

Financial Inclusion through Kudumbasree Programme

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Abstract: 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. The world's poor live and work in what is known as the informal economy. Financial inclusion or inclusive development consists of ensuring that all marginalized and excluded groups are stakeholders in development processes regardless of their economic class, gender, sex, disability and religion. Inclusive development promotes transparency and accountability, and enhances development cooperation outcomes through collaboration between civil society, governments and private sectors.

Rural poverty in Kerala has been declined since 1980 despite of Kerala's slow growth rate, the main reason for this is the state's intervention programmes especially the public distribution system having a positive impact on the alleviating poverty overall. There are various microfinance institutions, Self Help Groups (SHGs) playing very important role in this regard. The organizations of SHGs constitute a widely accepted development strategy for entrepreneurship development, women empowerment and poverty alleviation. The Kudumbashree programme was one such initiated by Government of Kerala in 1998. The concept was developed by NABARD and Government of Kerala through joint initiative.

This paper focuses on the study of financial inclusion, the needs for the same and its impact among the Kudumbashree members. The 1st part of the paper mainly focuses on the financial inclusion and its impact on women; the 2nd part on the Kudumbashree programme and the final part of the paper focuses on the financial inclusion initiatives done through Kudumbashree programme. This study is focused on Kerala, which is amongst the top ranked States in India in Financial Inclusion and is successfully working on poverty alleviation, women empowerment and rural development.

Keywords: Financial Inclusion, Kudumbashree, Microfinancing.

FINANCIAL INCLUSION

Exclusion:

Exclusion is the process of excluding or the state of being excluded. It is the denial of control over natural resources; the denial of opportunities for health care, education, housing; the denial of the right to participation in social, economic, political and cultural life; the denial of human rights and dignity. The concept of social exclusion is seen as covering a remarkably wide range of social and economic problems. Economic capability, gender, age, caste and religion etc. are the important variables which indicate exclusion from social and economic opportunities. Gender based discrimination and exclusion has been found the most common phenomenon across the globe.

Financial exclusion is the inability of individuals, households or groups to access financial services in an appropriate form. Financial exclusion is either a cause or a consequence of social exclusion, or both. Access to financial services is essential for citizens to be economically and socially integrated in today's society. It is also a requirement for employment, economic growth, poverty reduction and social inclusion.

- Access to transaction services
- Access to credit
- Access to insurance services
- Access to savings services

Inclusion:

Inclusion is the action or state of including or of being included within a group or structure. It is the idea that everyone should be able to use the same facilities, take part in the same activities, and enjoy the same experiences, including people who have a disability or other disadvantage.

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 is the delivery of financial services at affordable costs to vast sections of disadvantaged and low income groups (for example "no frill accounts"). Financial inclusion refers to a process that ensures the ease of access, availability and usage of the formal financial system for all members of an economy. An inclusive financial system has several merits. It facilitates efficient allocation of productive resources and thus can potentially reduce the cost of capital. In addition, access to appropriate financial services can significantly improve the day-to-day management of finances.

Financial inclusion is the process of ensuring access to appropriate financial products and services needed by all section of society in general and vulnerable groups such as weaker sections and low income groups in particular, at an affordable cost and in a fair and transparent manner by regulated mainstream institutional players. Financial inclusion is critical for achieving inclusive growth in the country. It can help in reducing the growth of informal sources of credit (such as money lenders), which are often found to be exploitative. Thus, an all-inclusive financial system enhances efficiency and welfare by providing avenues for secure and safe saving practices and by facilitating a whole range of efficient financial services.

Importance of Financial Inclusion in India:

Despite India boasting economic growth rates higher than most developed countries in recent years, a majority of the country's population still remains unbanked. Financial Inclusion is a relatively new socio-economic concept in India that aims to change this dynamic by providing financial services at affordable costs to the underprivileged, who might not otherwise be aware of or able to afford these services. Global trends have shown that in order to achieve inclusive development and growth, the expansion of financial services to all sections of society is of utmost importance.

As income levels and consequently, savings in rural areas increase, it is essential to help earners manage their funds and facilitate incoming and outgoing payments. Allowing people to create simple, no-frills current and savings accounts, relaxing KYC norms and directly crediting social benefits to account owners will bolster an inclusive approach to finance & banking in rural areas.

Impact of Financial Inclusion Efforts:

An increasing body of evidence shows that appropriate financial services can help improve individual and household welfare and spur small enterprise activity. Different types of financial products can benefit poor people in different ways.

- **Credit**: Microcredit helps encourage investments into assets that enable business owners to start or expand small enterprises. In many countries, it's been demonstrated that access to credit can lead to larger and more profitable businesses.
- **Savings**: Building savings helps households manage cash flow spikes and smooth consumption, as well as build working capital.
- **Insurance**: Vulnerability to risk and the lack of instruments to cope with external shocks make it difficult for poor people to escape poverty. Micro insurance can be an important instrument for mitigating risk
- **Payments and mobile money**: Having an efficient way of making payments reduces households' transaction costs. Rather than travel long distances, people have the ease of doing business on their mobile phones.

Women and girls make up a little over half the world's population, but their contribution to measured economic activity, growth, and well-being is far below its potential, resulting in significant socio-economic consequences. Globally, only half of women participate in the labour force, compared to three quarters of men. Financial inclusion of women and girls can create gender equality by empowering them and giving them greater control over their financial lives. Savings accounts can provide women with a safe and formal platform to save their earnings for future investments in business operations and build a credit history. Digital payments help women take control of their own finances and strengthen their control over household budgets. This, in turn, often results in higher spending on necessities such as health and education.

Financial Inclusion Schemes in India

Regulatory steps taken by Reserve Bank of India in this regard

- a. BSBDA (Basic Savings Bank Deposit Account)
 - No requirement for any minimum balance.
 - No limit on the number of deposits while restriction on withdrawal to 4.
- b. Relaxation in KYC guidelines
- c. Use of extensive technology in banking

d. Appointing business correspondents and business facilitators

e. Opening of branches in unbanked rural areas

f. Licensing of differentiated banks like Payment Bank and Small Bank

Schemes launched by Government of India to promote financial inclusion are

a. **PMJDY (Pradhan Mantri Jan Dhan Yojana)** is National Mission for Financial Inclusion to ensure access to financial services, namely, Banking/ Savings & Deposit Accounts, Remittance, Credit, Insurance, Pension in an affordable manner.

Account can be opened in any bank branch or Business Correspondent (Bank Mitra) outlet. PMJDY accounts are being opened with Zero balance. Run by Department of Financial Services, Ministry of Finance, on the inauguration day, 1.5 Crore (15 million) bank accounts were opened under this scheme. Guinness World Records Recognises the Achievements made under PMJDY, Guinness World Records Certificate says "The most bank accounts opened in 1 week as a part of financial inclusion campaign is 18,096,130 and was achieved by Banks in India from 23 to 29 August 2014". By 1 June 2016, over 22 crore (220 million) bank accounts were opened and ₹384.11 billion (US\$5.7 billion) were deposited under the scheme.

The main features of this scheme are

- The slogan of the scheme is "Mera Khata – Bhagya Vidhaata"
- The scheme provided Rs 5,000 overdraft facility for Aadhar – linked accounts and RuPay Debit Card for all account holders
- An accident insurance cover of up to Rs. 1 Lakh is also provided.

b. **Pradhan Mantri Suraksha Bima Yojana** is a government-backed accident insurance scheme in India. As of May 2015, only 20% of India's population has any kind of insurance, this scheme aims to increase the number. The main features of this scheme are

- For personal accident insurance
- Age group: 18-70 years
- Sum assured: Rs 2 lakh, while premium: Rs 12 per annum

c. **Pradhan Mantri Jeevan Jyoti Bima Yojana** is a government-backed Life insurance scheme in India. As of May 2015, only 20% of India's population has any kind of insurance, this scheme aims to increase the number. The main features of this scheme are

- For life insurance
- Age group: 18-50 years
- Sum assured: Rs 2 lakh, while premium: Rs 330 per annum

d. **Atal Pension Yojana** is a government-backed pension scheme in India targeted at the unorganised sector. As of May 2015, only 11% of India's population has any kind of pension scheme, this scheme aims to increase the number. The main features of this scheme are

- For pension purpose
- Age group: 18-40 years
- Fixed pension: Rs 1000-5000 per month at age of 60 years.

Banking products that play a crucial role in the expansion of Financial Inclusion:

- a. Savings-cum-overdraft account
- b. Remittance products
- c. Savings product

d. Kisan credit card (KCC) or General credit card (GCC)

Fund Allocation: Reserve Bank of India recently created a new Financial Inclusion Fund (FIF) with funding of Rs 2000 Crore for expanding the reach of banking services. The new Financial Inclusion Fund is created by merging Financial Inclusion Fund and Financial Inclusion Technology Fund into a single Fund — Financial Inclusion Fund (FIF).

The new FIF will be maintained by NABARD.

In addition to this, Reserve Bank of India constituted a 14 - member committee under the chairmanship of RBI executive director Deepak Mohanty. It will work out a five-year action plan to spread the reach of financial services to unbanked population.

Financial Inclusion in Kerala

The proposition with the evidence from a small state in India as some recent empirical studies showed that some states in India performed much better than others in reducing

poverty and explored the role of state-specific conditions in explaining the differential performance. The choice of Kerala state for the region-focussed study is guided by the consideration that the development experience of Kerala has always received attention at national and international levels. The Kerala economy has been moving on a high growth trajectory since the late eighties and in particular since the mid-nineties under the influence of market-oriented policy reforms extended by the Central Government.

Micro finance has been considered as the mantra in saving the poor from financial isolation by mainstream and formal financial system all over the world. Micro credit has been defined as Programme that extends small loans to very poor people for self-employment project that generate income in allowing them to take care of themselves and their families. The basic idea of microfinance is that the poor people are ready to pull themselves out of poverty if given access to financial services at lower cost.

SEWA is considered as the oldest organised microfinance in India. Recently, many NGO's and SHG's have started MF delivery system successfully in rural areas of India. The formal micro financing practices in India commenced when NABARD launched BANK-SHG linkage programme in 1992

KUDUMBASHREE

Kudumbashree is a female-oriented, community-based, poverty reduction project of the Government of Kerala, state lying in the south-west part of the Indian subcontinent, where many development experiments are being tested, refined and implemented. Initiated in 1998, Kerala is the first state in India to have adapted the Microfinance programme paraphrased as "Kudumbashree" as a part of the decentralisation effort of the state. It seeks to bring the poor women folks together to form the grass root organisation to help enhance their economic security. Now 37.37 lakh poor families brought under the three tier community based organisations (CBOs) consisting of 2.0 5 lakh Neighbourhood Groups (NHGs), 19,773 Area Development Societies (ADSs) and 1,072 Community Development Societies (CDSs) in rural urban areas covering more than 50 per cent of the households in Kerala.

There are two distinguishing characteristics to Kudumbasree which set it apart from the usual SHG model of empowerment. These are

1. The universality of reach – from its very inception Kudumbasree has attempted to bring every poor woman in the state within its fold, as a consequence of which

today Kudumbasree is present in every village panchayath and municipality, and in nearly every ward, colony and hamlet. The sheer spread is mind boggling, and it is only because the local community of women drive the system that it has managed to persevere.

2. The scope of community interface in local governance – the functioning of Kudumbasree is tied up to the development initiatives of the local government be it for social infrastructure, welfare or right based interventions or for employment generation. From food security to health insurance, from housing to enterprise development, from the national wage employment programme to the jagratha samiti, every development experience depends on Kudumbasree to provide the community interface.

It is using these opportunities that Kudumbasree strives to convert a microfinance led financial security model into a more comprehensive model of local economic development.

The three tier community based organisation of women includes

1. Neighbourhood groups (NHG's),
2. Area Development Societies(ADS)- area level and
3. Community Development Societies (CDS) at the panchayath/municipality level.

The above said organisations work as the community wings of the local self-governments. This approach highlights that any woman who is residing in the gram panchayath can become a member of Kudumbasree NHG's irrespective of the fact that she belong to Below Poverty Line (BPL) family.

Since this aspect gives an opening for the APL families to enter in to the community structures envisaged by Kudumbasree, it is further ensured that majority of the office bearers should belong to BPL families. These structures give added importance to women empowerment both social and economic.

The objective of Kudumbasree programme includes:

- Identification of the poor families through risk indices based surveys, with the active participation of the poor and the communities to which they belong.
- Empowering the poor women to improve the productivity and managerial capabilities of the community by

organizing them in to Community Based Organizations.

- Encouraging thrift and investment through credit by developing Community Development Societies to work as informal bank of the poor.
- Improving incomes of the poor through improved skills and investment for self-employment.
- Ensuring better health and nutrition for all.
- Ensuring basic amenities like safe drinking water, sanitary latrines, improved shelter and healthy environment.
- Ensuring a minimum of 5 years of primary education for all children, belonging to risk families.
- Enabling the poor to participate in the decentralization process through the Community Development Societies, as it is a subsystem of the local government, under which it works.

Neighbourhood Group (NHG): The Neighbourhood groups consists of 10 to 20 women per group, total 261,000 NHG groups available across Kerala, 4.1 million members.

Area Development Society (ADS): The second tier is Area Development Society, which is formed at the local government ward level by federating 8-10 NHGs. The activities of the ADS are decided by the representatives of the poor elected from various federated NHGs.

Community Development Society (CDS):

At the Local Government level Community Development Society (CDS), a registered body under the Charitable Societies Act, is formed by federating various ADSs. The advantage of this system is that it is managed wholly by the representatives of the poor and has the flexibility of a non-governmental organisation which helps in channelling additional resources from various sources both internal and external.

Kudumbasree project is implemented by the State Poverty Eradication Mission of the State government through local self-governing bodies. It aims at eradicating absolute poverty in ten years through concerted community action under the leadership of local self-government bodies. This mission is the transformation of earlier Urban Poverty Alleviation Programmes (UPAP) like Urban Basic Services (UBS) and Urban Basic Services for the Poor (UBSP) which had been successfully implemented by the Government of

Kerala for improving the livelihood of the poor in urban areas with community participation.

The main difference between SHG and NHG is that SHGs are non-governmental, informal organizations promoted by voluntary agencies. NHGs are promoted by the government for the upliftment of the poor by bringing the activities of various departments into one umbrella. The Kudumbashree programme is co-sponsored by the Government of Kerala, local bodies and UNICEF. The origin of this program can be traced into the Urban Poverty

Alleviation and Urban Basic Services Programs which were launched during the Seventh Five Year Plan by the Kerala Government that had a special emphasis on women and children.

Principal objectives of the Kudumbashree program are

- (i) facilitating self-identification of poor families through a poverty risk index
- (ii) empowering the women of the poor strata to improve their individual and collective capabilities by organizing of the poor strata to improve their individual and collective capabilities by organizing themselves into NHGs
- (iii) encouraging thrift and investment through credit by developing community development societies to work as informal banks of the poor
- (iv) improving incomes of the poor through upgrades of vocational and managerial skills and the creation of opportunities for self-employment and wage employment
- (v) ensuring access to basic amenities like safe drinking water, sanitary facilities, improved shelter and healthy living environment and
- (vi) Promoting functional literacy among the poor and supporting continuing education. Thus, the program covers not only credit but also a number of non-credit services (like insurance, vocational training, literacy, leadership skills, social empowerment, etc.).

Kudumbashree with its core mission to wipe-out absolute poverty through women empowerment has indeed touched many lives through its integrated, comprehensive approach. Thousands of the poor and the marginalized population are building their lives, their families and their society through these neighbourhood groups.

The financial empowerment of women in Kerala through the focused initiative of Kudumbashree has gone long way drawing even International recognition. Since inception Microfinance has been the basic thrust of Kudumbashree to address poverty. It has been proved without doubt that microfinance is the effective tool for development and contributed to the women and economic development of the society to a great extent. The various activities taken up by Kudumbashree under MF are as follows

1. Thrift and Micro Credit
2. Bank Linkage
3. Matching Grant
4. Interest Subsidy
5. KAASS
6. Financial Literacy Campaign

Thrift and Micro Credit

Kudumbashree plays a vital role in enhancing the financial status of the less privileged women in the State through its thrift and credit program. The small regular savings of neighbourhood groups are pooled together and given out as internal loan to the most deserving member of the group. These loans acted as a leveller to address the immediate financial shocks of the group members.

The function of thrift and credit is the core activity of the Kudumbashree neighbourhood group (NHG), and forms the basis of the weekly meetings of the NHG. The amount of loan and the priority of disbursement are decided by the NHG. The repayment is collected weekly during routine NHG meetings. Details are reported in the monthly meetings by the CDS.

The total thrift collected by NHGs - Rs. 2983 Crore and

The internal loans generated - Rs. 12094 Crore (as on March 2016).

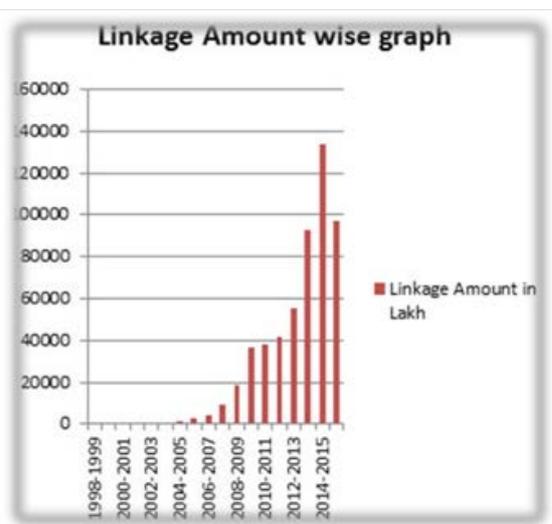
Bank Linkage

The Bank linkage program has made inclusive growth possible by providing easy access to bank loans without any physical collateral. The efficiency and effectiveness of the NHGs are verified on the basis of some objectively verifiable

and easily identifiable parameters. NABARD has developed a 15-point index for rating NHGs on the basis of which they will be allowed to link with various banks under the Linkage Banking Scheme. The linkage loans may be raised directly by the NHG or as bulk loan through the CDS.

The total amount which has been mobilized under linkage banking is Rs. 531963 Lakhs (current live linkage) and 1, 72,824 NHGs have availed of the loans.

<i>Financial Year</i>	<i>Linked NHGs</i>	<i>Linkage Amount in Lakh</i>
1998-1999	10	6
1999-2000	86	100
2000-2001	106	97
2001-2002	169	121
2002-2003	471	302
2003-2004	1098	643
2004-2005	2572	1440
2005-2006	3829	2633
2006-2007	5586	4517
2007-2008	8308	8998
2008-2009	13151	18763
2009-2010	25858	36421
2010-2011	23758	38396
2011-2012	22004	41381
2012-2013	26694	55010
2013-2014	47284	92821
2014-2015	54468	133514
2015-2016	33752	96800



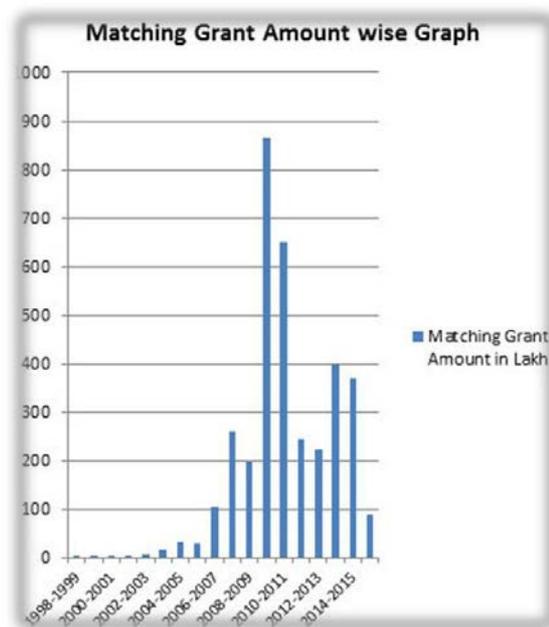
Matching Grant to Thrift & Credit Societies

Easy access to bank linkage program has checked the poor from approaching money lenders. In order to motivate the NHGs to come forward for bank linkage program Kudumbashree has designed an incentivizing program called matching grant. Here the linked NHG will be given a grant of Rs.5000/- or 10% of their thrift (Whichever is lesser)

Total of 89,752 NHGs have availed of Matching Grant facilities as of 31st March 2016.

Financial Year	Number of NHGs received Matching Grant	Matching Grant Amount in Lakh
1998-1999	3	0.2
1999-2000	24	1
2000-2001	52	2
2001-2002	49	2
2002-2003	146	6
2003-2004	433	16
2004-2005	1009	32
2005-2006	789	29
2006-2007	2660	103
2007-2008	6754	261
2008-2009	5001	198
2009-2010	22029	865
2010-2011	16579	651
2011-2012	6531	243
2012-2013	5968	222
2013-2014	10354	397
2014-2015	9198	370

2015-2016	2173	87
	89752	3485.2



Interest Subsidy

There are both centrally and state assisted interest subsidy scheme to enhance the affordability of formal credit.

As per the state scheme, all commercial and cooperative banks that are prepared to lend to Kudumbashree NHGs under the linkage banking programme at 9% or below, will be participants in the scheme. The CDS would be raising the claim with the banks and the amount would be dispersed to a designated nodal branch by Kudumbashree State Mission in the case of commercial banks and to the concerned cooperative banks/societies by the district missions in the case of cooperative institutions. The interest subsidy would be provided as annual instalments to the banks. One highlight of the scheme is the inclusion of joint liability groups for farming in the ambit of the scheme. Around 10099 groups (1737 Joint Liability Groups and 8362 Neighbourhood Groups) have benefited from the scheme.

Kudumbashree Mission has been able to disburse Rs. 989 Crore under this scheme to various NHGs and JLGs.

Under NRLM(Central Scheme) Interest subvention program all women NHGs in category 1 districts namely Palakkad ,Malappuram, Idukki and Wayanad are eligible for interest subvention on

credit upto Rs. 3 lakhs at 7% per annum. Further, these NHGs will be provided with an additional 3% subvention on the prompt repayment of loans.

For category II districts, all Kudumbashree NHGs in rural area are eligible for interest subvention to avail the loan facility at an interest rate of 7%. Here Banks will charge the SHGs as per their respective lending norms and the difference between the lending rates and 7% subjected to a maximum limit of 5.5% will be subvented in the loan accounts of the NHGs by Kudumbashree with the support of NRLM Fund.

- *Around 10099 groups (1737 Joint Liability Groups and 8362 Neighbourhood Groups) have benefited from the scheme.*
- *Kudumbashree Mission has been able to disburse Rs. 989 Crore under this scheme to various NHGs and JLGs.*

KAASS

KAASS, the Kudumbashree Accounts & Audit Service Society; is a home grown enterprise to ensure proper account keeping in the community network. Each district has been furnished with a KAASS team that has been drawn from commerce graduates and is guided by professional chartered accountants. These teams have been facilitating management of accounts at the NHG, ADS and CDS levels.

KAASS team mainly point out the defects in existing accounting system prevailing in respective NHGs/ADS/CDS and rectify wherever required. There are over 350 members in 43 KAASS groups across the state.

Observations:

- The economic marginalization of women in the development process has drawn considerable attention during recent years. While the female work participation rate in India increased from 19.7% to 22.7% between 1981 and 1991, in Kerala the ratio declined from 16.6% to 15.9% during the same period. The incidence of unemployment among females in the State is higher than that among males by 5 times in rural areas and 3 times in urban areas. Unemployment in Kerala is severe and is estimated to be 3 times larger than of India.

- The sexual division of labour has resulted in the concentration of women in low paying unorganized sectors such as agricultural labour, cottage and traditional industries and selected service sectors. Despite the powerful trade union movements, equal wages for equal work still remains a mirage and gender discrimination at the work place is widely prevalent.
- The marginalization of women in the economic process and lack of control over resources have been major impediments in improving the status of women.
- Despite the general progressive political environment in the State, active

CONCLUDING OBSERVATIONS

Kerala has, for a long time, recognized the social and economic imperatives for broader financial inclusion and has made an enormous contribution to economic development by finding innovative ways to empower the poor. Starting with the nationalization of banks, priority sector lending requirements for banks, lead bank scheme, establishment of regional rural banks (RRBs), service area approach, self-help group-bank linkage programme, etc., multiple steps have been taken by the Reserve Bank of India (RBI) over the years to increase access to the poorer segments of society.

Financial inclusion is a great step to alleviate poverty in Kerala. But to achieve this, the government should provide a less perspective environment in which banks are free to pursue the innovations necessary to reach low income consumers and still make a profit. Financial service providers should learn more about the consumers and new business models to reach them. This paper discusses the pertinent issues of financial inclusion comprising of narrower and broader aspect, the importance of the financial literacy and the schemes and policies introduced by the Government with the detailed perspective of the pros and cons and steps taken to improve the reach of financial and banking services at grassroots level.

Financial inclusion is the road that India needs to travel toward becoming a global player. Financial access will attract global market players to our country and that will result in increasing employment and business opportunities. Inclusive growth will act as a source of empowerment and

allow people to participate more effectively in the economic and social process.

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