

Financial Literacy for SHG Leaders and NGOs

**A Joint Initiative of Canara Bank,
NABARD And Inafi India**

Foreword

Financial literacy is recognized as an important component for sustained financial inclusion process. In India financial inclusion process is about connecting people with Banks/Insurance Companies for financial services. The literacy includes awareness and understanding about the affordability in availing financial services in a sustained way and more importantly safety and security aspects of the services people avail from various institutions. With increasing sophistication of financial system and the services available, the challenge is becoming greater in updating their knowledge level to effectively make use of the opportunities provided by the larger financial system.

In the context of the financial inclusion, public at large, particularly those excluded from the formal financial system comprising of the banks/insurance companies, financial literacy assumes crucial importance. The choices people make with respect to choosing financial product, their pricing will depend on the knowledge about the financial markets and products, institutions with specific reference to their own needs and financial plans. There is a vast segment of population who (excluded from the formal financial system) suffer from lack of financial literacy in terms of utilizing their own money/earnings and also safe and secure place to avail savings, credit, insurance or remittances with each of the service addressing specific purpose for an individual. The SHG Bank linkage over the past decade has connected many poor women with banking system. Yet, SHGs also need to be imparted financial literacy for sustained financial inclusion.

Therefore, to further the financial inclusion process, INAFI India in concert with Canara Bank is launching a joint initiative to promote financial literacy among the SHG leaders and the field staff of NGOs. It is fervently hoped that the NGOs and SHG leaders will be the torch bearers in dissemination of financial literacy among the vast segments of excluded population including SHGs, small and marginal farmers.

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Financial Literacy to SHG Leaders and NGOs

Module 1: Introduction

Preamble: Financial literacy deals with financial awareness, knowledge, skills, attitude and behavior required to make sound financial decisions and achieve individual financial well-being. Better financial literacy enables the people to access, effectively use and derive maximum benefit from financial services. This is a continuing process by which financial consumers improve their understanding of financial products, concepts and risks, develop skills and confidence to be more aware of financial risks and opportunities to make informed choices. There is a vast segment of population in India who suffer from lack of financial literacy in terms of utilizing their own money/earnings and also safe and secure place to avail savings, credit, insurance and remittances.

The SHG Bank linkage programme has connected many poor women with the Banking system and has been promoting financial inclusion in a big way. The Women members of SHG, however, are found to have inadequate knowledge and holistic understanding of all financial services. Therefore, there is a need to educate and to improve the literacy levels of SHG leaders, Women members of SHG and what is more the field staff, animators of NGOs promoting SHGs. This would help the process of sustaining the linkage and relationship with Banks.

a. What is meant by financial literacy?

Financial literacy is concerned with providing knowledge and skills to poor people in order to help them make decisions about expenditures, savings, investments, credit and insurance and other financial services such as remittances, pension in an informed manner.

b. What is the need for financial literacy in SHGs?

SHG is a development institution that is owned and managed by the poor women. SHGs work with a mission of alleviating poverty and facilitating overall development of the poor families. Financial services being a critical factors determining poverty, SHGs provide financial services to their members. These financial services include, savings, credit for consumption and microenterprise and insurance. In addition to these services, it is also noted that the members are getting these services from various other sources like, post office, local chit (for savings), money lenders, land lords (for credit) and so on.

Money being a scarce commodity for poor, making, executing a financial plan is important for them. Such a planning and execution needs decision making in every stage. Every one of us are doing such plans and make decisions although not very explicitly. But now in the context of various needs of poor and various sources of saving and borrowing money, it is important for the poor household to take appropriate decision on what should I do with my money and where should I get money for my needs. For taking such decisions they need information related to various choices/ alternatives, how to evaluate these alternatives and how to make a choice finally. This is the concern of financial literacy programme.

c. How financial literacy is related to poverty alleviation?

To find an answer to this question let us imagine what would happen if the poor don't make well informed decisions.

Poor financial decisions may lead to exploitation by persons collecting savings informally in the name of chits and finance; exploitation by money lenders due to high rate of interest; distress sale of precious assets; getting highly indebted due to unexpected losses (loss of life of earning member, loss of assets like cattle, crops, etc, loss of health of persons and cattle and so on); denial of education to children and subsequent child labour; failure of businesses; not spending enough on basic needs leading to poor health and future health risks; neglect of old age people; poor spending for treating the illnesses and so on.

All these consequences mentioned above may further lead the family deep into poverty. So helping them to consider and weigh all those critical parameters would help them to take better decisions which would prevent them from falling further into poverty. Besides when they know how to handle their money in a way that gives them the maximum benefits and help them to improve the current situation of poverty.

d. How is financial management done in a family?

Financial management in a family usually involve putting aside the money from their income, taking loan when needed, buying assets, etc. But being poor they have limited choices and also limited access to formal financial institutions. Under such circumstances, they should know how to manage their money to match their financial goals. This module explains about the needs and wants of people and the ways of fulfilling these.

e. What are needs and wants?

Needs refer to those most important things needed for the survival of the human beings. Food, water, shelter are examples of needs. Want refers to things that are needed to live life in a better way; it can be seen as a luxury in the context of poverty, which should be fulfilled only after satisfying the 'needs'. Motor bike, television are examples of 'Wants'. As the households progress economically it happens that some of the wants transform to 'needs' gradually. Example: Television.

f. What are the different types of needs?

Needs can be broadly classified into 4 types. They are:

Lifecycle Needs: such as weddings, funerals, childbirth, education, house construction, widowhood, and old age.

Personal Emergencies: such as sickness, injury, unemployment, theft, harassment or death.

Disasters: such as fires, floods, cyclones and man-made events like war or eviction of dwellings and displacement.

Investment Opportunities: include expanding a business, buying land or equipment, improving housing, etc.

g. How do people fulfill their (financial) needs?

Poor people find creative and often collaborative ways to meet these needs, primarily through creating and exchanging different forms of non-cash value. Common substitutes for cash vary from place to place but typically include livestock, grains, jewellery and precious metals.

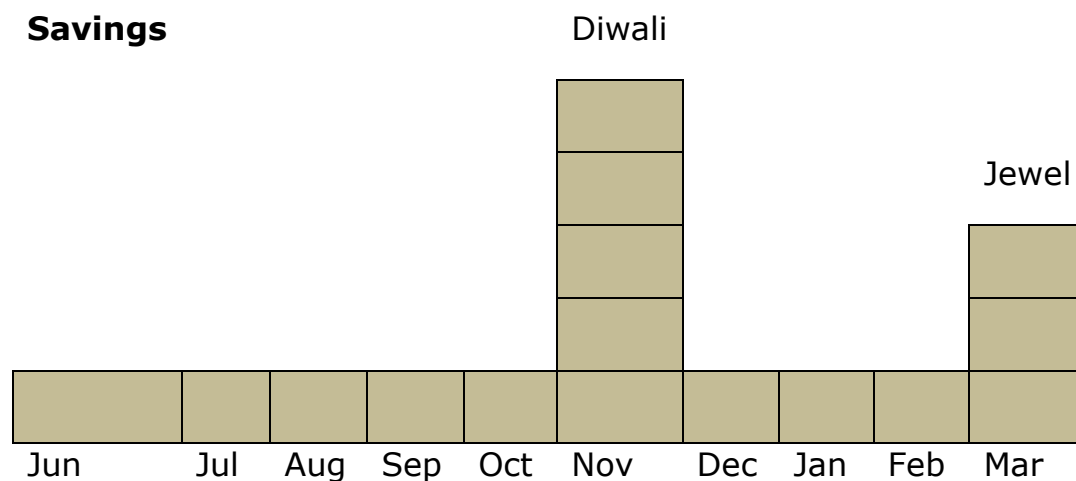
The basic problem the poor people as money managers face is to gather a 'usefully large' amount of money. Building a new home may involve saving and protecting diverse building materials for years until enough are available to proceed with construction. Children's schooling may be funded by buying chickens and raising them for sale as needed for expenses, uniforms, etc. Because all the value is accumulated before it is needed, this money management strategy is referred to as 'saving up'.

Often people don't have enough money when they face a need, so they borrow. A poor family might borrow from relatives to buy land, from a moneylender to buy rice, or from a microfinance institution to buy a sewing machine. Since these loans must be repaid by saving after the cost is incurred, it is called as 'saving down'.

However, savings, credit and combination of both could offer solutions only for expected, planned needs. They would not be enough in addressing risks and vulnerabilities of the poor. Hence a mechanism of 'saving through' is needed to safeguard the families from uncertainties. So that, a family sets aside money regularly and contributes to a common pool from which it is supported at the time of loss in such a way to bring back to its original financial position.

h. What is the difference between saving, credit and insurance?

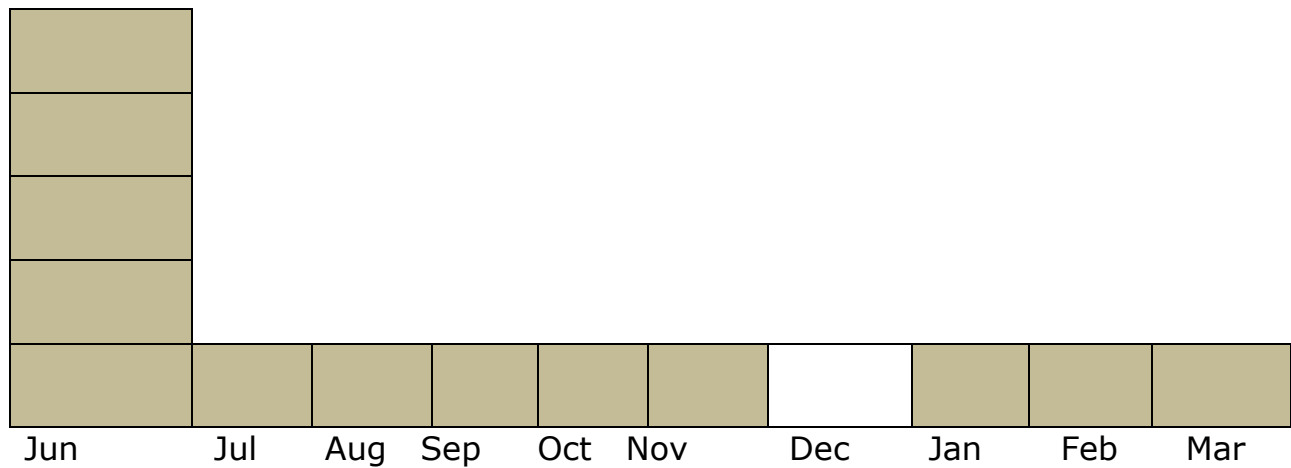
The difference can be given in the following illustration.



Note: The graph shows 'savings up' strategy used to meet the expenditures for festivals & jewel

Credit

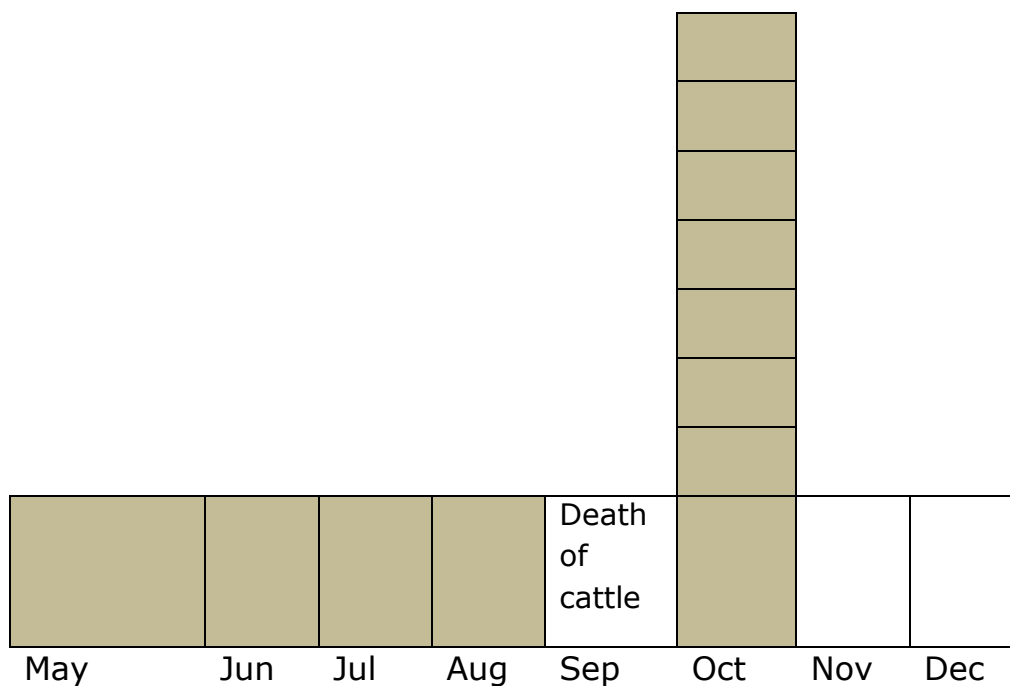
Agri



Note: This shows the 'savings down' after availing the loan for education and agriculture

Insurance

Claim



Note: This graph shows the 'saving through' to need meet the financial losses arising out of occurrence of risk.

The following table further explains the differences.

Saving	Credit	Insurance
Putting aside money in small amounts at intervals to fulfill a future need	Making the expenditure upfront and then paying money in small amounts later with interest	Setting aside money for premium payment to meet the risk consequences and thereby compensating the uncertain loss
Best solution for unproductive expenses; spending on 'wants'	Best solution for productive expenses; Credit should not be taken for unproductive expenses because credit comes with a cost (i.e. interest). Unless and otherwise the expenditure promises to generate enough revenue to cover the cost, credit should not be sought out as a solution.	Best solution for health expenses, loss of assets, loss of life.

At the end of the module important learning points will be recapitulated for better registration in the minds of the participants.

- **Importance of Financial literacy**
- **Relevance of Financial literacy for SHG leaders and SHG members**
- **Relevance of Financial literacy and poverty issues**
- **Relevance of Financial literacy for financial management**
- **Fulfilling needs through various financial services**

Module 2: Savings

Savings is the first and foremost of all financial services and access to financial services starts with “savings first” approach. The SHG programme has demonstrated that poor can save and wants to save. In this module on savings the facilities and products available for the poor to save has been elaborated.

a. Why should poor people save?

There may be many reasons for undertaking savings by people. But there are four important things poor people consider as the basis for saving their hard earned money.

1. Saving for emergencies
2. Saving to meet the cash flow needs- Lifecycle needs that can be planned/predicted.
3. Savings for asset creation/ capital formation
4. Saving for planned investments.

Further, saving money inculcates a financial discipline which results in wise spending. The habit of saving makes a person credit worthy. Savings is a virtuous habit that brings financial discipline and helps gain control over the financial resources in the long term.

b. Why the saving should be regular and continuous?

The regular savings whether it is weekly or monthly is a reflection of the virtuous habit being formed. It is also a reflection of the diligence of the individuals in dealing with the money and project the financial discipline or otherwise. This also presents a picture of how responsible and conscious a person is about the financial security and credit worthiness.

c. How can one save?

People can save in many ways. The savings can be in the form of currency/rupee notes or kind. Savings in Kind (grains, fibre, oil, seeds etc) is a phenomenon related to primitive agricultural communities. As the economy is fully monetized (except with a few tribal communities), savings in cash is the popularly followed practice. When it comes to savings, Savings should not be treated as income minus expenditure. Instead savings should be the first ‘expenditure’ of the household. Here expenditure should not be taken in its literal sense rather it refers to the payment, or money kept aside from the pool which is meant for spending. However, if the

income is very meager and not enough for meeting the basic survival needs, then it may not be possible to think of savings.

The period of saving is another factor that one should consider. The period of savings should be planned in such a way that the savings accumulated in those points of time coincide with satisfying the planned needs. A portion of savings must be meant for meeting unexpected needs/ losses or emergencies. Savings can also be used for paying insurance products.

d. How much should one save?

There are no hard and fast rules as to how much money one should save. It varies with individuals/ households. However it should be decided based on your future needs (child birth, house construction, education, marriage, investing in business, festivals etc), current needs –both expenditures and payments for liabilities (consumption needs, loan repayment) and your income. However at least a minimum of 25% of the household income should be saved for future needs. The following illustration gives an idea about the extend of spending for various purpose including savings

Food	- 30%
Rent/Housing	- 20%
Education	- 10%
Health	- 5%
Festivals	- 10%
Savings	- 25%

e. Where should we save?

There are many choices available for the poor people to save. There are many indigenous savings practices followed by poor like, putting the money in vessels, savings in local chits, informal groups etc. These are called informal ways of saving. Post offices have been acting as a widespread formal mechanism available for the poor people. Savings in small volumes permitted in post office savings schemes are highly suited for the poor communities. However it does not provide any credit facilities keeping the saving as collateral.

Nationalised Commercial banks are the best and safe option for savings and the convenience of the savings operations in the Commercial Banks has been enhanced by technology and last mile

connectivity initiative like BCs and BFs. Savings of the SHGs in the Bank besides safety and convenience, they help them to leverage their savings, in availing loan facilities from Commercial Banks.

SHGs have provided the last mile connectivity with Commercial Banks besides, being an alternative platform virtually at the doorsteps to save tiny amounts within the group itself in the initial stages and thereafter linking with the Commercial Banks.

f. What are the criteria to be considered for choosing a particular savings product or institution?

People consider various factors before choosing a particular savings product. Safety, liquidity and returns are the prime factors that need to be considered for Savings.

Given below is a list of factors contributing to a savings decision. It is not an exhaustive list but gives an account of the criteria which are considered as most important by many people.

1. Safety/security of the money saved
2. Closeness to their places of living
3. Preserving the value of money/ Scope for generating revenue
4. Simple and easy procedure for depositing and withdrawing money
5. Should be available to fulfill their cash flow requirements
6. Facility to take loan leveraging the savings.

g. What are the Savings schemes in Commercial banks?

Keeping the above factors in view, the best and most convenient institution and place, to keep the savings is the Commercial Banks.

Savings are absolutely safe guaranteed by the Govt., (up to one lakh), available for withdrawal in times of need, and provides a interest of 4% per annum on the basis of daily balance in SB a/c.

g.i. Savings bank account

Savings deposit account is meant for individuals who wish to deposit small amounts out of their current income. It helps in safeguarding their future and also earning interest on the savings. A saving account can be opened

with or without cheque book facility. There are restrictions on the withdrawals from this account. Savings account holders are also allowed to deposit cheques, drafts, dividend warrants, etc. drawn in their favour for collection by the bank. To open a savings account, it is necessary for the depositor to be introduced by a person having a current or savings account with the same bank.

g.ii. Documents required for opening savings bank account:

Accounts of individuals

1. Legal name and any other names used
 - (i) Passport (ii) PAN card (iii) Voter's Identity Card (iv) Driving License (v) Job Card issued by NREGA duly signed by an officer of the State Govt., (vi) The letter issued by the Unique Identification Authority of India (UIDAI) containing details of name, address and Aadhaar number (vii) Identity card (subject to the bank's satisfaction) (viii) Letter from a recognized public authority or public servant verifying the identity and residence of the customer to the satisfaction of bank
2. Correct permanent address
 - Telephone bill (ii) Bank account statement (iii) Letter from any recognized public authority (iv) Electricity bill (v) Ration card (vi) Letter from employer (subject to satisfaction of the bank)

(any one document which provides customer information to the satisfaction of the bank will suffice)

g.iii. BASIC SAVINGS BANK DEPOSIT ACCOUNT:

(known earlier as No Frills Account)

1. **Eligibility** : Individuals of 18 years and above earning a gross income of Rs. 5,000/- per month or less.
2. **Mode of Operation** : Single / Joint
3. **Initial deposit amount**: Rs. 50/- to open the account.
4. **Minimum Balance** : NIL.
5. **Rate of Interest** : As applicable to Savings Bank Accounts.
6. **Cheque Facility** : Not available.

7. **ATM-cum-debit card:** Will be issued, without charges
8. **Number of Accounts:** a customer will not be allowed to open more than one basic banking account.
9. **Statement of Accounts:** Will be provided.
10. **While there will be no limit on the number of deposits that can be made in a month, account holders will be allowed a maximum of four withdrawals in a month, including ATM withdrawals.**
11. **Nomination Facility:** Available
12. **Product available at :** Both the branches of our Bank

Basic Savings Deposit account of the commercial banks are primarily meant for initiating familiarity with banking services and also to undertake transactions with respect to the Government schemes. In a long run the account holders might get to know about and gain confidence in using other services of the bank which would inculcate more financial discipline in them.

g.iv. Recurring Deposit account

Recurring Deposits are gaining wide popularity these days. Under this type of deposit, the depositor is required to deposit a fixed amount of money every month for a specific period of time. Each installment may vary from Rs.5/- to Rs.500/- or more per month and the period of account may vary from 12 months to 10 years. The minimum installment amount, period and the interest rate vary with various commercial banks. After the completion of the specified period, the customer gets back all his deposits along with the cumulative interest accrued on the deposits.

g.v. Fixed deposit account

The term 'Fixed deposit' means deposit repayable after the expiry of a specified period. Since it is repayable only after a fixed period of time, which is to be determined at the time of opening of the account, it is also known as time deposit. The period usually ranges from 15 days to 5 years. The rate of interest on fixed deposits depends upon the period of deposits.

g.vi. Other types of Deposit accounts:

Banks have introduced several deposit schemes to attract deposits from different types of people, like Home Construction deposit scheme, Sickness Benefit deposit scheme, Children Gift plan, Old age pension scheme, Mini deposit scheme, etc.

Cooperative banks offer similar services as that of commercial banks. However the interest rate on savings would be slightly higher than commercial banks (on par with Post office savings schemes); interest rate on loan would be slightly less than the commercial banks.

h. What are the Savings products available in SHGs?

The savings products vary from SHG to SHG. Many a time it depends on the promoting organization. However, the range of savings products is given below. All SHGs may not have all of them.

h.i. Regular savings

Each member of the SHG should have a regular savings account in their SHGs. This is equivalent to Post Office Savings Account or Savings Bank Account of Commercial Banks. Members can save any amount as small as Rs.5 and there is no upper limit for this. Unlike Bank SB Accounts, the amount saved in Regular savings can not be withdrawn frequently. It should be accumulated for a specified period of time or volume after which withdrawals are permitted. The period of savings or the permissible volume would be decided by the SHGs in consultation with their respective Federations.

Regular savings accrue interest based on the interest rates fixed by the SHGs. This interest rate would be revised from time to time considering the financial position of the SHG, its liabilities, interest rates in the market and so on. Interest accrued in an account would be added to the savings accumulated in that account at the end of every financial year.

h.ii. Diversified Savings

It is more like recurring deposits of the commercial banks. Members have to save a particular amount regularly in this account. The installment amount and the period are decided by the respective member at the time of opening the diversified savings account. They can decide this based on their specific needs (education fees at the time of school reopening, marriage, jewel, Diwali and other festivals etc.) and the income of the family members. Diversified savings also accrue interest based on the period of savings which would be decided by the SHG from time to time. Members can withdraw their savings in this account only after completion of the specified time. If they fail to continue their saving, then the money from this account would be transferred to their Regular savings account and interest would be accrued as per the norms of Regular savings.

h.iii. Current savings

It is same as the Current savings account of the Commercial banks. In commercial banks, this facility is given for the business men who may need to deposit and withdraw money frequently. In SHGs this facility is available for all the members invariably where in which the members can save and withdraw money whenever they need. This facility poses a challenge to SHG as it is required to have some money available for the withdrawals by the members. This is also a reason for not giving any interest to the money saved in this account. However SHGs do not charge any fees towards the withdrawals from this account as in the case of commercial banks.

All the transactions with regard to regular, diversified and current savings are recorded in a single member Passbook (under the Savings section) that is available with the members.

Besides members would also receive a receipt for the payments they made in SHGs in which the money saved by them under different Savings accounts would be recorded.

i. What are the additional benefits poor people would get by savings in SHG?

1. SHG is Peoples' own institution. Members are the owners. The money saved is managed by them directly.
2. Savings can be done locally near the doorsteps. They need not spend time and money in travel and waiting in long queues; they need not forego a day's wages.
3. The members themselves can decide how to use the money collected for their collective objectives.
4. The members can decide the interest on savings considering the financial costs and benefits of their SHG
5. Volume, installment and regularity of savings can be some of the criteria for giving priority for credit.
6. When poor members start saving more in SHG, it would increase the cumulative savings at SHG level. Since this accumulated savings is treated as collateral for bank loans, SHGs can borrow more money which would be on lent to members.
7. The procedure for savings in SHG is very simple. The members need not fill in any forms like in the case of banks and post office.

j. What are the Savings schemes available in Post Office?

Post office is one of the commonly used places to save small amounts of money especially by rural poor. There are many small savings schemes available in the post office.

There are following savings schemes suitable for the poor households.

j.i.Post office savings Account

This is like a savings bank account in a commercial bank. A person can deposit any money in this account. Withdrawal is possible at any time. But the interest on savings is relatively less than a recurring deposit. This may be suitable for saving for emergencies.

j.ii.Post office recurring deposit

This is a savings product that involves planned savings that should be made at regular intervals for a specified period of time. The interest rate depends on the intervals of savings and the period of savings. This is a product suitable for making some minimum amount of savings for a specific planned expenditure in the future.

k. Post office time deposit

These are similar to fixed deposits in commercial banks. A person can deposit money in bulk at the periods of huge cash inflows. The interest rate on such deposits would be relatively higher than POSA.

l. How to open a Post Office Savings Account (POSA)?

POSA account may be opened with a minimum of Rs.20. Further deposit into the account may be as low as Rs.5/- Accounts can be opened by an individual, or jointly by 2 or 3 adults. For opening of new account (whether cheque or non cheque account) the introduction of depositor will be necessary. All such accounts will be opened after proper introduction of the depositor through an introducer known to the Post Office who has a account (with cheque facility) in the same post office.

At the end of the module important learning points will be recapitulated for better registration in the minds of the participants.

- **Why savings?**
- **Why save regularly and continuously?**
- **Why save with Banks?**
- **What are the savings products?**

Module 3: Investment

Households who are graduating from their poor economic conditions, those who are involved in self employment should be aware of the importance and method of investing their money. This module gives a brief overview about investing in the context of poverty

a. What is meant by investing?

Investment in the context of poverty refers to using a part of savings for buying assets such as land, tools and implements, precious metals like gold with an objective of getting handsome financial rewards by appreciation and or sale thereof.

Poor households tend to save money for some time and invest them in income generating activities/ enterprises like buying land, digging well, setting drip irrigation, establishing an orchard, buying a petty shop, setting up a mechanic shed, buying machineries, tools, equipments for renting out, buying gold etc.

b. What are the differences between saving and investing?

Savings is a solution to meet short term demands of a household especially the consumption needs; whereas investment refers to parking money in order to earn money for increasing future consumption which would lead to better quality of life.

The following table explains the difference between saving and investing.

Saving	Investing
Saving is done on the principles of safety, liquidity and availability	Under investment, returns are given more importance than safety, liquidity and availability
Putting aside money for current consumption and	Using the savings to buy property, share, stock or bond in the hope of getting long term higher

emergency needs	returns in the future
Money is put in assured safe custody; no or low risk	Risk is taken in the expectation of getting returns in future; how much return is not known until it is realized
The highest goal/ consideration is to see that the value of money is not eroded by inflation. Usually the rate of return is lower	The consideration is to earn maximum returns; so the rate of return is higher.
Savings is relatively liquid because it is in the form of financial assets such as bank deposits, savings in SHG.	Under investment, money is converted to not so liquid form such as land, agriculture implements, etc; so converting it into cash is not very easy. This is because the purpose is not to convert the capital into cash but to get the cash revenues from the capital invested.
Savings is a regular practice as and when income is received through salary or from business	Usually done only when current consumption and emergency needs are met. In the absence of an arrangement for contingencies, the household may be required to dispose their investment when it is not appropriate (like distress sale of assets) by which they might not be getting the actual value of the money invested

However savings is the preliminary activity to be done by the poor households which can be invested later. This is because poor don't inherit large amount of money or properties; if they do so, then they are not poor!

Any specific purpose in life that will require a large amount of cash in five years or less should be savings-driven, not investment-driven. Among various types of investments, the decision about which investment to choose is influenced by factors such as return or yield, risk, and liquidity.

At the end of the module important learning points will be recapitulated for better registration in the minds of the participants.

- **What is the difference between savings and investment?**
- **How savings helps investment?**
- **What are the purposes for which investments are made?**

Module 4: Credit

Credit is the most important financial service. Lack of access to affordable credit at nominal interest rates leads the poor households into debt trap and sometimes to suicides. This module talks about the need for credit in poor household and the main considerations for choosing the right source of credit by the poor.

a. Why do people need credit?

People need credit,

1. When they do not have money at the time of emergencies. Example: Sickness, death of cattle, etc
2. When they have a deficit cash flow during a particular period. For example, a dairy farmer does not get income from the milk all round the year. During the dry period he may have to spend money on regular expenses. (feed, fodder, health expenses, etc)
3. When they need money for investing in a business venture/income generating activity.
4. When they are affected by disasters. Example: Crop failure due to drought/flood.

Disasters are also emergencies because of their sudden occurrence. But emergencies refer to an event that leads to personal losses to one person or a family. Whereas disasters are uncertainties that cause large scale losses to the entire local community.

b. Where do people get credit?

People get credit from various sources including,

1. Money lenders
2. Friends and relatives
3. Associations, societies
4. Commercial banks/ Cooperative banks
 - i. Short term loan
 - ii. Term loan- Agriculture
 - iii. Cash credit
 - iv. Over draft
5. SHGs

Out of all these borrowing money from formal institutions like commercial banks, cooperative banks and semi formal structures like SHGs are advisable because of affordability and not being exploitative coupled with good, healthy lending and recovery practices. Hence we would discuss about these sources elaborately.

c. Where should poor households avail credit from?

Poor households can get small credit for consumption needs and small livelihoods needs they may get it from SHGs; whereas for bigger loans for enterprise loans they could get it from commercial banks and cooperatives. SHGs provide ease of access and affordability while the commercial banks are good for affordability.

d. What are the loan products available in Commercial banks/Cooperative banks?

We have already seen three types of credit needs of poor namely, consumption, livelihoods and enterprise needs. Commercial banks offer three types of loans to fulfill all the three types of needs- term loan, cash credit and over draft.

d. i. Short term loan is also called as demand loan which is repayable on demand. In other words it is repayable at short notice. The entire amount of demand loan is disbursed at one time and the borrower has to pay interest on it. The borrower can repay the loan either in lumpsum (one time) or as agreed with the bank. Loans are normally granted by the bank against tangible securities including securities like N.S.C., Kisan Vikas Patra, Life Insurance policies and U.T.I. certificates.

d.ii. Long term loan: Agriculture, purchase of animals, SSI like food processing, Education, Housing, Business, Vehicle

Medium and long term loans are called 'Term loans'. Term loans are granted for more than one year and repayment of such loans is spread over a longer period. The repayment is generally made in suitable installments of fixed amount. These loans are repayable over a period of 5 years and maximum upto 15 years. Term loan is required for the purpose of setting up of new business activity, renovation, modernization, expansion/extension of existing units, purchase of plant and machinery, vehicles, land for setting up a factory, construction of factory building or purchase of other immovable assets. These loans are generally secured against the mortgage of land, plant and machinery, building and other securities. The normal rate of interest charged for such loans is generally quite high.

d.iii. Cash credit

A cash credit is an arrangement whereby the bank agrees to lend money to the borrower upto a certain limit. The bank allocates/ earmarks the limit to the borrower and the borrower draws the money as and when he needs. Interest is charged only on the amount actually drawn and not on the amount placed to the credit of borrower's account. This is a very popular method of lending in our country.

d.iv. Over draft

Those who own small enterprises may require working capital for their operational expenses. Over draft facility helps them to get credit for such needs. Although this may not be applicable for very poor member, when the poor graduate in the economic ladder and own an enterprise this facility might be of use to them.

Overdraft facility is more or less similar to cash credit facility. Overdraft facility is the result of an agreement with the bank by which a current account holder is allowed to withdraw a specified amount over and above the credit balance in his/her account. It is a short term facility. This facility is made available to current account holders who operate their account through cheques. The customer is permitted to withdraw the amount as and when he/she needs it and to repay it through deposits in his account as and when it is convenient to him/her.

Overdraft facility is generally granted by bank on the basis of a written request by the customer. Sometimes, banks also insist on either a promissory note from the borrower or personal security to ensure safety of funds. Interest is charged on actual amount withdrawn by the customer. The interest rate on overdraft is higher than that of the rate on loan.

e. What is the cost of credit/What is the interest rate for loans?

Traditionally, money lenders are the informal sources for providing credit and they not only charge higher rate of interest than Commercial Banks but also flat. The rates will be doubly higher because of flat method. And also being high rate, these rates charged by money lenders are usurious as they are exploitative and one of the main reason for poor losing their hard earned money and thereby remain in poverty.

We all know that interest on loan is the primary factor contributing to the cost of credit. There are primarily two ways of charging interest on loan. They are flat rate and diminishing balance. Although flat rate of interest is

easy to understand for the poor people, often it is costlier than the interest on diminishing balance. In the flat rate method, interest is charged on the principal borrowed by the person throughout the loan period.

In the case of diminishing balance method, interest varies every month because interest is calculated on the basis of the outstanding balance of the principal amount.

In addition to interest on loan, there are other factors contributing to the cost of credit such as documentation fee and other charges. These are direct costs of credit. The indirect cost of credit is borne by the buyer because of the transaction time involved in availing and payment of loan. This is known as opportunity cost. The member should ask for information from the credit sources before applying for the credit. She must see if the overall cost is affordable and she can also negotiate with the lender (banks/ SHGs) for reducing this cost.

f. How do SHGs provide credit to their members?

SHGs offer credit services to the members at their doorstep. Members can take short term or term loans for any purpose starting from emergencies (health, food, etc) to redeeming high cost debts, construction of houses and starting a small scale business etc. Loan is offered based on the lending policies of the SHGs. Lending policies are largely governed by the development mission of the SHGs. The salient features of lending policies of SHGs include,

- a. Eligibility of members for taking loans
- b. Interest rates (percentage and type- diminishing balance or flat)
- c. Repayment scheduling (Installment amount, monthly, quarterly, shot payments, EMI)
- d. Loan graduation
- e. Number of loans per member
- f. Loan ceiling
- g. Priorities in lending (based on purpose, savings)
- h. Savings to loan ratio
- i. Documentation related to loan

- j. Portfolio at risk (PAR)
- k. Action against defaulters
- l. Provisioning for Non Performing Assets (NPA)

g. What are the benefits for the members in availing credit from SHGs?

- The members get credit on a nominal/ optimal interest rate
- The credit procedures are simple and easy
- Repayment schedule and frequency could be fixed according to the pattern of cash flow of the member
- No transaction cost involved as the credit is provided at the doorsteps
- In a long run it builds the confidence among the bankers about the member which may result in the member getting a loan directly from bank

h. What are the criteria to be considered for choosing a particular institution/source of credit?

A household may consider a combination of the following criteria for selecting a particular institution for taking loan.

- a. Timely availability of credit
- b. Lower rate of interest
- c. Simple and easy procedure of application
- d. Distance from their living place and the place where they can get credit
- e. Flexibility in fixing repayment schedule (in accordance with the cash flow of the families)
- f. Less expensive/tedious documentation procedure
- g. availability of information about their repayment performance including reminders about the amount they should repay the next month
- h. Loan for all the financial needs
- i. Scope for Repeat loans

Credit discipline and repayment of loans

We are borrowing for a specific purpose whether consumption or livelihoods or creating some assets like house. As the lender, Banks trust clients, and

the loan is being given for a specific purpose for which we have asked for the loan. It is, therefore, our duty to use the loan received from the Banks absolutely for the same purpose for which the loan has been asked for. This is the proper utilization of loan. And proper utilization would enhance our image and standing with the Banks and paves way for long term relationship.

Equally important as the utilization of credit is the discipline with which we repay the loan as per the schedule of repayment agreed with the Bank. This is the culture of good repayment and enhances our credit standing. When the loans are repaid timely as per the schedule, the Banks would be very positive and helpful in providing further financial assistance based on the need and our capacity. Both the proper utilization and repayment of loans creates a conducive climate for the Banks to reach out to the people and help in their economic activity for improving quality of life. Moreover, the proper repayment of loans makes the funds available for Banks to assist others in times of need. Therefore, it is the responsibility of clients to have credit discipline so that a virtuous culture is build up in the villages and towns.

Non performing accounts/assets

When the repayment commitment is not kept in time by repaying interest as well as installment, the loan account will become problematic and Banks would designate them as non-performing accounts/assets. When the non-performing loans are increasing, the Banks will not be able to not only earn interest but also would not be able to lend to the needy people in village or city. So it is the responsibility of the clients to ensure that their loan account has not become NPA.

At the end of the module important learning points will be recapitulated for better registration in the minds of the participants.

- **Why credit?**
- **Why borrow within limits?**
- **Why borrow from Banks?**
- **Why borrow for income generating purposes?**
- **Why repay loan?**
- **Why replay loans in time?**
- **What is interest? How money lenders charge very exorbitant interest rate?**

- **What is the difference of availing credit from money lenders and Commercial Banks?**
- **What is the difference between flat rate of interest and interest charged by Commercial Banks on diminishing balance principle?**
- **What are the credit products?**
- **Role of SHGs in providing/facilitating access to credit**

Module 5: Insurance

Insurance is also a very important financial service in addition to savings and credit. In this module we will see about the importance of insurance, types of insurance products suitable for poor, procedure for getting insured against risks.

a. What is insurance?

It is a form of risk management used to protect oneself against an uncertain loss.

The transaction involves the insured assuming a guaranteed, known and relatively small loss in the form of payment to the insurer in exchange for the insurer's promise to compensate (indemnify) the insured in the case of a financial (personal) loss. The insured receives a contract, called the insurance policy, which details the conditions and circumstances under which the insured will be financially compensated.

b. Why is insurance important for poor households?

Human beings have many financial needs. A few needs are certain and we know them well in advance. Education, buying a house and marriage are examples of expected/ certain needs. Sickness, death, theft are examples of unexpected and unpredicted needs.

For all those needs that can be predicted we can find solutions through either savings or credit. For those needs that arise due to sudden occurrence of risk resulting in a financial loss, the solution could be obtained only through insurance. So insurance is for providing a security against the risks and vulnerabilities of people. Although we can save money for emergencies, it may not give a complete solution. For example we can use our emergency savings for illness. But the money needed for treatment may exceed a lot more than what we have in our Savings. So we are forced to take loan which

is not a planned one. Instead, if we have got a medical insurance policy we would have got full cover under the policy.

c. How poor people can be enabled to buy insurance products?

In the context of poor in SHGs there are many group insurance policies offered by various insurance companies. Based on the need of the members suitable plans could be chosen.

Usually there are two models of insurance services to poor are available.

c.i. Corporate agency model/ collaboration model

Under this the insurance plans of mainstream insurance companies suitable for the SHG members are chosen and the members buy the policies. Here, the risk of financial management and payment of claims is borne by the insurance companies. The promoting NGO or MFI acts as the corporate agency and looks after the roles of member, policy and claim administration.

c.ii. Mutual solutions

Social security mechanism through mutual solutions is possible with a close knit group of people who know each other very well. When such a group with large number of members, possessing common risks exists, then they may devise a mutuality based solution by which the risk is shared by everyone in the group. In this approach the risk is retained within the group and is not transferred to outside group. This solution can be sought out only when suitable solutions are either not available in the market or not accessible to poor households.

d. What are the insurance products?

Insurance products are the solutions available for different types of risks faced by the poor. The following insurance products required by poor are offered by insurance companies.

1. Life insurance
2. Health insurance
3. Livestock insurance
4. Crop insurance

There are many Government and private insurance companies operating in the sector. The members have to choose the appropriate company based on their credibility and past performance and the solution offered by their plans.

e. What is life insurance?

Life insurance is a financial solution that helps the family members to meet out the losses associated with the loss of life of a person.

Life insurance is a contract between the policy owner and the insurer, where the insurer agrees to pay a designated beneficiary a sum of money upon the occurrence of the insured individual's or individuals' death or terminal illness or critical illness. In return, the policy owner agrees to pay a stipulated amount (at regular intervals or in lump sums).

There are many insurance policies available in the market. However, very few policies suit the needs of poor households. Janashree Bhima Yojana is one policy that is offered by LIC in collaboration with the Central Government.

Other than these the insurance companies also have savings linked insurance schemes and Market linked savings schemes. Savings linked insurance schemes offer twin benefits of savings and risk coverage. Market linked savings schemes are also known as unit linked insurance plans. Example: Wealth plus, market plus of LIC. For the money deposited in the schemes units will be allotted which will vary according to the market performance.

The policy details of Janashree Bima Yojana are given below:

Eligibility:

- a) All male and female members who are
 - i) aged not less than 18 years and not more than 60 years;
 - ii) below the poverty line or marginally above the poverty line, and
- b) No Insured member shall withdraw from the scheme while he is still an eligible member satisfying the conditions of eligibility described above.
- c) An Insured Member shall participate in the benefits of the Scheme as long as he is eligible. He shall cease to be an Insured Member as from the Date on which he ceases to fulfill the eligibility conditions.
- d) Minimum membership should be 25.

Annual Premium and Contribution:

The Annual Premium payable for securing assurances in para (7) shall be at the rate of Rs.10/- (Rupees Ten) per one thousand five hundred Sum Assured per member.

Out of the annual premium of Rs.200/- mentioned above for every member, each member shall contribute 50% of premium, i.e. a sum of Rs.100/-, unless revised. This contribution shall be payable on the Entry Date and each subsequent Annual Renewal Date. The balance of 50% of the premium per member payable on the Entry Date and each Subsequent Annual Renewal Date shall be adjusted out of the Social Security Fund set up by the Corporation.

The conditions of assurance and rates of premium may be revised upward or downward by the Corporation based on claim experience on Annual Renewal Date subject to 3 months' notice being given to the Nodal Agency.

The Nodal Agency shall arrange to remit the amount of Members' Share of Premium (i.e. 50% of the total premium) to the designated office of the Corporation, as may be intimated.

Benefits on death prior to Terminal Date:

Upon the death of an Insured Member whilst he is insured prior to Terminal Date, the Sum Assured of Rs.30,000/- shall become payable to the Nodal Agency for the benefits of the beneficiary of the Insured Member.

In case of death or partial / total permanent disability due to accident (as herein after defined) the following benefits shall become payable.

- | | |
|-----------------------------------|-------------|
| i) On death | : Rs.75,000 |
| ii) Permanent total disability | : Rs.75,000 |
| iii) Loss of 2 eyes or 2 limbs or | |
| 1 eye and I limb | : Rs.75,000 |
| iv) Loss of 1 eye or 1 limb | : Rs.37,500 |

"Death / Partial / Total Permanent Disability due to accident" shall mean the death / disability occurring within three calendar months of the happening of bodily injury, resulting solely and directly from accident caused by violent, external and visible means independently of any other cause, but not the death / disability by the following:

- i) caused by intentional self injury, suicide or attempted suicide, insanity or immorality or whilst the Member is under the influence of intoxicating liquor drug or narcotic; or

What is health insurance?

Health insurance is a financial solution against the risks of illness. Most of the health insurance policies provide compensation for hospitalization. Pre existing illness is not covered under health insurance schemes. Among others, the Universal Health Insurance Scheme is a scheme meant for poor. This scheme offered by National Insurance Company with the support of Central Government. The details of the scheme are given below.

Universal Health Insurance Scheme

Sum Insured

Under Section I

The policy provides reimbursement of hospitalization expenses of Rs.30000/- per individual family during policy period subject to the following sub limits.

i. Room, Boarding expense as provided by the Hospital / Nursing Home ii. If admitted in IC Unit	i. Up to 0.5% of sum insured per day ii. Up to 1% of sum insured per day
Surgeon, Anesthetist, Medical Practitioner, Consultants, Specialists fees, Nursing expenses	Up to 15% of sum insured per illness / injury
Anesthesia, Blood, Oxygen, OT Charges. Surgical appliances, Medicines drugs, Diagnostic material & X – Ray, Dialysis, Chemotherapy, Radiotherapy Cost of pacemaker, artificial limbs	Up to 15 % of sum insurance per illness / injury.

Total expenses incurred for any one illness is limited to Rs.15000/-

After a waiting period of one year hospitalization expenses is reimbursable for the following

- Normal delivery up to Rs.2500
- Caesarian delivery up to Rs.5000

Under Section II

Accident death of earning member of the family / spouse: Rs.25000/-

Under Section III

Temporary total disablement due to hospitalization of earning head of the family @ Rs.50 per day subject to a maximum of 15 days with a time excess of 3 days.

Annual Premium	<i>Non poor ration produced)</i>	<i>Poor (Colour Xerox of BPL card or BPL certificate has to be</i>
1. Individual person :	Rs.300	Rs.100
2. Family (not exceeding 5) consisting of insured, spouse and first three dependent children	Rs.450	Rs.150
3. Family (not exceeding 7) consisting of insured, spouse, first three dependent children and parents	Rs.600	Rs.200

Proposal: To be filled by the Head of the family in prescribed format, with 2 stamp size photograph for each member.

Hospital

Hospital should have at least 15 inpatient beds. In C Class town with population less than five lakhs the number of beds is 10.

Expenses of hospitalization of minimum period of 24 hours are admissible. In case of Hospitalization for less than 24 hrs due to the following reasons, the claims is payable.

- The treatment is such that it necessitates hospitalization and the procedure involves specified infrastructural facilities available in hospitals.
- Due to technological advances hospitalization is required less than 24 hours only.

Any one illness will be deemed to mean continuous period of illness and it includes relapse with in 60 days from the date of last consultation.

Exclusions Under section I

Any disease during the First 30 days from the commencement date of policy. (Injury due to accident covered from the first day of the policy)

Cost of spectacles, contact lenses and hearing aids not payable. Any Dental Treatment or Surgery, internal self injury and use of intoxicating drugs / alcohol, sterility, Venereal Disease not covered. Vitamin and tonics unless forming part of treatment of injury / illness are not covered. Treatments arising from or traceable to pregnancy, child birth, miscarriage, abortion or complication of any of these including caesarean section are not covered.

Naturopathy treatment is not covered.

Coverage under section II of the policy

If the earning Head of the family / spouse shall sustain any bodily injury and also that injury lead to death with in six calendar months of its occurrence, the company will pay Rs.25000.

If the earning Head of the family / spouse is hospitalized, Under section I of the policy he may be paid with Rs.50 per day from the fourth day for hospitalization up to maximum of 15 days per policy period. (If it is less than 3 days this benefit is not payable)

Exclusions under section II

- i. Intentional self injury, suicide or attempt to suicide.
- ii. Under the influence of intoxication, liquor or drugs
- iii. If the insured committing any breach of law with criminal intent

Conditions:

- 1. Notice about the admission in the hospital should be immediately informed to the TPA.
- 2. All supporting documents relating to the claim must be filed with TPA with in 7 days from date of discharge from the hospital.

Age Limit:

This insurance is available to persons between the age of 5 to 70 years. Children between the age of 3 months and 5 years of age can be covered provided one or both parents are covered concurrently.

f. What is livestock insurance?

Livestock insurance is a form of asset insurance that protects the household from the risks arising from the death of livestock. The following are the companies that offer livestock insurance.

What is crop insurance?

The risks involved in agriculture are complex. Agriculture is faced with various risks including pests, diseases, rainfall, availability of inputs, and competitive price for the agricultural produce, etc. However, in order to offer a solution rainfall is usually considered as a factor/ index for crop insurance.

Varsha Bhima

Agricultural Insurance Company of India offers the crop insurance scheme based on rainfall called Varsha Bima. Varsha Bima covers anticipated shortfall in crop yield on account of deficit rainfall. Varsha Bima is voluntary for all classes of cultivators who stand to lose financially upon adverse incidence of rainfall and they can take insurance under the scheme. Initially Varsha Bima is meant for cultivators for whom National Agricultural Insurance Scheme (NAIS) is voluntary and Weather based Crop Insurance Scheme (WBCIS) is not available.

Period of Insurance:-

The insurance operates during June to September for short duration crops; June to October for medium duration crops; and June to November for longer duration crops. Further, these periods are State-specific. In case of Sowing Failure option, the risk period is usually from 15th June to 15th August.

How to Buy Varsha Bima:-

Proposal forms are available at all the loan disbursing outlets viz PAC branches of all Cooperative/ Commercial/ Rural banks. The coverage under Varsha Bima at the grass-root level shall be made mostly through the existing network of Rural Finance Institutions (RFIs) as in NAIS, particularly Cooperative Sector Institutions. AIC shall also directly market / provide insurance subject to the availability of its network. The network of formal and informal institutions working in the rural areas, such as NGOs, Self Help Groups (SHGs), Farmers Groups could also be utilized for delivery of Varsha

Bima. The cultivators proposed for insurance under Varsha Bima is required to have a Bank Account at the RFI Branch, which will facilitate his / her insurance transactions.

g. What are the roles of NGOs with regard to insurance for poor?

Insurance for poor is an emerging field. Most of the insurance services are provided through safety net mechanisms of the State. Although these schemes are intended to benefit the poor households, many poor are excluded due to various reasons. NGOs have to perform their roles in such a way that

- All the eligible members receive the benefits of social security welfare programmes of the State
 - Enrolling the members in the contributory schemes designed for poor.
- Ex: JBY

At the end of the module important learning points will be recapitulated for better registration in the minds of the participants.

- **Why do we have insurance?**
- **What are the difference types of insurance?**
- **What is Janashree Bima Yojana?**
- **What is the role of NGOs in promoting Janasree Bima yojana?**
- **What is the difference between savings, credit and insurance?**

Module 6: Pension

Financial needs and the type of financial services needed vary with our lifecycle stage. The services seen so far including, savings, investment, credit and insurance are important during productive years of the human beings whereas pension is a preferred solution in the evening years of their life. However, planning and saving money for the golden age are activities that we should start when we are young. This module will elaborate about the need for pension and the pension options available for poor.

a. What is pension?

Pension is also a type of insurance. In fact it is the opposite of life insurance. While life insurance covers the risks of losses arising out of death, pension

covers the risk of loss/ expenditure arising out of living longer. Thus pension is a mechanism of providing income security to people in their old age. Pension includes a periodical payment of a certain amount to the pensioner till her/his death.

b. Why pension?

Demographic studies and surveys tell us that population ageing is becoming a progressively serious concern for the world today. In 1950, there were 205 million people aged over 60 years in the world, which increased to 606 million in 2000. The number of aged people has tripled in the last 50 years, and is projected to do the same in the next 50 years and is projected to 2 billion in 2050. And two-thirds of the world's elderly population lives in the developing countries. In these countries, the proportion of older persons' population is expected to rise to over 19% by 2050, while that of children is to fall from 33% to 22%.

Rapid declining fertility and rising longevity rates since the 1960s, has ensured that India is following similar trends. India is set to become the world's most populous country by 2030 according to current projections. Currently the elderly in India constitute about 7.2% of the total population and is growing. Today we have nearly 76.6 million aged persons, and this is expected to rise to 198 million by 2030. Around 90% of the elderly workforce are from the unorganized sector and almost 80% from the rural areas, with nearly 40% constituting the below poverty population, and 50% aged women. About 64% of elderly women are widowed. Today India is home to one out of every ten senior citizens of the world. Both the absolute and relative size of the population of the elderly in India will gain in strength in future. There is a progressively increasing pressure on the already deficient public infrastructure and systems. The holders of knowledge, cultural and social heritage of a society - the aged persons, increasingly face mammoth struggles in our country to merely maintain a comfortable living, leave alone matters of quality of life and harmony. The major challenges for the elderly today are emotional, health and economic stability.

Most of the aged populations who are poor do not have an access to any social security schemes in India. A negligible proportion of the people are covered under government's old age pension programme and the benefits are not available to all. In this context an initiative of micro pension is warranted to ensure social security to the poor and unorganized aged people.

c. What are the pension products available for poor?

Pension for poor although not well developed in India; there are a few micro pension products available for the poor.

c.i. Micro pension product of UTI

UTI Mutual Fund (UTI MF) has entered into an arrangement with the following organisations for providing its members an investment opportunity through a Micro-Pension initiative under UTI-Retirement Benefit Pension Fund:

- Union Bank of India,
- The Bihar State Co-operative Milk Producers' Federation Ltd.(COMPFED), Paradeep Port and Dock Mazdoor Union,
- Bank of India,
- Shree Mahila Sewa Sahakari Bank Ltd. and
- Self-Help Promotion for Health and Rural Development (SHEPHERD)

Under the Micro-Pension initiative facilitated by UTI Mutual Fund members of the said organisations contribute small amounts every month towards UTI-Retirement Benefit Pension Fund up to the age of 55 years so as to enable them to receive pension in the form of periodical income/cashflow after they reach the age of 58 years.

The product details are as given below.

Mutual Fund	UTI Mutual Fund
Scheme Name	UTI - Retirement Benefit Pension Fund
Objective of Scheme	Retirement Benefit Plan (RBP) seeks to help investors plan for their retirement by saving early and by saving regularly. It is A Notified Pension Plan under section 88(2)(xiic) for salaried class, self employed & professionals which seeks to provide post retirement income with tax benefit on investment.
Scheme Type	Open Ended
Scheme Category	Income
Launch Date	26-Dec-1994
Indicate Load Separately	Exit load, upto 7% of NAV for repurchase within 5 years, otherwise upto 5% of NAV
Minimum Subscription Amount	Rs.10,000/

Pension products of LIC

There are four pension plans available from LIC. They are, Jeevan Nidhi, Jeevan Akshay, New Jeevan Dhara-I, New Jeevan Suraksha-I. Among these Jeevan akshay is the immediate annuity plan, whereas all the other are deferred annuity plans with minimum vesting period ranging from 10 to 15 years.

c.iii. NPS-Lite

Pension Fund Regulatory and Development Authority (PFRDA) has been established by the Government of India, Ministry of Finance vide Notification F.No.5/7/2003-ECB & PR dated 10th October, 2003 to promote old age income security.

Pension Fund Regulatory and Development Authority (PFRDA) has put in place the institutional framework and infrastructure required for administering the '**National Pension System**' (**NPS**) for government employees & all citizens of India. The Unorganized sector model of the NPS, prescribes certain norms related to minimum amount of investment per contribution, during the year and no of contributions per year. The associated charge structure makes such small investments unviable. To facilitate the economically disadvantaged sections of society with limited investment potential also to take advantage of NPS, PFRDA now makes available a unique platform at ultra low cost with optimized features. The individuals would be able to join NPS as groups through "aggregators".

NPS Lite model broadly has similar functionalities as the regular NPS model. However, some of the services would not be available at individual subscriber level; instead these services would be provided at Aggregator level and the individual can avail of those features through aggregators.

Under NPS Lite, Permanent Retirement Account would be available to subscribers. This will be non-withdrawable account, in which an NPS Lite subscriber shall contribute his/her savings for obtaining an annuity at the time of retirement.

Benefits of joining NPS Lite:

It is voluntary - NPS is open to Indian citizens between the age of 18-60 and focus on economically disadvantaged people. You can choose the amount you want to set aside and save every year. Investment can be as low as Rs.100 p.m.

It is simple - all you have to do is open an account through your Aggregator and get a PRAN.

It is uniform -. Single investment plan similar to Central Govt employees.

It is portable - You can operate your account from anywhere in the country, even if you change your city, job or your Aggregator

It is safe - NPS is regulated by PFRDA, with transparent investment norms and regular monitoring and performance review of fund managers by NPS Trust.

It is affordable-NPS Lite has features optimized for low investment potential subscribers and is available at ultra low cost.

d. What are the roles of NGOs with regard to Pension for poor?

Like in other financial services, NGOs' primary role is to identify the social security programmes (welfare programmes to provide safety net) for poor and ensuring their participation in them.

In the case of contributory programmes like NPS- Lite, the NGOs can act as agents thus ensuring the enrollment, collection and payment of pension contribution, ensuring payment of pension to members in their pension age, etc. NGOs can get their share of programme management fees from PFRDA/ insurance company according to the terms and conditions of the chosen pension scheme.

Of all the primary responsibility is to educate member to understand the importance of pension and orienting them in such a that they develop a positive attitude and practice for planning for their old age.

At the end of the module important learning points will be recapitulated for better registration in the minds of the participants.

- **Why you will need regular stream of income post working life-pension?**
- **Why should keep money aside regularly and consistently during your earning life for pension in old age?**
- **How do we participate in pension scheme?**
- **What is the role of NGos in enabling pension for the poor?**

Module : 7 Remittance

a. What is remittance?

Remittance refers to transfer of money from one person to another. There are two types of remittances based on the purpose of money transfer

43.1.Simple transfer of money. Example from a worker to his family through bank account transfer.

43.2.Money transfers for making payments. Example Payment of salary through cheque.

43.3.Simple money transfers

Transfer of money arising out of Payments

b. What is the need for remittance in the context of poverty?

One estimate indicates there are up to 100 million circular migrant workers in the country. Most come from low-income households searching for seasonal work in metropolitan areas, other districts or even other states. Hopes are high and despite slow asset accumulation, migration helps to prevent the workers and their families from sliding into further poverty. Often unbanked, migrants need channels to send money from the destination back to their home village. This need is mostly met by the informal market leading to Hawala. A “continued dependence on the informal financial sector” leaves the rural population without choice.

But remittances are important, not only to meet the consumption needs of a household, but also for investment in agriculture. Research has shown that remittances “provide scope for accumulation of wealth and asset creation for households in addition to providing basic consumption needs.

” But to send money back to their villages, migrants have few options: a) carrying it back themselves or sending it through friends and relatives visiting home b) sending it through the post office by a money order c) sending it through a bank by bank draft or d) sending it through an informal remitter.

Among these options the first and the last involve the informal market; the second is seen as expensive and sometimes difficult by remitters (a form has to be filled out in the language of the destination). Finally, sending money through a bank is rarely feasible since most migrants don’t have a bank account, either at origin or destination or both. Because of this lack of options for money transfer, migrants cannot send

money home as regularly as necessary. A study of remittances to Andhra

Pradesh has shown that only 15 per cent of remittances are sent to families on a regular monthly basis. Instead, 35 per cent are irregular and 44 per cent are sent only every three to four months.

c. How remittances are done in India?

When discussing about the remittance in India, it becomes important to know the payment systems in India as it plays a major role.

c.i Formal system

1. Money transfer through Banks

Money transfer through banks comprises of both paper based as well as electronic systems. These payment systems are managed by multiple entities and are regulated by the Reserve Bank of India (RBI). The paper-based systems handle transactions of both small and large value through the approximately 1,100 clearing houses, which can be owned by the RBI/SBI or any other public sector commercial bank and are operated by the human resources personnel of the respective institutions. The RBI plans to increase this number in the long-term to one clearing house per five bank branches. Cheque clearing accounts for close to 70 per cent of the retail payment by volume and about 30 per cent by value, the remaining percentage going to real time gross settlement (RTGS).

The electronic-based system handles transactions of mostly large value through the approximately 55,000 RTGS enabled bank branches. In addition, the electronic clearing system (ECS) caters to making bulk payments/receipts of a similar nature especially where each individual payment is of a repetitive nature and of a relatively smaller amount. Another electronic system is the electronic funds transfer (EFT) operated by the RBI in about 15 cities. The RBI is in the process of converting this into a national electronic funds transfer (NEFT) system. This would then have an outreach of close to 56,000 branches spread over 4,500 centres. The other types of retail payments system are card based transfers through ATM/credit/debit cards which are by design not currently accessible to the poor population.

2. Postal remittance

The Indian Posts enjoys a good reputation and benefits from its high rural penetration and customer proximity. With its 155,204 post offices it can reach out to almost every address. About 130,000 branch post offices are on the ground level in villages, close to 20,000 are sub post offices on a block

level, and 838 head offices are either on the district level or general post offices (on average 1-2 in every state) in metropolitan areas. Clients of the India Post can choose from three money transfer services:

Electronic Clearance Services (ECS), Instant Money Order (iMO) or single money order. However, only the latter option is of relevance to most migrating workers, who are not web-based and mostly unbanked. Under the single money transfer migrants can remit up to Rs 5,000. The few migrants, who have web access and send higher amounts, can also use the iMO to send between Rs 1,000 and Rs 50,000. In the first and more traditional case, the post man delivers the domestic transfer, which the remittance sender has placed at the post office to the doorstep of the remittance receiver. It is sufficient to mention the name and address on the form, the receiver does not require more than that. The remitter adds his/her signature or thumb marks to the completed form and gets a receipt for the amount remitted. Once the transfer has arrived, the sender receives an acknowledgement of the payment signed by the receiver.

Generally, reliability of the system is high, even though clients have reported cases of misuse of remittances. In Uttar Pradesh, for instance, a post man has admitted to having lent the remittance amount at an interest rate and then delivered it many weeks late. Of more concern than safety is the length of time taken for transfer. While iMO is safer and faster, it is accessible to few. One thousand seven hundred post offices are providing the service but only 54,000 iMOs were executed last year. The number of post offices providing iMO is planned to grow by 10,000 in the next years to cover 4,000 post offices. The traditional money order, on the other hand, is slower but easy to handle.

3. BC/BF as facilitators to enable remittance services

Eko Aspire Foundation (a section 25 not for profit) functions as a business correspondent to banks. Eko India Financial Services Private Ltd. provides all the support services like technology, document management, data processing and call centre facilities. To reach out to the unbanked, Eko uses a mobile phone technology and 160 Customer Service Points (CSP).

Currently they service around 2,500 customers in the NCR region. At each customer service point, e.g. a pharmacy, the designated and carefully selected CSP has a mobile phone which is connected to an account at simplibank, Eko's banking platform. A customer can, through a number combination/numeric password now open a bank account, deposit savings and withdraw savings at the CSP. For example: a customer deposits Rs 200;

he/she physically hands over Rs 200 to the shop keeper, then through a number combination credits his or her own account, through another number combination/use of password the CSP debits his/her own account for the cash received, and the transaction is completed at the banking platform of the BC ie Simple bank. These transactions are merged with the CBS of the bank at the end of the day. Confirmations are sent through sms and the number combinations are safely noted in a booklet, carried by the customer. For safety reasons the numbers can be used only once and include a pin code, that is shown as **** and only known to the customer. Within the Delhi region customers under this arrangement can even remit money to each other without approaching the CSP. Even though the procedures are simple and the amounts small, the Know Your Customer norms (KYC), i.e. due diligence and customer identification, as followed by Commercial Banks still apply. The client needs a proof of address (POA) in the Delhi region as well as a Delhi mobile phone number. While the approach works for some it does not for others, especially migrant workers. They have no POA of their destination, and often hold an election card for their home village.

The strategy is still limited to one region and while the technology is easily extendible, the institutional set-up is not because to remit an amount to UP, Orissa or Bihar, for example, a CSP would have to be there to walk the last mile.

4. Remittances / payment through mobile phone:

Mobile phones are increasingly used for accounts operations and also payment remittances of money from one account to another and to merchant establishment. Mobile Banking in India has evolved from its early form being just an information provider for services like checking bank balances to transaction based functions like bill payment, remittance, booking tickets for travel, movies etc. Mobile banking is catching up even amongst the rural people in view of the transparency and security and easy availability. Mobile banking provides a banking interface at low transaction costs. It is estimated that the cost of an ATM transaction is 5 times that of Mobile banking transaction and 15 times more expensive for regular bank transaction. Despite this use of Mobile banking is yet to take off in India. Mobile banking usage in India at present is 10 million, just over 2% of total mobile user base.

c.ii. Mobile banking transaction by Banks

1. Transaction Limit:

Banks can offer this facility to the customers subject to a daily cap of 50,000 per customer for both fund transfer and transactions involving purchase of goods and services.

2. Remittance of funds for disbursement in cash.

In order to facilitate the use of mobile phones for remittance, the banks are permitted to provide funds transfer from the account of their customers for delivery in cash to the recipients. The disbursement of cash may be by ATM or through business correspondent upto a limit of Rs. 5,000 per transaction

A bank account holder will have to get his **Mobile Money ID (MMID)** from the bank which will be his ID mobile commerce transactions. The bank installs special applications on his mobile phones from where the remitting will be done. Once the process is complete, the bank account holder can remit money to anyone, provided he has the receiver's MMID and mobile phone numbers.

In case of lower end phones where the applications cannot be installed money can be transferred through SMS.

To start with, the entire service comes free for the account holder of the bank with banks bearing the cost of 25 paisa per transaction.

In the case of SMS based remittance the user is charged a fee of Rs 2 per SMS.

Reserve bank of India has capped the **limit** at **Rs 50,000/day**

This service is expected to give fillip to financial inclusion and also the retail payment would become much easier because of the dense mobile telephony. All the 3 stake holders banks, merchants and mobile telephone companies are expected to work together for graded integration which will help address the twin challenge of reducing the use of cash.

c.iii. Informal system

The majority of remittances are made through the informal or semiformal system. Together they account for an estimated 50 to 60 per cent of all transactions. Friends and family are perceived to be the safest and most cost efficient remittances channels, because trust among peer groups is high. Although fraud is low, ambush and robbery have increased. Being chosen as money-carrier is apparently as much an honourable as a dangerous task.

Thus, the effective cost of this channel is probably underestimated by users. The courier or agent system operates as urban “pay-in-point”. He telephonically informs the agent in the rural receiving end who then delivers the money to the families. The cost is approximately 4 to 5 per cent up to Rs 10,000 and 3 per cent for amounts greater than Rs 10,000. Agents are closely linked to the local communities and highly entrusted with the money transfers. The relationship and business is extended through multiple services, e.g. selling of insurance products, savings schemes, and intermediate loans (purportedly free of interest). The working capital of the agent was reported to be Rs 150,000. Many of the small transactions are not cost-efficient.

At the end of the module important learning points will be recapitulated for better registration in the minds of the participants.

- **What is remittance and why we need the remittance services?**
- **Why remittances through Banks?**
- **What is the role of BC/BF in remittance?**
- **How remittances are made in India?**
- **How do we do remittances through mobile phones?**

Module 8: Banking Facilitators and Banking Correspondents

a. What is the need for BC/BF in India?

The nation has been experimenting with various alternatives to reach the banking services, primarily credit, in rural areas through several initiatives. Early initiatives in this regard were taken by building an institutional framework beginning with the focus on the cooperative credit institutions followed by the nationalisation of major domestic banks and later the creation of the Regional Rural Banks (RRBs). Simultaneously, several measures including establishment of the Lead Bank Scheme, directed lending for the Priority Sectors, banking sector's linkage with the

Government sponsored programmes targeted at the poor, Differential Rate of Interest Scheme, the Service Area Approach, the SHG-Bank linkage programme and introduction of the Kisan Credit Card were taken. Given the social responsibility to reach the rural areas and the poor, the banks and co-operative institutions with guidance from the Reserve Bank of India (RBI), the National Bank for Agriculture and Rural Development (NABARD) and other apex level institutions made serious efforts in meeting the needs and

demands of the rural sector. As a result, the outreach of Indian banking system has seen rapid growth in rural areas.

However, there continues to be wide gaps in the availability of banking services in the rural areas as the SCBs have covered only 18.4 percent of the rural population through savings/deposit accounts and even a lower percentage of 17.2 percent of the rural households by way of loan accounts. Though the Primary Agriculture Credit Societies (PACS) with about one lakh outlets have a deep and wide presence in rural India their impact in terms of extension of deposit and credit products has not only been minimal but concentrated in a few states only. The decline in productivity of the rural branches of the commercial banks, fragility of the co-operative credit structure and weakness of RRBs witnessed since early the 90s, have further accentuated the problem of inaccessibility of banking services for a large part of the rural population.

It is important to understand both the supply and the demand side perspectives that lead to such a wide gap in availability of financial services. The exclusion of large numbers of the rural population from the formal banking sector may be for several reasons from the supply side, such as: (a) persons are unbankable in the evaluation/perception of bankers, (b) the loan amount is too small to invite attention of the bankers, (c) the person is bankable on a credit appraisal approach but distances are too long for servicing and supporting the accounts and expanding branch network is not feasible and viable, (d) high transaction costs particularly in dealing with a large number of small accounts, (e) lack of collateral security, (f) inability to evaluate and monitor cash flow cycles and repayment capacities due to information asymmetry, lack of data base and absence of credit history of people with small means, (g) human resources related constraints both in terms of inadequacy of manpower and lack of proper orientation/expertise, (h) adverse security situation prevailing in some parts of rural India, (i) lack of banking habits and credit culture, (j) information-shadow geographical areas, and (k) inadequacy of extension services which is crucial to improve the production efficiency of the farmers leading to better loan repayments.

From the demand side, there are several reasons for the rural poor remaining excluded from the formal banking sector, such as : (a) high transaction costs at the client level due to expenses such as travel costs, wage losses, incidental expenses, (b) documentation, (c) lack of awareness, (d) lack of social capital, (e) non availability of ideal products, (f) very small volumes / size of transactions which are not encouraged by formal banking

institutions, (g) hassles related to documentation and procedures in the formal system, (h) easy availability of timely and doorstep services from money lenders/informal sources and (i) prior experience of rejection by/indifference of the formal banking system.

The situation described above has been responded to in some ways by banks with the involvement of Non-Government Organisations (NGOs) and other Civil Society Organisations (CSOs)/voluntary agencies in facilitating the flow of financial services to the poor. The most significant in this context is the SHG-Bank linkage programme. Another attempt in this approach is the delivery of credit through Joint Liability Groups. Further, in the recent times, several new generation banks who came into existence with a heavy reliance on technology but with a very limited branch network, have taken innovative steps, such as, bulk lending to microfinance institutions (MFIs), using them as "pass through" agencies, to tap the rural credit market.

This was followed by the announcement in the budget session for the year 2005-06 requesting RBI to allow banks to follow an agency model. Followed by this announcement, RBI had constituted a committee that reviewed and finally recommended to set up the banking facilitators and banking correspondents.

b. What is meant by Business facilitator?

Under the 'Business Facilitator' model, banks may use intermediaries, such as, NGOs/ Farmers' Clubs, cooperatives, community based organisations, IT enabled rural outlets of corporate entities, Post Offices, insurance agents, well functioning Panchayats, Village Knowledge Centres, Agri Clinics/ Agri Business Centers, Krishi Vigyan Kendras and KVIC/ KVIB units, depending on the comfort level of the bank, for providing facilitation services. Such services may include

- i. Identification of borrowers and fitment of activities
- ii. Collection and preliminary processing of loan applications including verification of primary information/data
- iii. Creating awareness about savings and other products and education and advice on managing money and debt counseling
- iv. Processing and submission of applications to banks
- v. Promotion and nurturing Self Help Groups/ Joint Liability Groups
- vi. Post-sanction monitoring
- vii. Monitoring and handholding of Self Help Groups/ Joint Liability Groups/ Credit Groups/ others

viii. Follow-up for recovery.

As these services are **not** intended to involve the conduct of banking business by Business Facilitators, no approval is required from RBI for using the above intermediaries for facilitation of the services indicated above.

c. What is meant by Banking correspondent model?

Under the 'Business Correspondent' Model, NGOs/ MFIs set up under Societies/ Trust Acts, Societies registered under Mutually Aided Cooperative Societies Acts or the Cooperative Societies Acts of States, section 25 companies, registered NBFCs not accepting public deposits and Post Offices may act as Business Correspondents. Banks may conduct thorough due diligence on such entities keeping in view the indicative parameters given in Annex 3.2 of the Report of the Internal Group appointed by Reserve Bank of India ([available on RBI website: www.rbi.org.in](http://www.rbi.org.in)) to examine issues relating to Rural Credit and Micro-Finance (July 2005). In engaging such intermediaries as Business Correspondents, banks should ensure that they are well established, enjoying good reputation and having the confidence of the local people. Banks may give wide publicity in the locality about the intermediary engaged by them as Business Correspondent and take measures to avoid being misrepresented.

In addition to activities listed under the Business Facilitator Model, the scope of activities to be undertaken by the Business Correspondents will include

- i. Disbursal of small value credit
- ii. Recovery of principal / collection of interest
- iii. Collection of small value deposits
- iv. Sale of micro insurance/ mutual fund products/ pension products/ other third party products
- v. Receipt and delivery of small value remittances/ other payment instruments.

The activities to be undertaken by the Business Correspondents would be within the normal course of the bank's banking business, but conducted through the entities indicated above at places other than the bank premises. Accordingly, in furtherance of the objective of increasing the outreach of the banks for micro-finance, in public interest, the Reserve Bank hereby permits banks to formulate a scheme for using the entities indicated in paragraph above as Business Correspondents. Banks should ensure that the scheme

formulated and implemented is in strict compliance with the objectives and parameters laid down in this circular.

Module 9: Financial planning and Financial Counseling

SHG members are the primary clients for the Financial literacy initiatives. SHG meetings are effective platforms where general awareness on financial planning could be imparted to SHG members. However, there should be some form of assistance available to them at the time of financial crisis or at times when they need guidance for taking important financial decisions. Counseling to individuals and family would be the best solution for such needs.

Financial literacy could be promoted through two approaches.

1. Financial education
2. Financial counseling

1. General Financial Education

It refers to creating awareness on financial needs, financial planning and financial products and services suitable for the poor households. It may create an interest among the clients to manage their finance in a planned and disciplined manner. However it may not provide them solutions for their specific needs. The clients would know the broad principles or guidelines or general rules related to management of money.

General financial education could be provided during the regular meetings especially in the beginning months of group formation. However this knowledge of members can be updated whenever new products or services are introduced in SHGs or in the outside market; whenever issues arise or expected to arise that are related to management of finance.

2. Financial counseling

Although members may know the general rules of managing their money and needs, they may often face with unforeseen situations or they may plan something that is complex. Under such circumstances taking a right decision is a crucial one. In the pressure of finding solution to the problem or in an anxiety to take up a new intervention, they may take a poor decision which might complicate the situation of the members. Sometimes complexity of the issue may lead them towards indecision. Both are not good for the development of the household.

In such situations the households need counseling wherein which they discuss with experts who would suggest them various alternatives after careful analysis of their current and future situation, current and future needs etc. In our case the Cluster associates are expected to play the role of these 'experts' who should be able to counsel them on smaller issues. However for decisions relating to larger investments or borrowings the community accountant at Federation office should be able to provide such financial counseling to our members.

In the current situation the seeking for financial counseling is very limited among members. They discuss among the households or at the maximum discuss with close relatives and friends for taking decisions. Hence what is more important for us is to create an attitude of seeking financial advices from SHG institutions- associates and community accountant or whoever is designated for this purpose. Hence it becomes important that the associates and community accountant should be competent enough to provide such important services to member families.

a. Financial planning

Financial planning is one of the key elements for financial empowerment and economic security of poor. Financial planning involves deciding the expenditures, putting aside money, getting credit, and creating assets. Most of the households including the poor have enough experience in this. But the problem the poor face is that they plan based on the extent of their knowledge and exposure which leads to exploitation. We can not plan about something that we don't know! Hence the poor households should be counseled in order to help them understand the different options available, consider their pros and cons and finally select the best one suitable for them.

Counseling members for financial decision making starts with financial need analysis. Goal setting is the prerequisite for financial need analysis. Need analysis is followed by financial planning.

b. Financial Need analysis

Need analysis can be done based on short, medium and long term goals.

- a. Short term Goals (within a year)
- b. Medium term goals (1 to 5 years)
- c. Long term goals (Above 5 years)

Sources of income of the family from different occupations

S. No	Items	Income						
		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
1	Occupation 1							
2	Occupation 2							
3	Occupation 3							
4	Occupation 4							
	Total							

Family expenses and other payments:

S.No	Items	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
1	Food, water							
2	Clothing							
3	Rent, maintenance							
4	Festivals							
5	Travel, phone							
6	Social obligations							
7	Children marriage							
8	Education							

9	Medical							
10	Entertainment							
11	Other expenses							
12	Payment to debt							
13	Savings for education							
14	Savings for marriage							
15	Payment for pension plan							
16	Payment for insurance							
17	Investments							
18	Other savings							

c. Financial literacy to family members

Financial literacy need to be given not only to the members of SHG but also to all the members of the family especially their spouses. Both of them should participate in the financial counseling session and should jointly involve in the financial planning exercise.

d. Financial literacy to children and youth

While educating the adults, earning members of the household would be the prime focus of financial literacy initiatives, efforts should be taken simultaneously to educate the children also on the financial matters relevant to them. Financial education to children may focus on savings for different purposes like education, tours, sports equipments, etc., planning for their personal expenditure and managing money. Youth may be oriented towards enterprise management skills.

e. The Knowledge skill and attitude needed for a financial counselor

d.i. Knowledge

1. Importance of Financial literacy
2. Financial needs and wants of the households
3. Giving preference to needs than wants
4. Current Savings practices of the community
5. Alternatives available and their features
6. Current practice of borrowing
7. Interest rates- flat, diminishing, EMI
8. Alternatives available
9. Current Social security practices and alternatives
10. Current investment practices and alternatives
11. Planning for expected and unexpected needs
12. Preparing and analyzing a budget for household

d.ii. Skill

1. Analysing the cash flow of a family
2. Counseling skill
3. Financial Planning skill
4. Communication skill
5. Convincing skill
6. Problem solving skill

d.iii. Attitude

1. Be positive
2. Be open to learn
3. Be flexible
4. Willing to help
5. Practice before preach
6. Should be a balanced person – when conflict arises between her ideas and the ideas of the SHG member

Module 10 Leadership role of SHG Leaders in spreading financial literacy

Since the piloting in early 1990s the SHG programme has come a long way. It has assumed movement perspective with the self-help groups being promoted by the SHGs themselves rather than NGO/civil societies/Government led. Propelling growth of SHGs is in large part due to the grass root SHG leaders who have taken the initiative to spread the movement across the country. Many SHG leaders have also assumed larger responsibilities taking over the governance role of federations and its leadership. The level of awareness and knowledge about the mainstream institutions including Banks and Governments have raised to a greater extent. The SHG leaders have also been performing the role of guiding and mentoring the SHG members and enhance the democratic processes in the SHG meeting conducted monthly or fortnightly. They have been able to establish good rapport with members with caring attitude and empathy.

In keeping with these responsibilities, the SHG leaders who have undergone the financial literacy programme need to take effective steps to spread the literacy among the members, which means SHG leaders will discuss about the literacy aspects concerning all the financial services including pension in the group meetings in a gradual manner and create good awareness and enhance their knowledge levels about financial services. In this task of spreading literacy, the SHG leaders would be supported by the staff members of NGO who have also undergone financial literacy programme along with the leaders. It would be a continuous education process in the group meetings and the dissemination of the literacy need to be taken up by the SHG members also to those excluded segments of population who are also not a part of the SHG eco system. The SHG leaders have a greater role and responsibilities in taking the financial literacy process as a mission for not only among themselves but also for the user public in general, with particular focus on the women who could not get the opportunity to go through the formal education system. The leaders should talk about the importance of financial inclusion in the literacy campaign and the advantages of availing financial services from Banks rather than from individuals or other institutions-focusing on how affordable the Banking system and how safe their savings would be and how the Banks are not exploitative in providing credit, remittance and other services. The SHG leaders should spread the message that Bank branches and also the outreach arms such as Business Facilitators and Correspondents are established for all segments of

population rich or poor and each household and individual should be linked with the banking system wherever they are – rural, urban or in tribal belt.

Module 11 Business opportunities guidance:

The SHG Bank linkage programme has given tremendous opportunities for the poor women to explore and utilize their potential through access to financial services. Like savings and credit, the SHG members are now getting aware of the importance and the benefit of insurance services in coping with the risks which include life, health and also livelihoods which comprises of assets, crop, etc. Many SHG members are now using the Bank linkage for not only consumption credit but also meeting the funds requirements of livelihoods, small business and enterprises. The experience of the successful enterprises and business by many group members and the role of financial services including savings, credit and insurance in successfully running the business enterprises should be talked about by the leaders in the group meetings and provide guidance with the support of NGOs or Government who have promoted/monitoring those groups.

Another aspect that may be dealt with is the scale and the size of livelihoods or business enterprises being undertaken by the SHG members. Here the important aspect to be looked into is the capacity of the members and guidance of the leaders in this aspect to run a particular business at a particular scale. The SHG leaders should also educate the members about the instances of business failures and lessons learnt from these failures which need to be disseminated in the group meetings. Relying on their experience the SHG leaders need to look at the livelihoods opportunities in three distinct streams:

- Farm based livelihoods including animal husbandry(dairy, poultry, sheep rearing, etc.), fisheries both inland and marine
- Non-farm based livelihoods – trading/vending, small businesses, services, etc.
- Skill based livelihoods

Newer opportunities of skill based livelihoods, farmer collectives, producer companies are to be talked about and the members' awareness level raised. It is also essential to distinguish between the individual enterprises at the member level and also collective enterprises wherein SHG members not necessarily of the same group but from neighbourhood villages come together to promote collective livelihood activities. The type of financial

services including credit and insurance suitable for the livelihoods and business enterprises depending upon the scale should be educated to the members. Marketing support, storage support for price discovery are among the important things that need to be shared with the SHG members for supporting their livelihood ventures. Which means the SHG leaders have greater role in both spreading financial literacy and in effectively using the literacy for a larger group of people to support their initiatives in business and enterprises.