



Conference Report

Karnataka State FINANCIAL INCLUSION CONCLAVE

18th October 2022 | Bengaluru



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TABLE OF CONTENTS

1. Introduction.....	5
2. Inaugural Session: Reflections and Perspectives	6
3. Session 2: Status of Financial Inclusion in Karnataka.....	10
4. Session 3: Microfinance Sector, contribution, opportunity, and challenges.....	13
5. Session 4: SHGs and FPOs- Building up convergence to promote better inclusive finance in the state of Karnataka	16
6. Valedictory Address.....	20

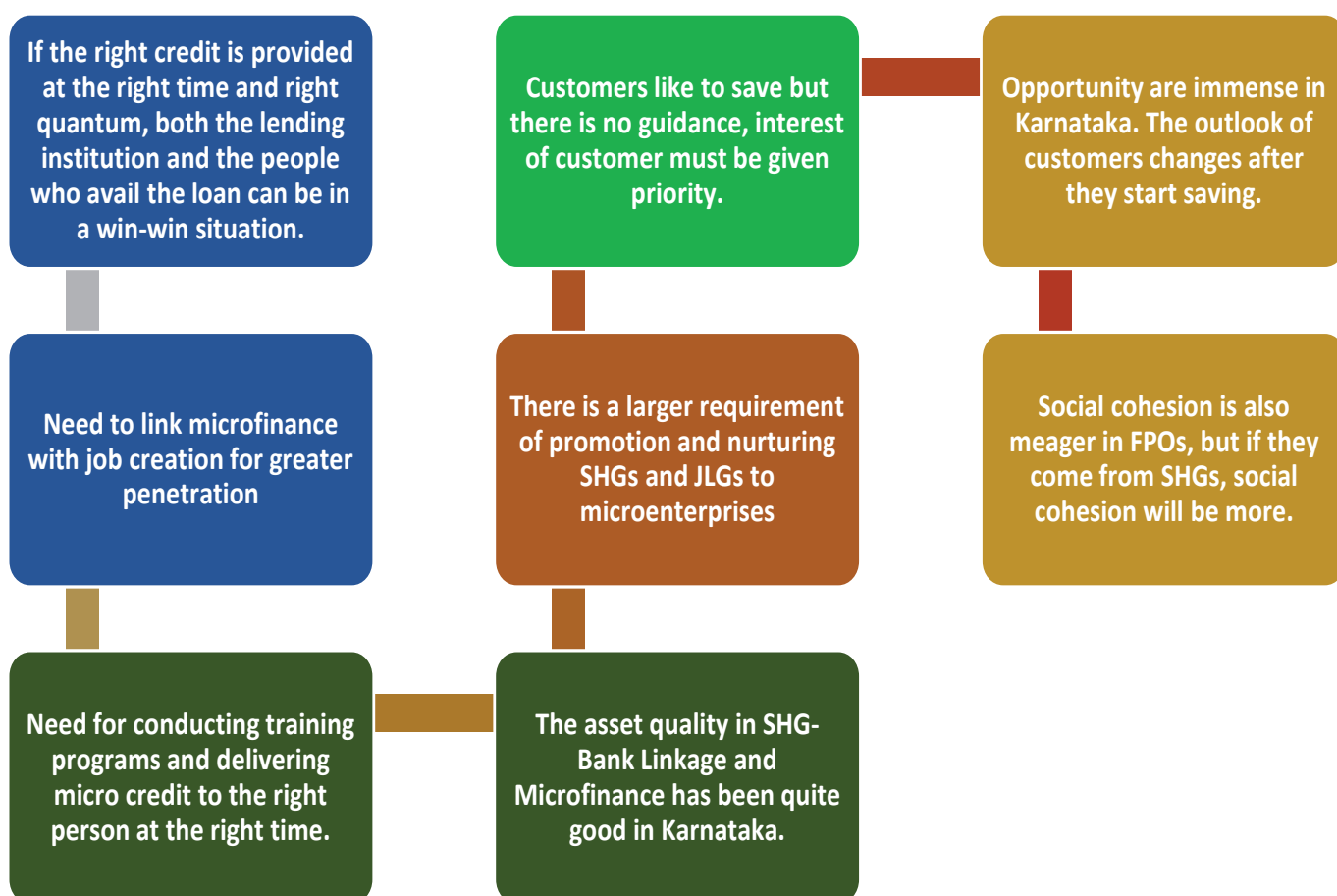
AGENDA

Karnataka State Financial Inclusion Conclave

Date: 18th October, 2022 | Bengaluru

Time	Session
9.30 AM to 10.10 AM	Registration
10.10 AM to 10.20 AM	Welcome & Introductory Address
10.20 AM to 11.10 AM	Inaugural Session: Reflections and Perspectives
11.10 AM to 11.20 AM	Panel Discussion: Status of Financial Inclusion in Karnataka
11.20 AM to 11.40 AM	Tea Break
11.40 AM to 12.30 PM	Panel Discussion: Microfinance Sector, contribution, opportunity and challenges
12.40 PM to 01.30 PM	Panel Discussion: SHGs and FPOs –Building up convergence to promote better inclusive finance in the state of Karnataka
1.30 PM to 1.40 PM	Valedictory Address
1.40 PM to 1.50 PM	Summing up and Way Forward
1.50 PM to 2 PM	Vote of Thanks
	Lunch

KEY TAKEAWAYS



1. Introduction

Financial Inclusion plays an important role in inclusive growth. Karnataka has been one of the frontrunners in Financial Inclusion in the country. With the support of NABARD, Sa-Dhan has been organizing State level financial inclusion conclaves in various States. Karnataka State Level Financial Inclusion Conclave was held on 18th October 2022 in Bengaluru, Karnataka. It was organized by Sa-Dhan and supported by NABARD, which aimed at promoting an enabling environment for Financial Inclusion in Karnataka. The Conclave brought various stakeholders in the financial inclusion space and deliberated on the present status of Financial Inclusion in the state.

The conclave comprised four sessions including the inaugural session. There were speakers from the RBI, NABARD, Banks, MFIs, Academicians, Small Finance Banks, Microfinance institutions, and Technical support agencies. These sessions focused on the present status of Financial Inclusion in the State, Opportunities, and Challenges ahead. This report presents the key insights derived from the deliberations held in these sessions.

Shri Jiji Mammen, CEO and Executive Director, Sa-Dhan made the introductory address and welcomed the dignitaries at the conclave. In his address, Shri Jiji Mammen threw light on how Financial Inclusion has evolved over time and how it has diversified and reached the last mile.



Some key highlights from the introductory address are as follows:

- The various initiatives on Financial Inclusion started in the 1900s, with the passing Cooperative Society Act, which came into force in 1912 that provided financial services to farmers. Subsequent to Independence, several steps were taken such as bank nationalization, lead bank scheme, launching of Regional Rural Banks, etc.
- The SHG bank linkage program gave the actual impetus to Financial Inclusion on a mass scale, wherein the poor households were brought under the folds of banks for meeting credit needs through SHGs.
- The real push to Financial Inclusion in India was given by the PMJDY under which 42 crore accounts were opened and more than 1.4 lakh crores have been mobilized as savings accounts.

- Financial Inclusion is a wider term, covering a whole lot of financial services for poor people such as facilities for savings, pension, payment systems, remittance, insurance, and giving the right credit at the right time.
- Microfinance sector plays a vital role in enhancing financial inclusion in India.
- Total portfolio of Microfinance in India is almost more than Rs 3 lakh crores.
- Right quantum of credit when provided at the right time can be a win-win situation.
- Karnataka is the birthplace of the Self-Help Group-Bank Linkage program with a pilot programme of MYRADA and NABARD.
- In Karnataka, the total portfolio of MFIs is Rs 18000 crore, with 50% share by Microfinance Institutions, 40% by banks, and the rest by other institutions.
- The next steps should be credit intensification, scaling up of micro-enterprises, and ensuring better products are developed and market linkages can be created.



2. Inaugural Session: Reflections and Perspectives

Moderator: Prof M.S. Sriram, Centre for Public Policy, IIM Bangalore

Speakers:

Shri Debananda Sahoo, CGM, Canara Bank

Dr. K.S Mahesh, GM, NABARD

Shri Sudhir Madhavan, Head Micro Banking, Jana SFB

Shri NAME Biswas, AGM, RBI



Shri Sudhir Madhavan, Head Micro Banking, Jana SFB, elucidated how Jana Bank has evolved to a bank from an NBFC MFI providing both assets and liabilities to the customers as well as identifies the needs of the customer.

The key highlights of the discussion were:

- Microfinance is generally related to microcredit. In microfinance, after two to three cycles, institutions develop a sense of confidence in the customer and that helps the lenders to provide a higher quantum of loan on an individual basis.
- There is a notion that poor people do not save, but this is not the reality. Savings help people to gain confidence about the future and when they start saving, complete financial inclusion comes to play.

- In Karnataka, the experience is much better than the other states and today there is almost Rs 300 crores on the balance sheet of Jana SFB on account of savings. The number of SHGs have grown to 1.86 lakh crores with significant saving, especially in Odisha. It has been the case with Odisha also, as told by Mr. Sahoo.
- The knowledge level of banking including Financial Literacy is healthier in Karnataka compared to other states.
- The pandemic and demonetization have created issues in the liquidity of money, and in the post-pandemic, the concept of the group (JLG) is breaking down. Hence, there is a greater need to conduct training programs and deliver microcredit to the right person at the right time.

Shri Debananda Sahoo, CGM, Canara Bank, and Head of Bengaluru LHO gave a clear picture of the financial inclusion in the State.

The key highlights of the discussion were:

- There is a notion that financial inclusion is saturated, but that is not the case as there are several households that are yet to be included under the banking fold in Karnataka.
- There has been an extensive door-to-door survey in some villages with respect to Kisan Credit Card (KCC) fisheries, KCC animal husbandry, KCC allied activities, and social security schemes and it was observed that some households are yet not included.
- In Karnataka, there are 1674 branches of Canara Bank and more than 10,000 banking correspondents will be added within December 2022.
- There are more than 31,000 active Self-Help Groups in Karnataka.

Dr. K.S Mahesh, GM, NABARD, elucidated the journey of microfinance, especially SHG Bank linkage, which started as an action research project in 1987 and culminated in the pilot project in 1992. After 30 years of SHG-BLP, in which 500 SHGs planned to be promoted in 1992, has gone up to 1.19 lakh crore SHG today.

The key highlights of his deliberation were:

- There has been phenomenal growth in the Microfinance sector.
- In 2005, the JLG model was promoted, and currently, almost 3 lakh crore groups exist on the canvas of the Indian rural economy and are operating under different capacities.



- The outstanding from Banks for SHGs is at Rs 1.51 lakh crores as on 31 March 2022.
- The 36 years of SHG BLP from the action project with MYRADA in 1987 can be divided into three categories. The first twelve years as the pilot project and RBI recognized it as the priority sector. The next twelve years as the stabilization phase and then the last twelve years as the growth phase reaching nearly 1.2 crore SHGs as of date.
- In Karnataka there is Rs 25,000 crores outstanding in JLG, where 15.5 lakhs JLG are credit linked. The NPA is not more than 3%. (need to be elaborated a little more)
- The recovery rate in the microfinance sector is of utmost importance. There is almost 100% recovery, in spite of various glitches faced by the industry.
- Inclusiveness and inclusive growth were the two factors that were the central idea behind the SHG-BLP movement.
- There is a lot of synergy between Banks and Microfinance Institutions. Need to work on promotion and nurturing SHGs and JLGs to microenterprises.

Shri Biswas, AGM, RBI the last Speaker at the event spoke on financial products. A few of his observations are shared here: (Name)

- There is still a lack of awareness about financial products. Many villages have yet to have knowledge about social security programs.
- There is a tremendous amount of paperwork in banks, however, the money-lenders provide credit in the shortest time. The formal lenders need to move into a mode of solving the needs of the borrowers quickly.
- The RBI has developed a Financial Scale Index on a scale of 0-100, with 0 as complete exclusion and 100 as complete inclusion. There are 97 parameters and three indices, namely, usage, availability, and access.
- National strategy for financial inclusion 1.0 is currently in operation till 2024. There has been an introduction of the Center for Financial Literacy (CFL). The work for the next phase has already started and is likely to be implemented from 2025
- In Karnataka, there are 18 CFLs, three from contiguous blocks, the total outreach is 18 districts 38 CFLs in 114 blocks with the help of two NGOs, Dhan foundation and Motherson.

Observation by the Moderator:

We need to understand that cumulative is easier to achieve than the residual. The achievements are substantial but there is room for betterment and the journey is never-ending. It is because of intervention of banking and microfinance there is a definite improvement in the lives of the poor. There may be a need to redefine poverty and as well as the services from the microfinance institutions.

3. Session 2: Status of Financial Inclusion in Karnataka

Shri Karthick Ramadas, Vice President, Sa-Dhan gave a comprehensive picture of Karnataka's state profile and discussed at length the present scenario that exists in the state. The key highlights of the discussion were:



- Karnataka is a cradle of financial inclusion as seven Banks have emerged from the State. The Rural Self Employment Training Institute program also emerged from Karnataka.
- There are 11,654 branches out of which 4242 are rural and 2642 in semi-urban. Canara Bank, State Bank, and Karnataka Grameen Vikas Bank have the highest number of branches in the State.
- There are 8669 active Banking Correspondents (Leading are SBI, Bank of Baroda, Canara bank, KGB) and 136 functional Financial Literacy Centers
- In 2021-22, Rs 2.18 lakh crores was the target under priority sector lending (PSL). 75% of the target has been achieved.
- There are 44.98 lakh KCC holders, Rs 53,734 crores loan outstanding, an average of Rs1.14 lakh disbursed.
- Since 2016, 1.08 crores farmers enrolled under crop insurance scheme, 51.48 lakhs benefited, the average amount is Rs 12,952/-
- State has a CD ratio of 68.24%
- Udupi, Uttar Kannada, Dakshini Kannada, and Bangalore Urban have CD ratios less than the State average.
- Chamrajnagara, Davanagere, Haveri, Mandya, Raichur, Chikkaballapur have CD ratios higher than 100.
- SFBs have a higher CD ratio.
- State is one of the frontrunners under Microfinance and SHG-Bank Linkage.
- SHG-Bank Linkage in Karnataka of Rs 20,000 crores (2nd) and Microfinance portfolio of Rs 24,142 crores(3rd).
- The asset quality in SHG-Bank Linkage and Microfinance has been quite good in Karnataka.
- Leading MFIs, SFBs, and BCs in the country have emerged from Karnataka.

4. Session 3: Microfinance Sector, contribution, opportunity, and challenges

Moderator: Shri Vivekanand Salimath, Chairman IDF, Ex Board member Sa-Dhan

Speakers:

Shri Naveen, COO, IIFL Samasta Finance

Dr. Diwakar Hegde, MD, NABFINS

Shri Anand Rao, Joint MD, Chaitanya India Fincredit

Shri Gadiyappanavar, CEO, Sanghamitra

Shri Kishore Mangalvedhe, COO, Fincare Small Finance Bank



According to Shri Kishore Mangalvedhe, COO, Fincare Small Finance Bank, Karnataka has a lot of opportunities. Few other points mentioned were:

- SFBs can provide a holistic service covering not only credit but also insurance, savings, and even more.
- SFBs can bring down the cost of loans as they have access to deposits.
- Microfinance customers are interested in saving but are deprived from proper facilities.
- There are immense Opportunities in Karnataka. The outlook of customers changes after they start saving.
- Shri Anand Rao, Joint MD, Chaitanya India Fincredit, while speaking at the event mentioned that the microfinance sector in Karnataka has a penetration of 30%. In any village in Karnataka, there is a microfinance customer. The key highlights of the discussion were:

- If group lending is made more efficient more growth is possible.
- Microfinance is a tech and touch model and tech alone cannot make it successful.

Dr. Diwakar Hegde, MD NABFINS, shared his thoughts based on his experience at NABFINS. The key highlights of the discussion were:

- Microfinance Institutions must cater to those people who are not served by the regular competition.
- NABFINS has its own dynamics which makes it close to the customer.
- There is a need to innovate and bring new products for the customers.
- Rationalizing the rate of interest is needed. The new regulation provides varying interest rates based on risk and other parameters.
- Post-COVID collection rate has gone up.
- Microfinance is successful if you are in regular touch with the borrowers. Technology cannot replace the high-touch model in Microfinance.

Shri Naveen, COO, IIFL Samasta Finance discussed the importance of innovations and gauging subtle signals from the customers in providing convenient options to the customer. He observed that every crisis teaches something and is a boon in a way.

- The demonetization that shook the entire Indian economy gave impetus to online disbursement and moved towards digitalization.
- Online disbursement and a larger quantum of disbursement per day have been game changers.
- Electronic sign-in has started in about 20 branches to improve the efficiency of the system. Further, electronic Know Your Customer is also on the cards. Reducing cash at branches and encouraging digital collection is the way forward.

Shri Gadiyappanavar, a CEO, of Sanghamitra, discussed the SHG concept and observed that there was a serious threat to SHG's existence.

- In the last fifteen years, there has been a paradigm shift in the way SHGs have evolved. There is a vast difference between the quality of SHG before 2010 and the quality today
- SHGs were promoted with the ideology of building a social movement and lending was a secondary aspect. The philosophy of SHGs is slowly losing.
- Post-COVID things are improving as people are meeting. A weekly meeting is ideal although it is not happening
- Rotation of leadership and bookkeeping are two facets that need to be taken care of.
- Management skills and governance has improved within the SHGs.
- SHGs need to be nurtured for which NABARD support is needed. There is a need to sensitize politicians and Governments about microfinance.
- More of State level meetings need to be conducted.

5. Session 4: SHGs and FPOs-Building up convergence to promote better inclusive

Moderator: Dr. Saibal Paul, Associate Director, **Sa-Dhan**

Speakers:

Shri Rajesh, DGM, State Bank of India

Dr. K.S Mahesh, GM, NABARD

Shri Anil Kumar, COO, **SKDRDP**

Shri Sridhar Easwaran, Head, **Samunnati Foundation**

Shri Krishnamurthy, Senior Manager, **VRUTTI**



Shri Anil Kumar, COO, SKDRDP, said that Microfinance and BC model are two distinct models for financial inclusion. Microfinance is that bridge where bank or BC could not reach and that gap is filled by the Microfinance sector.

- BC model is well structured and the benefits to the clients are defined. It is the right model to reach the unreachable areas by banks, thereby ensuring total financial inclusion
- Fin-techs is booming and they have a database and products like the digital loan is reaching white-collar people easily. It is not far away when they reach the remote people, causing a challenge to the microfinance sector.

Shri Sridhar Easwaran, Head of Samunnati Foundation, said that Samunnati is not a microfinance company because they work with the entire value chain of a small farmer that goes up to a large institution player who can be a processor of a commodity. The ticket size can be Rs 5,000 to Rs 20 crores. A few other points that were discussed are:

- The FPOs were promoted to take care of the smallholder farmers.
- In India 85% of farmers with less than 2 acres of land are always at the mercy of moneylenders and are never able to make money.
- In the aggregation model, all the member farmers can come together and do their activities through FPOs, work collectively so that cost of cultivation comes down. FPOs working in a particular block engaging 1000-2000 farmers, will not be possible to meet each farmer and hence formed the Farmers' Interest Group.
- In FPOs members can avail of other services like inputs, and market linkages. It can also do financial intermediation as they have the database of all members of an FPO
- An FPO works on input and output, no banks were ready to give them the working capital and hence Samunnati came forward to give them the working capital.
- There is a huge opportunity for microfinance to get into an entrepreneur program.

Shri Krishnamurthy, Senior Manager, VRUTTI, said that they work with 32 FPOs in 9 states, and they have a three-fold structure, which is wealthy, resilient and responsible. They are with the FPO on a long-term basis. FPOs can be made sustainable through market linkages.

- Produce that farmers have at different levels is aggregated.
- Engaged in setting the entire value chain from input to output. Whether it is a raw product or through processing.
- It is majorly finance which helps them sustain FPOs.



- Have developed a model to do an assessment and their credit worthiness which will further help the sector to avail of finance

Shri Rajesh, DGM, State Bank of India elucidated the lender's perspective and at SBI, we are working in all areas, SHG, FPO, microfinance.

- It is very difficult for banks to finance SHGs and FPOs. Hence the BC model is adopted. SKDRDP, a BC for the bank, has Rs 2000 crores of sanctions, disbursement of 800 crores.
- Use of POS for BCs is essential as they create MIS which can later help in tracking.
- FPO is new concept for in the system which has great opportunity.
- Selling processed farm produce with a higher price should be the role of FPO by which member farmers can benefit.
- Idle facilities with the Government should be extended to the FPOs which will help them to do processing etc.

Dr. K.S Mahesh, GM, NABARD, said skilling of SHG and JLG members are important to take forward the financial inclusion agenda and NABARD has been involved in it. Though NABARD is not providing support for the promotion of SHGs, it is providing training for skill development entrepreneurship. Also, it is promoting JLGs of farmers to ensure credit availability.

- NABARD has been supporting RRBs and Cooperative Banks on technology enhancement and providing ATMs.
- NABARD is extending refinance support to MFI.
- The three subsidiaries of NABARD (NABFINS, NAVSAMRUDDHI and NAVKISAN) are also supporting funding of MFIs
- Social cohesion is meager in FPOs, but if they are formed out of SHGs, social cohesion will be more.



Valedictory Address

Dr. Diwakar Hegde, MD NABFINS, in his valedictory address maintained that Microfinance is a matured industry in India with two and half decades in operation. There is a code of conduct in the industry.

- The customer's interests are protected and the industry is also resilient amongst various crises like Andhra, demonetization and COVID pandemic.
- Goal of microfinance is social and financial empowerment of women.



Major takeaways

1. Microfinance serves as a nursery for the entrepreneurs. Graduation to higher loan amount and higher activities is to be encouraged
2. Microfinance needs to have technology intervention. But the high touch should continue
3. Financial inclusion although has improved a lot, it is yet to reach saturation
4. Synergy between Banks and MFIs is needed to sustain the financial inclusion agenda
5. The relevance of microfinance will continue, even if financial inclusion is fully achieved, by modifying its products and process
6. MFIs need to reach out to all geographies rather than sticking to a certain area

7. The rationalization of interest rates in MFIs is needed
8. Innovation in microfinance is the key to its sustenance and growth
9. The operations of the MFIs need to be improved and efficient through technology interventions such as e-KYC, e-signing etc.
10. Quality of SHGs is deteriorating. There should be an effort by Government/ NABARD to improve the same.
11. Proper bookkeeping and rotation of leadership are the keys of better SHG management
12. FPOs need to engage in processing so as to bring better value to the farmers.
13. The banks/ financial institutions should address the entire value chain in agriculture to reap better value.
14. The financial institutions should see the FPOs more in a relationship mode than as a transactional one.
15. The idle facilities with state Governments should be extended to well-functioning FPOs for their better utilization and to benefit the farmers.
16. FPOs could also be developed as financial intermediaries.
17. There is a need to create awareness about microfinance among various politicians and governments as it is misunderstood many times.
18. Sa-Dhan should do similar state level events more frequently.



GLIMPSE











Sa-Dhan is an association of Impact Finance Institutions and an RBI appointed Self-Regulatory Organization (SRO) for Microfinance Institutions. Sa-Dhan is the first and largest association of community development finance institutions in India formed over two decades back for supporting and strengthening the agenda of fostering Inclusive Impact Finance in India. It strives for creating a better understanding of the microfinance sector among policymakers, funders, banks, governments, researchers, and practitioners. Sa-Dhan has about 220 members working in 33 states/UTs and over 600 districts, which includes both, for Profit and Not for Profit MFIs, SHG promoting institutions, banks, rating agencies, capacity-building institutions etc. Sa-Dhan's members with diverse legal forms and operating models, reach out to approximately 44 million clients with loan outstanding of more than ₹1,27,801 crores. Sa-Dhan is also recognized as a National Support Organization (NSO) by National Rural Livelihood Mission (NRLM).

Vision: Promoting an economically and socially empowered inclusive society.

Mission: To promote and foster inclusive impact finance institutions to support low income households, particularly women, to achieve stable livelihoods, improve their social and financial wellbeing and quality of life and fulfill Sustainable Development Goals.



“ Shaping rural India,
Empowering the masses ”



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Indian farmers are going hi-tech[📶]





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