

ACCESS TO FINANCE IN MADHYA PRADESH: AN EXPLORATORY STUDY

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ABSTRACT

Access to finance refers to the possibility that individuals or enterprises can access financial services, including credit, deposit, payment, insurance, and other risk management services. Access to financial services allows the people to make investments to increase their source of income for smooth, safe and fulfilling lives. In spite of intense financial sector reforms in state of Madhya Pradesh, the picture of society in terms of access to financial services is changing very slowly. The present study is an exploratory study and it makes an assessment on the position of access to finance in state of Madhya Pradesh. This study is based on secondary data available on various website, journals and books. The assessment is based on indicators of access to finance like credit growth, deposit growth, growth in bank branches, growth in SHG-Bank linkage programme, growth in micro-insurance and microfinance poverty penetration index. The findings of the study highlights the status of efforts in access to finance to eliminate the poverty and increasing the source of income of people in Madhya Pradesh.

Keywords: *Microfinance, Savings, Financial services.*

Introduction:

Access to financial services allows people to make investments to increase their source of income for smooth, safe and fulfilling lives. The meaning of the term "Access to financial services" refers access to all kind of financial services, such as holding a savings or checking account, a debit or credit card, or being able to pay for public services in a branch bank or at an ATM machine, or the possibility of having a range of investment and savings options for short and long term (Solo and Manroth, 2006). Access to financial services will provide the unbanked and poor people an opportunity to build savings, make investments, avail credit, etc. and help them to ensure themselves against income shocks and equip them to meet emergencies such as, illness, death in family or loss of employment.

It protects the poor from the clutches of the injurious money lenders. Access to financial services also improves the community welfare. It strengthens the "savings culture", facilitates asset-accumulation, increasing capacity to deal with possible economic shocks and periods of financial difficulty.

In developing countries like India, most poor people are excluded from participation in the formal financial system, whether it is from access to credit, savings, or insurance etc.. The financially excluded sector in India consists largely of marginal farmers, landless labourers, self-employed small vendors (hawkers), unorganized sector enterprises, urban slum dwellers, migrants, ethnic minorities, senior citizens and women. About 36 percent of the Indian population lives on less than \$1 per day. Most of this population lives in the states of Bihar, Madhya Pradesh, Rajasthan, Chhattisgarh, Jharkhand, Uttaranchal and Uttar Pradesh, which are collectively known by the acronym BIMARU.

Since poverty is one of the persistent problems prevalent in the developing and under developed countries of the world and this statement is obvious by the fact produced by the World Bank Report (2008) showing that nearly 1.4 billion populations in developing countries is living on less than US \$1.25 a day. The United Nations Organization (UNO) in 2008 announced Millennium development goals (MDGs), and first of the eight MDGs is to eradicate poverty by

2015. Most of the developing countries including India is pursuing and practicing various policies to implement the same. Among those policies, one of the most important and effective one is Micro Finance.

As a big figure of the population (nearly 37.4%) of Madhya Pradesh state is considered as poor according to facts illustrated in (Srinivasan, 2007), it is a challenging task to provide access to financial services to such peoples living mostly in rural and remote areas. Financial inclusion is the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable Groups such as weaker sections and low income groups at an affordable cost. In an effort to improve the same, the central government has formulated two high-level committees (Committee for Financial Inclusion and Committee for Financial Sector reforms) to investigate the prospects to increase financial inclusion among peoples along with a good initiation of "no frills" accounts to reach to low income households. Achieving financial inclusion through formal banking system is a cumbersome task. Unavailability of adequate financial services like credit, insurances, and remittances to majority population at an affordable cost is a major roadblock for the growth of financial sectors. In this context, Micro-finance approach can be considered as an alternative solution to provide financial services to common section of the society.

Microfinance is a financial service of small quantity provided by the financial institutions like banks, NGOs, SHGs to the poor. These financial services include credit, savings, insurance, and money transfer etc. to meet normal financial needs of financially excluded peoples. It helps in improving the situation of access to finance in M.P. The present paper is an attempt to examine the present status of access to finance in Madhya Pradesh and issues involved in extending banking services to weaker sections of the society.

Microfinance in Madhya Pradesh:

Talking in Indian context, the concept of microfinance has evolved in past decade with the aim to raise the income levels and living standards of the people. The most notable effort is microfinance through Self-help groups (SHGs) which is an alternative system of credit delivery to the poor. SHGs were pioneered by NGOs and are now supported by the state, to create links between commercial banks and NGOs. Currently, status of the country from the perspective of Microfinance is not strong enough. In a work discussed in literature, it is estimated that 350 million people live below poverty line and only 5% of rural poor have access to microfinance.

According to a report (Srinivasan, 2007), the state of Madhya Pradesh occupies a total of 9.7% of area of the country, having 5.82% of the country's population (around 70 million according to census 2011). Of its

current population, 74% of the peoples are living in rural areas. It has also highest figure of tribal population. People living below poverty line constituted 37.4% of population with the proportion of poor being higher in urban areas (38.4%) than the rural areas (37%) (Srinivasan, 2007). The state is also having highest proportion of poor population among all Indian states.

Madhya Pradesh stands amongst top three poor states in India which shows the picture of financial exclusion in state. Several works and analysis have done on the issue of people who are unable to gain access to financial services, though they have a licit demand for the same.

If the number of households is estimated at around 13 million in the State, the number of credit accounts of weaker sections of people is around 20%. Of the number of households, below the poverty line are around 5 million approximately, those having access to credit at the end of March 2007 are about 57% (Srinivasan, 2007). This clearly expounds that the majority of poor households are outside financial services coverage.

The above specified report also illustrates that around two million peoples are under Microfinance coverage through Self-help groups (SHGs) and nearly 0.5 million peoples are covered through Microfinance institutions (MFIs). Many SHGs were made and encouraged under Government programs in MP.

Regional office of the National Bank for Agriculture and Rural Development (NABARD) in Bhopal (M.P.) has estimated that about 250,000 previously formed SHGs remain unlinked to any banks, despite that fact that some of these groups are several years old. This is important because SHGs require help beyond the formation stage if they are to be successful Newly formed groups often fall apart in the absence of continuing guidance, training and assistance. Because of a lack of continued monitoring and support, many of these groups are no longer functional (Srinivasan 2007).

According to a report, submitted to United Nations Development Program (UNDP) in 2010, the state had a total of 27 public sector banks in the State. Of these, 19 are nationalized banks, 6 belongs to State Bank of India and associate banks and also includes IDBI Bank (Solo et. al, 2006). Talking about financial inclusion in state of Madhya Pradesh, this report states that the number of accounts per 100 of population is 20 and per hundred of adult population is 39 as against the national average of 31 and 59 respectively.

According to the facts produced in State Level Banker's Committee (SLBC) of the state of Madhya Pradesh in a special FI SLBC meeting, state comprises of a total of 54903 villages, in which number of villages covered under financial inclusion with population over 2000 are 2736 in figure and number of villages covered with banking facilities are 5147 in

figure with an unreached figure of rest 47020 villages. An overview of above fact can be viewed in figure below:

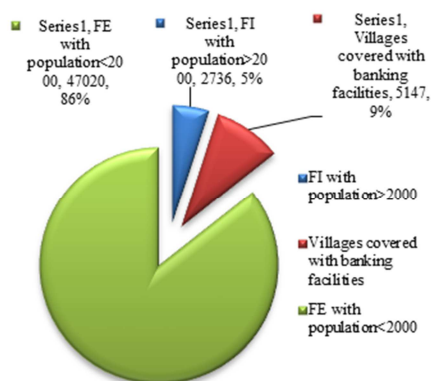


Figure: 2.3 Status of Financial inclusions in villages of Madhya Pradesh (FI: Financially included, FE: Financially excluded) [Source: SLBC, Madhya Pradesh]

Literature Review:

Several similar works can be found in the area to expound various scenarios and ways to access to finance in different regions. Claessens (2005) probed the evidence on the inevitable importance of finance for well-being of economy, provides data on the level of utilization of basic financial services by households and firms across countries. Findings of this paper showed that universal access is not easily achievable in most countries. There is a need to strengthen the institutional infrastructure, liberalizing their market and recommending advanced use of knowledge and technology. Finally he concluded that global actions directed at amending data on access and utilization and further analysis of areas help in identifying the constraint on broadening access.

In another Claessens, (2006) had examined the methods used to measure ease of firms accessing to finance such as econometric analysis of financial statements based on economic theory models and Surveys. This paper also discussed demand and supply side factors for firm’s access to finance with a conclusion that firm-level surveys become the preferred approach for measuring firm’s access to finance and barriers to access to finance.

work A perusal of literature on finance and economic development reveals that the earlier theories of development concentrated on labor, capital, institutions, etc., as the factors for growth and development. There have been numerous researches analyzing how financial systems help in developing economies. A great deal of consistency exists among economists regarding financial development prompting economic growth. Many theories have established that, financial development creates favorable conditions for growth through either a supply leading or a demand-following channel. According to Rajan and Zingales (2003), development of the financial system contributes to economic growth.

In a study Solo and Manroth (2006) had undertaken an initial overview of the state of access to financial services for low income clients in Colombia. Recent history of financial sector of Colombia suggests a decline in financial access. This report describes low incursion of basic financial services among low income people in Colombia as both a supply and demand side issue. Due to subsisting gap between demand and supply lead to exclusion of people from financial services. Colombia’s regulatory framework creates high barriers to entry in to the formal financial system.

Martínez (2006) dissected the factors that have precluded the development of a large and inclusive banking system in Zambia and highlights possible actions that may help improve access to finance in Zambia in both the short and long terms.

Similarly, in a work Beck et al. (2008) found drives to measure and analyze the impact of access to finance and discuss the unfinished research agenda. This paper analysed theories and empirical evidence and point out that better access to finance play an important role in promoting growth and reducing income inequality. Basu (2006) illustrated key findings of household survey specializing in finance sector access. It also analysed the problems and challenges in financial access and to evaluate the success, scalability, and financial sustainability of recent approaches and innovations. This report also provides a clear cut view over broader range of financial services and spectrum of financial services.

In a report Johnson et al.(2010) had presented the results from the household survey on access to finance in India which includes information on microfinance. This survey was the representation of Andhra Pradesh rural population. Key findings of this report were that a high percentage (93%) of rural population have loan from informal sources. Only 11% people have loan from MFI’S. Around three quarters (72%) of rural household had a member who belongs to SHG. Around 79% of household have a saving account but only 14% used for saving purpose. A large part of saving account (approximate 79%) either remain dormant or used only for receiving government benefits. This report concludes that government first step as well as expansion of microfinance sector had a tremendous impact on financial inclusion. Still some more efforts are required to understand the changing pattern of financial inclusion in other states.

In another work a detailed description of the financial environment for households and small businesses had been provided by Fischer (2010) in which they developed a new approach to get detailed information on financial needs of households and firms. He surveyed the providers of finance, ranging from large state and private banks, to moneylenders, shopkeepers and other households, with the aim of developing the first detailed approach to mapping an area’s financial landscape. Pilot testing is used for describing

preliminary findings. In future this paper would help in data collection and designing policy for inclusion and growth.

Badajena, Nirbachita and Gundimeda (2013) had examined the degree of financial inclusion through SBLP across sixteen states for the period 2008, against the backdrop of growing regional inequalities which the formal banking system faces across various regions in India. By using cross sectional regression technique, author examined the role of self-help group bank linkage model, banking density, financial literacy, and level of economic development in achieving financial inclusion across various regions in India. He concluded with positive impact that SBLP provide an alternative way to broaden financial services to unbanked section of the society.

Ardic et. al.(2011) illustrated the count of the number of unbanked adults around the world, along with the analysis of 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. Research indicated that Fifty-six percent of adults in the world do not have access to formal financial services. It's a reason of worry for both developing and developed world. Policy makers are working on improving access to financial services and building inclusive financial systems. Author concluded that access of deposit services had improved in 2009.

In another study Peachey et al.(2004) provided an overview of the importance of access to finance for all and to record the main obstruction to access in different parts of the world has been described. It had also tried to create a tenacious framework for examining the available data on access and to link this through to indicators of wider economic development. Sriram (2005) retrospectively examined the performance of formal institutional channels of microfinance and discusses the emergence of new forms of collaboration in the delivery of microfinance services. However, some tenacious issues in regulatory policies and institutional arrangements need to be dealt with so as to help the state leverage the resources available for the poor, effectively and in a sustainable manner.

Srivastava, Sanyal, Rao, and Chakraborty (2007) examined the multidimensional nature of rural poverty in Madhya Pradesh on the basis of a primary survey across 2,208 rural households spread over 11 districts. The survey has highlighted the incidence of extreme poverty in rural Madhya Pradesh, gender inequality in access to various publicly provided services and the ground realities with regard to the pro-poor fiscal intervention in these districts. The findings indicate that high unemployment rate, low literacy ratio, poor health services, poor infrastructure and unimplemented government schemes were the main reasons for poverty.

Rationale for Access to Finance In M.P.:

M.P. has made a significant progress in Access to Finance through a variety of initiative and business models in the recent past. However, a significant segment of the rural population, particularly the weaker sections and low-income groups continue to remain excluded from the most basic opportunities and services provided by the financial sector. In order to address the issue of such financial exclusion in a holistic manner, it is necessary to make sure that a range of financial services is available to every individual in the state.

The perusal of existing literature reveals that study in the area is focused on India, and other countries which give a broad view of the state. The same work is also focused over the states which stimulated fast towards remedial measures taken by Government for access to finance. In the work presented here, study is focused over a state which is in category of priority states and responding at very low pace. This work here presents reasons and suggests possible measures to pace up the same.

Objective of the Study:

This study is an attempt to explore the significance of Access to Finance in the context of one of India's largest state M.P. wherein a large population lives in rural areas and deprived of the financial services which are very much essential for overall economic growth. Main objectives of the study is to examine the picture of access to finance in Madhya Pradesh on the basis of basic access indicators like credit growth, deposit growth, growth in SHG-bank linkage programme, MPI & MPPI, no. of bank branches and micro insurance.

Methodology:

The study undertakes to recognize the objectives by employing a well-structured and more appropriate methodology. The approach and data collection methods are explained below.

The Approach:

Based on the well-accepted approaches for evaluation of the Access to Finance, the study employs the following criteria for understanding the extent of Access to Finance in Madhya Pradesh like analysis on the basis of the performance of micro finance institutions (MFI), analysis on the basis of coverage of rural population, along with deposit and credit growth, SBLP growth, analysis of MPI & MPPI, micro insurance and number of bank branches etc.

Data Collection:

The study is based on the secondary data available from the various sources. The data are sourced from the various websites and institutions, such as World

Bank, DFID, CGAP, Microfinance Gateway, Microsave and others. The relevant data have been sourced from organizations, such as RBI, NABARD, SIDBI, reports of various committees, National Sample Survey Organization (NSSO), Census National Accounts Statistics of Central Statistical Organization (CSO) and other apex level organizations. The required analysis has been done using easily understandable tables and graphs in order to point out the facts of the analysis.

Analysis and Discussion:

On the basis of few indicators, access to financial services among population of Madhya Pradesh has been tried to explore and analyse in comparison to India. In Table 1 in given appendix, it expounds deposit growth pattern among rural, semi urban, as well as urban Madhya Pradesh and India for last 4 years (Mar 2010-Mar 2013) with their percentage growth year wise.

Table 1 in appendix(See Appendix 1) shows deposit growth (in crores) of rural, semi-urban and urban Madhya Pradesh and India, and is observed that in last four years (2010-2013) deposit growth pattern of rural M.P. is better with marginal value than that of rural India. Similarly, for deposit growth pattern in semi urban area, Madhya Pradesh is improving better than that of India. And lastly in urban areas, Madhya Pradesh is fluctuating between 14-15% improvement which is much better than that of India which got declined to 11.92% in last four years.

Table 2 in appendix (See Appendix 1) illustrates credit growth pattern (in crores) for Rural, semi-urban and urban Madhya Pradesh and India and on comparative analysis, rural Madhya Pradesh growth pattern (on an average for last four years) shows no positive signs as compared to rural India which maintained an average of around 17.69%. Similar is the case when credit growth pattern of semi urban areas are compared. In urban areas of Madhya Pradesh is showing consistent movement in 17 % range, but if we consider the same for urban India, a sudden declination from 91.84% to 12.23% is seen. But if performance is observed(on an average) for last four years percentage growth of India is better than that of Madhya Pradesh.

Similarly, to illustrate the picture more clearly, following graph contains the comparative analysis of number of Self Help groups linked at the end of each of the three years [as found in Vision, Microfinance, 2007] in the states which were lagging behind the four southern states and were treated as priority states by NABARD for rapid scaling up of the programme. The graph shows up the low level of effort in MP as regards the Self-help group and bank linkage programme.

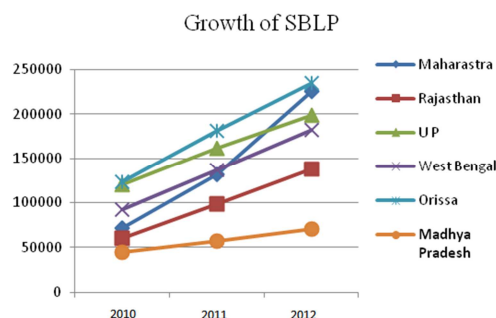


Fig 4.3 Comparative analysis for growth of SBLP in 7 priority states [Source: Vision, Microfinance, 2012]

The two other indicators which are also of utmost importance in expounding the state of the sector are MPI (Microfinance Penetration Index) and MPPI (Microfinance Poverty Penetration Index). The intensity of penetration of Microfinance has been computed by dividing the share of the state in microfinance clients by share of populations. Intensity of MPPI was derived by dividing the share of the state in microfinance clients by share of the state in population of poor. Since the microfinance clients are in the numerator, a value of more than 1 indicates that clients acquired were more than proportional to the population. Higher the score is above 1, better the performance. Lower the score from 1 which is the par value, poorer is the performance in the state. Following table and figures represents the poor and stagnant performance in the sector by Madhya Pradesh.

Table 4.3: Microfinance penetration index among 7 priority states [Source: Microfinance India: State of the Sector Report, 2008-2011]

	2008	2009	2010	2011
State	MPI	MPI	MPI	MPI
Maharashtra	0.97	0.9	1.03	0.57
Rajasthan	0.7	0.36	0.34	0.35
U P	0.37	0.18	0.38	0.36
West Bengal	0.99	1.45	1.48	1.53
Orissa	2.68	2.13	2	1.63
Madhya Pradesh	0.37	0.37	0.38	0.46

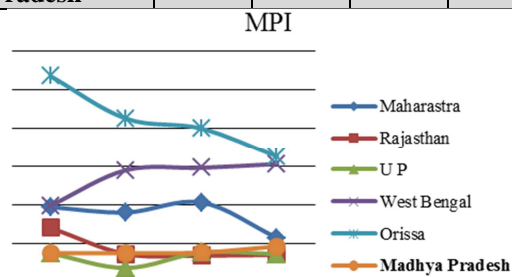


Fig 4.4 Comparative analysis of Microfinance penetration index among 7 priority states

[Source: Microfinance India: State of the Sector Report, 2008-2011]

Similarly on the basis of State of the sector report of last 4 years, progress of MPPI is shown below in following table 4.4 and figure 4.5, which again tells the same story about inert behavior of Madhya Pradesh.

Table 4.4: Microfinance penetration poverty index among 7 priority states [Source: Microfinance India: State of the Sector Report, 2008-2011]

	2008	2009	2010	2011
State	MPPI	MPPI	MPPI	MPPI
Maharashtra	0.87	0.8	0.92	0.5
Rajasthan	0.88	0.46	0.42	0.45
U P	0.31	0.15	0.32	0.31
West Bengal	1.1	1.61	1.65	1.67
Orissa	1.59	1.26	1.19	0.95
Madhya Pradesh	0.27	0.26	0.27	0.33

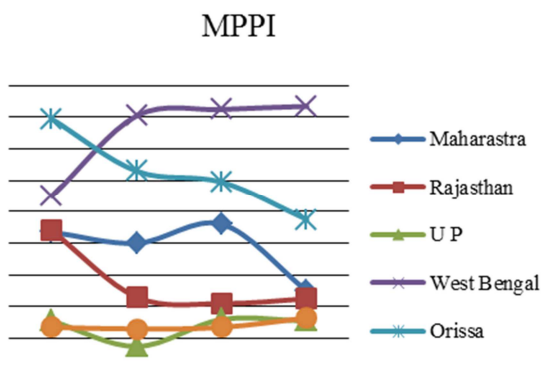


Fig 4.5 Comparative analysis of Microfinance penetration poverty index among 7 priority states [Source: Microfinance India: State of the Sector Report, 2008-2011]

In another report by CRISIL(India’s Top 50 MFIs, 2009), depicting 50 top MFIs of the country, their business and performance, does not include even one MFI belonging to Madhya Pradesh in its list. In M.P. 23 MFIs. Out of 23, 18 MFIs are NBFC-MFI. There are 50 districts in M.P., in which 33 are covered by MFIs. 17 districts are uncovered, there is a further scope for penetration. This fact shows the progress of financial inclusion in Madhya Pradesh is at very stagnant pace.

Table 4.5 Microfinance Institutions Outreach in M.P. [Source: <http://www.sa-dhan.net/files/sa-dhan-india map.htm>]

CATEGORY	DETAIL
Total MFIs in M.P.	23
MFIs with HQ in M.P.	9
MFIs with MFIN	18 with client outreach

	of 1,06,954
Gross loan portfolio of these MFIs	Rs. 68,570 lakh
Total credit reach	1,895,978 members
Total loan portfolio outstanding	Rs. 103,569.65 lakh
District served by MFI	33

Another metrics to evaluate the status is coverage of micro-insurance schemes implemented by SRLMs with a few insurance schemes like ‘Aam Aadmi Bima Yojana’, ‘Janshree bima yojana’, ‘Rashtriya swastha bima yojna’ and other agricultural and livestock insurance schemes. As per Microfinance India: State of sector report 2012, present status of Microfinance schemes for few states are shown below, which is again portraying the lagging picture of Madhya Pradesh, in comparison to other states like Bihar, Orissa, Andhra Pradesh etc. which can be seen in figure 4.6 below which expounds the coverage of micro-insurance in four states as per Microfinance India: State of the Sector Report, 2012.

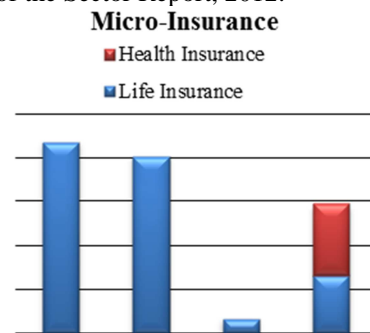


Fig 4.6 Coverage of micro-insurance in four states [Source: Microfinance India: State of the Sector Report, 2012]

Micro Pension and Remittance are two other indicators of access to finance. The penetration level of micro pension in M.P. is very low. Only few schemes like Swavlamban yojana, NPS-Lite is working in Madhya Pradesh. Swavlamban yojana provide pension scheme to all citizens in the unorganised sector, while NPS-Lite is a group model, which covering the weaker and economically disadvantaged sections of the society. Remittance does not seem to be a major activity in M.P. A lot of efforts are required for development in these areas. Another way to evaluate the same can be accomplished by examining growth rate of bank branches in Madhya Pradesh, which is shown in figure 4.7 which shows a slow growth rate of 17% in 2012 as compared to 2007 in Madhya Pradesh.

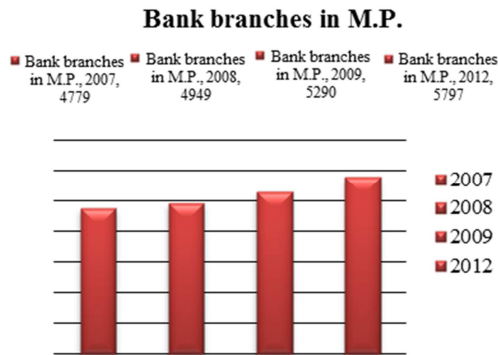


Fig 4.7 Growth of bank branches in M.P.
[Source: SLBC report, 2012 and UNDP]

Constraints to Access to Finance:

Few hurdles which are the major factors proving hindrance in the path of access to finance and are specified below from the literature reviewed:

i) Poverty

As major portion of the population in Madhya Pradesh is a part of rural areas, and as specified earlier, that, out of its current population, 74% of the peoples are living in rural areas. It has also highest figure of tribal population. People living below poverty line constituted 37.4% of population with the proportion of poor being higher in urban areas (38.4%) than the rural areas (37%) [N.srinivasan, 2007]. The state is also having highest proportion of poor population among all Indian states.

ii) Remote areas

As reviewed from the literature in [Vision microfinance 2012], Madhya Pradesh stood first in total tribal regions which are either inaccessible or remote areas, so this also proves as a hurdle for agencies working to improve situation of financial inclusion.

iii) Unavailability of banks and services

Due to geographical locations, such as hilly and sparsely populated areas with poor infrastructure and difficult physical access, banking services, sometimes becomes a tedious job to provide in full fledged manner.

iv) Lack of education and awareness

It can also be referred as financial illiteracy in which rural population is unaware of pros and cons of financial services.

v) Uncertainty and risk of repayment

Due to low income and low assets of households, it becomes risk prone to provide financial services as there is least guarantee of repayment.

vi) Lack of credit information in rural and remote areas.

Documentation process in rural and remote areas becomes cumbersome as KYC details are incomplete in most of the cases.

Efforts to Improve the Situation:

The present status of access to financial services in Madhya Pradesh is discussed and so far concluded that a lot of efforts are still needed in the field to ameliorate the situation despite of hurdles more than opportunities. Nevertheless, the efforts of banks, various NGOs and Government are showing results gradually. Before discussing the efforts to improve the situation, few key players who are contributing and performing for the same are illustrated in brief.

National Bank for Agricultural and Rural Development (NABARD):

NABARD was established in 1982 as a development bank for providing and regulating credit and other facilities for the promotion and development of agriculture small scale industries, cottage industries handicrafts and other allied economic activities in rural areas. UNDP run a project (Financial Inclusion 2009-2012) in collaboration with NABARD in seven UNDP focus state, in which M.P. was one of the state. Main objective of this project was access to affordable range of financial products and services that reduces the vulnerability of the poor and provide new livelihood opportunities.

i. Reserve Bank of India (RBI):

The Reserve Bank of India (RBI) is India's central banking institution, and it was established on 1 April 1935 during the British Raj in accordance with the provisions of the Reserve Bank of India Act, 1934.

In 1991-92 a pilot project for linking up SHGs with banks launched by NABARD in consultation with RBI. In 1994, the RBI constituted a working group on SHGs. On the recommendation of the SHGs would be reckoned as a part of their lending to weaker sections and such lending should be reviewed by the banks and SLBC at regular intervals.

RBI defined financial inclusion as providing all households in the district with a no frills savings bank account if they desired one. In addition to no frills savings accounts, Reserve Bank of India undertook three other initiatives:

1) Kisan Credit Card (KCC):

A credit card for agricultural use issued to all poor and marginal farmers, owning two to five acres of land. Although the scheme leaves out farmers with less than two acres of land, it has the ability to reach many excluded small acreage farmers who previously were not able to borrow from the formal banking sector due to the reluctance of banks and MFIs to lend for agricultural purposes. According to SLBC report, progress of banks under KCC as on December 2012 is shown in following table 6.1-

Table 6.1: Progress under KCC as on Dec'12
[Source: SLBC, Madhya Pradesh]

Banks	Target	Achievement	%Achieved
Commercial	377142	344213	91
RRB	118538	52371	44
DCCB	600000	227388	38
TOTAL	1096580	623972	57

2) Banking Facilitator and Banking Correspondent Model:

This project allows any civil society organization, including NGOs and MFIs, to become a “Banking Facilitator and Correspondent” for the banks. This model allows banks to do “cash-in/cash-out” transactions in rural areas where an official bank branch is economically unviable i.e. Ultra small branches. For e.g. State Bank of India is working for ensuring 100% financial inclusion in Madhya Pradesh. SBI has joined hands with All India Society for Electronics and Computer Technology (AISECT) Bhopal by appointing them as their Business Correspondent and Business facilitator for the state of Madhya Pradesh & Chhattisgarh. AISECT has installed Rural Banking Kiosks at 382 places in both these states. AISECT has selected 205 Channel Partners and appointed them as Business Facilitator. AISECT has been able to do a business of around Rs. 36.72 crore under BC and BF model within a very short period and expect to double the turnover very shortly.

3) Financial Literacy Campaign: Although this is an important component of RBI’s campaign, at present it focuses on the distribution of comic-book style pamphlets and posters in which clients are informed about available banking services and schemes. The main targeted groups are farmers and school children. Considering that a large part of the financially excluded population is illiterate, the written material may not be sufficient or effective.

ii. Self Help Groups (SHGs):

The origin of SHGs is from the Grameen Bank of Bangladesh. SHGs were started and formed in 1975. SHGs proved to be a boon to life of rural poor, women empowerment. The main characteristics of SHGs includes (i) Its ideal size spans from 10 to 20 members. (ii) It need not be registered. (iii) One family, one member, covers more peoples etc.

Since SHGs have been able to mobilize savings from persons or groups who were not normally expected to have any savings and also recycle effectively the pooled resource among the members.

According to a NABARD report [Status of Microfinance in India, 2011-12], 37 out of 50 districts in M.P. are under low coverage of SHGs. The same, states that average savings per SHG in Rs 6864 against the national average of Rs 8230. Below specified is the current status of Madhya Pradesh:

Table 6.2: SHG coverage ratio of Madhya Pradesh
[Source: NABARD, Status of Microfinance in India, 2011-12]

1	Potential rural households to be covered	62.09 lakhs	
2	Rural household covered	21.27 lakhs	
3	Districts with low coverage of SHGs	37 out of 50	
4	Average savings/SHG National average: Rs 8230	Rs 6864	
5	Average credit disbursed/SHG National average: Rs. 144046	Rs. 109064	
		2010-11	2011-12
7	Loans issued No. of SHGs (lakh)	0.08	0.09
8	Loans issued (crore)	115.33	95.44
9	Loans outstanding (crore)	379.53	414.08

In comparison to other states, as illustrated in report a state wise comparison is presented for percentage of districts with low coverage of SHGs and is specified graphically in figure 6.1 below:

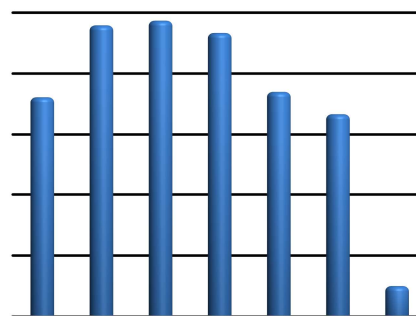


Figure 6.1: Percent of districts with low coverage of SHGs [Source: NABARD, Status of Microfinance in India, 2011-12]

iii. Micro Finance Institutions (MFIs):

The mechanism of directing credit to the poor through sponsored programs has suffered from poor recovery rates that had made an adverse impact on the recycling of credit. A mismatch also seen between what the poor needed, in terms of products and its delivery mechanism, and what conventional financial institutions could offer. So to fill that gap arise due to the mismatch, MFIs have emerged. MFIs can be

defined as the institutions other than banks that are engaged in provision of financial services to the poor. MFIs can be broadly classified in three categories:

- a) Not-For-Profit MFI
- b) Mutual MFIs
- c) For Profit MFIs

Some of the active participants in the field are Vikas Samiti, Yukti Samaj, Pararth Samiti, Lok Biradari, Vama microfin, Sambhav SSO, Sonata fin, SKS, Anupama Education Society and others.

iv. Non-Government Organizations (NGOs):

A NGO is a legally constituted, non-governmental organization created by natural or legal persons with no participation or representation of any government. Such agencies receive funds by the government but exclude government participation in operations.

v. Efforts by State Government:

The state built a common database of its inhabitants through its Samagra Samajik Suraksha Mission (SSSM). Under this mapping mission each family and every individual received a unique identification number. The unique identification number is called the Samagra Number and contains within it all the information relating to the location of the individual and the household as well. Subsequent to setting up a common database with a single bank account number, it was ensured, through careful coordination, that all the funds from all the schemes of the State government and the Central government go to the same bank account unlike the situation previously prevalent where each scheme had its own distinct disbursement structure. Apart from the efforts stated above, many other development activities are initiated by Government agencies, few of which are enlisted below-

Table 6.3 Development activities initiated by Govt agencies [Source: websites of M.P. government and GOI.]

Programme	Outreach	Benefits
MPDPIP-1	326000 villagers	Led to 18 producer companies
MPDPIP-2	Expected to cover 1.455 million people	Leading to producer companies & MACS
MGNREGS	-	Creating employment
NRLM	310245 SHGs	Creating rural livelihoods
Antyodaya Swarojgar yojana	-	Helping 7000-8000 SC/ST persons BPL to come out of poverty
PMEGP	-	To support unemployed youth &

		traditional artisans with livelihoods
Tejasvini	12289 SHGs	Forming & nurturing SHGs with MF and livelihoods

Along with all these efforts, the most notable approach to improve access to finance is the SHG-Bank linkage program by NABARD. The growth of SHG-Bank linkage is remarkable.

Conclusion:

The overall performance of Madhya Pradesh cannot be termed as satisfactory. As illustrated in preceding sections that Madhya Pradesh is growing up in the sector, with all facts like increased number of MFIs, SBLPs, number of bank branches etc, but all this progress in Madhya Pradesh in terms of access to finance is at very low pace and can also be termed as stagnant. This can be concluded from the facts shown in aforesaid sections that performance of deposit growth is hampering in rural areas specially. Similar case is observed in credit growth pattern also. Another indicator chosen i.e. SBLP is showing satisfactory improvement if compared with preceding years but lowest when compared with other priority states. In another metrics, i.e., MPI and MPPI, Madhya Pradesh is among poor performers with index less than 1 in all succeeding years. Subsequently evaluating the same on the basis of growth in number of bank branches which keeps on growing each year but at very low pace. Lastly, status of micro insurance and micro pension is still needs to be considered and deployed in Madhya Pradesh.

In order to achieve the goal of total financial inclusion, all financial institution and policy making bodies has to work together. In addition to cooperation, they should also fund financial education programs that allow their citizens to realize the economic potential of microfinance. Basic financial literacy programs can help achieve better results in poverty alleviation and improved access to finance status.

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Appendix 1

Table 1: Deposit growth pattern In Madhya Pradesh and India [Source: RBI]

	Rural				Semi Urban				Urban			
	M.P.	% Growth	India	% Growth	M.P.	% Growth	India	% Growth	M.P.	% Growth	India	% Growth
Mar 2010	15295	-	423502	-	25056	-	618207	-	78984	-	3560217	-
Mar 2011	17602	13.11	496857	14.76	29764	15.82	721202	14.28	92210	14.34	4208451	15.40
Mar 2012	20045	12.19	578211	14.07	34556	13.87	848446	15.00	114352	19.36	4747490	11.35
Mar 2013	24444	18.00	674844	14.32	40960	15.63	986357	13.98	135416	15.56	5390131	11.92

Table 2: Credit growth pattern in Madhya Pradesh and India [Source: RBI]

	Rural				Semi Urban				Urban			
	M.P.	% Growth	India	% Growth	M.P.	% Growth	India	% Growth	M.P.	% Growth	India	% Growth
Mar 2010	11532		249804		13804		320372		46021		277544	
Mar 2011	12407	7.05	294104	15.06	14803	6.75	383072	16.37	56092	17.95	3399692	91.84
Mar 2012	16168	23.26	418227	29.68	17630	16.04	456831	16.15	62774	10.64	3946370	13.85
Mar 2013	17958	9.97	456188	8.32	21786	19.07	554201	17.57	76032	17.44	4496107	12.23
