limited. The state has prepared a roadmap for covering all unbanked villages having a population less than 2000 through a combination of bank branches and BCs in a phased manner. Under the roadmap, a total of 47,660 villages have been identified and allotted to banks for providing banking services through 1,006 bank branches and 9,239 BC outlets by 2015 and beyond. The progress is being monitored by the SLBC on a quarterly basis.

It is well recognized that there are supply side and demand side factors driving inclusive growth. Banks and other financial services players are largely expected to mitigate the supply side constraints that prevent poor and disadvantaged groups from gaining access to the financial system. Access to financial products is constrained by several factors which include lack of awareness about the financial products, high transaction costs and products which are inconvenient, inflexible, not customized and of low quality. However, one must bear in mind that apart from the supply side factors, demand side factors such as lower income and /or asset holdings, financial literacy / awareness issues, etc. also have a significant bearing on inclusive growth. Owing to difficulties in accessing formal sources of credit, poor individuals and small and micro enterprises usually rely on their personal savings and internal sources or take recourse to informal sources of finance to invest in health, education, housing and entrepreneurial activities. The mainstream financial institutions like banks have an important role to play in helping overcome this constraint, not as a social obligation, but as a business proposition. The major barriers cited to constrain extension of appropriate services to poor by financial service providers are the lack of reach, higher cost of transactions and time taken in providing those services, apart from attitudinal issues. In this regard, major barriers to financial inclusion require to be identified.

While the 'Demand' side barriers are

a. Low literacy levels, lack of awareness and / or knowledge / understanding of financial products;

b. Irregular income; frequent micro-transactions;

c. Lack of trust in formal banking institutions; cultural obstacles (e.g., gender and cultural values).

The 'Supply' side barriers are

a. Outreach (low density areas and low income populations are not attractive for the provision of financial services and are not financially sustainable under traditional banking business models);

b. Regulation (frameworks are not always adapted to local contexts),

c. Business models (mostly with high fixed costs); Service Providers (limited number and types of financial service providers)

d. Services (non-adapted products and services for low income populations and the informal economy);

e. Age Factor (Financial service providers usually target the middle of the economically active population, often overlooking the design of appropriate products for older or younger potential customers. There are hardly any policies or schemes for the younger lot or the old people who have retired, as the banks do not see any business from them);

f. Bank charges (In most of the countries, transaction is free as long as the account has sufficient funds to cover the cost of transactions made. However, there are a range of other charges that have a disproportionate effect on people with low income).

13.4.2 Constraints to Evaluation

While the challenges to financial inclusion in MP are mentioned in the above sub section, the issue of expanding the geographical and demographic reach poses challenges from the viability perspectives. Appropriate business models are still evolving and various delivery mechanisms are being experimented with. Financial literacy and level of awareness continue to remain an issue and the ICT Based BC Model will also be taking time to stabilize in MP. It calls for coordination of all the stakeholders like sectoral regulators, banks, governments, civil societies, NGOs, etc. to achieve the objective of financial inclusion. On the assessment challenges, first, it needs to be reckoned that financial inclusion concepts, policies, delivery models and implementation processes are still evolving in MP. It is, therefore, essential that the policy for achieving total financial inclusion also keeps changing to adapt to the needs of the environment.

This poses challenges for assessment of various financial inclusion initiatives as also their aggregation across activities, institutions, regions and so on. Statistical analysis of performance of financial inclusion initiatives and development of benchmarking standards can be quite complex. Second, while existing initiatives in measuring financial inclusion are commendable, there is a need for greater focus on the micro and distributional dimensions. Third, one should explore the need to change the focus of present information systems of banking business from traditional accounting model to customer centric business model. This would call for expanding the scope of the currently used measures of financial inclusion.

Chapter-14

Field Observations on Implementation of *'Samruddhi'*

This chapter contains the observations on implementation of the Samruddhi – the MPFI model in the field.

Observations related to three pillars of MP model of Financial Inclusion are described in three separate sub-chapters. The first sub-chapter describes the field observations related to the roll-out of e-FMS module in the state. The second sub-chapter details the observations as observed regarding SSSM implementation and the third sub-chapter carries in detail the observations related to the roll out of USBs / CSPs in the identified shadow area villages.

The chapter also contains six case-studies to have a very detailed micro level perspective of Samruddhi's implementation in the field. The case-studies are related to functioning of USBs / CSPs, benefits of and issues of the SSSM and e-FMS implementation of the Samruddhi.

Field Observations on Implementation of *'Samruddhi'*

14.1 Common Conduit of Electronic Fund Management System (e-FMS)

14.1.1 Backdrop

Of the three components of the MP Model of Financial Inclusion, the e-FMS component is observed to be almost fully implemented in the entire state. 'e-FMS' i.e. the system of electronic transfer of MGNREGS payments directly into beneficiaries'(in case of wage-payments) and vendors' (in case of materials payment) accounts, has been duly taken care of. However, it's the subsequent component of establishing a deeply penetrated network of financial (or just the 'cash', to begin with) dispensation infrastructure that need to be strongly worked upon further. Until and unless, this infrastructure of 'network of financial dispensation units' is built, the real benefits of the e-FMS would be hard to assess. As one may have one's bank account at say, a district or a block headquarters with all the money being transferred directly and electronically into that account. But, if s/he has to travel a distance of 15-20-30-40-50 KMs to make a single transaction, which also s/he is not sure of happening in the day of her/his visit (because of various problems – internet dis/connectivity, server problem, absence of HR at the branch, heavy crowd at the banks/post offices, mood of the branch manager, etc.), s/he would rather prefer it to be delivered as 'Cash' in his/her hand with some leakages, than travelling once/twice/trice to a bank account location and withdraw the money.

As far as the component of e-FMS is concerned, barring a few systemic and infrastructural issues (as are observed and discussed below), It's only the regular routine issues and the trouble-shooting that needs to be taken care of, otherwise the system has been well established and is rapidly being internalized as a regular, routine system than a new, alternative system being implemented in the districts. The newly appointed staff is hardly aware of the earlier prevailing system, as the present system of MGNREGS implementation and payments has been well internalized by them.

14.1.2 Rollout Status of e-FMS in MP

The e-FMS was rolled out in the entire state of MP with effect from 1st April, 2013. It is observed that no wage-payments in the course of MGNREGS implementation have been made through cheque or cash from 1st April, 2013. It's only the payment towards materials and also towards skilled and semi-skilled wages that were automated in due course of time. Presently, even these payments are done electronically and directly into vendors' and workers' account. Now, all the payments in MGNREGS implementation is made through direct transfer of payments to MGNREGS beneficiaries. It was in effect a highly wise and visionary decision to put the entire wage-payments through the new system of electronic transfers after a cut-off date (i.e. 31st March, 2012), which put the entire machinery involved in the state and the district level to prepare and plan for new system implementation.

It was an equally sagacious and tough decision, not to succumb to vested interests and implementation level issues that arose in the initial months of the roll-out, which built a heavy pressure to go back to the earlier system and / or allow the two systems to run in parallel. This tough stand in the initial months put the entire machinery to focus on resolving various kinds of issues that arose, rather than on taking an easy route of going back to the earlier system of payment. Such political and administrative will is highly commendable.

Presently, the three major kinds of payments – the unskilled wage payments, the materials payments, the semi-skilled and skilled wage payments – which constitutes around 95-96% of MGNREGS payments have all been automated and are made directly and electronically into beneficiaries'/vendors' account. It's only the component of 'Admin Expenses', which is budgeted at 4% of the total MGNREGS budgets that still need to be automated. Apart from direct transfer of payments, the e-FMS has actually proved its real worth in helping the 'monitoring' of the entire scheme implementation. It is for this reason that the roll out of the 'admin expense module' of e-FMS is highly awaited among the implementation team.

14.1.3 Benefits of the e-FMS

Since the module of e-FMS [55] has been rolled out as intended, the benefits of the same have also started accruing as intended. Also since the extent of implementation of the module has been uniform across districts, the benefits have also been witnessed in all the places that the consultants visited. Some of the prominent benefits of the e-FMS implementation have been as below:

- **Significant reduction in the TAT** (Turn-around-time) of wage processing and payments. People are observed to be receiving the payments in their accounts quite quicker than earlier, though it varies with the kind of their accounts i.e. bank with a CBS, post offices or cooperative banks. The abolishment of cheque payment system has actually resulted in complete removal of various kinds of delays arising out of cheque management and signatory management. Similarly, complete removal of the concept of 'Topping-up the funds' has also resulted in significant reduction in delays in wage processing and payments, by abolishing quite a few sub-processes involved in topping-up of the funds.

- **Increased Monitoring –** with a huge variety of reports available from the system, monitoring of the entire program has become quite simpler. Anybody in the entire value chain of the implementation i.e. from the labor / worker and GRS (Gram Rozgar Sahayak) level up to the level of Secretary, Principal Secretary and Minister is able to transparently monitor the progress of each of the District, Block, Gram Panchayat, Village and also the specific MGNREGS work in the village. Such monitoring of both the physical and financial progress is possible with the implementation of the e-FMS in the state. It is also resulting in timely and qualitative decision making at the strategic level.

- **Increased Accountability –** with various logs being created in the system, the responsibility of delays and mistakes being traceable to the actual person and the increased monitoring

[55] For a detailed note on e-FMS and its envisaged benefits, readers are advised to refer to Part I of the report.

levels, it is bringing-in the increased accountability of the people involved in the entire system.

- **Increased Transparency –** with increased monitoring, increased accountability, the system has also brought-in additional transparency in the entire functioning of the MGNREGS. Various kinds of reports are now publically available at the MGNREGA website and are open to general public.

  The new system has also brought-in complete transparency in allocation of funds to the Panchayats and other executing agencies. In fact, it has done away with the concept of fund allocations and topping-up of funds. Whichever Gram Panchayat and / or the Executing Agency is doing whatever work, subject to prior yearly approvals, is able to draw upon the required funds, without any further approvals, allocations, etc. from any other authority. Earlier, this topping-up of funds to Panchayats and Executing agencies involved a lot of subjectivity and thus a biased approach to funds allocation.

- **Significant reduction in the workload of staff** at the Gram Panchayat (GP), Block Program Office (BPO) and the District level. The workload at the district level has almost been removed, to enable them to just focus on the monitoring of the entire program implementation and supporting the Block and Panchayat team with regular trouble-shooting support.

- **Significant reduction in the large number of bank accounts** currently being operated by the Gram Panchayats and other implementing agencies. The large number of bank accounts have now given way to just a single bank account being maintained at the district level, thereby completely eliminating the need to put a large amount of time, energy and human resources in managing those accounts.

- **Efficient Fund Management –** huge reduction in the idle funds, which was lying in a large number of bank accounts of Gram Panchayats, Blocks and other Implementing Agencies. It has also resulted in easy maneuvering and management of funds, better liquidity management, etc.

Case Study I. Jitesh Jajme – MGNREGS Through Bank Account at the USB

Jitesh Jajme (25) Tonki

Jitesh Jajme *is grateful to the priest family of the village Tonki who advised him to open a banking account at the ultra small branch located within his village. Since he had never heard of it, he was slightly skeptical about the idea of USB. For, he only knew what a bank branch in brick and mortar is all about. But the concept of USB was unknown to him.*

However, since the proposal had come from the village priest family who himself was the USB / CSP operator, there was no doubt about the same in his mind. However, he was curious to know more and more about it and demanded further information.

Jitesh, a Twenty Six years old Graduate boy from Village Tonki living with his parents and an elder brother. His father is working as a Home guard in Dhamnod town which is about 40 Km from Tonki. Besides the income earned by his father, the source of income for the family is wage laborer.

Mukesh Sharma (BC)

Because of limited sources of family income Jitesh has to work in MGNREGS and performs other daily wage labor jobs along with his studies. He is also preparing for the competitive examination and is ambitiously trying to become a Tehsildar.

Tonki is situated at an eight (8) kilometer distance from the town of Manawar and was located in Manawar tehsil and Janpad / block with more than 3 lakh population. It is located in Dhar district of MP. It is one of 208 villages in Manawar Block along with villages like Morad and Lunhera located at Dhar district of MP.

One day Mukesh Sharma who belonged to the village priest family and was also the resident of his own Tonki village sat with him along with other youth of the village for half an hour and explained to him the whole idea of the USB and how the 'Bank of India' was now to reach at their doorsteps to offer banking services. Mukesh was and working as Banking Correspondent (BC) of Bank of India, Manawar branch. Mukesh approached him and gave him information of opening of bank account through the BC. He told him that the account could be opened at zero balance.

Mukesh, the BC also explained to Jitesh the various advantages of having a bank account including benefits in present and future. Jitesh came to know that he could now deposit and withdraw cash sitting from the comforts of his home at the village. While it could be transacted through the BC he need not go to the town of Manawar for performing any bank transaction.

Jitesh had never opened a bank account as he never felt the need of it, nor did it make any sense for him to travel to the small town of Manawar to perform a transaction. He thought that whatever small savings could be done, could be saved in bank for future.

In the meantime the panchayat secretary informed the villagers that the wage payment of MGNREGS would henceforth be done only through the individual bank accounts to be opened at the USB. Now that Jitesh was already considering opening up the bank account, he also got the verdict from the officials stating that now it became mandatory for him to open his bank account. For, he knew that the account would now be providing him a double benefit and that too at a zero cost and zero balance. For this purpose also it became necessary for Jitesh to have an individual account in the Bank.

Since opening his account, Jitesh has received a sum of Rs 3500 as labor payment of MGNREGS in his account. Though he has not deposited any other amount in his account, he has not withdrawn full of his receipts in the bank. Jitesh hopes to deposit some savings in his bank account as soon as possible.

Jitesh's perception about the BC / USB is very positive. He is optimistic to learn about savings and start doing so at the earliest. Since the BC is locally placed it is easily approachable for him at any time. He is also happy with the behavior and response of the BC and says that the work of BC is very good, he is cooperative and explains the things very well. For him, there was no need to go to the bank for any type of cash transactions and the process was a secured one. However, according to him the USB / CSP centre opens only few times a week and is yet to be shifted to the Gram Panchayat building and there were issues with the internet connectivity.

Today, Jitesh is just one of the 4,395 bank accounts that Mukesh Sharma, BC has opened and made it operational. Mukesh has the privilege of getting at least one third of the accounts operational and transactional. More than a thousand transactions have already occurred at his USB with Rs. 13,47,730.00 being debited from different bank accounts. Out of 4395 bank accounts that Mukesh operates, there are 3,900 accounts where only government transactions such as MGNREGS, land acquisition etc. take place whereas all other bank accounts are opened as part of the financial inclusion drive.

14.1.4 Issues and Concerns

While there have been a lot of positive outcomes of the e-FMS implementation, there have also been certain resolvable issues and concerns regarding its implementation. Some of these issues, as observed during field visits to four sample districts are mentioned below:

14.1.4.1 Internet connectivity

Availability of round-the-clock internet connectivity is observed to be one of the major issues with the e-FMS implementation in the Blocks. While there is no internet connectivity in Janpads, the speed and timing of internet availability is found to be the major concern. Some Janpads like Barai Janpad in Gwalior district has to enter their data and run their entire system from the District Head Quarters of Gwalior. In various other Janpads the low speed of internet connectivity significantly hampers the pace at which data is entered into the system. While this is an issue with the whole model of financial inclusion as the same is applicable to the USBs, the resolution of such issues will have to be dealt with at an entire state level.

While this is the state of affairs when the data entry is done at Block headquarters, the real issue would come in the next phase of e-FMS implementation, when the most of data-entry like feeding of workers' demand, generation of e-muster, attendance feeding, etc. is expected to be done at the Panchayat level. GoMP is planning to roll out the next phase of e-FMS implementation along with its ambitious e-Panchayats establishment. The computers for the same have already been dispatched to quite a few of the Panchayats. However, with the existing level of internet availability in the interior parts of the districts, its effective roll-out would be significantly hampered.

14.1.4.2 Financial dispensation infrastructure

As has been mentioned earlier in the chapter, efficient and effective transfer of funds to one's account does not really mean much, until and unless one is able to draw the funds from that account at one's own ease. Similar situation has been observed at various places during the field visits. While, the funds have observed to be transferred in some cases in the stipulated T+3 days, the intimation of this fund transfer and then the beneficiaries' ability to draw upon their funds was observed to be delayed beyond that limit.

The availability of affordable financial dispensation infrastructure within reach i.e. USBs / CSPs, bank / post office branches, etc. is still the most important aspect of the entire FI model of GoMP and is unfortunately, still a missing link in the state. In the absence of financial dispensation structures within reach, beneficiaries have to travel a lot of distance just to withdraw their own funds from their accounts. Until and unless this link is built in, initiatives like e-FMS and SSSM are proved to be of very limited use to the beneficiaries. This sub-topic has also been briefly discussed in the Chapter on USBs.

14.1.4.3 Status of cleaning up & freezing-up of Accounts

After the roll-out of the e-FMS, the cleaning up and freezing up the accounts (banks / post offices) was one of the major exercises that was taken up. In the process, one particular account of the MGNREGS beneficiary is verified and then frozen in the e-FMS module and this particular account is used for all payments to that particular beneficiary. This one time freezing-up of accounts has been done in the district, and it is the continuous process. There are a good number of active workers accounts (15.77 lakhs active workers account, as on 18th November, 2013), which have not yet been frozen in the entire state. For details, have a look at the attached Annexure 2.

14.1.4.4 Portability of Accounts

While there is pendency in the one-time freezing up of the accounts, there are other issues related to freezing up on accounts. With the opening up on the USBs / CSPs, new bank branches, etc. in the villages and its vicinity, beneficiaries have been opening their accounts in these newly established Branches / USBs / CSPs. Also, quite a few of the beneficiaries would like to shift their accounts from one place to another owing to quality of services provided by them viz. post offices, cooperative banks, commercial banks, RRBs, etc. Because of this shifting of accounts to nearby branches or well servicing branches, their existing accounts need to be de-frozen and new account details need to be frozen into the e-FMS portal. Presently, the right to defreeze a particular account is vested at the district level and has (right fully) not been delegated to the Janpad level. This however is hampering the pace of genuine shifting of accounts from Post Offices, Base Branches to the USBs, etc.

Also, the process of de-freezing the beneficiaries' account has not yet been communicated uniformly to all the districts. While some district officials are aware about this right being vested with them, others were not aware of the same. Similarly, the process of getting an account de-freezed is almost unknown at the block and the panchayat level.

14.1.4.5 Issue related to Accounts in Post Offices

As has been discussed in the first phase of report, close to 40% of the MGNREGA beneficiaries have their accounts in post offices and cooperative banks, and thus issues related to management of payments through these entities gain higher significance. Some of the observations related to payments through Post Offices are being discussed in this sub section.

In the present scheme of arrangements with Postal Department, payments of MGNREGS wages up to the level of Sub Post Offices (SPO) have been streamlined using bridge software between 'e-FMS' module (of the NREGASoft) and the 'Sanchay Post' and the 'e-MO' (e - Money Order) of Post Office. However, the fund transfers from the SPO to the Village Post Office or Branch Post Offices (BPO) and then the actual dispensation to the beneficiaries is still being done manually. It is this second 'leg' in the payment system which takes its own time. It is observed to be taking as long as fifteen days or more in some cases. A few more issues related to payments through Post Offices are as below:

- As observed during discussions at Chhindwara, there have been time-lags between receiving the actual payments into the Sub Post Office's Account maintained in the bank (SBI, CBI, etc.) and receiving other details of the FTO viz. exact beneficiary names, etc. There have been issues in clearing at the HPO level at Mysore. This time-lag ultimately results in the delay of payments to the beneficiaries.
- Once funds are received at SPO level, sending money from SPO to BPO becomes another issue of concern. Money carrying limit of BPO is only Rs. 20,000/- per day, which under due consideration can be increased to Rs. 50,000/- per day, with prior written approval of the Head Post Master.
- There are a good number of cases of FTO rejection, especially pertaining to Post Offices. Some of the reasons mentioned for the same are
    - difference in names as entered in the e-FMS portal and as maintained in the post offices though when detected during freezing of accounts correction are been carried out.
    - for each account opened in the BPO, Post Office opens another mirror account in the SPO. Sometimes, for the newly opened accounts in BPO, corresponding accounts in SPO do not get opened and thus get rejected. Same is also observed with some of the existing accounts in the BPO.
- The pending and /or partially un-cleared FTOs, which have later got resolved, continue to be shown as pending FTOs in the portal – both at the portal and also at the end of post office.
- The Post Offices are not getting immediate information regarding funds being credited into their bank accounts maintained at the banks. The officials at SPO level do not have the internet banking facility even to view the transaction / statements of their bank accounts. This significantly delays the reconciliation activity at the SPO level, which ultimately results in delay in crediting the beneficiaries' individual account in the BPO. As a solution SMS alerts are being explored, and the beneficiaries with pre-paid mobiles are being encouraged not to frequently changing their mobile numbers.
- Further, even when they get the statements from the bank, they find it problematic to reconcile the statement with the actual beneficiary list provided to them. The statement does not contain the UTR No. and the FTO No. of the transaction. In the absence of the UTR No. and the FTO No. of the transaction, the reconciliation becomes quite troublesome and ultimately delays the process of further crediting the beneficiaries' accounts in the BPOs.

14.1.4.6 Issue related to Accounts in Cooperative Banks

While, there is some level of automation in Post Offices, the cooperative banks are still running entirely on manual systems. It is for this reason, in all the districts of field visits, the whole of the implementation team is observed to be focusing on shifting the accounts from the cooperative banks to post offices, commercial banks and RRBs. NABARD is now assisted cooperative banks to shift to core banking, and similar efforts are needed in case of post offices. Continuing accounts in cooperative banks was observed to be the least priority item in minds of the implementation team. The implementation team in the district and block are distantly aware of the 'automation' efforts at the cooperative banks, but nothing of this sort is experienced at their end.

14.1.4.7 Software related issues

In addition to above mentioned issues, a few more issues related to e-FMS software were observed. While at one hand, quite a few of these issues were found to be the routine troubleshooting issues, a few of these require systemic attention:

- Slower speed i.e. server congestion is becoming a regular phenomenon. It is presently being observed in 'DPR freezing'. With the increasing pace of MGNREGS work in this second half of the year, the volume of transactions on the portal is expected to increase significantly. This situation, if not resolved timely, may further slow down the server speed.
- Unfreezing on accounts is not possible at the Janpad level (which is good). However, the same feature is not available (not known to be available) at the district level also; more so, for accounts where at least one successful transaction has happened.
- Because of above, shifting of accounts from one place to another viz. Post Offices, Cooperative Banks, Commercial Banks, RRBs, USBs is not possible; more so, for accounts where at least one transaction has happened.
- The pending and / or partially un-cleared FTOs related to post offices, which have later got resolved and payments have been made, continue to be shown as pending FTOs in the portal – both at the portal and also at the post office end. This depicts the wrong position of transactions.
- Some accounts are automatically getting unfrozen, despite being frozen once, and despite having successful fund transactions into these accounts.
- Some 'reports' at different levels viz. block, district, state and other levels, shows different figures; Say 'status of FTOs' report for 'Chhindwara' district and for the 'state' shows different figure for Chhindwara. Similar is the case in Janpad and the district level.
- Administration Expense' module has not yet been developed in the e-FMS.
- Some accounts, whose FTOs were rejected by the bank (Central Bank of India in Chhindwara), and later-on resolved and paid by the bank, are still showing as rejected transactions/cases in the portal. This poses significant risk of double payments, as the rejected payments automatically get reflected in the list of 'due for payment' and automatically come up for repeat payments.
- Reject' Option i.e. option to reject a payment, in case of 'materials payment' and 'skilled wage-payments' are not enabled under AAO's login. These FTOs are also not getting available for due editing by the AAO and thus have to be unnecessarily cancelled/rejected through the CEO's login and re-entered into the system.
- It was observed (in Chhindwara) that whenever the number of transactions exceeds a particular limit (i.e. 10 lakhs), the entire data get vanished / wiped out. This has happened twice, in two important occasions in Chhindwara district i.e. on Raksha Bandhan and Diwali. The whole data had to be unnecessarily re-entered into the system.

- When the 'actual payment' exceeds the 'estimates', the entire filing get rejected and requires the entire data to be re-entered into the system.
- Similarly, the 'completion certificate' is also observed to be vanishing automatically in quite a few cases. This also requires the re-entry of the entire data.
- In case of 'special character' being entered in the names of the beneficiary (most of the time, by mistake), it does not take these beneficiaries for payments. Also, there is no 'edit' option available to edit such names. All such names/records are to be deleted and unnecessarily re-entered into the system. this feedback has resulted in constant amendments in MGNREGA software enabling the edit and correction options. however, in case of scholarships and pensions this issue doesn't arise.
- FTO approval timing for the CEO, Janpad is from 10.30 am to 5.30 pm only. There is no such time limit for anybody else in the entire system – data entry person, GRS, AAO or anybody else.
- In case of Technical Sanction (TS) and Administrative Sanction (AS), the MIS was found not accepting the earlier incomplete works.
- All the NMR, which have been fed into the system, but whose wage-list have not yet been generated, automatically get exhausted within 14 days and need to be re-entered into the system. However, in the course of regular feeding, etc. one sometime forgets to keep the exact track of all such NMRs. As a result, these NMRs get automatically exhausted/ expired and require to be re-entered into the system. It would be good, if pop-up kind of warning module is enabled to warn the users of such pending NMRs, to avoid the exhaustion of the data and the re-entry of the same into the system.
- Automatic generation of Technical Sanction (TS) Number can be effected to avoid manual numbering of the same.

14.1.4.8 Sundry Issues

Apart from above specific issues, there are a few more issues and concerns raised during interactions in the field. Some of these have been listed below:

- While there has been significant reduction in the workload of staff at the Gram Panchayat (GP), Block Program Office (BPO) and the District level, there are a few level of staff, where workload seems to have increased significantly. There is a need to relook at these new critical activities / events in the revised process-flow of wage-processing and payments. Increased workload at some of these critical levels is observed to be resulting in delay in wage-processing and payments.
- Allotment and approval of 'Administrative Expenses', which is budgeted at 4% of the total budget, is presently centralized at the district level. Also, it is only this component of entire MGNREGS outlays which is incurred manually. It was expressed to also automate this component of the MGNREGS and also to decentralize the decision making regarding its expenditure to the Janpad level, in proportion to the work done by the Janpads.

Case Study II. Rajani Srivas and Janani Suraksha Benefit

Rajani Srivas – Life Became Easier at SBI Kiosk Banking!

For Rajani Srivas, the benefits from the side of the Government under various schemes might have had no value but for having a bank account with the SBI kiosk where she and her husband Mukesh, who is a wage earner could walk freely and deposit the cheque issued by the Chief Medical and Health Officer. The Rs. 1000.00 cheque not only carried monetary but also a testimony of financially included Rajani, a housemaid herself is the wife of Mukesh Srivas who is a street vendor and a daily wage earner. They are the resident of the slums of Gwalior near New Kanch Mill. Rajani has recently joined the cohort of women who had opted for Institutional Child Birth. She is proud to be a part of those thousands of women who got their child born through the GoMP's institutional birth scheme (Janani Suraksha Yojana).

Rajani and Mukesh Srivas with their New Born Child Proudly Display the Cheque for Rs. 1000/- Received from the Health Department, GoMP under the Institutional Child Birth Scheme (Janani Suraksha Yojana)

(Janani-Suraksha-Yojana (JSY) scheme was launched in India in 2005 with the objective of reducing maternal mortality by promoting institutional deliveries)

Rajani and Mukesh informed us that they never had a banking account and never cared for one. They always considered that opening and operating a bank account was not only painful and cumbersome, but also sometimes humiliating since they were scared that the branch officials might throw them out as they were not educated and did not have substantial documents.

However and interestingly, the couple was engaged in saving their money for over a year. While Mukesh was saving part of his wages at home under the mattress and in their ration box, she was secretly savings with one of the women employers where she used to work on a part time basis as a house maid. Her employer had many a times asked her to open a bank account in the nearby colony but since she was scared to go to the bank, she refused and continued to put her savings into her employer's house. While the main reason for their savings was to rear their child whom they were planning, they knew it well that since they belonged to a BPL family any assistance from the side of the Government would require a bank account.

On hearing an announcement of the banking services at their doorsteps, one Sunday morning Rajani and Mukesh attended a mohalla meeting that was organized by a group of people including some bankers on creating awareness on banks and arrange camps for opening bank accounts

Attending the financial literacy camps and offer by the bankers to open instant and on the spot bank accounts was a God sent opportunity for them who in their core of the heart wanted to open an account but were scared of going to the branch. The bankers also informed them that now all they needed was their BPL card and that they could walk into the SBI kiosk located at Hazira, their neighborhood and open the bank account.

However, they still were scared to open the account at the kiosk and waited for almost a month and in the meanwhile kept on observing as to how the kiosks were performing and that, what was the reaction of those who had opened up their bank accounts at the kiosk. They were unable to gather the courage to enter the premises of the kiosk and open their accounts. Finally, when they found that most of their neighbors and peers had opened their accounts and were not ill treated at the kiosk they stepped in.Despite a long queue at the SBI kiosk both of them found the staff friendly and cooperative and it was a seamless opening up of banking account for her. However, Mukesh still did not open his account and said that his wife's account could be used for putting up his savings as well.

Mukesh and Rajani poses a typical case where there is a synchronization between the benefits of the Government schemes being transferred to them seamlessly using a plumbing in the form of a banking account that could be used by them for future for a variety of benefits

14.2. Common Database in MP with *Samagra* Samajik Suraksha Mission (SSSM)

14.2.1 Backdrop

The *Samagra* Samajik Suraksha Mission i.e. SSSM is another important component of the Financial Inclusion model of MP. It envisages to create an enabling environment so as to simplify and rationalize various welfare schemes, automate back-end processes and provide benefit to beneficiaries of same type though one common and integrated system, to bring about transparency through direct fund transfer without manual interference after sanctioning are the mandate of the Mission. It aims to facilitate electronic transfer of various social security benefits directly into the beneficiaries' accounts through a newly developed *Samagra* portal, as is being done in case of MGNREGA payments through the e-FMS portal. While the *Samagra* portal is in its initial phase of development and implementation, its real benefits would be harnessed only when a deeply penetrated financial dispensation infrastructure is built in the state.

14.2.2 Status of Rollout of SSSM in MP

While interacting with the officials at the State level and later at the district level, it was realized that there are various facets of the roll-out of SSSM in the state.

In terms of doing a detailed **household survey to capture the detailed profiles of all families and residents of the State, verification of bank accounts** of the social security pension beneficiaries, it has been observed to be rolled out uniformly across the State. Presently, the survey of households and the verification of the bank accounts is going on in the entire state and has reached at various levels in various districts, the details of which are annexed in annexure 3 & 4.

In terms of **number of social security schemes** being covered under the SSSM, it is presently been running only with the social security pension schemes under the National Social Assistance Program (NSAP) viz. the Indira Gandhi National Old Age Pensions, Widow Pensions, Disability Pensions and Social Security (Destitute) Pensions. GoMP has however listed around 73 schemes and categorized them into three broad categories of Education, Health and Social Security[56]. The coverage of other schemes under SSSM would be rolled-out in phased manner in the months to come.

In terms of **initiating the payments** based on the data from SSSM, it has been roll out in the first phase of 15 districts. Out of the four districts visited under the study, the districts of Hoshangabad and Chhindwara are among the first set of 15 districts. In these two districts, the social security pensions are observed to be transferred electronically and directly into beneficiaries' accounts, using the Samagra Portal developed under SSSM. Various social security pensions like Old Age Pension, Widow Pension and Handicap Pensions are now being transferred

56. For further details readers are advised to refer to Part I of the report

directly into the beneficiaries' bank accounts. Hoshangabad has been doing it from the month of August, 2013, while Chhindwara has been doing it from the month of July, 2013. While there are various kinds of issues and teething problems that are observed, but the same are expected to be resolved in the course of this first-phase roll-out in these districts. Such electronic payments of social benefits directly into beneficiaries' bank accounts are yet to start in other districts of the State.

Similarly, in terms of **scope of the roll out**, the Samagra portal developed under SSSM is used as a common, integrated, intelligent and self-learning Platform built around the core of the SAMAGRA database of families/residents for efficient and effective implementation of all beneficiary oriented schemes in State. For the electronic transfer of funds into the beneficiaries' account, another portal i.e. the CSFMS (Centralized State Financial Management System) is used, which is used by the MP State Treasury for various other kinds of payments. So, the existing scope of the *SAMAGRA* portal has remained limited to facilitation of the automation of process involved in identification of beneficiaries, one time seeding and verification of their scheme-specific information, sanction of benefits on regular basis as per the eligibility and entitlements, maintenance of the history of the benefits extended to the individual/family and generate the payment advise that gets uploaded/fed on the MP treasury system for final payment.

14.2.3 Issues under the SSSM

Since, the component of SSSM is yet to be fully rolled-out (across geographies, across schemes and across the wide scope of MIS and e-payments), it would be quite early to comment on the benefits or limitations of the same as it has not been observed to be fully implemented in any of the districts of the field visit. However, some of the issues as observed in the partial roll-out of the component are mentioned below:

14.2.3.1 Issues with Account verification

As is the case in e-FMS, Account verification and account freezing of the beneficiaries are two important sub-processes that needed to be completed for enabling the direct transfers of social benefits to the beneficiaries. Presently, account verification of Pensions beneficiaries is going on in the districts and various districts are at various stages of account verification. The overall status of account verification in case of Pensions beneficiaries is around 52% (Annexure 4).

14.2.3.2 Freezing / Unfreezing of Accounts

The other issue related to account verification and account freezing are similar to that of the e-FMS component. Earlier, account freezing was envisaged to be a one-time / once-a-lifetime activity. But because of continuous opening up of the USBs, CSPs, bank branches in the neighborhood and also due to service issues by these establishments, switching of accounts from one place to another place has become a regular phenomenon. In view of this, flexibility of un-freezing and then re-freezing the accounts need to be built-in as a routine item, without compromising on the risks of misappropriations involved in such cases. Presently, the authority of de-freezing a particular account is centrally vested with CEO, Zila Panchayat in case of rural beneficiaries and Commissioner, Nagar Nigam or CMO, Nagar Palika, as the case may be, in case of urban beneficiaries.

14.2.3.3 Issues related to Direct Transfer of Pensions using Samagra portal

While e-payments of at least Pensions have started in two districts, the coverage of beneficiaries under it has not been 100%. As observed in the district of Chhindwara, only around 30% of the beneficiaries (32,330 out of a total of 108,239 beneficiaries) are being credited directly into their accounts (only in case of 'banks' accounts). Of the total 61,175 beneficiaries, who have their accounts in banks, the rest i.e. 28,845 accounts are yet to be verified and frozen. In addition to this, 31,939 Post office account holders (of the total 40,076 post office account holders), whose accounts have been verified, are paid manually through cheques from the District Treasury, as the account details of post office account holders are presently not accepted in the CSFMS, the e-payment software. This inability to enter the account details in the software is prohibiting them to process the direct fund transfers. Similar is the case with Cooperative Bank account holders. It has been happening because the manual payment of pension has completely stopped and their bank / post office accounts have not yet been verified to enable direct payments (in case of bank account holders) or manual payments (in case of post office account holders). Manual payments are allowed only in case of post office account holders.

Similar is the state of affairs in Hoshangabad. As per the system that is followed in the 15 pilot districts, for all the accounts whether in banks, post offices or in cooperative banks, whose accounts have been verified and frozen, the funds are being transferred directly by the district treasury office, on the basis of list provided by the Zila Panchayat. For the beneficiaries having their accounts in the commercial banks, the funds are transferred electronically by the district treasury. For the beneficiaries whose accounts are in post offices and cooperative banks, the funds are still being transferred through cheques, with District Treasury being the cheque signing authority.

14.2.4 Parallel Systems of Data Maintenance: Inefficiencies

Presently, two parallel sets of data-systems are maintained regarding pension beneficiaries in the districts and the Janpads.

As per the **first set of parallel system,** a detailed data is entered into the *Samagra* portal developed under SSSM. The SSSM portal generate the sanction and payment advise, list of the beneficiaries, their account details, amount etc. in a format that is compatible with the CSFMS system of treasury and it gets on the CSFMS (Centralized State Financial Management Software) i.e. the state treasury software for payments. However, whether it is due lack of communication, lack of training and handholding, or lack of coordination between the Zila Panchayat and the District Treasury, it was observed that the entire set of account related information, which has once been fed into the *SAMAGRA* Portal, is re-entered into CSFMS. As obvious:

- This arrangement is a **duplication of work and wastage of time and energy.** The entire data related to the beneficiary including its bank account details, etc. is first entered into the Samagra portal. A sub-set of this entire data-set is re-entered into the CSFMS portal.
- It would soon create a huge issue and work towards **reconciliation of the two systems** – one being the *Samagra* portal and other being the e-payment software i.e. CSFMS. If one recalls the system before the implementation of e-FMS module, it was almost the same with regard to MGNREGS payments, where its MIS was maintained separately in NREGASoft and actual fund transfers were happening through a separate parallel system and lead to huge reconciliation related issues. The reverse MIS, when developed and implemented in the system might resolve the issue of reconciliation to an extent, but the 'reconciliation' would still be an activity, which would have to be performed on a regular frequency. With two systems running in parallel, one cannot do away with the need of reconciliation.
- The CSFMS being standard financial management **software does not have some of the specific features** required for ensuring the payments of such diverse system as social security schemes. Like, it does not have the feature of capturing the post office and / or cooperative bank related details of the beneficiaries, nor does it has any bridge system / feature (like that in e-FMS) for ensuring the bulk and direct payments to post offices and cooperative banks on behalf of its account holders. **This is significantly limiting the payment system of pensions to beneficiaries having account in post offices and cooperative banks.** Presently, all these payments are done manually through cheques at the District Treasury level (as against being done earlier at the Janpad level).

As per **another set of parallel system,** the details regarding Pensions, etc. are maintained at two different levels by two sets of staff at the Janpads. One set of detailed information regarding pension and pensioners is maintained at the level of the staff that has been looking after the pensions and other social justice scheme in the Janpads for so long. S/he has her / his earlier set of tools – excel sheets, files, etc. for maintaining the pensioner's details viz. addition and deletion of pensioners, shifting of beneficiaries from one pension scheme to another, change of bank account details, etc. All these details are presently maintained manually by her / him. Since, it is this person who is still responsible for ensuring the payment of payments, s/he is found to continue to rely on her / his set of tools of record maintenance. On the other hand, the data is also maintained in SSSM portal.

14.2.4.1 Dynamism in Database

In the districts of field visit, it was observed that the data entry into the *Samagra* portal is taken up as a one-time activity only. No line of responsibility of continuously entering various kinds of data viz. addition (newly eligible) and deletion (because of death and migration) of beneficiaries, change of scheme (widow to old age widow; old age to old age widow; age-changes within old age, etc.), change of bank accounts, etc. has been established in the Janpads.

Changes like these are only customarily done in the *Samagra* portal. Various types of people like

GRS, Janpad staff, the contracted Data Entry Operator, etc. are used to do the updation on an ad hoc basis. Because of very limited mainstreaming of SSSM database, almost no or very limited decisions are taken up on the basis of reports generated from the *Samagra* portal. The person-in-charge of Pensions and other Social Justice Payments hardly talk to this portal. By virtue of this, two parallel set of data-systems are maintained at the Janpad level. This is slowly resulting in ever-piling reconciliation related issues regarding data being maintained at the Janpads. With ever-increasing digitization of the data in SSSM and continuous verification of the same by various sources like pension beneficiary list, food security beneficiary list, scholarships beneficiary list, etc., the system is now ripe to stop all manual updation of the records and switch to a single data maintenance i.e. in SSSM. SSSM is also in the process of drafting the SOP for it entire operation.

14.2.5 Comprehensiveness / Robustness of *Samagra* Portal

As has been disclaimed in the previous chapter, because of being at an early phase of development, the *Samagra* portal, which is envisaged to be used for channeling and administering all the social security schemes of the state, is observed to be not that comprehensive, elaborate and informative portal as that of NREGASoft and e-FMS module of MGNREGA. Some areas of improvement in the portal are as below:

- **Payments module –** as has been discussed earlier, presently, the portal does not have its own e-payments module. Without this module, this portal can at best be used as an MIS portal, which would be a very limited use of such an effort like SSSM. Further, even if the decision has been taken to use the CSFMS for the payments to the beneficiaries, bridge-module / software is being developed. In absence of such bridge module, parallel entries were being done in both the portals, which have its own consequences, issues and concerns.
- **Payment Intimation –** Since, payments to the beneficiaries are handled entirely on a different platform and these payment details are not fed-back into the Samagra portal, the Janpads and all the others involved in the scheme implementation are just not aware of what was happening regarding fund transfers. So, while it is communicated to the Janpads and Panchayats of Hoshangabad and Chhindwara that the funds are being transferred directly into beneficiaries' accounts, the exact details of the same viz. exact amount, date of transfer, acknowledgement number, etc. is not made available to them. Further, such e-transfers have not been effected to all the (100%) beneficiaries in the districts because of the pending account verification and account freezing, the officials at the Janpad Panchayats are unable to identify as to who all have got the pensions for the month. When enquired in the villages, quite a few beneficiaries have not received their pensions for over last two-three months. In this transition phase of adapting to the newer mechanism, even the manual system of payment intimation (viz. through phone, emails, etc.) has not been developed. In sheer

contrast, the e-FMS module of MGNREGS payments captures the minutest details of payments through its FTOs (date, amount and channel of fund transfers, bank account to which the fund is transferred, for which particular work, etc.), which is transparently available for everybody, including the general public, to see and be aware of.

- **Monitoring reports** – another important sub-module that needs to be developed and incorporated under Samagra portal is the comprehensive reporting module. As observed in e-FMS, a comprehensive reporting module eases a lot of monitoring needs and thus helps in effective and efficient implementation of the entire scheme. Similar module is strongly needed in Samagra portal.

14.2.6 Software Related Issues

While the issues listed above are some of the systemic and software development related issues, there are a few more routine issues observed regarding *Samagra* portal in the field, which needs to be addressed even sooner:

- Some of the schemes like 'Kanya Avibhawak Yojana' have features only to enter the nationalized bank account details. It does not accept / capture the post office and / or cooperative bank account details of the beneficiaries.
- Similarly, if a particular beneficiary is also a beneficiary of any other scheme and has a post office or a cooperative bank account, it does not have the facility to accept two banking account details i.e. the existing Post Office accounts details (as enrolled for some existing scheme) and the new nationalized bank details (as required for the new scheme). While freezing of beneficiaries account does mean this only that only a particular account has to be maintained for all the benefit transfer. However, this is causing issues at the intermediate level, until the entire functioning is switched to *Samagra* portal and the Standard Operating Processes (SOP) are finalized.
- The Authority of 'deleting' or 'seizing' a particular beneficiary, in case of death or migration of the beneficiaries is presently not available at the Janpad Panchayat level. Presently, it is vested with the CEO, Zila Panchayat in case of rural beneficiaries and with the Commissioner, Nagar Nigam and CMO, Nagar Palika, in case of urban beneficiaries. This being a regular activity in the field is causing great discomfort at Janpad level.
- Transfer of beneficiary from one scheme to another scheme is also not presently possible in the portal at the Janpad level. So, a particular beneficiary who is old aged and has recently become a widow is not being transferred from one pension scheme to other in the portal at the Janpad level. Similar is the case in various other combinations of transfer of beneficiary from one scheme to another. The entire authority in these cases also vests with CEO, Zila Panchayat and Commissioner, Nagar Nigam and CMO, Nagar Palika.
- Some new schemes under the SSSM and FS like 'Van Adhikar Mandal', 'Karmkar Mandal', etc. are not getting displayed in the software under that beneficiary's portfolio of schemes, despite being entered in the software.

- The 'search' and 'editing' options are not very comprehensively designed in the portal and are not returning appropriate results during 'search'. Similarly, a lot of issues are observed while exercising 'edit' options in the portal.
- As discussed earlier, an exhaustive and comprehensive reporting module is greatly missing in the portal.

It may be noted that the Samagra Portal has not yet been main-streamed in the functioning in the Janpads and the Districts. It is only used as an ad hoc and parallel system for data entry. It is for this reason that a very limited number of issues have emerged regarding the usability of the *Samagra* software. The real issues would start coming after the portal is entirely main-streamed in the functioning of the Janpads and the Districts.

14.2.7 Other Sundry Issues

14.2.7.1 Better Utilization of Human Resource

This is another phenomenon that is observed in the field. Because of the electronic payments of pensions and other social security benefits to the beneficiaries directly from the Treasury, the implementation staff at the Janpad and District level are observed to somehow losing their accountability and responsibility; more so, the staff is to use its skills for better monitoring and screening of the following :-

- whether the payments have been made or not?
- how many of the eligible people have this been made?
- What are the reasons for the non-payment to beneficiaries?
- are these issues resolved?
- have the addition and deletion of the beneficiaries been duly and properly incorporated in the payments or not?

Such question did not seem to be bothering them much. Earlier, it was entirely their responsibility and they were held responsible for any delays in this regard. Similar apathy was observed with Sarpanchs and Panchayat Secretaries, in case of MGNREGS payments through e-FMS. But the same was resolved through making Sarpanchs and Secretaries, the payment-recommending ('pass-for-payment') authority. Similar arrangement might need to be worked out over here as well.

Case Study III. Ultra Small Branch at Doorstep: What Else could Sitaram Ask For!

Sitaram was relaxing at his charpoi (a village cot) at his house in village Badagaon Jagir, tehsil Ghategaon at Gwalior district during the early winter of 2013 – 14 at around 10:00 AM when suddenly he realized that a group of 4 – 6 persons including his own village locals reached him and introduced the team of consultants stating that they wanted to meet and interview him.

His first reaction was that of pleasant surprise that someone from Bhopal had come to talk to him. For he rarely talks as he is deserted by his own two sons who live in the same village but not in the same house.

Sitaram (72) – A Widower

Sitaram is a widower who stays on his own and lives alone in his house. He is physically fit even at 70 and could walk as long as 16 kms a day until few months back. Sitaram, a BPL card holder stays alone at his kuchha (semi concrete) house in Badagaon Jangir and is a beneficiary of the National Social Assistance Program, being a recipient of the Indira Gandhi National Old Age Pension Scheme (IGNOAPS). However, he has started receiving his pension from only a year and a half ago.

While in his youth he used to own a 0.209 Hectare of land, the old age poverty forced him to sell of his land become a wage laborer in his 60s. Though he has two sons and daughter in laws as well as two daughters and son in laws, none of the four is even bothered to help in financially in his hard times.

At the age of 70 + , while Sitaram ought to have been relaxing he is forced to work as a wage laborer since his pension of Rs. 150/- is insufficient to procure two square meals a day for him. In order to pick up his monthly pension of Rs. 150/-, Sitaram had to travel to the nearest branch of PACS (Primary Agriculture Cooperative Society) at Mohna that was approximately 8 kilometers from his village. He used to spend one full day of the month to travel to Mohna and receive his pension and most of the times had to walk almost 16 kms (to and fro) to receive the same. He always used to wonder that as long as he was fit to walk, even at the age of early 70s it was fine and doable. But he used to get the painful jitters of his life while thinking as to what would happen if we was unable to walk that much. While some of the time, few villagers offered him a free lift, this was not possible always.

One fine day, the Panchayat Secretary gave him the news that his pension henceforth would be delivered from his own village.

Then within a month's time he saw that a few persons from the branch of a banks and other officials visited the village and within a week there were few camps held at the gram Panchayat office where the officials and one local boy was capturing the details of the villagers facilitating opening up of their bank accounts.

Thus he came to know that the Central Bank of India had opened up an Ultra Small branch (USB) at his own village.This was a God sent opportunity for him to start receiving his monthly pension from the same village. However, the transfer from the PACS at Mohana to that of the USB at village was not as smooth and quick for him as well as others in the village. While he was one of the first ones to open up his bank accounts at the USB located at Badagaon, Jagir, he could not receive his account number and the card before at least a month and a half during which he used to eagerly visit the USB to enquire the status.

Meanwhile, he had to again visit the PACS and pick up his pension on two separate occasions. During this time period he was also informed by the society that since his pension would now be delivered through the USB, he should not come to the PACS as they were transferring all his account details to the Janpad as desired by the government. For a month or two his case was neither here (PACS) nor there (USB) and Sitaram had no money from his pension. However, the villagers helped him during this period as they knew that his pension was secured by the Government, though delayed.

Finally, the day came when Sitaram was informed by the BC that his account was opened and that his card was received.

Within a couple of days after repeatedly following the pension issue with the BC at the USB and the PACS, he was informed that his name appeared in the list of beneficiaries that was transferred by the Janpad Panchayat and that he could collect the pension at the USB located at the Panchayat office.

Today, Sitaram is happy man as he does not have to walk 16 kms to pick up his pension, but can just walk across 16 yards to collect it.

14.3. USBs / CSPs – The Last Mile Connectivity at the Village Level

14.3.1 Backdrop

As has been discussed elsewhere as well as in the first part of the report, it is the last mile connectivity through the USBs / CSPs component of the Financial Inclusion model of MP, which can **make or break** the key success factor of the entire model. It is indeed the most important and crucial component among all three components for, the other two components i.e. e-FMS and SSSM are mainly focused towards increasing the efficiency and effectiveness of the delivery system and addressing the 'leakages' in the delivery system; and can be classified more as addressing the supply side issues of the system, while success of USB / CSP shall also depend on the 'demand side' of the system. Both of these components run at the back-end to fast-process the delivery of financial benefits to the ultimate beneficiaries. Whereas, the component of establishing USBs and CSPs becomes the front-end that interacts with the customer, and deliver the services, which have been fast-processed through e-FMS and SSSM. It is for this reason that establishing a deeply penetrated network of such financial dispensation infrastructure (USBs, CSPs, Bank Branches, BC outlets, ATMs. etc.) gains utmost importance. In absence of this infrastructure the real benefits of the other two components of FI model of MP would be difficult to be provided to the beneficiaries and thus would be difficult to assess on its effectiveness.

14.3.2 Status of Rollout of USBs / CSPs in MP

As was reported in the first part of the report, as on June 2013, banks have opened 1761 USBs / CSPs in MP. This is out of the total mandated 2,998 USBs / CSPs that are spread across 14,767 shadow area villages in the state of MP. A few more USBs and CSPs have been opened in the state since last reported in June, 2013. A closer look at these USBs / CSPs during the visits to four sample districts revealed greater insights into their establishment and functioning. While the detailed understanding about the functioning of the USBs / CSPs and the issues thereof are discussed in the next two sub-topics, status of roll out of USBs / CSPs in these four sample districts are described in below. Since, the observations regarding the roll out of USBs / CSPs have been different across four visited district, the same have been described separately.

The current status of rollout was captured by the team of consultants while visiting four (4) sample districts of MP. During the field visits the consultants visited at least two blocks in each districts and villages and met the BCs, BCAs at the USBs / CSP and other stakeholders including the beneficiaries and bank account holders. A detailed list of districts, blocks, villages and USBs / CSPs visited during the field visits is mentioned under the chapter on 'Methodology'.

14.3.3 Observations from Chhindwara District

14.3.3.1 District Profile

Chhindwara District ranks 1st in terms of geographical area (11,815 km^2.) in Madhya Pradesh State and occupies 3.85% of the area of the state. Chhindwara district, formed on 1 November 1956, is located on the South-West region of 'Satpura Range of Mountains'. It is spread from 21.28 to 22.49 Deg. North (latitude) and 78.40 to 79.24 Deg. East (longitude) and spread over an area of 11,815 km². This district is bound by the plains of Nagpur District (in Maharashtra State) on the South, Hoshangabad and Narsinghpur Districts on the North, Betul District on the West and Seoni Districts on the East.

The District is divided into 11 Tehsils (Chhindwara, Parasia, Junnardeo, Tamia, Amarwara, Chourai, Bicchua, Sausar, Umreth, Mohkhed and Pandhurna) and 12 Development Blocks (Chhindwara, Parasia, Junnardeo, Damua, Tamia, Amarwara, Chourai, Bicchua, Harrai, Mohkhed, Sausar and Pandhurna). There are 9 Nagar Palikas (Chhindwara, Parasia, Junnardeo, Damua and Pandhurna) and 11 Nagar Panchayats (Sausar, Amarwara, Chandameta, Butaria, Chandangaon, Newton Chikli, Harrai, Mohgaon, Chourai, Bichhua, Lodhikheda and Pipla Narayanwar) in the district. Apart from this there are 11 small towns (Umranala, Dighawani, Jatachapar, Iklehara, Pagara, Kalichapar, Damua, Pala Chourai, Bhamori, Ambada and Badkuhi) in the district.

Chhindwara in MP

District Map of Chhindwara

According to the 2011 census Chhindwara District has a population of 2,090,306, giving it a ranking of 218th in India (out of a total of 640). The district has a population density of 177 inhabitants per square kilometer (460 /sq mi). Its population growth rate over the decade 2001-2011 was 13.03%. Chhindwara has a sex ratio of 966 females for every 1000 males, and a literacy rate of 72.21%. There are 1,984 villages in the district, out of which 1,903 villages are inhabited. The district is divided into 19 Revenue Circles, 319 Patwari Halkas. There are 808 Panchayats in the district. The sex ratio of Rural Chhindwara is more (962) than that of Urban Chhindwara (926). As per Census 2001, the average literacy rate of the district is 66.03%, which is above the average of the MP state's 64.08%. The literacy rate in the rural area of the district is 60.76% and that of urban area is 81.46%.

14.3.3.2 Rollout Status of USB / CSP

In Chhindwara, out of a total of 216 USBs / CSPs that were to be opened in the shadow areas, only 95 USBs / CSPs are claimed to have been opened so far. The status of USBs / CSPs opened in the district is summarized in the table below, which reveals some interesting facts about these 95 claimed USBs / CSPs as well:

Bank	USB/CSP locations Assigned	USBs/CSPs Opened	USBs/CSPs where A/c opening has started	USBs/CSPs, where transactions have started
State Bank of India	39	6	5	4
Central Bank of India	80	80	79	77
CMPKGB	27	5	--	--
Bank Of Maharashtra	19	--	--	--
Allahabad Bank	11	--	--	--
Punjab National Bank	7	1	--	--
Union Bank of India	4	--	--	--
Bank of India	6	--	--	--
Bank of Baroda	3	--	--	--
Syndicate Bank	2	1	--	--
Canara Bank	1	1	--	--
IDBI	1	1	--	--
Oriental Bank of Comm.	1	--	--	--
Corporation Bank	2	--	--	--
Dena Bank	1	--	--	--
Vijaya Bank	1	--	--	--
HDFC Bank	3	--	--	--
ICICI Bank	3	--	--	--
Axis Bank	2	--	--	--
IndusInd Bank	2	--	--	--
Kotak Mahindra Bank	1	--	--	--
Total	**216**	**95**	**84**	**81**

14.3.3.3 Issues in Implementation

As one sees the table above, one can easily observe the extremely skewed distribution pattern of USBs / CSPs in the district. Of the 95 USBs / CSPs that have claimed to be opened, 80 belong to Central Bank of India, while rest 15 belongs to five other banks. If one further goes deep into it, one realizes that actual A/c opening has started only in the USBs of two banks i.e. Central Bank of India and State Bank of India. Rest of the banks have just earmarked a location in the identified villages with their signboards or may be physical infrastructure, etc. and have to start the account opening in the villages. While, there might be various reasons for various banks for such earmarking of location with signboards, etc. the reasons for such earmarking by the CMPGB is beyond comprehension. CMPGB has actually subcontracted the USB / CSP establishment and operation to MPCON Ltd, which has not yet developed the banking-integration module with CMPGB. In absence of such integration, establishing/earmarking a location and reporting the location as USB / CSP covered location, makes little or no sense and has now been resolved.

Similarly, if the reasons for the better performance of the Central Bank of India are explored further, other dimensions of establishing USBs / CSPs get un-earthed. Almost all of these 80 USBs / CSPs have been operating as the BC outlets for more than a couple of years. Some of these are more than three years old. All these USBs / CSPs (the earlier BC Outlets) were established under the bank's own initiative of financial inclusion in the district. Central Bank of India had appointed Tata Consultancy Services (TCS) as the Corporate BC in the district in 2010.

All the existing USBs / CSPs had been operating as BC Outlets since its inception, and have recently been re-named / re-branded as the USBs / CSPs with due modifications in its looks and infrastructure. However, its functioning, as observed during the visit to Khirsadoh CSP of Central Bank of India, has remained similar to that of the BC Outlets. It gets opened twice-in-a-week and has remained at the mercy of BC / CSP operator. During the visit to this CSP, it was observed that people had lined up waiting for the CSP since morning, but the CSP operator came and opened the CSP only at around 3.30 pm and then after about an hour's transactions closed the outlet because of lack of server connectivity. MGNREGA labours, waiting since morning, were sent back to come again on next Friday to receive their wages

Looking at the District-wide figures is still like looking at things from a medium height, if not from the highest point, as is the case while looking at things from state-wide figures. When one goes further down, new set of findings and revelations emerge. A look at the status of banking services in Tamia Block of Chhindwara district, as depicted in the attached case-study reveals similar observations.

Case Study IV. Status of Availability of Banking Services in Tamia Block, Chhindwara

On looking at a figure of 95 USBs/CSPs opened in Chhindwara district, out of a total of 216 USBs/CSPs intended locations, one can have one set of feelings and reactions. 44% achievement is still an achievement. But, these feelings and reactions changes when one visits further down to the level of Blocks and Panchayats. A visit to Tamia and interactions with officials their posed similar revelations.

Table 1: Profile of the block

Details	Values
Total Population of Block	89278
Male	51 **Percent**
Female	49 **Percent**
Literacy Rate (Overall)	52.1 **Percent**
Male	66.5 **Percent**
Female	37.2 **Percent**
Scheduled Caste	5.5 **Percent**
Scheduled Tribes	76.1 **Percent**
General Category	18.4 **Percent**
Below Poverty Line	6274 families

Tamia is a tribal block, located in the midst of the Satpura range and is about 56 kilometers from Chhindwara district head-quarter on the Chhindwara-Hoshangabad road. This block has a prominent residence of the primitive tribal *group, Bhariya. In addition, Gonds, Baigas, Mawasi, Bhils and Mariya tribal groups also reside in the region.*

This is primarily due to high percentage of area under forest cover. The block also has some of the most inaccessible areas in the region especially Patalkot.

Overall literacy rate of the block stands at 52.1%. The block has 189 villages coming under 53 Panchayats. Out of the 189 villages, 22 villages are not inhabited, while 2 are forest villages with very small population. The population density in the region is 70 persons per sq. km. This area is rich in natural resources and about 70% of the area comes under the Panchmarhi Biosphere Reserve.

The main source of livelihoods of families residing in these villages is agriculture, non timber forest produce, bamboo products production and fish cultivation. In addition to this, the families also migrate to Hoshangabad district for around 3- 4 months for wage labour work.

In the backdrop of such a geographical, demographic and livelihood profile, the MGNREGA is observed to be an ideal kind of livelihood security program in the block. As per report generated on 12th November, 2013 from the MGNREGA and e-FMS software, a total of 24,976 job-cards have been issued in the block, having a total of 67,707 persons in these job cards. Of these a total of 49,780 workers are found to have their bank/post office details captured in the software, with details as below:

A/c Details	No of Workers with A/c details captured in the System	No. of A/c Frozen	%-age of A/c Frozen %
Banks and RRBs	44,822	37,057	83%
Post Offices	4,958	3,783	76%
Cooperative Banks	-	-	0%
Total	**49,780**	**40,840**	**82%**

As can be seen from the table above, more than 90% of the MGNREGA beneficiaries have their account in banks and only about 10% of the beneficiaries have their accounts in post offices.

Similarly, there have been around 3,700 beneficiaries registered under four different pension schemes of the government viz. Old Age Pension, Widow Pension, Disability Pension and Social Security (Destitute) Pension, which also have their accounts in banks and post offices in the block.

As we observe such the customer bases of the two major schemes, the Block does not seem to have adequate banking infrastructure to service the needs of such large beneficiary base. The entire Block is serviced only by 7 bank branches – 1 branch each of State Bank of India, Bank of Maharashtra and the Cooperative bank and 4 branches of the RRB i.e. CMPKGB. Out of these 7 branches, 4 are located at the Block headquarters only. Despite, such a strong focus being given on the financial inclusion not only by the GoMP, but also by the RBI, *Ministry of Finance and the banks, not a single USB/CSP was observed to be opened in the entire Block as of yet. The Central Bank of India, which has got the largest branch and USB/CSP network in the district, has also got no branch or USB/CSP in the block.*

Banking customers including MGNREGA beneficiaries, Pension beneficiaries and others have to travel long distances to make that single transaction of withdrawing their wages, pension, scholarships, etc. With such a supply-side scarcity of banking services, the service providers – the branch managers and other banking officials – exercise their own-set of mercies in delivering the services to these people. Beneficiaries not just have to travel such large distances, but they have to travel twice, thrice or even more times, just to make a single transaction, because of various problems like apathy of the banking staff, slower server speed, low/no internet connectivity, electricity cut-off, etc.

14.3.4 Observations from Hoshangabad District

14.3.4.1 District Profile

Hoshangabad district is bounded by the districts of Raisen to the north, Narsinghpur to the east, Chhindwara to the southeast, Betul to the south, Harda to the west, and Sehore to the northwest. The district has an area 5408.23 km². In 1998, the western portion of Hoshangabad District was split off to become Harda District. The district lies in the Narmada River valley, and the Narmada forms the northern boundary of the district. The Tawa River is a tributary of the Narmada, rising in the Satpura Range to the south and flowing north to meet the Narmada at the village of Bandra Bhan. The Tawa Reservoir lies in the south-central region of the district.

According to the 2011 census Hoshangabad District has a population of 1,240,975, roughly equal to the nation of Trinidad and Tobago or the US state of New Hampshire. This gives it a ranking of 387th in India (out of a total of 640).

The district has a population density of 185 inhabitants per square kilometer (480 /sq mi). Its population growth rate over the decade 2001-2011 was 14.45% Hoshangabad has a sex ratio of 912 females for every 1000 males, and a literacy rate of 76.52%.

Hoshangabad District in MP, India

14.3.4.2 Rollout Status of USB / CSP

In the district of Hoshangabad, as many as 142 shadow area locations have been identified where the USBs / CSPs were to be established. However, so far, a total of 72 USBs / CSPs have been established, and there too not all of them have become functional yet. Here also, State Bank of India, with 55 mandated USBs / CSPs and Central Bank of India, with 27 mandated USBs / CSPs lead the tally. The other prominent banks that have been mandated to open the USBs / CSPs are CMPKGB (19 USBs), Punjab National Bank (16 USBs), Bank of India (14 USBs) and Union Bank of India (2). As many as 9 other banks have been mandated to open 1 USB each. Out of these only Central Bank of India and State Bank of India have opened most of their USBs / CSPs in the assigned shadow area villages.

14.3.4.3 Systemic Issues

As regard opening up of USBs / CSPs in the district of Hoshangabad, the following two peculiar issues were observed.

1. **Urban Crowding:** While banks are hesitant and taking time to open the USBs / CSPs in rural areas, more particularly in shadow area villages, they are quite eager to open the USBs / CSPs in the urban and semi-urban areas of the district. State Bank of India has so far opened 124 USBs / CSPs in the district of Hoshangabad (including in most of the allotted 55 shadow area villages), but most of these are in urban and semi-urban locations. Similarly, Bank of India has opened 30 USBs / CSPs in the district; only 11 of which (out of 14 mandated to it) are in shadow area locations. Similarly, Syndicate Bank has opened 3 USBs / CSPs, but none of them are in shadow area villages. It has not even covered the allotted single shadow area location with its USB / CSP. The reason behind such a trend can be that more and more of the banks are getting the taste of business potential through the newer channel of USBs and CSPs. The other banks are either not realizing the business potential of this channel of expanding their network, or, are not able to technological upgrade them to offer such services through this newer channel.
2. **Fundamental Rationale for Reinventing Wheel:** The other issue observed in the district is a much larger and fundamental issue of establishing the USB / CSP itself. It actually questions the need for putting up such kind of time, energy and resources in establishing the USBs in such districts itself. While state wide data depicts that approximately 40% MGNREGA account holders have accounts in Post Offices or Cooperative Banks, districts like Hoshangabad have these accounts almost double at 80%. The statistics and experience poses a different picture. In the district of Hoshangabad, around 70-75% of MGNREGA beneficiaries had their accounts in post offices, and more than 70% of Pension beneficiaries still have their accounts in post offices. In such cases, where 70-80% of the beneficiaries' accounts were/are in post offices, it make little sense in reinventing the wheel by opening a large number of USBs right from a scratch, shifting the entire beneficiary base of the post offices to the USBs and then freezing their USB accounts in the e-FMS and *Samagra* portal. The entire exercise at one hand requires time, energy and resources towards establishing these USBs / CSPs, account opening in these USBs / CSPs and then de-freezing and re-freezing the new account in the two modules; on the other hand, it takes its own gestation period for the beneficiaries and customers to get adjusted to the functioning of the USBs / CSPs and build confidence on such newly established entities, while they are fully aware of the functioning of the post offices and its credibility as an institution has been well imbibed in them.

While seeking clarifications from the State, it was clarified that this is actually a confusion created by instructions to Hoshangabad district, one of the selected districts for Aadhar DBT pilot implementation project, to transfer all accounts to commercial banks. These kinds of varied instructions created utter confusion to district authorities. That is where the state authority intervened and issued instructions that under no circumstances accounts will be migrated from post office to commercial banks. Thus, accounts were again restarted in post offices. However, a lot of damage has already happened because of this confusion.

Case Study V. Jasalpur, Hoshangabad – CSP Operator
CSP @ CBI

CSP Operator	:	Ms. Sangeeta Chouhan
BC	:	Integra Micro Systems Pvt. Ltd
Bank	:	Central Bank of India
Location:		
Village	:	Jasalpur
Panchayat	:	Jasalpur
Block	:	Hoshangabad
District	:	Hoshangabad
Base Branch	:	Hoshangabad Branch
Distance from the Base Branch	:	10 KM

Village Jasalpur is a mid-size village with a population of 3,115 (read, more than 2,000) and the registered voter size of 1,600. It is situated at a distance of around 7 KM from the district and block headquarter i.e. Hoshangabad, and is located on the Hoshangabad-Piparia-Jabalpur road. The distance of the base branch at Hoshangabad is around 10 KM from the village.

With the objectives of financial inclusion, the Central Bank of India started operating in this village in Feb, 2010 as one of the Banking Correspondent (BC) outlet. The BC identified was Integra Micro Systems Pvt. Ltd. Later on, when decision to open USBs/CSPs was taken up in SLBC and later adopted in DLCC, this BC outlet was converted into a Customer Service Point (CSP). The CSP formally got opened up on 25th May, 2012. The CSP caters to two shadow area villages namely Jasalpur and Jasalpur (T).

The CSP is presented operated by the BC (Integra) appointed person named Mr. Sangeeta Chouhan. Earlier, his elder brother Mr. Dharmendra Chouhan was the Operator, but later, he

got absorbed in Integra as the District Coordinator to help establish and support the CSPs/USBs in the District.

Sangeeta, the existing CSP Operator in Jasalpur is aged around 23 years and is a resident of the same village. She has completed her Masters in English and lives with her family comprising of an elder brother, an elder sister and mother. The CSP also runs in her house, as the room in the Gram Panchayat building is yet to be handed over to her.

In order to set-up this CSP, Sangeeta has to just put forth Rs. 10,000/- as the security deposit with the bank. In lieu of this security deposit, an Overdraft (OD) account has been opened in her name, which acts as the bridge account for operating the CSP. Apart from this, she had not put any money as investment from her side. The entire infrastructure of the CSP comprising of a table, 4 chairs, a steel almirah, the POS machine, various signboards, posters, notice boards, etc. has all been supplied by the bank through the BC.

The centre, since its operation in February, 2010 has opened a total of 1,186 accounts. Of these accounts, 552 accounts have been opened as Cent Savings A/c, 475 accounts have been opened as Smart Card A/c, 132 accounts have been opened as I-enrolment A/c and 27 accounts are just pending for feeding and opening up. Of these 1,186 accounts, more than 400 accounts belongs to MGNREGA workers, 111 to pensioners, more than 300 to school children, 42 to Janani Suraksha beneficiaries and a few more to flood-relief beneficiaries.

The status of transactions at the CSP in this financial year gives a fair understanding of the status of affairs at the CSP. The increased transaction in the month of October is due to disbursement of flood-relief to beneficiaries, which was all routed through the bank accounts only.

Month	Transactions - Deposits		Transactions - Withdrawals		Transactions - Total	
	# of A/cs	Amt (Rs.)	# of A/cs	Amt (Rs.)	# of A/cs	Amt (Rs.)
April'13	27	9,790	24	10,390	51	20,180
May'13	11	2,900	10	1,750	21	4,650
June'13	22	6,376	16	1,880	38	8,256
July'13	27	10,450	19	13,250	46	23,700
August'13	23	5,600	20	2,030	43	7,630
September'13	27	9,056	12	2,160	39	11,216
October'13	49	64,930	46	67,930	95	1,32,860

Similarly, if we have a look at the commissions earned by the CSP, we would get a fair understanding about the sustainability of CSP.

Month	Fixed Commission (Rs.)	Towards Aadhar Seeding of Accounts (Rs.)	Towards Recovery of NPAs (Rs.)	Total (Rs.)
April'13	3,250	150	120	3,520
May'13	3,250	210	48	3,508
June'13	3,250	280	80	3,610
July'13	3,250	305	300	3,855
August'13	3,250	425	-	3,675
September'13	3,250	340	-	3,590
October'13	3,250	600	-	3,850

An important thing to note here is that despite being in operation for more than 3.5 years and not needed to incur any investment towards physical infrastructure, the BC/CSP has not yet broken-even. Such a performance of the CBI's USBs/CSPs can actually credited to their lack of confidence on this delivery/distribution channel (i.e. USBs/CSPs), limited variety of products being offered through the CSP and also to the restricted payout structure to the USBs/CSPs by the bank.

14.3.5 Observations from Gwalior District

14.3.5.1 District Profile

Gwalior district is one of the 50 districts of Madhya Pradesh state in central India. The historic city of Gwalior is its administrative headquarters. Other cities and towns in this district are Antari, Bhitarwar, Bilaua, Dabra, Morar Cantonment, Pichhore, and Tekanpur. The district has an area of 5,214 km², and a population 1,629,881 (2001 census), a 26% increase from 1991. Gwalior District is bounded by the districts of Bhind to the northeast, Datia to the east, Shivpuri to the south, Sheopur to the east, and Morena to the northwest. The district is part of Gwalior Division.

The district comprises 3 tehsils: Gwalior (formerly, Gird), Bhitarwar and Dabra (formerly, Pichore). According to the 2011 census Gwalior district has a population of 2,030,543. This gives it a ranking of 227th in India (out of a total of 640).

The district has a population density of 445 inhabitants per square kilometer (1,150 /sq mi). Its population growth rate over the decade 2001-2011 was 24.41%. Gwalior has a sex ratio of 862 females for every 1000 males, and a literacy rate of 77.93%.

Gwalior District in MP, India

14.3.5.2 Rollout Status of USB / CSP

In Gwalior, a much smaller number i.e. only 67 USBs / CSPs were identified to be opened up in the shadow area villages. Of these, 63 USBs / CSPs are reported to have opened by September, 2013, as below:

Bank	USB/CSP locations Assigned	USBs/CSPs Opened
Central Bank of India	25	25
CMPKGB	22	22
State Bank of India	16	16
UCO Bank	2	--
Punjab National Bank	2	--
Total	**67**	**63**

Gwalior being more an urban district, banks have been going for opening a large number of USBs / CSPs in non-shadow areas the districts, both in urban and semi-urban locations.

Case Study VI. CSP Operator – SBI Kiosk Hazira, Gwalior

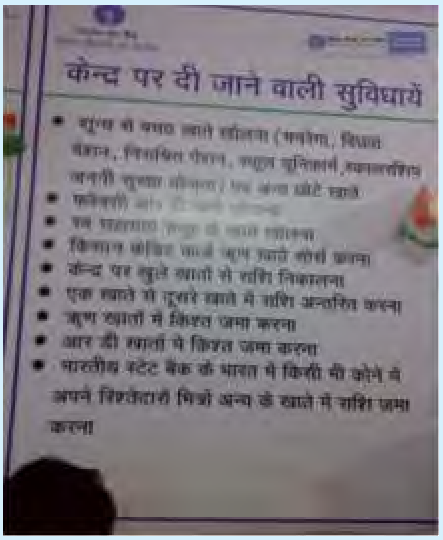
CSP @ SBI

CSP Operator	:	Mr. Vipin Arya
BC	:	SRPS Kalyan Samiti
Bank	:	State Bank of India
Location:		
Location	:	Hazira
Municipal Corporation	:	Gwalior
District	:	Gwalior
Base Branch	:	Industrial Estate (Code 1464)
Distance from the Base Branch	:	1 KM

The Customer Service Point (CSP) at Hazira is located in the urban area of Gwalior and is located at a distance of less than 1 KM from the base branch at Industrial Estate. The CSP has been awarded to a Corporate / Entity BC named SRPS Kalyaan Samiti, an NGO based out of Gwalior. SRPS Kalyaan Samiti, in-turn sub-contracted it to Mr. Vipin Arya, who is presently running it.

Since it started its operation in 10th January 2013, it has continuously been doing extremely well. In less than 10 months' operation, by October, 2013, it had opened 5,126 Savings Accounts. As per the CSP

Operator, more than 4,000 account holders have been doing regular transactions in their Accounts. In line with SBI's offerings through USBs/CSPs across the country, this CSP is also providing other products to its customers. The CSP has opened around 200 Recurring Deposit Accounts and 5 Fixed Deposit Accounts. It has also provided Personal Accidental Insurances to more than 1,000 customers and the ATMs (an added Product, as it is not coupled with the No-frill Savings Account) to around 4,000 customers. Its customer base mainly consists of daily wage and domestic labour. School children mainly girl students, applying for scholarships, is another major customer segment.

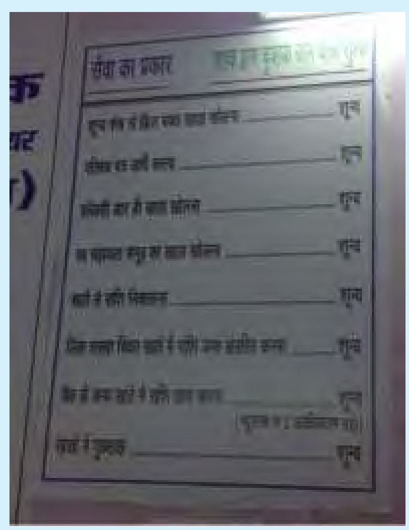


To enroll such a large chunk of customers spread across Products, CSP had organized

Account Opening Camps in the slum locations of the area.

It is this customer base, coupled with a variety of Product offering including the ATM Cards which brings the accounts opened in CSPs at par with the regular bank accounts and a handsome commission structure, that the CSPs have become a demanding proposition in the market. Unlike in other banks, USBs/CSPs have become one of the significant channels for the delivery of financial services in State Bank of India. The Operators and the BC get commissions on a variety of variable components viz. A/c opening (SB, RD & FD), transactions (both deposits and withdrawals), keeping accounts live, fund transfers and also on float (i.e. average balance in accounts) and make a handsome commission.

Vipin, the CSP operator has earned a commission of Rs. 28,000/-, Rs. 29,000/- and Rs. 32,000/- in the months of July, August and September, 2013. While, the commission for the month of October, 2013 has not yet (i.e. as on 29th October, 2013) been declared, he estimates it to be around Rs. 42,000/- by virtue of increased transactions and new account opening in the month. While, this has been his gross commission, he also has to incur various expenses related to operating the CSP. The operating expenses for running the CSP includes Rs. 2,000/- towards rent, Rs. 500/- towards electricity, Rs. 500/- towards internet connection and Rs. 500/- towards general and other incidental expenses. From a couple of months, he has also employed two assistants at a salary of Rs. 3,500/- per month. After



taking care of all these operating expenses, he still maintains a good net profit.

However, it's not just the operating expenses that Vipin has to take care of; entire investment had also been taken care of by him. Vipin like other SBI CSPs had to make an investment of around Rs. 1.5 – 2 lakhs towards security deposits (Rs. 50,000/-), furniture (Rs. 30-40,000/-), hardware – two laptops, a desktop, a printer, a scanner, a mobile, etc. (Rs. 80-100,000/-). According to Vipin, this investment is still worth it, as the response he is getting from the customers is quite encouraging.

An important thing to note here is that despite being in operation for just less than 10 months and incurring such an investment, the BC/CSP has not only broken-even, but is earning a handsome amount on a monthly basis. Such a performance is actually credited to the variety of products being offered through the CSP and also to a reasonable BC/CSP payout structure of the bank.

When discussed with customers, they found the USB/CSP quite accessible. Some of the important features that they found CSP banking more attractive are – facility of opening the zero-balance a/c (unlike a minimum of Rs. 500-1000/- required in SBI bank branch), neighbourhood banking, longer timing (8.00 AM – 8.00 PM) of operation than bank branches, heavy crowding at bank branches and not-so-responsive bank staff. However, one major facility that they require is that of passbooks. Presently, passbooks are not issued to CSP customers in SBI. Other banks do provide passbook, but these passbooks are printed only at their base branch, as the CSPs don't have the passbook printer, nor do they have the passbook-printing feature in their POS machine and/or Kiosk.

When asked about issues that Vipin has faced or is facing, he had two major concerns. From last couple of months, the server link has slowed down like anything, which is proving as the major hindrance to his working. This can be credited to the huge number of accounts that SBI has opened through CSP channel. According to Mr. Jain, AGM-FI, SBI has opened around 40 lakhs CSP accounts in the rural areas of MP, a sizeable number that they also might not have thought of. The other issue that Vipin mentions is that managing and continuing the business was really difficult in the initial months when the payout was less. However, now he is confident of not only good business, but also good payouts.

Another point to observe was the effective use of the CSP location as a point of financial literacy. The entire CSP location was covered with a variety of posters. However, most of these posters and banners were in designed in such a way that only literates can understand them. This can easily be replaced with graphical and pictorial material on financial literacy.

14.3.6 Observations from Dhar District

14.3.6.1 District Profile

Dhar district is located in the Malwa region of western Madhya Pradesh state in central India covering an area of 8,153 km². Dhar town is also the administrative headquarters of the District. The town is located 33 miles (53 km) west of Mhow, 908 ft (277 m) above sea level. It is picturesquely situated among lakes and trees surrounded by barren hills, and possesses, besides its old ramparts, many interesting buildings, both Hindu and Muslim, some of them containing records of cultural and historical importance.

Dhar District in MP, India

Dhar is bounded by the districts of Ratlam to the north, Ujjain to the northeast, Indore to the east, Khargone (West Nimar) to the southeast, Barwani to the south, and Jhabua to the west. It is part of the Indore Division of MP. With a population growth rate of 25.53% (over the decade 2001-2011), Dhar District has a population of [57] 2,184,672, roughly equal to the nation of Latvia or the US state of New Mexico. This gives it a ranking of 208th in India (out of a total of 640). The district has a population density of 268 inhabitants per square kilometer (690 /sq mi). Dhar has a sex ratio of 961 females for every 1,000 males, and a literacy rate of 60.57%. Pithampur is a large industrial area comes under Dhar District.

Dhar district is divided into 5 sub-divisions: Dhar, Sardarpur, Badnawar, Manawar and Kukshi. These sub-divisions are further divided into 7 tehsils: Dhar, Badnawar, Dharampuri, Sardarpur, Manawar, Kukshi and Gandhwani. There are seven Vidhan Sabha constituencies in this district: Sardarpur, Gandhwani, Kukshi, Manawar, Dharampuri, Dhar and Badnawar. All of these are part of the only Lok Sabha constituency in this district: Dhar.

Manawar block has a branch of the Bank of India within the township and has two kiosks located at Manawar and Bankaner. While the branch does not have any individual banking accounts for the electronic benefit transfers (EBT), there are 65 Gram Panchayat (GP) accounts that are being transacted in its various branches.

[57] The population of the district in 2001 was 1,740,577 (2001 census), an increase of 24% from its 1991 population of 1,367,412.

14.3.6.2 Rollout Status of USB / CSP

Name of Bank	Proposed USBs / CSPs	USBs / CSPs Opened
Bank of India	22	23
NJGB (RRB)	38	36
SBI	11	8
Syndicate Bank	5	0
UBI	2	2
PNB	1	1
BOB	2	2
TOTAL	**81**	**72**

14.3.6.3 Issues Observed

While the observations as mentioned above are found to be more or less the same in all the other districts, however, certain issues observed specifically at Dhar district are outlined below:

Banking Accounts: As part of the financial inclusion drive initiated by the Government of India, banking accounts were opened for individuals living in the villages with population of more than 2,000. These accounts got frozen for the purpose of e-payment of wages under MGNREGA and other benefits under the government schemes were being transferred through them. However, when the GoMP shifted the banking access norms from population to geographical distance, more and more of Ultra Small Branches / Banking Correspondents were being deployed towards opening up of bank accounts. Now when the USBs/CSPs located at these outlets started opening bank accounts following issues surfaced:

a. Those who already had a banking account in the branch refused to / took little interest in opening accounts at USBs;

b. Banks themselves were confused whether the BC operating in a particular region should be treated as BC of the old regime (population criterion) or the USB/CSP of the new regime (geographical shadow villages);

c. While there was a bunch of people who despite having bank accounts in the branches opened accounts in the USB/CSP hoping that their wages and/or other benefits would land up in the new accounts, the money continued to be transferred to their old accounts as a result of which their new accounts remained un-operational;

d. There still are blocks within the district where the newly opened accounts of beneficiaries in the USBs / CSPs have been frozen in the e-FMS and/or SSSM portals;

e. While many people now have two accounts, one at branch under the old regime of financial inclusion and the other under the new regime of USB/CSP, most of them are still without any banking accounts. However, when the figures on financial inclusion like the banking density / penetration is prepared by the bankers they only provide for number of accounts as a ratio of population and hence distort the actual position of access to banking.

It was observed that at one of USB/CSP (Tonki) a total of 4,395 accounts were opened against which 4251 bank account numbers were issued and communicated to the customers. However, more than 50% of the bank accounts were found to have transactions. At the other extreme were few USBs/CSPs in Dahi block of Dhar district where, while the bank accounts were opened by the USBs/CSPs, there was seldom any transaction. Though the government is using accounts to remit money to rural households, most accounts lay dormant in terms of deposits by holders of the accounts. The bank officials feel that this was because rural households see little value of depositing small amounts into their bank accounts, and that they rarely had an amount they deemed 'significant enough' to deposit. A recent study conducted by Sa-Dhan, an association of community based organizations and MFIs, on behalf of Citi Foundation, discovered that 88-96% of basic savings accounts still remain dormant

14.3.7 Functioning of USBs / CSPs

In the state of MP, a large number of USBs/CSPs are getting established by various banks. However, quite a variation has been observed in the establishment and functioning of these USBs/CSPs. It would be good to have a common minimum understanding of these USBs/CSPs before discussing the issues involved with the USBs/CSPs in the state.

14.3.7.1 Establishment

There have been various models of establishing USBs / CSPs that are observed in the state. All these USBs / CSPs are observed to be operated either by an Individual BC (Banking Correspondent), or by a person appointed / franchised by the Corporate (or Entity) BC. The Individual BCs are the Individual Persons, appointed directly by the Bank to run a single USB / CSP of the Bank; whereas, a Corporate BC is an entity (NGO, Company, etc.), appointed by the Bank to open an assigned number of CSPs, at the locations identified by the Bank. This Corporate BC in turn, appoints a person or franchises it to a person to run a particular USB / CSP. Presently, only around 4-5% of the CSPs are run by Individual BCs and the rest of them are run by Corporate BCs.

CSP Operator: As discussed above, the CSP Operator is either an Individual BC, or a person appointed by the Individual / Corporate BC or a person franchised by the Corporate BC. Depending upon their nature of engagement by a particular BC i.e. appointment and / or franchised, they get a fixed or a variable or a mix of fixed and variable remuneration.

The CSP Operators are supposed to be a local resident of the village and / or the Panchayat so that they service the beneficiaries for stipulated period of the day. But, in reality this has not always been observed to be so in all the cases. In quite a few USBs / CSPs visited in the field like in Kala Akhar CSP in Kesla block of Hoshangabad, in Khirsadoh CSP of Parasia block of Chhindwara had their BC and / or the CSP Operator residing in other locations than the CSP locations. Both of these CSPs were found to have problems of not opening for stipulated time during the day and for all the days in a week; whereas, other CSPs, whose operators were local residents, were found to be working for the entire day.

The CSP Operators were found to be of varying educational qualifications and work experiences. The educational qualification was also found to have limited effect on the functioning of the CSPs. All of them have however gone through various kinds of trainings provided by the Banks and / or the BCs.

14.3.7.2 Technology

Technology Adopted: Different kinds of technology are adopted by different banks for the functioning of the CSPs. While most of the banks have been using the hand-held-devices (HHDs), some banks like State Bank of India have preferred to go-ahead with the kiosk-model. Kiosks are the banking software, which runs on the laptop and / or desktops. Over time, kiosks are proving to be handier in terms of data-entry, when compared with the HHDs.

Some of the banks like Bank of India are coming with newer and smarter technology in their HHDs, which have multiple features of full-size keyboard, in-built thumb-impression reader, a camera (for taking the photographs for account opening) and the printer. For some reason, BoI has termed this as micro-ATM, but it does not have any feature of a teller machine.

Aadhar Seeded Technology: Some banks like Central Bank of India have modified their banking software and enabled their HHD to enable the person to access his / her account maintained anywhere in Central Bank of India on the basis of his / her Aadhar number. By virtue of this software, any person having his Aadhar number seeded in his Central Bank of India Account in any branch of Central Bank of India can access and transact through these CSPs (read HHDs) in villages. By virtue of Aadhar seeding of the account, the server authenticates this person from the finger-prints as stored in the Aadhar (UIDAI) server. Otherwise, any other person having his account in Central Bank of India (even in the same base branch) cannot access and transact in his account through these CSPs / HHDs, since accessing the accounts through CSPs / HHDs requires a person to first have his finger prints stored in the bank server.

Similarly, banks are observed to be running these HHDs, Kiosks in both kinds of modules i.e. Off-line and On-line modules. The issues related to two types of the functioning are detailed under next sub-chapter.

14.3.7.3 Integration of USB / CSP Technology With The CBS Platform

There was a varying level of integration of the USB / CSP technology observed with the CBS platform of the banks. It varied from bank to bank as well as Technology Service Provider (TSP) to TSP. Within the TSPs, if the BCs were from different banks, there was found to be different level and format of integration of technology. The technologies based on online modules were found to be completely integrated with the CBS platform of the bank, whereas the technologies based on the offline module were linked to the CBS platform through a bridge solution.

However, despite being functioning on the CBS platform of the banks, the Inter-operability between USB and CBS was observed to be a significant issue. The accounts opened through USBs and CSPs could not be operated through regular branches of the banks and vice versa. The reasons for the same were cited as below:

- Simplified / liberal KYC norms are used for opening the BSBDA A/cs through USBs/CSPs. Allowing such accounts opened through simplified / liberal KYC norms to operate as regular account can have its own risks.
- For accounts opened through the USBs / CSPs, the signatures and photographs of the customers are not captured, digitized and uploaded in the CBS platform. In the absence of digitized signature being uploaded in the CBS platform, which is how an account holder is identified in the banking system, these accounts cannot be operated through normal bank branches.
- Similarly, since the technology that is being used at the USB / CSP does not have the feature of looking at and thus verifying the signatures of the account holders. Thus a regular bank branch customer cannot operate from these USBs / CSPs. However, it's not just the 'technology' to look and verify the signatures of the customers, but the 'authority' to verify the signatures of the customers that cannot be parted away with or vested with a third party like BC / CSP, that disallows the operation of an account on the basis of signature verification at the USBs / CSPs.
- The liberty given on KYC norms and also the relaxation given on capturing and uploading the signatures in the CBS platform for the USB / CSP accounts is rather more strongly compensated by capturing the finger-prints of customers. All the accounts opened through USB / CSPs have been made bio-metric based A/c. Thus, no account in USB / CSP can be opened without capturing the finger-prints of the customers. All these accounts use the finger-print of the customers for authenticating a particular customer while operating the account. No other person than the person him / herself can operate that account. The feature of 'finger-print reading' not being available in branches, coupled with non availability of the infrastructure (finger-print reader) in the branches, these accounts cannot be operated through normal bank branches.
- However, as discussed earlier, the Aadhar seeded A/cs are being opened and maintained at the normal bank branches, by virtue of verifying the finger-print of the customer through the Aadhar server, can very well be operated through USBs/CSPs, which have the built-in Aadhar seeded feature in their HHDs / Kiosk. It was observed to be functioning well in Jasalpur USB (Hoshangabad) of Central Bank of India, where an account holder of Central Bank of India, Hoshangabad Branch was able to access and operate his account from the CSP. However, this is feasible only where there is internet

connectivity as ADHAR seeded A/cs cannot be operated without internet connectivity i.e. without online facility at the USB/CSP.

- Remittances' being such a product that does not require authentication of the account holder has no such limitation of inter USB-Branch in-operability. Anybody from anywhere (whether USB/CSP or Branch) can transfer money to any account (whether USB / CSP or Branch) of that bank.

While Inter-operability across USB/CSP and the branches with-in the same banks i.e. intra-bank operability would take its own time to materialize, talks have started to operationalise the inter-operability across the USBs / CSPs of different bank, all of which function on the bio-metric based authentication. The technology used would be similar to that being used in ATMs to authenticate the account holders from across the banks.

14.3.7.4 Physical Infrastructure At The USBs/CSPs

A typical USB / CSP is observed to have a set of HHD or a Kiosk (i.e. a desktop or a laptop) as the case may be with its bank, three to five chairs, an almirah and a table. In case of SBI's USBs / CSPs, the table is observed to be replaced by a counter-kind of structure.

In addition to above, a minimum of two flex signboards depicting details of the USB / CSP are found to be available across all bank's USBs / CSPs. SBI has in-addition to it, provided a lot of material related to functioning of the USBs / CSPs, products available, do's and don'ts and other transparency related materials in the form of flex boards to be hanged on the interior walls of the USB / CSP. A photographic collage of some of the posters and banners available at USB/CSP is annexed at annexure 5 in the report.

In terms of bearing the cost of the entire set-up, there are different models across banks. Banks like Central Bank of India and Bank of India provide the entire infrastructure at the USB/CSP from its own side, at the bank's cost; whereas, banks like State Bank of India, while provides the infrastructure from the bank to maintain the uniformity in the entire set-up across USBs, entire cost of the same, which comes to around 1-1.5 lakhs, is borne by the BC and in-turn by the franchised CSP.

14.3.7.5 General Functioning of the USBs/CSPs

Standard time of operation of the USB/CSP is found to be varying across the banks. While CBI's and BoI's USBs and CSPs are opened from 10.30 AM to 5.30 PM, the SBI's USBs and CSPs are opened from 8.00 AM to 8.00 PM.

The USBs and CSPs, depending upon the place of residence of the operator are found to be flexible in their operations and operate either from the USB / CSP location and / or even their residence. However, this flexibility can only be availed by the operators whose operations are based on HHD or laptop-based-kiosks. The Desktop-loaded-kiosks, as is generally the case with SBI's USBs / CSPs, by virtue of its restricted mobility, do not enjoy this flexibility. However, this is compensated by its extended hour of working from 8.00 AM to 8.00 PM.

Case Study VII. SBI Kiosk Banking:
Expanding Horizons of Common Service Centers Scheme

To offer government as well as private services at the citizen's doorsteps, the CSC acts as a strategic cornerstone of the National e-Governance Plan (NeGP), approved by the GOI as part of its commitment in the National Common Minimum Programme to introduce e-governance on a massive scale.

The CSCs is providing high quality and cost-effective video, voice and data content and services, in the areas of e-governance, education, health, telemedicine, entertainment as well as other private services. Common Service Centers (CSC) has signed an agreement with State Bank of India on 30th Dec. 2011.

All its outlets can now be appointed as Customer Service Points as Business Correspondents to State Bank of India and carry out banking transactions on behalf of the bank.

This is golden opportunity for a CSC Owner / Operator to do SBI Kiosk banking in their Retail Outlet

Now the CSC Points can become a small branch of major PSU Bank of the country.

This is because of CSC expanding Network. ***What Services will SBI Kiosk banking provide?***

Initially, SBI Kiosk banking will provide the following services:

- *Deposit of Cash*
- *Withdrawal of Cash*
- *Money transfer to another SBI account holder in other locations*

SBI can enhance the product list of BC. However BF work shall start after stabilization of BC work.

Benefits to CSC customers

- *A* ***'No Frill SBI Accounts'*** *through KIOSK Banking Model*
- *General purpose Credit Card (GCC)/Kisan Credit Card (KCC)*
- *Term Deposit/Recurring Deposit*
- *Regular SBI Saving Bank Account*
- *Loans against Term Deposit Receipt (TDR) etc*

What type of transactions the customer can carry on?

- *This is called a no-frills account where there is no minimum balance or charges levied.*
- *Maximum balance can be Rs 50000. (Balances above this can be held, but then account is converted to a regular bank account and the terms of the bank and documentations will apply to these accounts).*
- *Minimum Balance -Zero Balance.*
- *Maximum limit of transactions is Rs10,000/- per day.*
- *No Cheque book is issued*
- *Only Cash Transactions can be made & only in person by the account holder.*
- *There is no signature required and only electronic thumb impression is used to access/use the account.*

- *Customer also benefits from Long banking hours: As long as the shop is open*

How SCA shall work as BC Manager?

Steps involved to make Village Level Entrepreneur (VLE) as CSP for KO (Kiosk Operator) work have been detailed in the document which may be downloaded. However the scheme shall work as CSC SPV shall get KO codes approved from SBI as per recommendations of Service Centre Agencies (SCA). Adequate training on various banking products offered shall be given by SBI officials. SCA SPV shall generate login and password for SCA which in turn shall configure KO codes and generate their login. Each VLE is required to open a settlement account with the link branch of SBI wherein all transactions of the customer i.e. deposit/withdrawal shall be routed through this account

Village Level Entrepreneur

VLE operates and manages CSC delivering services to common man in his territory. He is a influential person providing information and G2C - B2C services under single roof. While content and services are important, it is the VLE's entrepreneurial ability that would ensure CSC sustainability. A good VLE would not be one who has financial muscle, but somebody who has entrepreneurial traits, strong social commitment as well as respect within the community. The CSC Scheme would allow State and Central government agencies to directly link up with citizens without a long chain of intermediaries. Such a system would not only save huge costs but also reduce systemic red tape as well as service delays, thereby leading to better quality of governance.

Income generation from CSP Kiosk Banking ?

Earn on opening New Account, every Cash Deposit / Cash Withdrawal / Loans and Money Transfer or any services of the bank.

A highlight of the CSCs is that it will offer web-enabled e-governance services in rural areas, including application forms, certificates, and utility payments such as electricity, telephone and water bills besides issue of Pan Cards, IGNOU Extension Centre, Nielson Survey, e-learning etc

Minimum requirements for set up of CSC outlet

Size of Outlet :

Minimum 150-200 sq feet with a counter. Space to attend to 5-6 customers at a time.

System configuration :

PC with a minimum configuration of 20 GB hard disk

Internet connectivity through broad band or VSAT

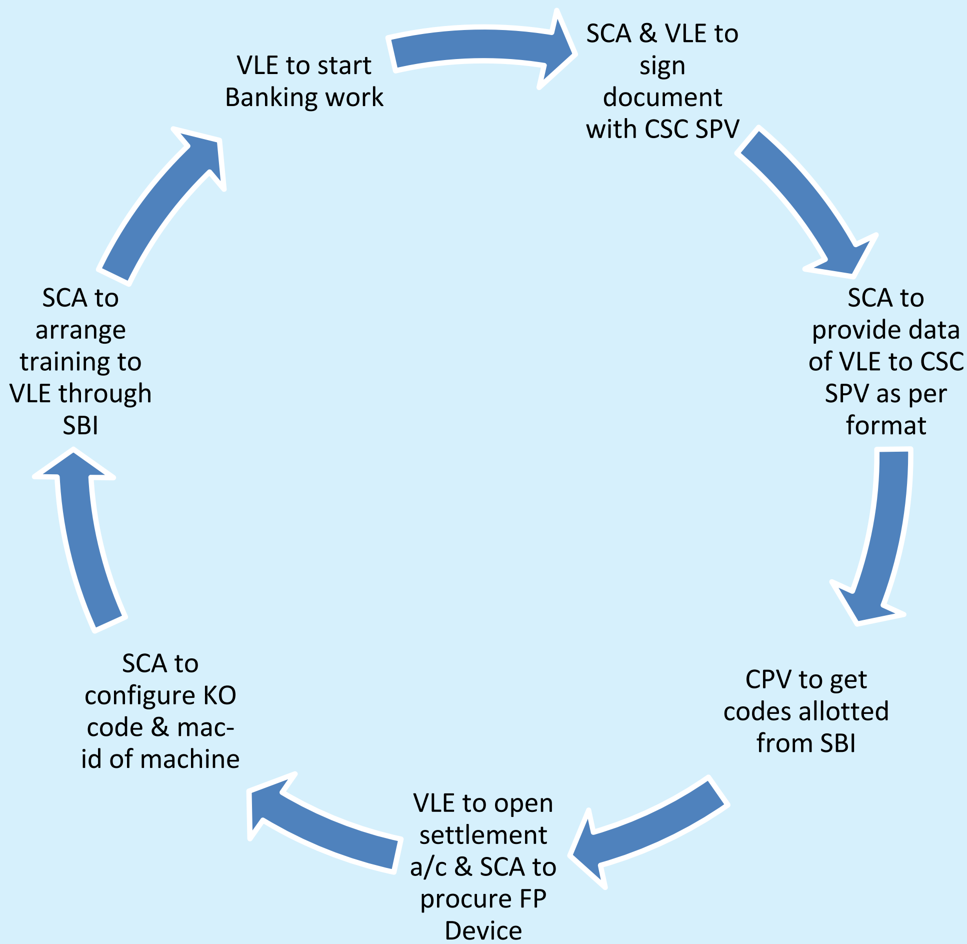
An Intel base chip of or superior provider. A web cam. A standard printer / scanner / Finger print device.

Advantages to Service Centre Agencies (SCA)

- New Revenue Stream from Small Banking
- Money Transfer
- Even, the existing SBI customers can transact
- Increased customer base

Steps to Open a CSC

CSC SPC will enroll SCA as Sub BC and VLE shall be Customer Service Point (CSP) as per agreement with SBI for this facility. This facility and partnership is available for all CSC retail offices with Web connectivity. VLE can enroll for this facility through SCA.



Source: apna.csc.gov.in

14.3.8 Products offered at USB / CSP

Very similar to a variety of functions of the USB / CSP operation, there are huge differences in the product offerings by the banks through the channel of USB/CSP.

However, it was observed that the basic FI (Financial Inclusion) Account i.e. BSBDA (Basic Savings Bank Deposit Account) Product is offered uniformly across the banks' USBs / CSPs. It is a zero balance normal savings account having an in-built OD limit of Rs. 500/-. The KYC requirements for this account has been simplified to acc ept an existing customer's introduction (certifying the photograph and the address of the new account applicant) as the KYC documents, whose full KYC norm procedure has been completed and who has also been the account holder of the bank for a minimum of six months and s/he should also have satisfactory transaction history with the bank. The BSBDA Accounts, opened through simplified KYC norms, have following limits of operation.

- Daily transaction (deposits and withdrawal together) limit : Rs. 10,000/-
- Maximum deposit balance in a year : Rs. 50,000/-
- Maximum credit balance in a year : Rs. 100,000/-

In addition to BSBDA product, there is hardly any other product that is found to be offered through USBs / CSP of any banks, except that of State Bank of India. Recently, Central Bank of India seems to have launched the RD product to be offered through USBs / CSPs, however, not a single RD account was found in the USBs / CSPs during field visit. As discussed elsewhere in the report banks like Central Bank of India, have also designated the CSP operators as its Business Facilitator (BF). By virtue of this designation as BF, the CSP operators can help in originating leads to various products for their base branch and get a very nominal commission in lieu of that.

However, bank like the State Bank of India, which is changing the entire functioning of the USBs and CSPs and are offering a basket of following products through its USBs and CSPs in the state:

S No.	Product	Approx No. of A/c^s in the State (as on Sept'13)	Approx Quantum of Funds Involved (as on Sept'13)
1	BSBDA A/c	39.71 lakhs	Rs. 12,700 lakhs
2	Flexi RD A/c	43,768	Rs. 55.12 lakhs
3	TDR A/c (Up-to Rs. 10,000/0)	1,454	Rs. 97.00 lakhs
4	Rupay (ATM) Cards	250,588	---
5	Remittances	Not Available	---
6	SBOD	Not Available	---
7	SBI Life's Personal Accidental Insurance	27,588	---

Source : State Bank of India

As one would see, it is this extended basket of products which is helping the SBI in attracting a large customer base and ensuring good revenues to the USBs / CSPs and ultimately resulting in early break-evens and the sustainability of the USBs / CSPs. However, most of such activities of the SBI as mentioned earlier are prone to urban and semi urban areas and over the main roads in the rural belt.

14.3.9 Process of Account Opening

As is the case in other sub-processes followed up in the USBs / CSPs, a lot of variation in the process of account opening was also observed.

There have been practices (e.g. Central Bank of India, Gwalior district) where the account opening form is physically filled up by the customer and submitted at the USB / CSP. Various details of the form is then entered / logged into a manual register kept at the USB / CSP and then submitted to the Corporate BC during his weekly / fortnightly visit to the USB / CSP. The application is then entered into the CBS platform of the bank by the BC. If everything is found correct, a CBS based Account Number is generated at Mumbai and a printout of its acknowledgement can be taken from the base branch. It then takes 25 to 45 days to receive the smart card from the Bank to the BC and then finally time taken from BC to the USB / CSP and then to the customer varies on circumstances. A copy of the Smart Card, Original Account Opening Form and the Control Sheet (containing various details of the account) are then deposited to the base Branch by the Corporate BC. It easily takes 10-25 days in obtaining the Account Number (after which, one can deposit funds through cheque and / or cash in the account) and from 30-60 days in receiving the smart card. It's only after receiving the smart card that one can withdraw funds from one's account.

As per another practice (SBI, Gwalior district), the physically filled application form is accepted in the USBs / CSPs and are entered in the CBS platform (through kiosk banking) at the USB / CSP itself. The physical copy of the form is then deposited in the base branch. After due verification of various details at the branch, the account opening data as already entered in the CBS system is approved and the account is opened in couple of days.

As per I-enrollment module of the Central Bank of India, now the account opening details can be entered into the CBS platform directly from HHDs at the USBs / CSPs. Similar feature is also available with the Bank of India's HHDs. The original account opening form is then submitted and approved at the base branch.

The normal KYC documents (an address proof, a photo identity card and a photograph) are required for opening the account. However, if an applicant is unable to produce the normal KYC documents, an introduction form an existing bank customer is also accepted under the simplified KYC requirements; details of which has been mentioned under the 'Products Offering' sub-heading.

14.3.9.1 Operational Efficiency of Transaction

Once the bank account is opened and the smart card delivered to the customers, the customers can do their transaction at the mentioned timing of operation of the USBs/CSPs. However, some of the common issues hindering the smooth transactions at the USB/CSP are:

- Unavailability of required level of Internet connectivity
- Electricity cut-out, especially in case of desktop-loaded-kiosks
- Congestion at the banking server (especially observed in SBI)
- Difficulty in bio-metric verification of the customers; mainly because of the roughness of the finger-prints of the customers, coupled with the problems of banking server congestion and the slow internet connectivity

14.3.10 The Revenue Structure of USBs / CSPs / CSP Operators

Like other things, the revenue i.e. the payout structures to BC and in turn to the USB / CSP operator is found to be varying across the banks. The BC/CSP payout structures of the two prominent banks of the state i.e. State Bank of India and Central Bank of India are analyzed in detail as below:

The Revenue Structure of the BCs and CSPs		
STATE BANK OF INDIA		
S. No.	**Event**	**BC Payout**
1	BSBDA Account Opening	Rs. 20/-
2	Deposits in BSBDA A/c	0.25% (Min Rs. 1; Max Rs. 6/- per transaction)
3	Withdrawals in BSBDA A/c	0.50% (Min Rs. 2; Max Rs. 12/- per transaction)
4	RD Account Opening	Rs. 20/-
5	Deposits in RD A/c	0.50%
6	Keeping an account LIVE	Rs. 0.50/- per account
7	Average Yearly Balance in the Account	1.35% (for avg yearly balance of Rs. 1/- to Rs. 1,000/-)
		1.50% (for avg yearly balance of more than Rs. 1,000/-)
8	Fund Transfers	0.60% (i.e. 60% of the 1% of transaction amount that is charged to the Customer; the rest 40% goes to the bank)
9	FD Account Opening	
10	Enrollment for ATM Cards	
11	Personal Accidental Insurance	
Notes:		
1. The BCs are paid a fix amount of Rs. 2,000/ - per month for opening a minimum of 25 FIP Accounts.		
2. The above is the payouts to the BC. Payout to the CSP Operators is observed to v arying across the BCs and is found to be ranging from 80-85% of the payouts to the BC.		
3. In some cases, the BCs are paid a commission for originating loans that are disbursed from their base branches.		
4. Similarly, the BCs are also paid a commission for the recovery of sub -standard assets of the base branches.		

The Revenue Structure of the BCs and CSPs
CENTRAL BANK OF INDIA
1. The payout structure to the BCs is observed to be varying across the BCs of the Bank. The bank has appointed quite a few BCs in 2010 , 2011 and 2012. The payout structures to these BCs have been found to varying from each other and even from the existing policies of the bank.
2. Presently, the CSPs are paid a fix amount of Rs. 3,000/ - per month, along with additional Rs. 250/- towards internet connection.
3. There's an ambiguity regarding activity/event/transaction based payouts (except for the Aadhar seeding of the Account, for which a one -time Rs. 5/- per account seeding is paid to the CSP), as no CSP in the field is observed to have received any other commission based payouts.
4. In addition to being appointed as the CSP, the CSP Operators are also appointed as the BFs (Business Facilitators) of the Bank, which enables them to get a commission on the loan origination for the base branch and also for the recovery of sub -standard assets of the base branches.

When one enquires about the trend of the payouts to the BCs and the CSPs, one gets very stark differences between the two prominent banks of the state.

At a state-wide observation among SBI's USBs / CSPs, more than 10 USBs / CSPs (out of a total of around 2975 USBs / CSPs in the State, as on Sept, 13) were found to be having a payout of more than Rs. 50,000/-. There were also a large number of USBs / CSPs which were in the bracket of earning more than Rs. 10,000/- per month. Number of such USBs / CSPs in the district of Gwalior was observed to 10 (out of a total of 84 USBs) for the month of August, 2013. There are a large number of USBs / CSPs in SBI, which get revenues of more than Rs. 5,000/- per month. Further, the SBI's USBs / CSPs take a very less time i.e. 1 to 6-8 months to reach to an earning level of at least Rs. 5,000/- per month.

On the contrary, the best and also the oldest USBs / CSPs of the Central Bank of India are observed to be earning revenues in the range of Rs. 4,000/- per month, including the monthly fixed stipend / payout of Rs. 3,250/- per month.

14.3.11 Sustainability of the USB/CSP

Sustainability, more specifically the financial sustainability of the USBs / CSPs is observed to be a function of three major variables:

- the **'number of the products'** offered at the USB / CSP;
- the **'number of customers'** enrolled with the USB / CSP; which itself is observed to be a function of 'number of the products' offered at the USB / CSP. More number of products automatically attracts a larger customer base; and
- the **'payout structure to the USB / CSP'**.

The 'number of products offered' at the USB / CSP and its 'payout structure' has been described in detail above.

The operating expenses of the USB / CSP are mostly common and consist of expenses towards rent, electricity, internet connection, repairs, stationery and miscellaneous expenses. It ranges from Rs. 3,000/- to Rs. 6,000/- per month depending mainly on the rent of the premise hired. However, expenses towards rent become zero wherever the USB / CSP is housed at operator's own house or at Panchayat office as has been made available by the Department of Rural Development in MP. Further, an additional expense towards hiring additional staff is incurred with the increasing business volumes of the USB / CSP.

It is the net of the revenues thus generated and the operating expenses thus incurred, which determines the net revenue or the net payout to the USB / CSP. It may be noted that a minimum of Rs. 5-6,000/- per month of net payout is needed to let a person continue as the CSP operator in the rural areas. The State Bank of India has however assumed this figure to be around Rs. 10,000/- per month and has been designing its products and payout structure accordingly.

As has been discussed earlier, the limited number of products being offered through USBs / CSPs, by almost all the banks, except SBI, is actually resulting in limited customer base of the USBs / CSPs. The situation, coupled with not-so generous / reasonable payouts to the USBs / CSPs of most of the banks, is resulting in very limited payouts to the BC / CSP operator. This has become a major reason for the un-sustainability of the USB / CSPs. This entire situation ultimately results in issues like heavy BC / CSP drop-outs, etc.

However, it's the banks like SBI, which are demonstrating a reverse trend by providing for increased product offering through the USBs / CSPs and a reasonable payout structure to the BCs and the CSP Operators. As a result of these initiatives, that as many as 2,975 USBs / CSPs of the banks have opened across the state by 30th September, 2013, with a huge customer enrollment of around 39.71 lakhs customers. The issue of BC / CSP drop out has almost stopped in SBI.

There's another important point regarding sustainability of the USBs/CSPs. It was discussed and decided that even the Panchayats account at the bank would be shifted to the USB/CSP once an USB/CSP is established in a particular village/panchayat to increase the number of its transactions and also the float being maintained at the USB / CSP. However, this particular decision has not been implemented anywhere in the USBs in any of the Panchayats. The main reason behind this is the technological inability of the HHDs and the Kiosks being used by the banks to operate the joint accounts. Presently, only individually operated accounts (and more specifically only BSBDAs) are opened in/through the USBs/CSPs. Facility of opening accounts with joint signatories would enable the shifting of Panchayats account into the USB / CSP, which would substantial increase the business volumes of these USBs, ultimately improving its financial sustainability.

Similar is the case with SHG, JLG and farmer club accounts. With the availability of feature of joint account operation, all such accounts can also be opened in / shifted to USBs, thereby, substantially increasing the sustainability of the USBs.

14.3.12 Issues And Concerns Observed Regarding Implementation of USBs/CSPs

Various issues and concerns have been observed regarding implementation of this component of the Financial Inclusion model of MP in the state. Some of these have been described as below:

14.3.12.1 Multi-stakeholders Involvement

Unlike in two other components, there are a number of stakeholders involved in the implementation of the USB / CSP Component of the MP model of Financial Inclusion. For setting up the USBs / CSPs and successfully running the same, the stakeholders involved are the (different layers viz. Head Office, State / Zone / Regional Office, District Office, the Branch offices and the different departments viz. Products, Channels, Distribution, Financial Inclusion, Branch establishment, Banking Correspondent, etc. of the) bank, State Government, Gram Panchayat, the Banking Correspondents (especially the Corporate BCs, who are subcontracted the task of establishing and successfully running the USB / CSPs), the TSP (through the BC), USB / CSP Operator, the Internet Provider, etc. While the weakest link decides the strength of the chain,

any one of the multi stakeholders mentioned here could turn out to be a bottleneck and hence the weakest link. It's the missing link between any set of stakeholders that delays the entire process of setting up and successfully running the USBs / CSPs. The multi-stakeholder involvement is observed to be resulting in the concept of USB / CSP has not been fully implemented in the districts.

14.3.12.2 Availability of Internet Connection

Availability, rather unavailability of internet connection in a large part of the rural areas of the State is observed to be another biggest hindrance for the opening up and the successful functioning of the USBs / CSPs. While a good number of USBs / CSPs are just not getting opened citing reasons like unavailability of the internet in those particular villages, and wherever these USBs / CSPs have been established, their smooth functioning is affected by the unavailability or slow availability of the internet connection.

A good number of MGNREGA and Pension accounts opened in the USBs are found to be shifting back to the Post Offices, as was observed in the Madiko Panchayat of Kesla Block of Hoshangabad District. In the same block, an SBI CSP at Kala Akhar was observed to be shifted to and operating from another village Sukhtawa, based at the road side at around 4 KM from Kala Akhar. The need, demand of USBs / CSPs and thus the response from the people to the USB / CSP can be understood from the fact that this particular USB / CSP has got more than 9,000+ accounts, much-= more than many full-fledged branches of the banks. But despite being shifted to Sukhtawa, the customers have to visit many-times to make a single transaction because of irregular supply and insufficient speed of the internet. As can be seen in the photograph, a large number of people have been waiting in front of the Kala Akhar / Sukhtawa USB / CSP for making that single transaction. A lot of people have been visiting here for the second, third and fourth time for making a single transaction. The opportunity cost of the public to frequently visit the USBs for transaction is so high that the purpose of establishing a USB within the vicinity of their own village gets defeated.

Similar condition was observed in the Khirsadoh USB/CSP of Chhindwara district, where the MGNREGA beneficiaries were returned back to their home, because of slow availability of Internet.

Despite having an USB / CSP in the villages, people are not able to harness its real benefits. As observed in the Raipur Village of Hoshangabad Block, despite having two USBs / CSPs of State Bank of India and recently opened USB / CSP of Bank of India, the Pension and the MGNREGS A/cs have not yet been transferred from the Post Offices to these USBs. Also, the earlier frozen A/cs in Union Bank of India, is based at Hoshangabad, around 7 KM from the village are just continuing as it is.

While, the slow speed of internet is resulting in overall delay in accessing the bank's site, the maximum delay it takes is in the bio-metric verification of the customers. It is the huge delay at this sub-process that many time results in time-out and thus the entire process has to be reinitiated.

The unavailability and / or the slow pace of internet availability are greatly affecting not just the opening of the USBs / CSPs, but also the functioning of the USBs / CSPs. Because of such functioning of the USBs / CSPs, the beneficiaries/customers are not able to have their full confidence on these new set of (unreliable) institutions of financial inclusion.

14.3.12.3 MPCON Ltd as the Corporate/Entity BC

MPCON Ltd has been identified as the state-wide Corporate/Entity BC for various banks for the establishing a large number of the USBs / CSPs for these banks in the state. However, its performance as the BC is yet to begin.

MPCON Ltd as the BC

After the decision was taken to appoint MPCON as state-wide Banking Correspondent (BC) across banks in the state all the banks signed up independent agreements with MPCON to that effect and sub-contracted it the task of opening the required number of USBs / CSPs in the shadow area villages of the state.

As reported in the 148th SLBC meeting, convened on 12th September, 2012, Central Bank of India, Punjab National Bank and Bank of Baroda had already executed their agreements with MPCON before the meeting. All the other banks were requested to execute their MoUs with MPCON Ltd before 15th October, 2012. Subsequently, various other banks including Union Bank of India, CMPKGB, etc. signed separate MoUs with MPCON.

It has been more than one year since these agreements were signed with MPCON Ltd appointing it as the corporate BC of various banks to open a large number of USBs / CSPs in the state including in the rest of the Shadow Area Villages. However, neither a single CSP nor a single account was observed to be opened in any of the four sample districts visited. For long there was a problem of developing a suitable hardware technology – the HHD. And for quite some time now, they have been quoting the 'work-in-progress' issue of back-end technical integration with the banks.

While all these and various other quoted, unquoted genuine issues might be there for MPCON's no-performance so far, but the resultant fact is that not a single USB or customer account has been opened for any bank through MPCON Ltd after more than 14-15 months of signing agreements with it. This slow pace of response of MPCON Ltd is significantly limiting the roll-out of rest of the USBs / CSPs in the State and need to be seriously looked at.

14.3.12.4 Orientation Of The Banks In Rolling Out USBs/CSPs

While it may be true that at the front-end, the factors such as availability of the products through the USBs / CSPs, the commission / payout structure of the CSPs, etc. are responsible for effective and efficient roll out of USBs / CSPs in the state, as is being demonstrated by the banks like SBI, they may not be the only governing factors. However, when one analyses further, various other factors including factor at the back-end as well as fundamental ones mentioned earlier also play an important role. One of the factors is also the 'Orientation' of the bank itself that plays a significant role in this aerospace.

It is observed that most of the banks like Central Bank of India still have the 'Developmental' orientation towards financial inclusion, including towards establishment of USBs / CSPs. At the level of bank, it is still considered as a mandated activity (mandated by the RBI, MoF and GoMP in case of MPFI). These banks have hardly opened any USB / CSP in other locations than mandated by Government / SLBC. They seem to have a very limited investment in the entire FI activity and would also like to incur only the basic minimum outlay towards operating expense towards these activities, as is evident from their payout structure to the BC / CSPs. It is this orientation of the banks, which is operating at the back-end and is resulting in the adhocism in most of its decision making viz. roll out of only the basic mandated BSBDA product, low investments into technology, channel development, popularization of the products through this channel, basic minimum payout structures to the BCs / BCAs / CSP Operators and various other such decisions.

On the other hand, there are banks like State Bank of India, which seems to have understood the 'commercial' importance of this channel for acquiring a huge number of new customers and also for distributing a good range of its products and services. It is this 'commercial' orientation that is driving the decision making at the bank and is evident from various initiatives of the bank. Realizing the commercial importance of the channel, the bank is not only focusing on opening the mandated USBs / CSPs, but has gone ahead with opening a large number of other than the mandated USBs / CSPs. In the district of Gwalior, SBI is found to have opened 84 USBs / CSPs against the mandated 16. Similarly, in Hoshangabad, it is found to open 124 USBs / CSPs against the 55 mandated USBs / CSPs. In the entire State, it has opened 2975 USBs/CSPs against the mandated around 600-700 USBs/CSPs. They have also rolled various other products through this channel other than just the mandated BSBDA product. The bank also seems to make good investment in development and promotion of this channel, as is evident from their multiple posters, banners, charts available within and outside the USB / CSP location. As has been discussed earlier, its payout structure is also found to be remunerative enough for the BC / BCA / CSP operator to not only continue in the business but constantly grow its business in the region by way of popularizing the channel. The bank, its BCs, BCAs, CSP operators are found to organize specific account enrollment and specific benefit distribution (viz. scholarships, pensions, etc.) camps.

While it is observed that both the 'developmental' as well as 'commercial' orientation are being used by different banks, leading to a particular set of decision making in the banks. However, the real issue is to strike a perfect balance of the 'developmental' and 'commercial' orientation. As the banks mainly having 'developmental' orientation miss out on the sustainability aspect of even the mandated USBs / CSPs. Whereas, banks driving on the 'commercial' orientation miss out on the 'financial-inclusion' goal of the USBs / CSPs / Banks and can in due course of time be expanding only to areas, which pose good 'commercial' value to them. The Government including RBI can play its due role in ensuring a perfect balance in these two orientations of the banks.

14.3.12.5 Credibility of and Acceptability to USBs/CSPs – a Newer Institution of the FI

In numerous discussions at the district and the state level it was expressed that there might be issues of acceptability of villagers to the newer institution of financial inclusion like BCAs operating at USBs / CSPs. There may also be issues of acceptability of the technology (IT) based financial inclusion.

However, during the field visits, it was observed that no such issue of acceptability either to the newer institutions of USB / CSP or to the newer technology of POS, Kiosk, etc. was there, wherever some of the suggested mechanism like prominent display of the banks signboard, display of some of the other basic information (like the Name of the BCA / CSP Operation, Name of Link / Base Branch, Name of the Link / Base Branch Manager, His / her weekly / fortnightly visit day / date, etc.), regular visit of the Branch Manager of the base / link branch, establishment of the USB / CSP in the Panchayat Bhawan, etc. are being taken care of. The USBs / CSPs, where these mechanisms were not fully adopted did have some issues regarding acceptability to both the institution and the technology.

However in addition to the above mentioned initial points, it is the experience of the people in dealing with the USBs / CSPs, which is allowing or prohibiting them to develop full confidence on these institutions and also on their technologies. Some of the issues that are observed to be prohibiting them from relying on these institutions and technologies as credible institutions and technologies are the lack / slow pace of internet connectivity, availability of only a limited range of products and services, availability of only limited level of features in the products being offered from these institution, irregularity of the BCA / CSP Operator, adhocism in the functioning of the USB / CSPs and the frequent drop out of BCAs / CSP Operators. Combination of one, two and more of these issues are observed to be reasons for the low credibility of these institutions and technologies rather than the general non-acceptability to the newer institution or technology. As such, people even in the interior parts of the state and country have demonstrated a good degree of acceptability to newer technology by way of adopting the mobile technology and now various other products and services based on the mobile technologies.

14.3.12.6 Overlapping of USBs / CSPs / Branches

While at one hand, there are issues of non-opening of the USBs/CSPs in a large number of assigned shadow area villages; on the other hand, there have been instances of overlapping among USBs / CSPs. There are cases, where more than one USB/CSP belonging to different banks have been opened in the same villages, panchayats.

There have also been cases where full-fledged Bank Branches have come up in identified USB / CSP location. While these branches might have come-up in the course of natural and organic expansion of the banks, there have been cases where a good business potential has been demonstrated by the USB / CSP working in that particular village/panchayat/area. As has been discussed elsewhere in the report, a good number of SBI's USBs/CSPs have found to be handling a larger customer base than that of the full-fledged regular branches of various banks.

While, it is good to have this competition, which would ultimately result in various services to the customers and beneficiaries in the villages, it would have been equally good if some of these banks open their USBs/CSPs in the rest of the assigned shadow area villages as well.

14.3.12.7 Availability of Panchayat Bhawan

It was decided in the course of evolution and implementation of the Financial Inclusion model of MP that a room in the existing Panchayat Bhawan would be made available to banks / BCs that wish to avail this facility for opening USBs / CSPs. In the course of field visits to districts, three different situations were observed. There were USBs / CSPs, which are opened in a room provided in the Panchayat Bhawan. There also are USBs / CSPs that are established in other premises than the Panchayat Bhawan. Similarly, there also are cases where banks and BCs are desirous of availing a room in the Panchayat Bhawan but have still not been made available to them. In many cases, the buildings / rooms were under construction and the consultants were informed that by end of December most of the Panchayat bhawan's 100 sq feet would be made available to the USB.

It is the situation two and three that need attention of the implementing agency. It was observed during the field visits that USBs / CSPs established in the Panchayat Bhawan do bring-in additional credibility in these institutions and thus provide additional comfort the customers and beneficiaries in the villages. It also increases the due coordination between the USB / CSP and the Panchayats. In view of this, it would be good to make an additional push to provide a room to the USBs / CSPs in the Panchayat Bhawan, wherever available.

14.3.12.8 Time Required for A/c Opening

While a rather details process of Account opening was described in the previous sub-chapter, a general observation is that it does take a long time in opening a new account and making it fully functional. It was observed to be taking as long as 60 days in some cases in opening and making the fully functional. Many a times it was observed that the villagers even tend to forget that they applied for opening a bank account a couple of months back and hence the tepid response for furthering the cause of inclusion.

14.3.12.9 Inter-Operability of the Accounts

To sum up the earlier description, following is the status of inter-operability of the accounts, for the reasons mentioned earlier:

- The account opened in the Branch cannot be operated from the USBs/CSPs and vice versa.
- The feature of fund transfers from one account to another account is however possible, provided the USB / CSP-Account-Holder is accessing his account from the USB / CSP only

(and not from the Branch) and the Branch-Account-Holder is accessing his account from the Branch only (and not from the USB / CSP). There's mainly an issue of identification of the customer. The signature-verification process is neither authorized nor available to the USBs / CSPs, and the bio-metric identification process is neither enabled nor available at the branches.

- The cash can however be deposited into any account from anywhere subject to limits of the branch and/or the USB / CSP operations.
- The USB / CSP account opened in a particular Bank can be operated from any other USB / CSP of the same Bank.
- The USB / CSP account opened in a particular Bank cannot be operated from the USB / CSP / Branch of any other Bank
- The Aadhar seeded Branch account can be operated from the USBs / CSPs of the same bank.

This restrictive operability of the bank accounts is observed to be another hindering issue in the popularization of the USBs / CSPs.

14.3.12.10 Offline / Online Functioning of the HHD

While more and more banks are going in for the online functioning of its HHDs, there are issues in both the kinds of functioning of the HHDs. Kiosks on the other hand work only on online mode.

The issues related to online mode of the HHDs are two folds. First is quite simple that the transactions can just not happen in the absence of internet connectivity and thus its operation in quite a few interior villages is just not possible. The other issue is when there's slow pace of internet connectivity or the intermittent availability of internet connectivity. In these cases the transaction are generally timed-out and rejected (in slow pace of connectivity) or just rejected because of disconnection of the internet availability (in case of intermittent availability of internets). However, the real problem is that one can know the exact status of transaction only on the next login, which might just not be possible because of extremely low or complete absence of internet connection for the rest of the day. In such cases, one does not know the exact status of the transaction in the account. The CSP operator at one hand cannot accept the cash, only to find out later, that the deposit transaction was rejected; nor can he deny the cash only to figure out that the deposit transaction was accepted in the account. Similar can be the case while dispensing cash to a customer.

On the other hand, operating through offline module poses a systemic risk of misappropriation. Any transaction which is not directly recorded in the bank's CBS can be played-around with and thus is avoided by the banks.

14.3.12.11 Limited Number Of Products Being Offered

As has been discussed at various places in the report, a limited number of products being offered by most of the banks is one of the major issues of USBs not taking off well. It is greatly affecting the number of people being attracted to and serviced by the USBs/CSPs and also the sustainability of the USBs/CSPs.

14.3.12.12 Payout Structure Across Banks

Similarly, as has been discussed under the 'Functioning of the USBs / CSPs', a huge variability across the payout structure offered by the banks to its BCs / BCAs / CSP operators is an identified issues with the sustainability of the USBs. Similarly, there is a very limited payout offered by most of the banks, which is hardly able to sustain the BCA / CSP operator especially at the initial stage of operations, is observed to be another great issue regarding sustainability of the USBs / CSPs.

14.3.12.13 Attrition among BCAs / CSP Operators

It was only in one of the 10 USBs / CSPs visited during the field visits that the problem of attrition of the CSP operator was prominently observed. However, LDMs did mention this as one of the major issues in the field faced by the BCs. While the attrition of the CSP operators is definitely an issue, it seemed to have been blown out of proportion. With the similar kinds of payouts (a minimum payout to the CSP Operator, which is found to be at par with that of a Gram Rozgar Sahayak i.e. GRS, has so far been ensured by the banks) being offered to that of GRS, finding 3,000 odd CSP operators seem pretty less than that of finding 23,000 odd GRSs. A 15-25% of attrition rate among privately hired staff (as is presently the case in most of the banks) is observed to be a regular phenomenon. Banks were expected to be prepared for such phenomenon rather than posing this as one of the major issue. As was discussed earlier, the so-called attrition among BCAs / CSPs operators has mainly been because of limited products being offered through the USBs / CSPs and not-so-realistic payout structure of the BCs / BCAs / CSP operators. The banks, which have taken care of these two issues have reported a significant reduction in the BC attrition rate.

However, whether this is a regular phenomenon or a major issue in the field, BCA / operator attrition has serious repercussions on establishing the credibility of the USB / CSP in that particular village whose BCA or CSP operators have left the USB / CSP, more so, during this initial phase of establishing the credibility of this newer kind of institutions of financial inclusion in the state.

14.3.12.14 Passbooks

One of the major concerns raised by the users of the CSPs in the field is the non-issuance of the passbooks by some banks (SBI, etc.) and non-availability of passbook-printing facility at the CSPs wherever the passbooks are issued by the banks. Such passbooks are issued by the base / link branch where the customers' account is housed and can be printed at that base / link branch.

The characteristics of USB as defined by the RBI do require these USBs to have a passbook printing facility. The CSPs however do provide the HHD / Kiosk generated receipt of each transaction, printed on the wax-coated paper. The mini-statements generated from these HHDs only contain last three transactions of the account and fail to satisfy the requirements of the customers.

14.3.12.15 The Account Operation Limits

As reported by some of the BCs and BCAs and also observed in the field, with the increasing popularity and main-streaming of the USBs / CSPs, the existing account operation limits have started falling short, more so, in some of the progressive USBs / CSPs. Customers in some cases are finding it restrictive to have a daily transaction limit of only Rs. 10,000/-. Similar restrictions are observed regarding annual deposit limit of Rs. 50,000/- associated with the USB / CSP accounts. However, because of credit facilities not being availed through the USBs / CSPs, customers have not yet experienced the restriction of annual credit limit of Rs. 100,000/-.

14.3.12.16 Banking Server Congestion

Slower response from the server and the server congestion is observed to be becoming a common phenomenon in case of SBI's USBs / CSPs. The situation coupled with low internet connectivity in the villages is creating huge problems for the USB / CSP Operator and ultimately for the customers. Finger print matching is taking more than the required time and is often resulting in timing out of the session. Most of the time, line gets disconnected, requiring the operator to repeat the entire process A sudden increase in the number of customer up to around 40 lakhs, that too from just one state, might be one of the reasons for such congestion in its server.

Chapter-15

Recommendations

Chapter 15, the last and final chapter provides for recommendations starting with a backdrop on a little 'Out of Box Ideas', followed by a rationale for recommendation and finally recommendations that are further divided into systemic as well as parametric. Last section of the chapter deals with Model specific recommendations.

Recommendations

15.1 Backdrop

It has been reiterated by the Reserve Bank of India that the financial inclusion pertaining to setting up of branchless banking and the banking correspondent model should not be treated by the banks as a mere corporate social responsibility or a mere mandate provided by the Government or the RBI. It has been amply advised to the bankers that they should take the FI activities and the BC model as a revenue earning model for the banks as well as for the BC rather than merely considering it as an imposed burden on them. However, it would be specious to opine that the prima facie evidence suggest that the banking correspondent model under the financial inclusion drive shall become self sustainable and a revenue generating model on its own and shall become self sustainable right from the beginning. While, research studies by Micro Save et al suggest that there exist different models of the BC in India having different characteristics and varied revenue model, the current study fully vindicate the argument and brings out in bold relief as to how some of the BCs are making money beyond the break even while others are yet to even recover their operational costs.

15.1.1 Financial Inclusion Beyond Banks

For a vast state like MP with one of the lowest per capita GSDP and low investment in formal sector, financial inclusion cannot be left only at the disposal of the Bankers alone. In order to create an environment where the rural population participates in the process of building up of the economy, one has to look beyond the banking products and services. For states like MP it would do well to exercise a variety of options to attain financial inclusion that may range from partnering with certain credible self regulatory organizations to offer committed savings products like the Grameen and BRAC do in Bangladesh.

Consider Public Involvement in FI. If after four decades of bank nationalization, more than half the country's population does not have a bank account, it is a reflection of the reality that banks cannot serve the vast population spread across 3.3 million square kilometers. It is therefore highly recommended that the Government including the states should consider a typical public private partnership (PPP) approach where the strength and capacities of agencies like the NBFC / MFIs could be harnessed and their potential to reach the last mile connectivity be expedited. Along with banks, India also have many other models like non-banking finance companies and dozens of micro finance institutions / companies that operate from the private sector. It may be time to think beyond banks for financial inclusion. A Public Private Partnership (PPP) between the Government and the NBFC / MFI could provide for access to finance. Some of the regulatory issues will have to be worked out in favor of the end customer where he is safe and secured from the private operators. In any case, bank lending to the NBFCs are as high as 60% which on their part provide lending to businesses and consumers. If NBFCs are more profitable than some of the banks, there is something that they have mastered, but not the banks.

Invite Self Regulatory Organizations (SROs): The kiosk model of SBI in this report is a typical example of crowding out at the urban and semi urban locations for their convenience. Banks in India, by their very nature of existence and objective, will tend to concentrate on where easy money is available and seldom considers providing a profitable access at the rural interior. In this context, the cities and industrial clusters qualify to be profitable whereas rural areas are not. This is actually a myth, for it's a matter of sensitizing and then tapping the rural wealth from the households provided enough of financial literacy is inculcated as part of their business operations. Banks' style of operations does not make business in rural India profitable since they do not get to the doorsteps, unlike the NBFC / MFI sector. However, much the regulators would like banks to see financial inclusion as "an opportunity and not an obligation" is already implemented and followed by the MFI sector which sees potential at the bottom of pyramid. MFIN, Microfinance Institution Network, the association of 42 NBFCs-MFI in India is a highly credible institution that should be invited for discussions by the GoMP. MFIs in the country have lent a whopping Rs 22,138 crore to 2.5 crore[58] borrowers, mostly women and in the rural belts, with a reasonable exposure in the state of MP. Around 20 – 25 out of the 42 member organizations (including almost all the national level MFIs and a few Central regional MFIs) are active in MP. However, the cumulative outstanding of these MFIs in MP would be approximately in the range of Rs. 10 – 12 billion, which is just a shade below 5% of the Rs. 221 billion outstanding of the entire country.

The past experience of some NBFCs duping savers is no excuse to continue to strangulate them. An effective regulatory mechanism as and when brought in should be able to monitor and safeguard the interests of the vast population. Liberalizing the rules for non banking finance companies and reducing their cost of funding shall go a long way in achieving financial inclusion. There is even a role of private social entrepreneurs to enter in MP and offer financial services since there is opportunity and potential for business at the rural bottom.

Decentralized District Level Strategies for Financial Inclusion: Given the varying status of existing financial institutions in the districts, districts may also be given a freedom to adopt other mechanisms and strategies of financial inclusion in the district, but strictly within the very broad parameters of the Financial Inclusion Model of GoMP. This arrangement would not only promote the innovations in adopting the *Samruddhi* in the state, but would also develop a sense of ownership among district officials regarding development of FI model in their districts. However, it is important to first establish the basics of having robust financial institution within 5 km radius and ensure ease of transfer of funds and transactions before attempting experiments with other decentralized strategies.

[58] September issue of MFIN Micrometer, published by Micro Finance Institutions Network,

Beyond Banking Products and Services: If the statement of the current Governor RBI has to be considered, "Financial inclusion does not just mean credit for productive purposes, it means credit for healthcare emergencies or to pay lumpy school or college fees," the definition and explanation of financial inclusion goes beyond the G2P that the GoMP is considering. It would mean a safe means of remunerated savings, and an easy way to make payments and remittances, insurance and pensions. It means financial literacy and consumer protection. Unfortunately, the rigidity in the banking system does not permit, or make bank best suited vehicle to deliver these services. A pilot of offering micro pensions using the NABARD regulated RRBs has provided for mixed results, where the hitherto unbanked rural population was offered a banking account at the RRB, a micro pension account of the UTI RBPF as well as NPS Lite with the GoI's Swabalamban benefits and a life insurance through the Janshree Bima Yojana (JBY) for the eligible workforce. Such innovations of combo products like the banking, insurance and pension under a regulated environment is what MP should be trying out at this stage.

Accordingly, it is suggested that the GoMP should consider a variety of options in implementing financial inclusion model and not limiting itself to banking and G2P system. It should start a dialogue with the expert bodies and agencies that have worked and delivered results at the grass-root level and are achievers in providing the last mile connectivity. It should be open to inviting credible self regulatory organisation (SRO) and institutions like the MFIN / Sa-Dhan and other agencies including social entrepreneurs and the MFIs active in the state of MP as part of the PPP model and offer them a level playing field to operate in MP on offering regulated financial products and services. GoMP should also consider harnessing the potential of corporate MP and use corporate houses for offering their services as part of the CSR in a tie up with such organizations / Banks / USBs etc in offering an environment on creating awareness and financial literacy on products, processes and above all the benefits of banking in furthering the cause of the ecosystem of MP Financial inclusion model.

15.2 Basis of Recommendations

The recommendations in this chapter vest on the following premises:

1. Primary Survey and Field Work comprising the field study of four districts and eight block of MP including discussions with stakeholders ranging from, but not limited to, government officials to bankers, service providers and the final customers

2. Secondary Research on Financial Inclusion including Global Practices literature review of current innovations like the cashless and branchless banking, mobile and micro card / ATM solutions and use of high technology in banking and financial inclusion.

3. Documentation of the MP Financial Inclusion model based on the available literature, records, documents, notifications and discussions with stakeholders.

4. Issues both systemic as well as parametric, mentioned in the last three chapters that were identified based on the field implementation of the e-FMS, SSSM and the USB / CSPs under the financial inclusion model.

15.3 Generic Observations Leading to Recommendations

15.3.1 MP Financial Inclusion Ecosystem

Although it is at an early stage, the MP Financial Inclusion model seems to have been founded on a solid bedrock, both at the conceptual level as well as at the initial implementation level. The design that evolved around the ideas of principles of G – 20 customized to the requirement of MP is yet to mature. However, the seeding has been done healthy and it has started performing steadily well and is heading to its logical culmination in the right direction in years to come. However, the status of development and progress is at different stages of implementation ranging from an optimal upshot to a suboptimal outcome at different locations and for different reasons. This however, proves beyond the shadow of doubts that there no fundamental issues and flaws with the design per se.

15.3.2 Early Indications

Out of the three pillars of financial inclusion, while SSSM and the USB are still evolving and are mid way to mature, the e FMS module has attained near optimality. If the design and implementation of the e-FMS module is any indication of the success of the financial inclusion model, it can be undoubtedly be said that the nitty-gritty has been founded well at the strong backend pillars. With the continuous focus from the top level conceptualization and implementation team, the e-FMS module seems to have completely been internalized among the implementation team at the districts, blocks and panchayat level. It is strongly recommended that this unrelenting focus and effort that was demonstrated in case of e-FMS implementation ought to be continued to take the other two important components of the financial Inclusion model of the MP to its logical ends.

Having taken the e-FMS implementation to a level, where it is well institutionalized, it is recommended to use the same expertise and experience developed by the e-FMS implementation team in efficiently and effectively rolling out the SSSM component as well. The two components of the MP model of financial inclusion are observed to have conceptual, technical and technological similarities and thus it would make little sense in reinventing the wheel again. The expertise built / demonstrated during the e-FMS implementation needs to be effectively used for the SSSM roll out as well.

15.3.3 IT Infrastructure

In terms of infrastructure requirement, the **Internet Connectivity** seems to be the all pervading issue in the implementation of the entire model. There have been cases with Janpad Panchayats, where the entry data entry and the FTO generation were not affected at their block head quarters, but are taking place at the district head quarters or at some other places, where there is an availability of the internet connectivity. The situation regarding USB / CSP functioning is even worse, as they have to operate from further interior villages and gram panchayats than from the block head quarters. The complete lack of internet connectivity and / or the slow speed of internet availability seem to be major roadblock for the implementation of the entire model. In view of this, it is strongly recommended that the GoMP take up the issue of seamless internet connectivity with higher level authorities at the IT department, BSNL et al and other internet service providers to provide seamless connectivity to implement the entire model in an integrated and comprehensive manner in MP.

15.3.4 A Thorough Study On The Functioning Of USBs/CSPs

In view of a lot of variations being observed during the visit to the USBs of a few banks, it is suggested that a rather detailed study of the functioning of the USBs / CSPs in the entire state be taken up to understand the functioning of these USBs in detail. Such an study would throw a rather detailed insight into the functioning of the USBs/CSPs, into the issue that they face and would also capture a lot of best practices across the sub-processes, sub-components of its functioning.

Such a detailed capturing of issues in the functioning of the USBs / CSPs would enable the GoMP in state-wide resolution of the same. Similarly, such a capturing of best-practices in the functioning of the USBs / CSPs across the banks would enable it to discuss the same with the banks and subsequently incorporating and rolling out the same in the entire state.

15.4 Systemic Recommendations

Recommendations mentioned under this section are system wide recommendations and barring an exception or two are valid for the whole ecosystem of financial inclusion.

15.4.1 Designing Minimum Standards

Designing a Minimum Standard for Unifying Frontend for Technology Service Providers (TSP) : There is a strong need to define the minimum standards of technology at the frontend of the USB / CSP that providers interface at the customer level. Currently while some TSPs frontend technology is only online, few operate on an offline mode only, while there are certain USBs where the TSP has provided both the offline as well as online modules. This not only precipitates disparity amongst the standards but also create confusion amongst the users as well as customers at the frontend. Many a times a transaction beginning online shows completion at the front end, while due to connectivity failure midway, the same transaction becomes offline. Since the customer looks at the online transaction at the front end she legitimately demands cash as withdrawal and the CSP is also obliged to provide the same since at the frontend there are no signs of disconnection. While the cash is disbursed by the CSP it is only at the reconciliation stage with the Bank that the CSP realizes that the bank account of the customer has not been debited at all since the connectivity was broken at the back end. This creates inefficiencies and waste of time and resources on part of the CSP and banks to reconcile the accounts. Also, an unassuming and unsuspecting CSP may lose money from her own pocket for no fault of hers.

Thus it is highly advisable that at the frontend, different technologies should not be used and in fact a minimum standard be developed. For example, depositing of cash is recommended to be treated as an offline transaction that could be stored in the memory of the POS and be batch processed at the end of day / regular intervals. At the same time, a more cautious approach by the CSP might deny cash payment to the customer since the CSP could be unsure if the front end and backend transactions have been completed at both the ends. This would certainly lead to greater dissatisfaction and unrest amongst the customer. This may also deny an immediate payment requirement to the customer and the credibility of the whole system may be lead to jeopardy. However, it would also allow all the USBs to be on the same display place for using either the online or offline (preferred) technology at the front end and would reduce issues pertaining to partial dys-functionality and failed transactions. Similarly, at the frontend all TSPs should be advised to offer Offline services only for deposit of cash etc. until the connectivity at the village level improves. However, an 'offline' model of any financial operation including that of USBs does pose a significant risk of financial misappropriation by the intermediary. Thus the same should be used with greater caution.

One may argue that as a result of constant innovation and competition among banks various kinds of services have are being offered through the HHDs. If at this crucial phase of FI efforts, where the whole channel of USBs, etc. and the whole FI is still evolving, single unification is suggested, it would kill the innovation that are possible in the technology and hence also in the entire FI delivery chain. Thus a set of minimum required features ought to be mandated by the GoMP, RBI and other regulators to be enabled on all this technology. This set of 'minimum' required features should also keep on improving and evolving. This however does not prevent the TSP to develop and design the technology at the backend and thus at the backend they may be allowed to choose whatever technology they might have developed and wish to use and upgrade from time to time.

Thus it is highly recommended that the front ending technology of the TSPs for offering their services through the USBs be well defined, unified and a common minimum standard be followed by all TSPs. A benchmark for standardization at the front should be identified and defined by the regulator / bank / GoMP.

15.4.2 Regulations for Technology Service Providers

Drafting Regulations for the TSP for Standardization of User Interface Technology at the Frontend: While the Reserve Bank of India regulates the Banks which on their part govern and supervise the functions of the Banking Correspondents and while the RBI has issued guidelines for the Ultra Small Branches / Banking Correspondents, there are no guidelines issued by any authority for managing the standards of the Technology Service Providers under the BC model. As a result of it all TSPs are free to design their technology from the front and back end point of view. While this is a prudent step in this direction and creates a healthy competition between the TSPs at least at the back end, it fails to provide a standardized set of services to the customers at the frontend.

Since every TSP has a different technology platform, there are vast differences in their service standards as well. While one can generate the banking account numbers etc., almost instantaneously, others take a few weeks. Similarly, while few are able to provide the banking cards within a fortnight, there are others who could take as long as a quarter. Again, while some of them capture the finger prints other capture iris at the frontend. While some of the USBs are able to perform only Online Transactions, there are others who perform only Offline transactions and yet few perform both the offline as well as online transactions. This may create confusion amongst the stakeholders and many of the customers might get deprived of transactions if there are connectivity issues. Many customers hailing from different villages having separate USB hubs also interact with each other and compare the service standard and efficiencies of the USB regarding the time taken for transaction and the online / offline or deprived transaction etc. Thus it is recommended that standard benchmarks on the parameters mentioned above should be devised for a more efficient and effective working of the USB at the frontend.

15.4.3 Permit Joint Holders and SHG Account Opening at USB / CSP

Facilitate Opening of SHG Accounts at the USB / CSP level: During the field visits it was discovered that while the individuals were able to open accounts through the USBs / CSPs, opening of joint accounts by members of the family were not allowed by the system. Similarly, the technology / regulations for USBs do not permit opening up of a group as in Self Help Group (SHG) accounts are concerned. This deprives the members of the family to enjoy full services of a joint bank account and compels the chairperson and secretary of the SHG to walk miles to the bank branch in order to open the SHG bank accounts as joint signatories. This also defeats the possibility of the vision of a possible SHG bank linkage.

To argue in favor of bank and to provide for greater stringent measures, in case, there is a necessity for a bank employee to personally verify the duo before allowing them banking operations, then the day on which the bank employee visits the USB / CSP should be earmarked for opening up of joint as well as SHG accounts. Thus, while the SHG group accounts cannot be opened on a random basis, two days in a month / fortnight should be earmarked to open these accounts. This would not only serve the purpose of opening up of an SHG account at the USB level, but would also ensure the bank that the same has been cross verified by the bank employee herself.

15.4.4 Allow Inter USB / CSP and Branch Portability

Inter USB / CSP and Branch Portability: While all bank accounts opened at the USB as well as at the branches are in the core banking solutions (CBS), they are deprived of talking to each other. As a result of which an account opened at one USB cannot be operational at the other while the banker as well as the service provider including the TSP is the same. Similarly, if one customer opens up an account at the USB, she is not authorized to withdraw money from the bank branch that is affiliated with the same USB. While the ecosystem within the core banking is the same, there's no technological issue from the CBS front. However, the branches refuse the transactions stating the reasons that they do not have the KYC including photograph and specimen signatures of the customers located at the branch. Now that all such identifiers are in the electronic format, the banks ought to be honoring the same as they do it for their other regular customers. Thus there is a strong need for the banks as well as the TSPs to provide seamless portability across the USBs affiliated to the same branch as well as between the USB and the branches of the same bank.

As has been discussed in detail in the Observations, various kinds of restrictive inter-operability of accounts are there regarding USB / CSP and also the branch accounts. It is recommended that the GoMP take the lead in discussing and resolving issued involved in the inter-operability of the USB / CSP and branch accounts with the RBI and the Head Offices of the Banks. Taking lead in discussing and resolving these issues would be another pioneering effort by the GoMP in simplifying such crucial issues and thus taking the entire FI effort to another level in the entire country.

15.5 Parametric Recommendations

Recommendations mentioned in this section of the chapter are not system wide but affects certain parameters of the ecosystem of financial inclusion in MP. However, this does not undermine the significance of the recommendations themselves.

15.5.1 Improve Infrastructure at USBs Gram Panchayats

Improved Connectivity at USB / CSP at the Gram Panchayat Level: During the field visits it was found that availability of a seamless connectivity in rural MP was a major issue in handling the customers at the USB / CSPs. In most of the places it was found that there were frequent breaks in connectivity it was also discovered that it created revenue losses for the CSP and cash denial to the customers who might have wanted cash in case of emergency. While there was a lack of uniformity at the frontend technology for the CSPs (refer systemic recommendations) some of the CSPs were operating on an offline mode and hence did not have to bother much about the connectivity issues at the gram panchayat level. However, the major problems were at locations where the frontend technology of the USB/CSP did not support offline transactions. Here there were two types of issues:

a. **No Connectivity at all for longer durations:** Due to lack of connectivity for longer durations the USB / CSPs are unable to perform any transaction whenever the customers walk in for a withdrawal of deposit. The CSP in such cases usually asks the customers to wait until they start getting the connectivity or ask them to come over again in the noon or evening when she expects seamless and continuous connectivity. Since there is an opportunity cost involved for the customer to repeatedly come to the USB or even wait for hours there are few customers for whom the cash requirement could be immediate due to certain exigencies or even medical emergencies. The system thus turns out to be highly inefficient and skeptical to the customers. The credibility of the USB / CSP comes at stake and leading to lack of confidence in performing banking activities.

b. **Partial Connectivity:** This was particularly valid where the service providers have designed a 'Online Only' frontend system, which cannot operate on an offline basis. Cases were reported to the consultant team where the internet connectivity was either too short-lived or frequently disappears even during the performance of transactions. In such cases it was also found that during the withdrawal of cash the transaction remained incomplete at the Point of Service (POS) machine. While to the customer as well as the CSP it displayed that the withdrawal was permitted, the CSP used to pay cash to the customer in a routine manner. However, at the end of the day or during regular interval when there could be a seamless connectivity, the CSP found out that during reconciliation, the money has not been debited from the customer account as the internet connectivity broke down during the transaction itself. In such cases, while there may not be a dent on the image and confidence of the USB / CSP in the view of the customer since she could withdraw her amount seamlessly, the cash payment became the liability of the CSP and gets debited from her account. Though there are mechanism to reconcile and pay back the CSP by debiting the accounts of the customer at a later stage (after the discovery), the system itself proves to be inefficient and ineffective.

Based on the points mentioned above it is recommended that the GoMP should take up the issue on priority and coordinate with the appropriate authority to provide seamless internet connectivity so as to bring in credibility amongst the stakeholders and make the system more efficient and effective leading to a create a sustainable revenue model for the USB / CSP.

Availability of Panchayat Bhawan: As has been discussed in the Observations Chapter on USBs / CSPs, establishing USBs / CSPs in Panchayat Bhawan not only brings-in additional credibility into this newer set of institutions in the villages, but also pave way for greater coordination with the Panchayats, its Sarpanchs, Secretaries, GRS and also group mates. GoMP needs to constantly monitor the progress of providing such spaces in Panchayat Bhawan to USBs / CSPs and take necessary steps in providing the same, wherever the same has not been provided yet.

15.5.2 Urban Crowding

Urban Crowding: While banks are hesitant and taking time to open the USBs / CSPs in rural areas, more particularly in shadow area villages, they are quite eager to open the USBs / CSPs in the urban and semi-urban areas of the district. For example, based on the field visit it was found that the largest bankers, State Bank of India has so far opened 124 USBs / CSPs in the district of Hoshangabad (including in most of the allotted 55 shadow area villages), but most of these are in urban and semi-urban locations. Similarly, Bank of India has opened 30 USBs / CSPs in the district; only 11 of which (out of 14 mandated to it) are in shadow area locations. Similarly, Syndicate Bank has opened 3 USBs / CSPs, but none of them are in shadow area villages. It has not even covered the allotted single shadow area location with its USB / CSP. The reason behind such a trend is obvious as more and more of the banks are getting the taste of business potential through the newer channel of USBs and CSPs. The other banks are either not realizing the business potential of this channel of expanding their network, or, are not able to technological upgrade them to offer such services through this newer channel.

15.5.3 USB / CSPs Establishment to Operations

USB / CSPs to be made Fully Operational on Immediate basis: As per the reports received from the field and also based on greater interaction with the Lead Development Managers (LDM), coupled with the actual field visits, it was found that at many locations no USB / CSP has been appointed by the concerned bakers till the beginning of November 2013. Most of such cases were found where the responsibility of setting up the USB / CSP was that of an RRB. However, there are many instances where even the nationalized banks have not been able to open the USB / CSPs. There are also few instances where the consultants were informed that while the bankers have reported to the LDM that the USB / CSP has been established in most cases there only exists a board of the USB and beyond that no other information is available at such locations. Then there are instances where the USBs have been established and board also installed and reported and the CSP has also been identified and selected, yet the CSP has not started operating at the location. In such cases, not even a single bank account has been opened by the CSP. Finally, there are locations where the CSP has also opened up bank accounts, but there have been no transactions in their bank accounts for various reasons. While the consultants also got an opportunity to attend a few Block level banking committee meetings, information of effective operations was not available.

It is thus recommended that an MIS in basic terms be generated at the Block / District level that could be sent to the SLBC and be motored at the state level. The MIS should essentially be captured in the following minimum format for each district.

Name of District ……

Name of Lead Bank of District ….

MIS for the Month of ….. MM / YYYY

Bank in charge of Setting up the USB / CSP	Name of Block / Janpad Panchayat	Name of Gram Panchayat where USB / CSP should be / has been established	Name of Village
1	2	3	4

Status of Establishment of USB / CSPs			
USB / CSP Established (Y / N)	BC / CSP Appointed (Y / N)	Number of Accounts Opened During the Month	Total Number of Accounts Opened till end of Month
5	6	7	8

Status of Bank Account Operations at USB / CSPs			
Number of Transactions during the Month	Volume of Transactions (in Rs.) during the Month	Amount Deposited by the Customers in their Accounts	Amount Withdrawn by the Customers from their Accounts
9	10	11	12

15.5.4 Improve Internal Coordination

Greater and Smoother Coordination between Head / Regional Office and the Branches: At some of the districts[59] it was informed that there was a huge gap in understanding between the Regional offices and that of Zonal / branch offices. Many of the bankers even felt that they had very little say in selecting the BC that would be located at the USB / CSP. Some districts also felt that the list sent by them towards the concept of shadow areas that would require the establishment of the USB / CSP was entirely changed by their regional / zonal offices located and their side of the story was not heard. However, these were more of an HR issues rather than issues connected with the setting up of the USB and yet, it should be borne in mind that unless the head offices do not take the branches into confidence they would find it difficult for the branches at the grass-root level to take the ownership of the system. Some of the LDMs also felt that though they were putting pressure on the other bankers to immediately make the USBs operational, there was a lack of push from the side of the Zila Panchayats or even their own banking higher ups for that matter. This will evolve in time scale.

It may be noted that a lot of decisions especially regarding products to be offered, payout structures to different channel partners, emphasis on a particular channel, and various other policies, etc are taken at the Head Office level in banks and has its own decision making process involving various departments, etc. Until and unless a constructive dialogue is established with the head office level, not much of change in products, policies, orientation, etc, can be envisaged in the functioning of the banks. For this reason, it is recommended to initiate discussions and dialogues with the Head Offices of the banks to discuss, analyze and resolve various issues that have emerged in the course of implementing the USB/CSP component of *Samruddhi*.

Thus it is recommended that a greater participation of the branches should be ensured so as to bring in the sense of ownership of the USB amongst the service branches. An overall supervisory role of the GoMP including frequent visits to the senior officers in the districts should be ensured. The GoMP should also ensure participation of senior level officials from Bhopal to go and attend the district level banking committees as an observer in the district.

15.5.5 Create Public Goods

Banks to Create Public Goods by Investing into Financial Literacy: Financial inclusion is a multi-dimensional, pro-client concept, encompassing better access, better products and services, and better use. Herein lies its challenge – without the third element, use, the first two are not worth much. Financial education is thus an important tool to address this imbalance and help consumers both accept and use the products to which they increasingly have access. Because it can facilitate effective product use, financial education is critical to financial inclusion. It can help clients to both to develop the skills to compare and select the best products for their needs and empower them to exercise their rights and responsibilities in the consumer protection equation. Properly designed, financial education is tailored to the client's specific context, helping them to

[59] To preserve the sanctity of the confidential information, the name of districts have not been mentioned.

understand how financial instruments, formal or informal, can address their daily financial concerns, from the vagaries of daily cash flow to risk management. Its power lies in its potential to be relevant to anyone and everyone, from the person who contemplates moving savings from under the mattress to a community savings group, to the saver who tries to compare account choices offered by competing banks. As such it spans the informal and formal financial sectors, supporting clients' access to, and more importantly, use of, diverse financial services.

It has been advised elsewhere that the banks will have to take a proactive step in the drive for financial inclusion. However, financial inclusion without imbibing the tenets of financial literacy would be a futile exercise as merely opening up of bank accounts will certainly not help the customers since they need to understand the benefits of opening the bank accounts. Unless the benefits of the bank accounts are not explained to the customers, the use of banking accounts would remain limited to G2P only the customers shall not be in a position to make use of the various regulated products and services that could be offered to them using the banking platform. Though Financial Literacy Counseling centers have been opened up and are being operated by the LDM etc. at the village level, greater concerted and more focused efforts are required in this filed. It can simply not be brought in or inculcated amongst the target group by merely conducting the training classes and courses. It should be brought as a practice in their daily lives. They should be reminded about the concepts of financial literacy as and when the customers take any monetary related action. The customers should have the ability to make informed judgments and to take effective actions regarding the current and future use and management of money. It may include, the ability to understand financial choices, plan for the future, spend wisely, and manage the challenges associated with life events such as a job / wage loss, saving for retirement, or paying for a child's education and managing within their budgets.

Banks to Create Public Goods by bearing initial set up cost of USB / CSP and finance activities until USB / CSP reaches breakeven in a stipulated time period: Business correspondent network managers (BCNMs) are responsible for the operational heavy lifting to make financial inclusion a reality. Business correspondent operations are highly people intensive and involve high recurring expenditure on as salaries. In the recent past, the sector witnessed many entities setting up as BCNMs with limited funds at their disposal and then struggling to meet recurring expenses. Other high cost components are capital expenditure liquidity and technology costs. It is important that BCNM invest adequately in the operations during the early stages of market development so that customers develop trust and experience the value proposition in the new system. Branchless banking with electronic / mobile banking business requires high upfront investment with a long investment horizon. However, BCNMs' readiness to invest remains a challenge - primarily because of lack of confidence in the business case as the operations are yet to prove viable in India and there are no big success stories to emulate. As part of creation of public goods and also to bring the BC model to break even, it is therefore suggested that the upfront initial cost be borne by the bankers to certain extent. However, the ceiling on such capital expenditure should be a motivating factor for the BC at the USB / CSP to start making decent revenue at the earliest, so that the dependence on the banks get reduced. State Government has provided the space of 100 sq feet and basic amenities free of cost but the bankers should provide VSAT connectivity to the USBs.

15.5.6 Financial Literacy through Post Offices

Post Offices to be Provided with Funding for Financial Literacy: Post Offices and sub post offices in MP are an inevitable part of the financial inclusion model. Though in future it is proposed that the post offices shall be covered under the core banking solutions the current status lacks as far as providing financial literacy is concerned. Besides talking to the post masters and sub post masters etc. at the district and block level, the consultants also discussed the issues of financial literacy through the post offices with the India Post. It would be pertinent to mention here that while India Post offers through its outlets various savings products such as savings account, fixed deposits, recurring deposits, National Savings Certificates, PPF, Kisan Vikas Patra etc. there is no scope and budget for financial literacy with India Posts. They do have budgets for marketing their products and budgets for offering handsome commissions (as high as 4% on a RD transaction for women) to their agents. The whole selling proposition and its sales survives around the agency model where the agents sell these products to their customers and pick up commissions from the India Post. While on the supply side, the products offer decent returns and are secured as mostly the Government of India products being offered through the National Savings Organization, the demand side has never been developed for the products specially at the rural areas. In order to more efficiently allow penetration of postal products in rural areas it is recommended that following action may be taken by the appropriate authority:

a. **Availability of Funds for Financial Literacy:** Under the funding from NABARD or Finance Ministry / Rural Development Ministry / India Post should be provided with suitable funds. These funds could be used to initially train and build up the capacities of the staff and Grameen Dak Sevaks of the Postal department who could potentially be used for marketing the financial products of the postal department. Thereafter the funds could be used to impart 'on ground training' to the potential customers on creating awareness of savings and popularizing the financial products sold by the postal department.

b. **Use of Grameen Dak Sevaks:** India Post has a huge army of more than 3,00,000 Grameen Dak Sevaks (GDS) who on a part time and commission basis perform the basic tasks of the department. The India Post department can build up the capacities of this brigade of the GDS and train them on providing various financial products and services of the department.

This would lead to financial deepening with greater availability of liquidity in the ecosystem and allow the customers to perform more transactions using the channel. Till the time India Post starts with core banking, the customers can also participate in the banking activities performed by the nearby USBs etc.

15.5.7 Freeze Beneficiaries Accounts

Immediate Freezing of USB / CSP Operated Bank Accounts for transfer of government benefits under different schemes: During the field visit it was found that while most of the rural workers and wage laborers under the MGNREGS were being paid their wages through the USB / CSPs there was still a chunk of people for whom the wages were being paid either by the bank branches or through the post offices. For areas where they would continue to receive their wages in the postal accounts, little could be done at this stage since it would take a while for the post offices to be covered under the Core Banking System. However, there is a major chunk of workers who have opened their banking accounts under the USB / CSP mechanism on the promise that they henceforth they would receive their wages at the USB located at their nearby village and yet their payments are not being channeled into it. The process actually involves an active role of the Janpad Panchayat who is supposed to be communicating the bank account numbers of the workers to the bank. The bank then verifies from its record and freezes these bank account numbers and confirms the same to the Janpad. Once these bank accounts are frozen, the payment of the benefits under the welfare schemes, such as MGNREGS et al, are paid directly by crediting their accounts. There have been cases of quite a few frozen accounts of MGNREGS and Pension beneficiaries in USBs / CSPS that have migrated back to Post Offices and earlier branch banking (located at a significant distances) because of various issues like lack on internet connectivity, difficulty in bio-metric identification of some old customers, frequent attrition of BCA, not-so-good services by the BCAs, etc. Thus there is an immediate need for a stricter action to provide bank account details of a lot many account holders in the USB to be linked with the fund transfer order (FTO) that the Janpad Panchayat issues towards payment of MGNREGA et al.

15.5.8 Gender Balance

Gender Balance in Appointment of CSPs by the BCs at USBs: As the team of consultants visited the four identified districts, they could seldom find a BC that was female. While there are definitely certain merits in having a woman BC handling the USB / CSP, she would also be in a position to mobilize more and more women to open bank accounts at the USB. The savings amongst the Indian women is a well established phenomenon where women are more prone to saving than their men counterparts. Even imparting financial literacy to women by a woman would be far preferred idea than being imparted by men. It is thus suggested that the bankers be advised to not only provide equal opportunity to women as regard appointment of BC at the USB / CSP location, but also provide certain initial incentives for them to quickly break even and create a role model.

15.5.9 Financial Deepening through Third Party Products

Third Party Products be Offered by CSP / USB: As mentioned in the Ideal revenue model for the BCs, there is a strong need for the USBs to cross sell banking and other financial products such as remittances, credit, insurance and co contributory pensions etc. This would not only provide for financial deepening at the demand side, but would also allow the rural population to participate in the development of the Indian economy. As this would have a direct bearing on the revenue model of the BC, it creates a win-win situation for all the stakeholders in the eco system. (for details see the revenue model for BCs)

15.5.10 Review the Role of MPCON Ltd as the BC

As has been noted that a good number of banks have signed the agreements with MPCON Ltd and subcontracted the task of opening a very large number of the USBs / CSPs of the banks in the entire state, however because of various reasons, not a single MPCON USB / CSP has been observed to have opened in any of the four districts visited. They are still at different levels of rolling out their USBs/CSPs in each of the sub-components of the roll out viz. development of the hardware technology to be used at the front-end, back-end integration of this hardware technology with the CBS platforms of the banks, HR – hiring and training of a large number of staff at various levels i.e. from the CSP Operators to technical, managerial support providers to Supervisors, managers, etc. Admin and Procurement – Physical roll out of such a large number of CSPs across the state, Development of SOPs for various sub-components, etc.

In view of this, it is strongly recommended to either give one final deadline to MPCON to perform, and then take the appropriate decision or to immediately free the banks from the agreements with MPCON and allow it to rollout the assigned USBs/CSPs on its own. It may be noted that the situation regarding USB/CSP roll out has changed a lot since one-and-a-half years back when MPCON Ltd was identify to open the state-wide USBs/CSPs for the entire state. Quite a few banks have not only developed sincere partners but have demonstrated it through the roll out of USBs/CSPs in not mandated/shadow area villages. Banks should be given a time-bound responsibility to open USBs/CSPs in the state.

15.6 Recommendations for Financial Viability of USB / CSP as a Revenue Model

In order to promote financial inclusion amongst the unbanked, the Reserve Bank of India (RBI) developed a set of guidelines to formalize branchless banking, which they called the Business Correspondent (BC) model. Under this frame work, banks can partner with third party agents to provide financial services such as credit and savings on their behalf. Since its inception in 2006, various banks have promoted the BC model in all corners of the country, though few of these efforts have scaled up beyond modest pilots. To support the financial inclusion effort, as well as leverage advances in banking technology, two kinds of third party banking agents were created – Business Facilitators (BF) who would primarily be involved in processing and opening accounts and Business Correspondents (BC) who could, in addition to the BF functions mobilize deposits and disburse credit on behalf of the bank[60]. (details available in Part I of the report)

[60] RBI Circular RBI/2005-06/288 DATED JANUARY 25, 2006 : http://rbidocs.rbi.org.in/rdocs/Notification/PDFs/68417.pdf

15.6.1 Government to People (G2P)

While there is a comprehensive and clearly adopted policy of the GoMP to harness the BC model of USB / CSP in delivering the benefits to the public, the Government to People (G2P) model alone on its own may not bring laurels to the Financial Inclusion model of MP. For, the *Samruddhi* model to become self sustainable, it is extremely important that the BC / CSPs make it a profitable business model out of it. From the research team's brief field visit it appears that branchless banking can, in some circumstances, is working moderately well for the provision of no-frills savings accounts and the EBTs, but not if they are the only products offered. Offering savings products alone is simply not a viable arrangement for the bank. Indeed, there are not many other examples of countries where branchless banking has been successfully used to deliver savings products alone. While micro-savings is a product that many customers demand, the fee income which BCs might earn from savings and transactions alone is not enough to cover their costs. Almost all BCs that the research team met were of the opinion that the savings was something which clients wanted. However, the fee income is simply not remunerative enough to only offer this service. In order to become financially viable, there might be a case to support charging the end-user for these services, as in case of SBI kiosks and for product diversification as has been described below.

The RBI has mandated banks to introduce four (4) products / services – savings, credit, remittance and insurance – to the rural customers. Soon they would get Recurring Deposit (RD) and Overdraft (OD) services. The BCs / BFs are allowed to facilitate the reach of these services through agent network. However, this could only be the beginning. If the USBs / CSPs are mandated to cross sell third party products along with substantial inputs on financial literacy it could make excellent business sense for them to do so. However, it would require a wider and more focused module of financial literacy and availability of products and services at the doorsteps. An ideal revenue model has been suggested for the BCs/ CSPs to be self sustainable where if the USB / CSP make sincere efforts can generate revenue that would allow them to make their operations self sustainable. However, the model vests on the basic premise that financial literacy should be an indispensible intervention at the gram panchayat level.

The business correspondent sector is yet to attain viability. BCs that were active to ensure opening of accounts and transactions and have sold products like savings, recurring deposits, loan recovery etc. have made the model viable. This needs to be emulated by BCs across that board. The analysis has shown rapid and growing churn amongst agents (particularly those in rural areas), and many existing BCNMs, weighed down by an array of costs and limited support from banks, are struggling to survive.

15.6.2 Suggested Minimum Revenue Model for USBs

The following model is a suggested revenue model for the USBs / CSP. This model is adjustable to the various parameters mentioned in the assumption. It has been provided for on an excel spreadsheet where the cells and hence the revenue are all linked to the assumptions. The same could also be linked to an inflationary numbered index that can be adjusted on an annual basis.

Minimum Revenue Model for BC / CSP Located at the Ultra Small Branch (USB) Acting on Behalf of Bank							
Sl.	**Products / Revenue Sources**	**Revenue Source**	**%-age of Customers**	**Number of Transactional Customers**	**No. of Monthly Transactions Per Customer**	**Revenue Per Unit of Transaction**	**Revenue Amount (INR)**
A.	**Fixed Revenue**						
1	Revenue from Bank	Bank					**2,500.00**
2	Travel Allowance	Bank					**250.00**
3	Others from Bank						**250.00**
	Sub Total						**3,000.00**
B.	**Banking Products**						
1	Opening Bank A/c^s	Bank	NA	100	1	20.00	**2,000.00**
2	Transactions in SB A/c^s	Bank	40%	1200	1.5	1.00	**1,800.00**
3	RD A/c Opening	Bank	2%	60	1	20.00	**1,200.00**
4	Deposits in RD A/c	Bank	25%	750	1	50.00%	**375.00**
5	Avg Yearly Balance	Bank	5%	150	1	1.35%	**1,012.50**
6	Remittances	Customer	5%	150	1	0.60%	**450.00**
7	Credit / Loans	Bank	2%	60	1	20.00	**1,200.00**
8	Recovery of Loans	Bank	0.10%	3	1	5%	**300.00**
	SUB TOTAL						**8,337.50**
C.	**Products Other than Banking**						
1	Insurance	Third Party	40.00%	1200	0.083	2.00	200.00
2	Pension (NPS Lite)		5.00%	150	0.083	80.00	1,000.00
3	Mutual Funds	AMC					
4	Others						
	SUB TOTAL						**1,200.00**
D.	**GRAND TOTAL**						**12,537.50**

Assumptions:

1	Number of Customers per USB	3000
2	Average Transacted Amount in S/B	Rs. 200.00
3	Recovery of Loan Amount	Rs. 2,000.00
4	Commission on Recovery of Loans	5.00%
5	Minimum Amount Received for Transaction	Rs. 1.00
6	Average Credit to Customers	Rs. 5,000.00
7	Flat Fee for Credit to Customer	Rs. 20.00
8	Average Yearly Balance in Accounts	Rs. 500.00
9	Average Remittance Amount	Rs. 500.00
10	Micro Insurance / ABY Commission (On a Premium of Rs. 200/-with an Insurance Cover of Rs. 30,000/-)	Rs. 2.00
11	NPS Lite Commission (For every valid enrolment / annual contribution)	Rs. 80.00

Caveat: It may be distinctly understood that the revenue model shown above has been developed and suggested only for demonstration purpose on an excel spreadsheet. The assumptions on the excel spreadsheet may be changed to observe the changes in the outcomes.

15.6.3 Semi-Variable Revenue Structure

It is argued in the model that especially in the initial operational stages, the commission should be set at a combination of fixed and variable compensation. This is because during setup, BC's are supposed to be investing a moderate amount of capital in technological infrastructure such as smart cards, Point of Service (POS) devices, database, training staff etc. and the fact that the initial take up could be low for the customers that have never seen banking activities at their door steps. Thus the so called change management at the level of the customers, coupled with financial literacy and the confidence and credibility that the BCs could generate among the customers could be a deciding factor for the viability of the BCs. For current providers, not-for-profits, financial viability tends to hinge on how much support the promoting bank is willing to give, which is fairly arbitrary.

Few banks as part of the fee arrangement provide the money for POS devices and for smart cards. Others provide money for the smart cards but not the POS devices. Thus, it becomes difficult for many BC's, especially those not associated with technology providers, to provide this kind of outlay for capital expenditure. Although the model is only in its pilot phase future endeavors should attend to a clear business plan and costing structure opposed to the fairly ad hoc behavior that was currently observed by the consultants. From the demand side, one of the key factors to emerge is that in both urban and rural areas, BC clients see the model as a means to access future credit. Anecdotally, the poorer the target group, the greater the demand seemed to be for loans. This may be because the clients need immediate consumption money or expect to use credit to monetize future savings. Unfortunately, loans are not forthcoming because banks are not inclined to delegate credit evaluation to BC's, nor to disburse large amounts through this channel. As the liability for default would be borne by the bank, despite their distance from selecting clients, their hesitation is understandable. Some BC's appear uncomfortable taking on what might be termed as purely banking activities. One other reason why banks are unwilling to offer loans through BC's is the interest rate cap on loans made through BC's. Under regulation, banks cannot charge more than prime lending rate (PLR) for these loans, which are typically lower than Rs. 25,000.

15.6.4 Sustainability of the BCA / CSP Operator Attrition

While a detailed discussion regarding issues involved in sustainability of an USB / CSP has already been done while discussing Field Observation, it is recommended that due discussions at appropriate level (read, Head Office) at banks be taken up for 'increasing the product base being offered at the USBs/CSPs', 'slight modification in the payout structures to BCs/BCAs/CSP Operators to make it bit more attractive at least at the initial phase', and 'slight modifications at the technology-end to enable it to process account with joint signatories, which would ultimately result in Panchayats, SHGs', JLGs', Farmer Clubs' and other such accounts to be shifted to USBs/CSPs.

In the consultants' view, these major initiatives coupled with other simplification efforts at USBs as has been mentioned in other recommendations would suffice in ensuring the sustainability of the USBs/CSPs in the villages. This would also significantly check the so-hyped attrition of the BCAs/CSP Operators.

15.7 Recommendations Specific to Model

Recommendations in this section are mostly parametric in nature but pertain to the specificity of the three pillars of the financial inclusion model of MP.

15.7.1 TAT for Account Opening in USBs / CSPs

There are two main reasons of delays in opening of bank accounts. First is the lengthy process being adopted by the banks and the other is intentional delays caused by the implementing officials at the USB / CSP, BC and the Branch level officials.

To mitigate the first reason, it is proposed that the GoMP take up the issue at the appropriate level at the banks (i.e. its Head Offices), as there have been quite some banks where this process is quite simplified to take a few days, whereas, in some other banks it take more than 46-60 days.

For mitigating the second reason of huge delay in account opening, it is proposed in a few districts of visit that the 'Account opening' in banks (USBs, CSPs, Branches, etc,) and post offices be brought under the **'Lok Sewa Adhiniyam'**, with SDM (who is also the chairman of the BLCC) being the first appealing authority and the DM (who is also the chairman of the DLCC) being the second appealing authority. There may be bank-specific timelines for opening of the bank accounts (as prescribed by its internal SOPs), within which the banks should necessarily open the bank accounts of the customers, otherwise the customer should be free to go for appealing to appropriate appealing authority.

The Account Operation Limits: It is recommended that at first a detailed understanding behind such operation limits be obtained. Based on this understanding, the existing demand of increasing quite a few of these limits from the field need to be assessed and then accordingly be taken up to appropriate authorities in RBIs and the banks, as the case may be, to resolve the same.

Provision of Passbooks and Passbook Printing Facilities at the USBs/CSPs: It is recommended that the possibility of providing passbooks to the USB/CSP customer must be explored with the banks, as it has come out as one of the major demands from the field. While some banks like CBI does provide the Passbooks to its USB/ CSP customers, however, its printing/updating these passbooks is possible only in bank branches. Thus, the possibility of providing passbook printing facility also needs to be explored with the banks.

However, even if the passbook printing facility is not available in the USBs / CSP, but at the base branch, while it would not solve the requirement of passbook updation, it would establish the organic link of the USB / CSP with the Bank Branch, thereby giving extra confidence and comfort on and the credibility to these newer institutions of financial service provision in the villages.

15.7.2 Common Conduit of Electronic Fund Management System (e-FMS)

As has been discussed at various places in the report, the component of e-FMS seems to have been the most effectively developed and rolled out among all three components of the FI model of MP. It is observed to have been well internalized in MGNREGS functioning at the district, block and the Panchyat level and reaching a level of stabilization in the field. Following three set of activities are recommended to be done in case of e-FMS in the state:

a. Figuring out all the infrastructural gaps (like internet connectivity, etc.) and removing the same;

b. A rigorous re-assessment of the entire newly developed process line (read, production line) of the MGNREGS payments to identify the newly evolved critical paths, critical activities in the entire process line (production line), which causes/can cause the delays in processing of the payments and smoothening all such critical paths and activities; and

c. Continuous and regular trouble-shooting and the continuous improvising the system based on the regular feedback of the users as well as end beneficiaries.

More specifically following items are to be pondered:

Internet Connectivity: While this issue has been discussed earlier, but is taken-up again to re-focus on this important requirement of the field. Ensuring continuously and fully speed availability of internet connectivity is one of the basic requirement of the effective roll out of the e-FMS module in the state. This needs to be ensured with high level discussions with BSNL and other service providers. While, the present level of roll out requires data entry to be done at the block level, the next phase of e-FMS roll out is designed to enable the GRS and the Panchayat Secretary to do the data entry at their own villages/panchayats. It would be difficult, rather not possible to do the same, without ensuring the regular and full-speed availability of internet in the villages.

Financial Dispensation Infrastructure: Along with the effective and efficient roll out of e-FMS module, establishing a deeply penetrated network of financial (or just the 'cash', to begin with) dispensation infrastructure becomes the natural logical step forward. Because, until and unless, this infrastructure of 'network of financial dispensation units' is taken care of, the real benefits of the e-FMS would be hard to assess, as it does not make any sense in getting one's due payments credited into one's account without being able to access the same. Another component of the *Samruddhi* of establishing a deeply penetrated network of Ultra Small Branches (USBs) and Customer Service Points (CSPs) is nothing but about this. However, it is in the interest of the e-FMS roll-out teams not be content with its achievements so far, but to continuously follow up regarding smooth roll-out of this component of establishing USBs / CSPs in the state. The e-FMS roll-out would be incomplete without the establishment of a deeply penetrated network of financial dispensation infrastructure.

Freezing, de-freezing and re-freezing of Accounts: Presently, the 'right' / 'authority' to freeze an account for the first time rests at the Janpad Panchayat level, whereas the 'right' / 'authority' to de-freeze a particular account is vested at the district level and has (right fully) not been delegated to the Janpad level, as this poses a serious risk of malpractices starting at the Janpad and Panchayat level. While, this (the 'authority' being vested at the district level) seems a better option, as long as, the account freezing remains a one-time activity. However, one must realize that because of continuous opening of USBs/CSPs in villages and the shifting of the bank account to these USBs/CSPs it does not remain a one-time activity. There have also been cases where beneficiaries wanted to shift their accounts from one place (PO, Bank, USBs/CSPs) to another because of the quality of the service provided by them. In view of all this, account freezing does not remain a one-time activity, but a continuous, regular and routine activity at the Janpad Panchayat level. However, it may still be noted that while at the Janpad level, it can become a regular, routine activity; but at individual beneficiary level, the freezing would only be done twice, thrice, if not just once. Looking at this nature of the activity, proper alternative mechanism need to be evolved, whereby this once/twice freezing and de-freezing of account in e-FMS is allowed without compromising on the possible risks being posed by decentralization of such 'authority'. One such solution can be to allow this 'de-freezing authority' to the Janpad level for a limited period window after a new USB/CSP/Bank branch is opened in that area. For the rest of the period, the 'authority' can continue to be vested with the District.

Further; whatever be the process of de-freezing an account, it need to be well documented and well communicated to the Janpad and GP level officials. Presently, the same is not uniformly known in all the districts and thus is creating a lot of confusion among them.

New Critical Paths and Critical Activities: In the course of implementation of e-FMS for quite some time now, a few new critical path and critical activities have been reported (and discussed in detail in e-FMS chapter) in the field, which is causing / can cause delays in the processing and crediting of payments to beneficiaries.

In view of these observations, it is proposed to do a greater study and analysis of the entire process line (as in the assembly line) of e-FMS to exactly figure out the critical paths and activities and resolve the same by duly re-aligning the work and responsibilities, augmenting and/or re-distributing the work force at various levels or even modifying the entire process line a bit, as the case may be.

Software Related Issues: As was observed and mentioned in the chapter on e-FMS, most of the issues raised regarding software are routine and troubleshooting issues. However, it may be noted that unlike earlier period, it is this troubleshooting that the technical team at e-FMS and NIC has to now focus on to streamline all such issues and bugs emerging from the use of the software. The other issue that the technical team has to focus on is to constantly improve the user experience of the software, with continuous development of newer features, etc., some of which have been mentioned in the e-FMS chapter on field observations.

15.7.3 Payments through Post Offices

Regarding huge delays from the level of SPO to the level of BPO in crediting the account and finally dispensing the cash to beneficiaries, following is recommended till Post Offices are brought under the core banking platform:

- A massive sensitization exercise need to be taken up among the Postmen, sensitizing them regarding urgency of such payments like MGNREGS and Pension to the beneficiaries;
- A detailed process-map (for the manual processes being followed) of crediting the beneficiaries account and then finally dispensing the cash to him/her need to be developed internally by the Department of Posts in consultation with the Department of Panchayats and Rural Development, GoMP. Such a detailed process map will have due mention of the roles and responsibilities of various people involved including the SPO staff, BPO staff, Panchayat Secretary, Sarpanch and the GRS and would also mention the time involved/allowed for each sub-activity. The process map thus developed would be similar to what has been prepared regarding manual-operations involved in MGNREGS implementation i.e. from the preparation of Job card, demand of work, etc to organization of Rozgar Saptah, etc.
- The detailed process map thus prepared need to be communicated to all the stake holders viz. SPO Staff, BPO Staff, Panchayat Staff, etc. All these staff needs to be sensitized and trained on strictly following these processes in stipulated time, though massive workshops and trainings.

The district of Hoshangabad has tried something on these lines where are a series of sensitization workshops were organized with a joint effort of Zila Panchayat and the Head Post Office at Hoshangabad.

Recommendations to some of the other issues raised regarding payments through Post Offices are as below:

- A continuous follow-up and troubleshooting with the Central Processing System of Post Offices at Mysore needs to be done to resolve some of the clearing level issues/delays of PO based FTOs;
- A continuous improvement in the e-FMS software to resolve various issues raised regarding Post Office related FTOs, presentation in the software, etc.;
- The issue regarding cash-carrying limit need to be re-discussed with the higher authorities at the Department of Post, more so, in light of experience of last 9-10 months

of MGNREGA payments through post offices, to resolve some of the issues arising regarding this and also to further improve and smoothen up the process;

- The specific issues of FTO rejection and continued reflection of earlier-rejected-and-subsequently-processed FTOs need to be further explored by the technical team of e-FMS and NIC and to be taken to its logical conclusion;
- Some of the features like 'viewing facility through internet banking' and 'daily mailing of account statements' need to be made to available to the SPO staff, for the specific SPO's bank account in the banks, which is used for channeling the MGNREGA Payments. Realizing the importance of the same in the daily reconciliation and thus fast processing of funds at SPO level, this being a very small activity, need to be immediately taken-up with appropriate authority at the Department of Posts;
- Similarly, the option of reflecting (i.e. printing) the UTR No. and the FTO No. of the MGNREGA transactions in the bank statement need to be explored and pursued on at the appropriate level at the banks. If made available, this would significantly reduce the time taken up at the SPO level in manually reconciling its account before crediting the amount to the individual beneficiary's account in post offices.

15.7.4 Payments through Cooperative Banks

While there are a very limited number of accounts that are still being maintained at the Cooperative banks, by virtue of it being manual, it still take the maximum time in dispensing cash through Cooperative banks. However, with the operation of Cooperative banks being rolled out through core-banking platform, all such issues are expected to be resolved soon. However, leadership team at GoMP needs to ensure its early roll out in all the banks and all the branches across state.

15.7.5 Integrated Social Security Mission (SSSM)

As observed, among all three components of Financial Inclusion model of GoMP, SSSM has been in a preliminary phase of implementation. Like e-FMS implementation in its early phase, SSSM is also facing some of the initial implementation related issues. However some of the steps that can be taken up to improve both the implementation as well as some of the conceptualization related issues are as below:

Use Of Experience And Expertise Developed During e-FMS Implementation: As has been discussed in the beginning of the chapter, SSSM being operated on similar broad concept as that of e-FMS, it would be a good idea to use the team and resources that have been behind the successful rollout of e-FMS in the state, for the effective rollout of the SSSM as well. Using the experience and expertise developed during the design, develop and rollout of the e-FMS would significantly reduce the time required for the successful rollout of SSSM. This is more so, because quite a few issues that are presently observed in the SSSM roll out are exactly same as what e-FMS has faced in its early stages and has successfully resolved the same.

Full-fledged Rollout of SSSM: As has been discussed under the Observations on SSSM, presently, there has only been a partial rollout of this component; geographically, it has been rolled out in 15 out of the 50 districts of MP; in terms of social security schemes, it's only a set of four pension schemes that have been covered out of a total of 73 schemes identified; in terms of integration of the software, it has only been rolled out as a good MIS (and not also as e-payment platform). There's strong need to accelerate its implementation across geography, across schemes and across features of the software. GoMP needs to put exclusive focus and allocate due resources at all levels in expediting its roll out across the state, schemes and across various modules of the software.

E-payments module: Because of the decision taken in SSSM implementation, the e-payments are being done through the CSFMS portal of the State Treasury. However, following is recommended regarding e-payments through CSFMS:

- A bridge system / solution immediately needs to be developed so that the data entered in *Samagra* Portal can directly be exported into the corresponding fields in the CSFMS. In absence of such a bridging, the required data entered once in the *Samagra* Portal is re-entered in CSFMS for all the beneficiaries.
- The due modification in CSFMS is to be done not only to capture the Post Office and Cooperative Bank details of the beneficiaries who have the accounts in these two institutions, but also to process the e-payments belonging to these accounts in Post Offices and Cooperative Banks, as is the case in e-FMS.

Internalizing SSSM in the regular routine functioning of the Zila and Janpad Panchayats: A particular person both at the District and the Janpad Panchayat level, preferably the one who is responsible for delivering the existing 'Social Justice' schemes of the Government, need to be assigned the responsibilities of SSSM implementation as well. Presently, this has not observed to be the case in Janpad Panchayats and the Districts. Similarly, the functioning of the SSSM needs to be institutionalized in the regular and routine functioning of Janpads and the districts. Presently, not all the decision making regarding implementation of social justice schemes in the Janpads and Districts are taken though SSSM; instead, a parallel system of data-entry and record keeping is found to be in practice, even in the first phase pilot districts where the SSSM has been rolled out for last 2-3 months.

Effective communication and training regarding SSSM' internalization in the regular functioning at the District and the Block level: A detailed process flow and the flow of information for various sub-processes under SSSM i.e. the household survey, survey feeding, enrollment of beneficiaries under various schemes, account verification, account freezing, regular routine work under each scheme – addition, deletion of beneficiaries, change of schemes, change of account details, etc. need to be designed. All these process-flow of all the sub-processes then need to communicated and demonstrated in details through training to the person, who has been made responsible for the implementation of the SSSM in the Janpads and the Districts.

15.7.6 Household Survey and Verification and Freezing of Pensioners' Accounts

The household survey and the verification and freezing of accounts (for the first set of Pensions beneficiaries) have still been pending and needs to be expedited. Because of the delay of verification and freezing of accounts, a lot of beneficiaries in the first set of 15 pilot districts, where only direct payments into beneficiaries' accounts are allowed, are not getting pensions for last 2-3 months.

Freezing, De-freezing and Re-freezing of Accounts: The issues and thus the recommendation regarding freezing, de-freezing and re-freezing of banks and post offices accounts in *Samagra* portal have just been same as that in e-FMS and thus have not been discussed here again.

15.7.7 Further Development of the *Samagra* Portal

At least three sets of additional modules need to be developed in the existing *Samagra* portal:

1. The e-payments module or the bridge module to auto-feed the information fed and stored in *Samagra* portal to be accessed and used in the CSFMS portal of the State Treasury;
2. A bridge module to get the whole set of reverse information regarding e-payments, viz. date, amount, time and bill of payments, back from the CSFMS portal i.e. something similar to FTO related information;
3. A comprehensive Reporting module

In addition to above, various other issues as observed regarding *Samagra* portal and mentioned in the Observations Chapter on SSSM, need to be resolved and improved upon.

e-Payments to Post Office and Cooperative Bank Account Holders: Apart from ensuring the development of features like capturing the post office and cooperative bank details of the Pensioners in the CSFMS portal and e-paying the pensions into SPOs' bank account on behalf of these post offices and cooperative bank accounts, as is the case in e-FMS, the other issues related to payments and more specifically payment through post offices and cooperative banks are same as observed regarding e-FMS rollout in the state. The recommendations to that effect are also the same, thus have not been repeated here.

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ANNEXURES

Annexure 1. List of People Met and Interacted with (State and Districts)

S No.	Name	Designation	Department / Organization
1	Dr. Aruna Sharma	Addl CS	DoPRD & SJ
2	Dr. Rajesh Rajora	Secretary	DoPRD
3	Mr. Brajesh Kumar	Addl. Secretary	DoPRD
4	Mr. Ravindra Pastore	Commissioner	DoPRD
5	Dr. Rajeev Saxsena	JD, Finance	MPREGC
6	Mr. Ovais Ahmed	Systems Analyst & State Nodal Officer (MIS)	MPREGC
7	Mr. J K Sharma	AD	Treasury
8	Mr. Shabbir Ansari	PA, AS	DoPRD
9	Mr. John Kingsly	Director	SSSM
10	Mr. Niranjan	DD	SSSM
11	Mr. Mahendra Tyagi	Programmer,	SSSM
12	Mr. Pallav Shrivastava	IT Consultant	SSSM
13	Mr. Umesh Singh	FGM	Central Bank of India
14	Mr. Shiba Prasad	Mgr, FI	Central Bank of India
15	Mr. D K Shrivastava	CM-FI	Central Bank of India
16	Mr. Rajiv Gupta	RM	Bank of India
17	Mr. Alok Dixit	CM-FI	Bank of India
18	Mr. … Arya	CM-FI	Bank of India
19	Mr. Sudhir	State Head, PSIG	SIDBI
20	Mr. Md Adil Ahsan	Asst Mgr	SIDBI
21	Mr. Rajendra Singh	CGM	NABARD
22	Mr. Deepak Kumar	GM-FI	NABARD
23	Mr. …. Joshi	GM-FI	NABARD
24	Mr. Rishi Dutt		ICICI
25	Mr. Ravi Mohan	RD	RBI
26	Ms. Rani Durve	DGM, RCPD	RBI
27	Mr. Ajit Jain	AGM-FI	State Bank of India
28	Mr. Amit Anand	State Programme Officer	UNDP
29	Mr. Akhilesh Kekre	Programme Associate	UNDP
30	Shrikank Bhanot	CEO Jila Panchayat	Jila Panchayat
31	Manoj Khatri	ADM	District Administration
32	R K Jain	LDM	Bank of India
33	Yagyeshwar Sharma	Chief Manager	Bank of India
34	Kanhaiya Soni	District Project Manager	NRLM
35		CEO	Janpad Panchayat Dhar
36		Channel Partner	Bank of India
37	Mukesh Sharma	BC Operator	Tonki
38		CEO Janpad	Janpad Manawar
39		Branch Manager	Manawar
40		Branch Manager	Bagri
41	Mr. V Kishan	LDM	Central Bank of India
42	Mr. Chaturbhuj Makheeja	FLCC In-charge	Central Bank of India
43	Mr. K P Sinha	AGM, Gwalior Region	Central Bank of India
44	Mr. Irfan Khan	In-charge, Synapes	BC of CBoI
45	Mr. Anoop Karkure	CM-FI	SBI, Gwalior Region
46	Mr. D S Trivedi	OSD, SAVE	BC of SBI

47	Ms. Sophia Farooqui	CEO	Zila Panchayat
48	Mr. Vedvyas Dutt	PO, MGNREGS	Zila Panchayat
49	Mr. Om Narayan Gupta	CEO, Janpad Panchayat, Ghatigaon (Barai)	
50	Mr. Kishan Gambhir	AAO, Janpad Panchayat, Ghatigaon (Barai)	
51	Mr……	AAO, Janpad Panchayat, Murar (Gwalior)	
52	Mr. Rahul Jain	Collector	
53	Mr. G K Tiwari	CEO	Zila Panchayat, HBD
54	Mr. Kamlesh Patidar	Auditor, MPNREGA	Zila Panchayat, HBD
55	Mr. …. Joshi	PO, MPNREGA	Zila Panchayat, HBD
56	Mr. Santosh Sharma	Accounts	Zila Panchayat, HBD
57	Mr. Prakash Yaduvanshi	Computer Operator	Zila Panchayat, HBD
58	Mr. Umesh Sharma	CEO	HBD Zanpad
59	Mr. Ramkumar Gour	PM, NREGA	HBD Zanpad
60	Mr. Manmohan Tiwari	Nodal Officer, Social Justice	HBD Zanpad
61	Mr. Santosh Vijayle	AAO	Kesla Zanpad
62	Mr. Manoj Uike	APO, NREGA	Kesla Zanpad
63	Mr. Vinay Jothe	Data Entry Operator, NREGA	Kesla Zanpad
64	Mr. Umesh Thakkar	SSSM In-charge	Kesla Zanpad
65	Mr. Aklash Nagle	Dataentry Operator, Social Justice	Kesla Zanpad
66	Mr. Subhash Chandra Soni	In-charge	Kesla Zanpad
67	Mr. Shashidhar Sahu	LDM	Central Bank of India
68	Mr. R S Solanki	District Coordinator	State Bank of India
69	Mr. Mahavir Rai	AM-FI	Bank of India
70	Mr. Ramesh Kumar		PNB
71	Mr. SS Chouhand		CMPKGB
72	Mr. Mahendra Bagade		Syndicate Bank
73	Mr. Gourav Thakur		Syndicate Bank
74	Mr. R M Sharma		Union Bank of India
75	Mr. Praveen Anand		Central Bank of India
76	Mr. Nemichand Patel	Individual BC, Morchhari Chowk	SBI
77	Mr. Sanjay Sharma	Individual BC	SBI
78	Mr. Dharmendra S Chouhan	District Coordinator	Integra (CBI's BC)
79	Mr. Neetiraj Singh	Addl CEO	Zila Panchayat
80	Dr. R S Mishra	Deputy Director (Social Justice)	Zila Panchayat
81	Mr. Pradeep Upase	PO, MGNREGA	Zila Panchayat
82	Mr. G S Jayant	LDM	Central Bank of India
83	Mr. Vinod Parasher	District Coordinator	State Bank of India
84	Mr. A S Rao	District Coordinator	Bank of Maharashtra
85	MR. D K Joshi	District Coordinator	CMPKGB
86	Mr. A K Lokhande	MGNREGA Payments In-charge	Post Office
87	Mr. R K Parate	Pension Payments In-charge	Post Office
88	Mr. H C Dwivedi	CEO	Chhindwada Zanpad
89	Mr. Kailash Dhurve	SSSM In-charge	Chhindwada Zanpad
90	Mr. Anil Okate	AAO	Chhindwada Zanpad
91	Mr. Hemant Pillai	SE, RES	Chhindwada Zanpad
92	Mr. Mahavir Jain	CEO	Tamia Zanpad
93	Mr. Siddhartha Dongre	APO, MGNREGA	Tamia Zanpad
94	Mr. Rajendra Kamle	SSSM In-charge	Tamia Zanpad
95	Mr. Upadhyay	Pensions In-charge	Tamia Zanpad
96	Chinhaikala	Chinhaikala	

97	Mr. Sanjeev Patel, Sarpanch		
98	Mr. Prakash Usrethe, Secretary		
99	Mr. Rajesh, GRS		
100	Ms. Rukmani, Widow Pensioner		
101	Ms. Rakhi Yadav, MGNREGA worker		
102	Ms. Soni Yadav, MGNREGA worker		
103	Khirsadoh	Khirsadoh	
104	Mr. Nitin Kumar Bhatt,	TCS appointed BC operator (CBI)	
105	Mr. Sugunlal Ahke, Secretary		
106	Mr. Diwansha, GRS		

Annexure 2 : Status of Freezing of Accounts (e-FMS)

11/18/13 Account Freezed

Govt. of India
Ministry of Rural Development
Department of Rural Development

The Mahatma Gandhi National Rural Employment Guarantee Act 18-Nov-2013

Account Information Frozen on MGNREGA Soft

Total Workers Active Workers

State : MADHYA PRADESH

S.No	Districts	no. of JobCards Issued	no. of persons in JobCard	No. of NREGA worker with Active Account Information											
				Total				Frozen				Unfrozen			
				Bank		Post Office	Total	Bank		Post Office	Total	Bank		Post Office	Total
				Commercial and RRB's	Cooperative and others			Commercial and RRB's	Cooperative and others			Commercial and RRB's	Cooperative and others		
1	ALIRAJPUR	129926	176764	57938	28941	15680	102559	36103	13265	5043	54411	21835	15676	10637	48148
2	ANUPPUR	153446	145074	60552	25512	1023	87087	45142	8214	0	53356	15410	17298	1023	33731
3	ASHOK NAGAR	214739	67750	44791	138	4825	49754	31795	99	1697	33591	12996	39	3128	16163
4	BALAGHAT	397542	356254	113065	18878	115334	247277	104783	7649	50518	162950	8282	11229	64816	84327
5	BARWANI	241960	197438	86833	25277	839	112949	71620	1082	0	72702	15213	24195	839	40247
6	BETUL	231369	246757	209325	822	503	210650	160346	0	410	160756	48979	822	93	49894
7	BHIND	193447	38866	19059	282	12676	32017	16745	0	7493	24238	2314	282	5183	7779
8	BHOPAL	72875	38873	18645	694	10666	30005	10942	20	7308	18270	7703	674	3358	11735
9	BURHANPUR	93812	115636	31924	31227	634	63785	24373	20172	0	44545	7551	11055	634	19240
10	CHHATARPUR	264957	164759	65981	4275	8678	78934	52176	1334	3964	57474	13805	2941	4714	21460
11	CHHINDWARA	279899	270885	191529	6463	18850	216842	170538	3787	11520	185845	20991	2676	7330	30997
12	DAMOH	250253	158812	86322	5904	8879	101105	49473	24	3845	53342	36849	5880	5034	47763
13	DATIA	74591	33201	16634	89	12737	29460	14929	0	10575	25504	1705	89	2162	3956
14	DEWAS	207487	191509	99294	6880	3567	109741	83564	6255	1667	91486	15730	625	1900	18255
15	DHAR	349716	421004	185212	7918	87756	280886	118945	3422	47173	169540	66267	4496	40583	111346
16	DINDORI	214442	269512	74383	2258	158036	234677	66101	0	126030	192131	8282	2258	32006	42546
17	GUNA	226479	188893	107048	318	48655	156021	60967	100	24662	85729	46081	218	23993	70292
18	GWALIOR	97469	69230	40656	3101	3468	47225	35640	0	2044	37684	5016	3101	1424	9541
19	HARDA	60466	38595	23079	22	11562	34663	20812	0	7859	28671	2267	22	3703	5992
20	HOSHANGABAD	142559	42826	19965	598	15398	35961	17227	0	11428	28655	2738	598	3970	7306
21	INDORE	113235	95581	49171	985	7099	57255	40507	596	3607	44710	8664	389	3492	12545
22	JABALPUR	256873	134131	104124	1	5936	110061	102622	0	5383	108005	1502	1	553	2056
23	JHABUA	207010	299087	97186	70894	22471	190551	56856	5020	6135	68011	40330	65874	16336	122540
24	KATNI	257012	132661	80423	46	13306	93775	72510	0	9753	82263	7913	46	3553	11512
25	KHANDWA	321889	227757	86387	46929	4524	137840	72992	2070	1243	76305	13395	44859	3281	61535
26	KHARGONE	326787	264467	127006	16429	38128	181563	103199	12245	18239	133683	23807	4184	19889	47880
27	MANDLA	274655	259521	103781	12675	46055	162511	92825	2108	24325	119258	10956	10567	21730	43253
28	MANDSAUR	233832	103071	25601	2746	28225	56572	21957	0	23245	45202	3644	2746	4980	11370
29	MORENA	142197	90656	71718	16	3842	75576	55869	0	370	56239	15849	16	3472	19337
30	NARSINGHPUR	208361	78712	31475	1456	28692	61623	26166	1287	16338	43791	5309	169	12354	17832
31	NEEMUCH	134310	30573	7967	439	13458	21864	6023	0	6924	12947	1944	439	6534	8917
32	PANNA	212281	116782	63015	19689	63	82767	48647	10616	0	59263	14368	9073	63	23504
33	RAISEN	170293	75507	25997	559	25990	52546	23608	178	16458	40244	2389	381	9532	12302
34	RAJGARH	281776	319203	47641	15129	172068	234838	40318	0	132835	173153	7323	15129	39233	61685
35	RATLAM	179940	128005	30211	3350	30637	64198	22879	0	16925	39804	7332	3350	13712	24394
36	REWA	406899	119697	39326	1817	9162	50305	32657	1666	5072	39395	6669	151	4090	10910
37	SAGAR	363825	162267	53003	0	78100	131103	42829	0	46746	89575	10174	0	31354	41528
38	SATNA	366615	159179	114515	0	33	114548	92941	0	0	92941	21574	0	33	21607
39	SEHORE	177907	153281	40620	72398	232	113250	36420	39988	132	76540	4200	32410	100	36710
40	SEONI	295940	278135	47253	2549	134818	184620	33658	151	85163	118972	13595	2398	49655	65648
41	SHAHDOL	194574	160811	88840	30972	370	120182	75579	17915	0	93494	13261	13057	370	26688
42	SHAJAPUR	300799	121689	51318	5051	19918	76287	42093	700	10309	53102	9225	4351	9609	23185
43	SHEOPUR	121055	76729	29266	3262	13411	45939	22119	9	7117	29245	7147	3253	6294	16694
44	SHIVPURI	224912	139892	85184	101	11768	97053	63262	51	8296	71609	21922	50	3472	25444
45	SIDHI	217587	128700	40590	21355	6465	68410	31499	8346	2820	42665	9091	13009	3645	25745
46	SINGRAULI	208730	133936	64751	10163	6683	81597	46891	6126	3693	56710	17860	4037	2990	24887
47	TIKAMGARH	208815	126198	41251	16139	40966	98356	33002	4573	20647	58222	8249	11566	20319	40134
48	UJJAIN	194956	110795	40354	1234	39990	81578	31460	77	26743	58280	8894	1157	13247	23298
49	UMARIA	166049	135263	46072	13134	47845	107051	42250	9469	37367	89086	3822	3665	10478	17965
50	VIDISHA	181706	83168	21439	7006	28487	56932	18439	1150	21714	41303	3000	5856	6773	15629
	Total	10848254	7678092	3307720	546121	1418508	5272349	2624298	189764	880835	3694897	683422	356357	537673	1577452

Excel View

Annexure 3 : Status of Household survey and feeding into SSSM

SSSM Progress Report District Wise 21-10-2013												
			Registered persons in Samagra			Census 2011 population			Achievement against census 2011 (%)			Progress in 17-10-2013
SNO	Division	District	Total	Rural	Urban	Total	Rural	Urban	Total	Rural	Urban	
1	Indore	ALIRAJPUR	791036	740426	50610	728677	671596	57081	108.56	110.25	88.66	1765
2	Rewa	SINGROULI	1218566	969782	248784	1178132	951304	226828	103.43	101.94	109.68	1571
3	Jabalpur	NARSINGHPUR	1124043	938187	185856	1092141	888536	203605	102.92	105.59	91.28	169
4	Chambal	BHIND	1733909	1261517	472392	1703562	1270762	432800	101.78	99.27	109.15	10318
5	Hoshangabad	BETUL	1602903	1300906	301997	1575247	1266183	309064	101.76	102.74	97.71	251
6	Jabalpur	SEONI	1402803	1265486	137317	1378876	1215000	163876	101.74	104.16	83.79	406
7	Indore	BURHANPUR	768565	495787	272778	756993	496724	260269	101.53	99.81	104.81	1665
8	Gwalior	DATIA	794983	605626	189357	786375	604199	182176	101.09	100.24	103.94	22
9	Jabalpur	CHHINDWARA	2111259	1685786	425473	2090306	1585177	505129	101.00	106.35	84.23	2914
10	Indore	JHABUA	1018865	941790	77075	1024091	932086	92005	99.49	101.04	83.77	3368
11	Indore	KHARGONE	1860437	1580233	280204	1872413	1573458	298955	99.36	100.43	93.73	562
12	Ujjain	MANDSAUR	1328787	1057408	271379	1339832	1062470	277362	99.18	99.52	97.84	3022
13	Ujjain	RATLAM	1439902	1020073	419829	1454483	1019563	434920	99.00	100.05	96.53	14
14	Hoshangabad	HOSHANGABAD	1225944	860689	365255	1240975	851126	389849	98.79	101.12	93.69	608
15	Bhopal	RAISEN	1315261	1037864	277397	1331699	1028202	303497	98.77	100.94	91.40	525
16	Bhopal	SEHORE	1294608	1035342	259266	1311008	1062637	248371	98.75	97.43	104.39	679
17	Ujjain	DEWAS	1542762	1058678	484084	1563107	1111312	451795	98.70	95.26	107.15	5083
18	Ujjain	SHAJAPUR	1491835	1217043	274792	1512353	1219002	293351	98.64	99.84	93.67	968
19	Jabalpur	MANDLA	1033960	930788	103172	1053522	923309	130213	98.14	100.81	79.23	186
20	Bhopal	VIDISHA	1424107	1081904	342203	1458212	1118583	339629	97.66	96.72	100.76	-62
21	Indore	KHANDWA	1273160	978538	294622	1309443	1050067	259376	97.23	93.19	113.59	-787
22	Jabalpur	KATNI	1250986	998599	252387	1291684	1028149	263535	96.85	97.13	95.77	-702
23	Chambal	MORENA	1902050	1487218	414832	1965137	1494734	470403	96.79	99.50	88.19	1132
24	Ujjain	NEEMUCH	799426	575567	223859	825958	580728	245230	96.79	99.11	91.29	28
25	Sagar	TIKAMGARH	1397130	1160651	236479	1444920	1195160	249760	96.69	97.11	94.68	1016
26	Hoshangabad	HARDA	548834	437178	111656	570302	450936	119366	96.24	96.95	93.54	295
27	Jabalpur	BALAGHAT	1628853	1454567	174286	1701156	1456435	244721	95.75	99.87	71.22	3304
28	Indore	DHAR	2090853	1725862	364991	2184672	1771557	413115	95.71	97.42	88.35	1580
29	Bhopal	RAJGARH	1479225	1188819	290406	1546541	1269973	276568	95.65	93.61	105.00	1954
30	Jabalpur	DINDORI	673487	640433	33054	704218	671890	32328	95.64	95.32	102.25	2026
31	Shahdol	SHAHDOL	1015703	811070	204633	1064989	845633	219356	95.37	95.91	93.29	325
32	Indore	INDORE	3114668	931524	2183144	3272335	848023	2424312	95.18	109.85	90.05	8167
33	Chambal	SHEOPUR	652868	544023	108845	687952	580695	107257	94.90	93.68	101.48	613
34	Gwalior	ASHOKNAGAR	794934	657443	137491	844979	691233	153746	94.08	95.11	89.43	318
35	Gwalior	GUNA	1163933	850811	313122	1240938	928171	312767	93.79	91.67	100.11	5360
36	Sagar	CHHATARPUR	1652038	1257899	394139	1762857	1363604	399253	93.71	92.25	98.72	5681
37	Sagar	PANNA	943280	833269	110011	1016028	890707	125321	92.84	93.55	87.78	47
38	Jabalpur	JABALPUR	2270130	1090010	1180120	2460714	1021937	1438777	92.25	106.66	82.02	18779
39	Rewa	SATNA	2046902	1586231	460671	2228619	1754318	474301	91.85	90.42	97.13	-17649
40	Gwalior	SHIVPURI	1582310	1308926	273384	1725818	1430199	295619	91.68	91.52	92.48	1614
41	Indore	BARWANI	1269426	1063645	205781	1385659	1181786	203873	91.61	90.00	100.94	-3462
42	Rewa	REWA	2158180	1754941	403239	2363744	1968257	395487	91.30	89.16	101.96	12836
43	Sagar	SAGAR	2165761	1578283	587478	2378295	1669346	708949	91.06	94.54	82.87	279
44	Sagar	DAMOH	1149555	954235	195320	1263703	1013296	250407	90.97	94.17	78.00	63
45	Rewa	SIDHI	1013808	919269	94539	1126515	1033407	93108	90.00	88.96	101.54	1862
46	Bhopal	BHOPAL	2111064	430674	1680390	2368145	453806	1914339	89.14	94.90	87.78	21472
47	Gwalior	GWALIOR	1767004	721191	1045813	2030543	757803	1272740	87.02	95.17	82.17	1373
48	Ujjain	UJJAIN	1721706	1156157	565549	1986597	1207533	779064	86.67	95.75	72.59	2538
49	Shahdol	UMARIA	546919	454763	92156	643579	533058	110521	84.98	85.31	83.38	-680
50	Shahdol	ANUPPUR	634549	524752	109797	749521	544229	205292	84.66	96.42	53.48	171
		Total	**69343277**	**51161863**	**18181414**	**72597565**	**52537899**	**20059666**	**95.52**	**97.38**	**90.64**	**103587**

Annexure 4: Status of Pensioners Accounts Verification and freezing (SSSM)

SSSM Verified No. of Beneficiaries against actual pensioners in pension schemes till 21-10-2013																				
		Indira Gandhi National Old Age Pension			Indira Gandhi National Widow Pension			Indira Gandhi National Disable Pension			Social Security Pension			Financial Assitance for MR/MD			Total Pension Beneficiaries			Verification progress in 17-10-2013
srno	District	Target IGNOAPS	Verified (Achieved) IGNOAPS on SSSM	% against IGNOAPS beneficiary	Target IGNWPS	Verified (Achieved) IGNWPS on SSSM	% against IGNWPS beneficiary	Target IGNDPS	Verified (Achieved) IGNDPS on SSSM	% against IGNDPS beneficiary	Target SSP	Verified (Achieved) SSP on SSSM	% against SSP beneficiary	Target MR/MD	Verified (Achieved) MR/MD on SSSM	% against MR/MD beneficiary	Total Target Beneficiaries	Total Verified (Achieved) Beneficiaries on SSSM	% against Total beneficiaries	
1	BETUL	23886	23886	100.00	10768	10768	100.00	2622	2622	100.00	15255	15255	100.00	1082	914	84.47	53613	53445	99.69	-25
2	SEONI	28987	28987	100.00	9622	9622	100.00	1389	1389	100.00	17075	17075	100.00	1244	1135	91.24	58317	58208	99.81	2
3	KHARGONE	37317	37317	100.00	7857	7841	99.80	3255	2347	72.10	23625	22057	93.36	630	609	96.67	72684	70171	96.54	54
4	NARSINGHPUR	39728	37409	94.16	8417	8417	100.00	3723	3145	84.47	20465	20465	100.00	1141	1141	100.00	73474	70577	96.06	17
5	SINGRAULI	23651	23651	100.00	4015	4015	100.00	1751	1751	100.00	20805	18180	87.38	182	75	41.21	50404	47672	94.58	0
6	HOSHANGABAD	23835	23634	99.16	8347	8347	100.00	3900	3321	85.15	14941	13828	92.55	1315	506	38.48	52338	49636	94.84	23
7	MANDSAUR	25207	23757	94.25	8790	8790	100.00	4107	2919	71.07	9564	8665	90.60	771	591	76.65	48439	44722	92.33	100
8	RATLAM	30347	28044	92.41	9353	9353	100.00	2414	1543	63.92	9947	8812	88.59	491	166	33.81	52552	47918	91.18	1
9	DEWAS	32360	27965	86.42	6951	6136	88.28	2221	1584	71.32	13470	13470	100.00	1227	434	35.37	56229	49589	88.19	427
10	HARDA	8087	7052	87.20	3249	2611	80.36	1401	1241	88.58	4450	4450	100.00	264	253	95.83	17451	15607	89.43	0
11	NEEMUCH	13249	13249	100.00	7939	4986	62.80	1670	1308	78.32	6937	6937	100.00	599	573	95.66	30394	27053	89.01	49
12	DHAR	21314	20907	98.09	9384	9311	99.22	3445	2163	62.79	11544	8199	71.02	1130	655	57.96	46817	41235	88.08	11
13	KATNI	27621	24019	86.96	10175	10014	98.42	5017	3911	77.95	14056	11823	84.11	322	285	88.51	57191	50052	87.52	81
14	MANDLA	28396	24222	85.30	10217	9606	94.02	5716	4641	81.19	16805	14191	84.45	1150	708	61.57	62284	53368	85.68	0
15	CHHINDWARA	47788	35081	73.41	13995	13995	100.00	8763	4981	56.84	38753	37996	98.05	1063	968	91.06	110362	93021	84.29	16
16	DINDORI	28972	26995	93.18	6619	6285	94.95	2162	1312	60.68	12495	6690	53.54	432	190	43.98	50680	41472	81.83	468
17	RAISEN	28932	22593	78.09	7114	5940	83.50	3810	1809	47.48	16818	10236	60.86	353	353	100.00	57027	40931	71.77	330
18	ASHOK NAGAR	16821	11559	68.72	4731	4196	88.69	957	494	51.62	7974	5510	69.10	348	282	81.03	30831	22041	71.49	42
19	DATIA	15086	8820	58.46	4256	3053	71.73	873	494	56.59	4477	4087	91.29	266	90	33.83	24958	16544	66.29	19
20	ANUPPUR	11918	6506	54.59	6747	4864	72.09	2136	600	28.09	9023	6344	70.31	413	81	19.61	30237	18395	60.84	59
21	BALAGHAT	60170	35729	59.38	24564	17087	69.56	5686	1958	34.44	12934	8116	62.75	2072	1190	57.43	105426	64080	60.78	241
22	JABALPUR	47695	30315	63.56	12609	11341	89.94	4616	3276	70.97	40157	16307	40.61	1665	1281	76.94	106742	62520	58.57	764
23	PANNA	32641	22108	67.73	7144	3965	55.50	1251	539	43.09	10689	3142	29.39	533	54	10.13	52258	29808	57.04	88
24	INDORE	34082	11312	33.19	4940	2667	53.99	2194	488	22.24	48934	34548	70.60	2105	380	18.05	92255	49395	53.54	2748
25	SEHORE	62211	30864	49.61	6994	4548	65.03	8417	2819	33.49	19367	12244	63.22	1572	561	35.69	98561	51036	51.78	193
26	KHANDWA	28991	16015	55.24	6422	3888	60.54	2220	1257	56.62	14673	5926	40.39	618	181	29.29	52924	27267	51.52	1046
27	ALIRAJPUR	7757	4079	52.58	3592	2347	65.34	1750	787	44.97	3499	1351	38.61	118	12	10.17	16716	8576	51.30	280
28	SHAHDOL	19353	10955	56.61	6605	4639	70.23	3894	743	19.08	22202	10423	46.95	710	294	41.41	52764	27054	51.27	229
29	SHIVPURI	18740	11539	61.57	9010	3748	41.60	1680	476	28.33	7580	3266	43.09	412	1	0.24	37422	19030	50.85	32
30	SHAJAPUR	39868	20415	51.21	8422	6157	73.11	3733	1031	27.62	15386	6366	41.38	775	186	24.00	68184	34155	50.09	170
31	MORENA	14380	4860	33.80	3074	2159	70.23	1852	517	27.92	14357	8927	62.18	658	426	64.74	34321	16889	49.21	457
32	VIDISHA	37819	17798	47.06	6955	3448	49.58	4174	324	7.76	17565	6852	39.01	335	185	55.22	66848	28607	42.79	551
33	DAMOH	34609	12944	37.40	7587	5369	70.77	4438	868	19.56	15375	5382	35.00	859	99	11.53	62868	24662	39.23	383
34	GUNA	26546	9863	37.15	4169	2329	55.86	1285	109	8.48	15537	4774	30.73	473	288	60.89	48010	17363	36.17	75
35	UJJAIN	35965	14623	40.66	11496	4571	39.76	3497	503	14.38	28721	7777	27.08	1777	1067	60.05	81456	28541	35.04	824
36	BHIND	17089	5365	31.39	4732	3321	70.18	2475	245	9.90	9180	2538	27.65	870	224	25.75	34346	11693	34.04	1038
37	BHOPAL	31692	11054	34.88	5122	3578	69.86	3181	329	10.34	28717	6286	21.89	1977	23	1.16	70689	21270	30.09	79
38	TIKAMGARH	33915	8450	24.92	6314	1597	25.29	1895	147	7.76	22286	6311	28.32	765	85	11.11	65175	16590	25.45	34
39	BARWANI	32438	12815	39.51	9180	4977	54.22	3029	700	23.11	43202	3572	8.27	813	155	19.07	88662	22219	25.06	1
40	SHEOPUR	10816	2691	24.88	973	832	85.51	3070	245	7.98	11377	2118	18.62	217	33	15.21	26453	5919	22.38	265
41	CHHATARPUR	33087	8355	25.25	6558	1477	22.52	2837	270	9.52	13352	2006	15.02	1182	342	28.93	57016	12450	21.84	209
42	SATNA	80091	18552	23.16	14107	2931	20.78	9559	977	10.22	33661	7666	22.77	1835	209	11.39	139253	30335	21.78	194
43	SIDHI	22689	6605	29.11	4752	1592	33.50	3835	219	5.71	42329	7547	17.83	1386	356	25.69	74991	16319	21.76	1055
44	UMARIA	13271	3150	23.74	4367	897	20.54	2259	168	7.44	2003	447	22.32	94	46	48.94	21994	4708	21.41	0
45	RAJGARH	76659	22041	28.75	10965	2321	21.17	6811	439	6.45	38064	3041	7.99	575	197	34.26	133074	28039	21.07	364
46	BURHANPUR	21280	4109	19.31	8454	2027	23.98	378	58	15.34	5254	723	13.76	363	51	14.05	35729	6968	19.50	711
47	GWALIOR	16492	2355	14.28	2453	731	29.80	672	112	16.67	20434	3736	18.28	1224	214	17.48	41275	7148	17.32	302
48	JHABUA	18230	2706	14.84	10821	1262	11.66	3928	343	8.73	5733	480	8.37	459	51	11.11	39171	4842	12.36	31
49	SAGAR	57486	6037	10.50	13706	1605	11.71	2515	144	5.73	39358	2626	6.67	1128	41	3.63	114193	10453	9.15	323
50	REWA	76897	6374	8.29	8783	873	9.94	3369	119	3.53	30365	1235	4.07	1175	12	1.02	120589	8613	7.14	-1
	Total	1556461	829731	53.31	393416	256434	65.18	161832	63785	39.41	920770	440003	47.79	43168	18253	42.28	3075647	1608206	52.29	14360

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