

## **A Study on Understanding the Financial Ecosystem in Malkangiri District of Odessa: Status, Constraints and Way forward**

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**Abstract:** Financial Inclusion and its services are considered very relevant to the state like Odisha which has got vast majority of poor including SC & ST population who mostly depend on casual labour and informal sector employment for their livelihoods. With a view to bring large number of poor households into the fold of financial inclusion, Reserve Bank of India (RBI), State and Central government have taken several initiatives. In spite of the best efforts, there are a few districts like Malkangiri district in Odisha still remaining as an underserved area in terms of financial inclusion parameters. With this backdrop, a study was carried out in Malkangiri district of Odisha, to ascertain the current financial inclusion status and to identify the constraints, issues and key challenges in the district. Both qualitative and quantitative data were collected from the field. A total of 103 villages and 200 SHGs were visited and 400 respondents were interviewed. A random sampling method was used to finalize the number and names of the GPs/Villages/SHGs etc. in consultation with various stakeholders. The study found that around 89% of the sample having a bank accounts, the pattern of its distribution and usage is concerning. 15% of the samples were having a RuPay card and enrolled under the social security schemes ranged from 9-10% across the 7 blocks. Around 34% of the sample had availed a loan of which around 27% had got a loan through their SHGs and not through their individual accounts. The study also finds that effort should be made by the state government to open more bank branches through PSU & private banks in this district. The government may take up the actions in designing, delivering and expanding appropriate financial services including micro insurance, pension for the poor exclusively in the hilly and tribal areas. The study recommends that efforts on client education and financial literacy need to be expanded further in order to sensitize members on the evils of various chit funds and their schemes and help them making household financial planning.

**Keywords:** Financial Inclusion (FI), Business Correspondent (BC), Microfinance, and Self Help Group (SHG)

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### **I. INTRODUCTION**

The concept of financial inclusion has a special significance for a growing economy like India. According to Rangarajan Committee Report, 2008 financial inclusion can be defined as “the delivery of credit and other financial services at an affordable cost to the vast sections of the disadvantaged and low income groups”. The various financial services include savings, credit, insurance, payments and remittance facilities. The objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit people with low incomes. Through graduated credit, attempts must be made to lift the poor from one level to another so that they come out of poverty. Access to basic financial services such as savings, payments and credit can make a substantial positive difference in improving poor people’s lives. Financial inclusion efforts do have multiplier effect on the economy as a whole through higher savings pooled from the vast segment of the bottom of the pyramid population by providing access to formal savings arrangement resulting in expansion in credit and investment by banks. Deeper engagements of the under-banked population in the economy through the formal financial system could lead to improvement of their financial conditions and living standards, enabling them to create financial assets, generate income and build resilience to meet macro-economic and livelihood shocks. Governments will also immensely benefit by way of efficient and

leakage-proof transfer of vast amounts of welfare benefits to the targeted, disadvantaged groups of population.

In the past few years, a number of varied financial education programmes have been organized for low income customers both motivated by financial service providers and supported and mandated by regulatory bodies. Recognizing the critical need to bring a large unbanked population into the formal financial system, several policy measures have been taken by both the Government of India and the Reserve Bank of India. The most ambitious of those initiatives has been the PM Jan Dhan Yojana (PMJDY), launched in 2014 which aimed to provide universal coverage under the banking system by a two-pronged approach of pushing the system on a mission mode enrolment and communication strategy of pulling the customers into the banks by offering incentives. Along with the Jan dhan scheme there was a great push from the Government's side to extend social security schemes to the masses. Launched as bundled products, new insurance, pension and other benefit schemes were launched such as the PM Jeevan Jyoti Bima Yojana, PM Jan Suraksha Yojana, Atal Pension Yojana, etc. In order to further supplement Government efforts in terms of access to credit, the PM Mudra Yojana (PMMY) in April 2015 to provide refinance to small and medium enterprises. At the same time, several schemes have rolled out by the state governments also to further advance the efforts towards financial inclusion.

In Odisha, for instance, as on March, 2017, banks have opened 5,013 including 2,747 branches in the rural areas of the state. The SHG bank linkage programme has also been working as an effective tool for poverty alleviation by changing the lives of the rural women in Odisha. Under SHG-BLP members of SHGs are able to access bank credit that facilitates their livelihood to a great extent. The achievement under SHG-Bank linkage during last FY 2017 is INR 914 Cr. credit linkage to 64,665 WSHGs against a target of INR 966 Cr. to 75,000 WSHGs that represents a physical achievement of 86% and financial achievement of 95% under this component. Under PMJDY, a total of 126 lakh accounts with a deposit balance of INR 2,729.49 Cr have been opened in the state as on March, 2017. About 52.19% of these PMJDY accounts are Aadhaar seeded. Progress under PMSBY experienced a steady increase with 38.5 lakhs enrolments, 543 claims and 350 settled as on March' 2017. During March 2017, a total of 10.79 lakh people have been enrolled under PMJJBY in the state. 1702 claims and 1540 settlements have been reported and paid respectively under PMJJBY in the state. APY reported a slow growth during the period of with only 1.60 lakh enrolments.<sup>3</sup>

## **II. SIGNIFICANCE OF THE STUDY**

While there have been efforts to advance Financial Inclusion in the State of Odisha, the remote areas of the state are bereft of these benefits. Lack of banking network and other financial institutions offering varied services creates a stark difference between the status of these regions as compared to the rest of the state. When analyzed closely, the situation in these districts present a very complex nexus of problems arising out of widespread poverty, lack of connectivity, illiteracy, lack of employment generating opportunities, lack of internet connectivity, etc. The district of Malkangiri has been such an underserved area in Odisha.

Malkangiri is considered as one of the most backward districts in Odisha. The district is sparsely populated with a vast forest cover. The district is characterized by its difficult terrain with steep ghats, plateaus and valleys and is sparsely inhabited by primitive tribes, notable among who are Bondas, Koyas, Porajas and Didayis. Lack of adequate infrastructural amenities and low human development indicators like literacy, life-expectancy, etc. further make Malkangiri one of the most under-developed districts of the state/country. The district also serves as a potential hideout for Maoists resulting in regular confrontations between police machinery and the naxal groups. With these issues in the background, Malkangiri has been hugely affected which is reflected in the region's poor performance on social and financial development indicators.

The study aims to understand the current status of financial inclusion in Malkangiri district and identify the constraints, issues and challenges and share that with the district administration and other key stakeholders along with a set of relevant recommendations to improve poor's access to financial services in the district.

## **III. APPROACH AND METHODOLOGY**

The study aims to map out the existing financial inclusion parameters in the Malkangiri district to gain a better understanding of the challenges prevailing in the district and to offer suggestions to improve the same. The study specifically tries to explore the following:

- To understand the current status and coverage of financial inclusion by various stakeholders including Banks, BCs, SHPIs, MFIs etc. operating in the district.
- To assess the pace and quantum of credit flow from banks and Government schemes to SHGs/members, functioning of BCs, SHPIs, MFIs etc. in channelizing banking services to poor.
- To identify key issues and challenges that work as constraints in achieving financial inclusion in the region.
- To draw conclusions based on the findings of the study and suggest appropriate measures for improving financial inclusion status in Malkangiri district.

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<sup>3</sup> 147<sup>th</sup> SLBC, Odisha Agenda ([https://www.slbcorissa.com/Data/New\\_Folder/147\\_SLBC\\_Agenda.pdf](https://www.slbcorissa.com/Data/New_Folder/147_SLBC_Agenda.pdf))

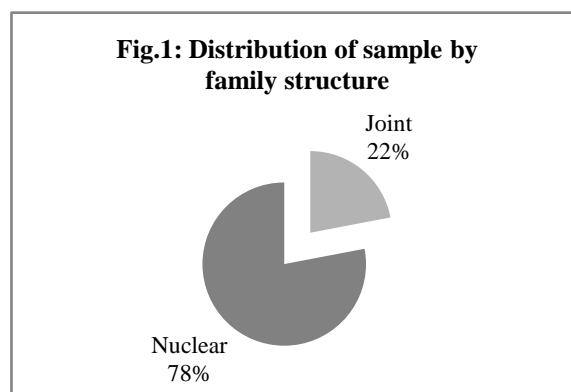
### Sampling of the Study

To fulfil the above objectives, the study was undertaken mainly at two levels (i) SHG level; (ii) Village/Service Provider/Bank/BCs/SHPI/MFI level. Both qualitative and quantitative data was collected from the field. A total of 103 villages were visited covering 400 respondents from 200 SHGs. A random sampling method was used to finalize the number and names of the GPs/Villages/SHGs etc in consultations with the stakeholders. Besides having close interviews with the individual members, structured interactions were held with the SHGs, village leadership, PRI/SHPIs, NGOs/MFIs, Banks, Cooperatives, District/Block Administration to gather data. Collection of secondary data from various sources was also done. The analysis was done at the following levels:

- i. **Institutional Infrastructure:** As a pre-requisite a broad mapping in terms of penetration of bank branches (RRB, Commercial, Cooperative, etc.) and presence of other institutions like MFIs, NGOs, SHPI, etc., was done to understand the existing institutional structure in the area. To further understand the available institutional support, questions pertaining to the time-distance to the closest bank branch were asked. Presence of Financial Literacy Centres was also seen as an indicator to understand the institutional base in the district.
- ii. **Status of financial inclusion:** Data pertaining to operational bank accounts among respondents, outreach of PMJDY and enrolment under various social security schemes (viz: JJBY, JSBY, APY etc.) was analysed to understand the status of FI in the region. Further the spread of financial services was understood by looking at the distribution pattern of Rupay cards and provisions of availability of loans among the members interviewed.
- iii. **Understanding financial indicators:** To understand the level of inclusion in the district, several indicators were taken into account while interacting with the respondents. Questions related to loan amounts and numbers of loans taken by each individual helped in understanding the level at which the financial transactions were taking place. It also gave an insight into the main usages of the loans and people's investment pattern, if any. Details in terms of savings accounts, frequency of bank transactions also helped to have an insight about the respondent's perception about the same.

### Sample characteristics

- Around 25% of the sample was involved in agricultural activities as their primary occupation while 75% were involved in other activities (non-agri, wage labour, forest based, livestock etc) as well. The average literacy level of the sample was 48%.
- Around 49% of the sample belongs to Scheduled Caste (SC) communities, around 41% belonged to Scheduled Tribe (ST) communities, around 5% belonged to Other Backward Casts and another 5% belonged to general castes.
- Out of our total sample of 410, around 78% respondents belonged to nuclear set up and the rest were from joint families.



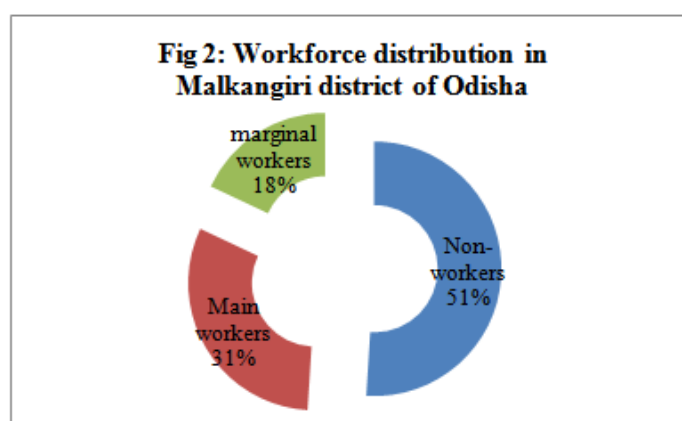
## IV. UNDERSTANDING FINANCIAL ECOSYSTEM IN MALKANGIRI DISTRICT OF ODISHA

Table 1: Malkangiri District at a Glance	
Parameters	Numbers
No. of Blocks	07
No. of GPs	108
No of Villages	1045
No. of Sub-Divisions	01
No. of Municipalities	01
No. of Tehsils	07
No. of Notified Area Counsels (N.A.Cs)	01
Total No. of Households	1,09,483
Total No. of Households	1,37,599
Total Population	6,13,192

Male	303,624
Female	309,568
Literacy Rate	49.49%

Tucked away in one of the most inaccessible regions of Odisha, Malkangiri demonstrates a complex nexus of social, geo-political and economic issues. There have been frequent reports of unrest and disturbances in the region, owing to various reasons including the naxal issue.

The district of Malkangiri is considered as one of the most backward districts in Odisha. Covering an area of 5,791 sq. kms, it is characterised by dense forest cover and difficult terrain. The district is sparsely populated and is mostly inhabited by primitive tribes, notable among are *Bondas, Koyas, Porajasand Didayis*. Most of the tribal communities of the district maintain their distinct socio cultural boundaries which are reflected in language, dresses, customs, taboos, food patterns etc. their unstable and subsistence economy is largely contributed by forest, animal husbandry and shifting cultivation. The district also serves as a potential hideout for Maoists resulting in regular confrontations between Police machinery and the naxal groups. Considering these issues in the background, Malkangiri has been hugely affected which is reflected in the region's poor performance on any human development indicator.



The total geographical area of the district is divided into seven Tahasil and seven Community Development Blocks. The district has 1045 inhabited villages distributed over 108 numbers of Gram Panchayat (Table-1).<sup>4</sup>The Census of India 2011 reflects that the sex ratio of the district is 996 females per 1000 males, is at higher level when compared with many other districts. The geographical inaccessibility along with the thin distribution of population in the district many times creates unreached pockets and people to cover under different basic developmental schemes of the government. Agriculture is the main occupations of the vast majority of the population. However because of forest cover and rugged terrain conditions of the district agriculture is by and large confined to Kharif Season. Shifting or 'Podu' cultivation is practiced on high hill slopes. As majority area is under forest, a large number of tribal families earn their livelihood from the forest products. Hence, the forests have economic relevance in the district.

**Work status:** In Malkangiri about 31% of the people continue to add to the workforce as main workers (Fig-2). The non-workers constitute 51%, whereas the marginal workers 18%. This implies to a total 69 % non-workers and marginal workers together. This reflects the economic meagerness and level of poverty in the district that throws up additional barrier to inclusion in formal sector.

#### **Access to Financial Institutions and Services**

Access to inclusive financial services offered by various institutions can play a critical role in mitigating poverty by generating employment and income at micro level for the poor. From all considerations it is strongly felt that access to finance is very relevant to the district like Malkangiri having a sizable population including SC & ST who mostly depend on casual labour and informal sector employment. Majority of them are tribal's living in remote and hilly areas face financial and economic exclusion due to a range of factors includes their remote geographical habitat, cultural and psychological barriers, low literacy and inadequate financial literacy.

**(i) Banking Network:** Bank branches play a key role in expanding financial inclusion. To further step up the opening of branches in rural areas so as to improve banking penetration and financial inclusion rapidly, the need for opening of more bricks and mortar branches, besides the use of BCs, is being taken up at the state level.

<sup>4</sup> Census of India, 2011

Accordingly, banks have been mandated to open branches in the state. Besides the support provided by the Government in term of infrastructure facility, the Regional Office of RBI, NABARD and SLBC etc have been also extending their assistance in this regard. In the mean time the Development Commissioner of Govt. Odisha also advised to open 19 bank branches in the unbanked GPs of Malkangiri immediately.

Additionally, The Union Finance Ministry is focusing on the expansion of bank branches and opening of post offices in the LWE districts. There are 19 LWE districts in the State of Odisha, out of which the red rebels are mostly active in Malkangiri, Koraput, Kalahandi and Bolangir district. In view of the dominance of the Maoists in these districts, the Government is laying emphasis on expansion of the bank branches in these districts. Major causes of slow progress in branch opening in these districts are no/poor internet connectivity, poor and unstable electricity connection, and poor road connectivity and security threats.

In terms of banking network, *Malkangiri district has the presence of a total of 23 Banks with 43 branches as against a total of 5,031 branches in the entire state of Odisha (Table 2)*. Out of a total of 6,129 ATMs in the state only 30 are present in Malkangiri district (Table 2). Around 1.23 lakh households in Malkangiri have basic savings accounts while the state count for it is around 1.23cr households. The data of Malkangiri when compared with other regions of Odisha reveals that the indicators are relatively low stressing towards the need for more efforts. During last one year, all banks in the state have opened 128 branches out of which only 2 were opened in the district, which again urge the need of alternate channel/outlet to provide basic banking services in unbanked areas. The table below gives a comparative picture of the banking network between Odisha and Malkangiri district.

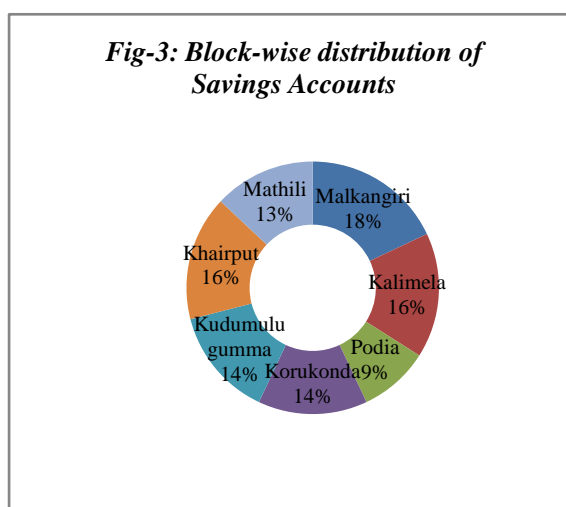
**Table 2: Comparison Banking indicators: Malkangiri vs. State data<sup>5</sup>**

FI Infrastructures/Banks	Odisha State data		Malkangiri Data	
	No. of Banks in Odisha	Bank wise Branch Netwrok	No. of Banks in Malkangiri	Bank wise Branch Network
Total Public Sector Banks	26	3128	17	20
Total Private Sector Banks	12	569	2	4
Total RRB	2	991	1	15
Total Cooperative Banks	2	343	3	3
Total	42	5031	23	43
Total no. of ATMs	6129		30	
No. of HH having BSBDA	1,26,55,050		123276	
No. of MFIs	18		2	

Source: 147<sup>th</sup> SLBC, Odisha Agenda

Across the seven blocks of Malkangiri districts, respondents were asked about the existing financial institutions they have access to. This included bank HO/ branches (commercial banks, RRBs, Cooperative Banks), MFIs, SHPIs and money lenders. To understand concerns regarding accessibility, respondents were asked about the distance of the nearest financial institutions in their vicinity. The responses received were not exclusive pertaining to one single source of credit, the respondents looked at the different institutions (Bank branches, SHGs, Kiosks, etc.) present in their vicinity while answering. Around 5% people of the total sample said that the nearest institution was within 1 km from their residence, while a whopping 75% of the respondents said that the nearest institution is beyond 5 km from their place of residence. Through the field survey it was found that *a total of 366 respondents have basic savings bank accounts across the 7 blocks which is around 89% of the sample size*. A substantial number of these accounts have been opened under the PMJDY drive. *Apart from individual bank accounts, around 50% of the total sample had 2 bank accounts in the family and around 20% had 3 or more accounts within the family.*

**Fig-3: Block-wise distribution of Savings Accounts**



<sup>5</sup> 146<sup>th</sup> SLBC, Odisha Agenda

**(ii) SHG Bank Linkage Program (SHG-BLP):**

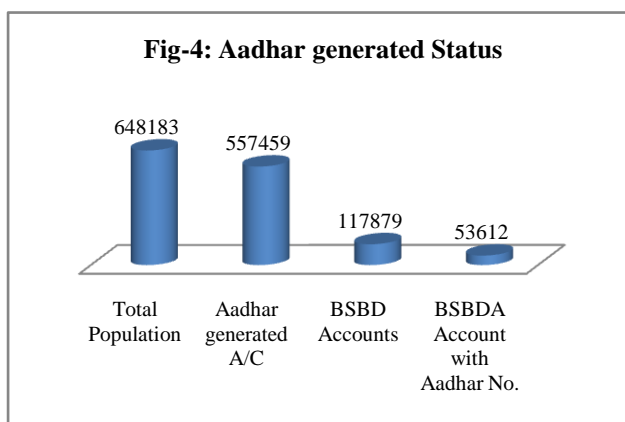
Pioneered by NABARD, the SHG-Bank Linkage program has been one of the most significant channels to facilitate financial inclusion for poor women in the country/state. NABARD along with other public & private sector Banks, SLBC, SHPIs, NGOs/MFIs and Govt Depts. etc have worked progressively to achieve SHG-BLP in a substantial manner in the state. In line with the state, the SHG-BLP made reasonable progress in the district. Along with the line departments the banks, SHPIs, NGOs etc contributed to the process. As reported altogether 687 SHGs were credit linked (Rs.698 lakh) by all banks in the district against the target of 1000 SHGs & Rs.1000 lakhs loan amount by the end of end Mar'2017<sup>7</sup>. The achievement as reflected in the table alongside during last year has been moderate (around 70%). Among the reasons, increased NPAs in the bank lending to SHGs has become a major area of concern for which, it is understood that, many banks hesitate to on-lend to groups again. Besides, appropriate leadership, fund management, record keeping, inadequate economic activities and achieving sustainability among SHGs have still been the areas of improvements for SHGs which need to be strengthened further.

**Table 3: Status of SHG-BLP of the District<sup>6</sup>**

Sl. No	Name of the Block	No of SHGs Credit Linked	Amt of Credit (Rs in Lakhs)
01	Malkangiri	132	159.75
02	Kalimela	143	163.25
03	Khairiput	81	72.30
04	Korkunda	66	72.33
05	Kudumuluguma	65	34.66
06	Mathili	74	66.39
07	Podia	45	53.76
	Total	606	623.34

Source: DLCC Report, Malkangiri, Dec'2016

**(iii) PMJDY & its Schemes:** Since the inception of the PMJDY programme in 2014, Odisha has demonstrated a good progress in implementing the PMJDY mission for financial inclusion. Positive response of the people, concerted efforts of Bankers and supports from the Government have made it possible to achieve significant progress in the state. As per the SLBC Report (147th Agenda), banks collectively have opened 126.55 lakhs of accounts out of which 52.19% are Aadhaar seeded on Mar'2017. Following the trend Malkangiri district also showed positive progress in covering the poor households under various schemes of PMJDY. As reported in the PMJDY website Malkangiri has covered most of the households (87.74%)<sup>8</sup> for accounts opening in the district. Of the total accounts opened 46.5% are Aadhaar seeded in the district. Around 89,681 Rupay Cards were issued.



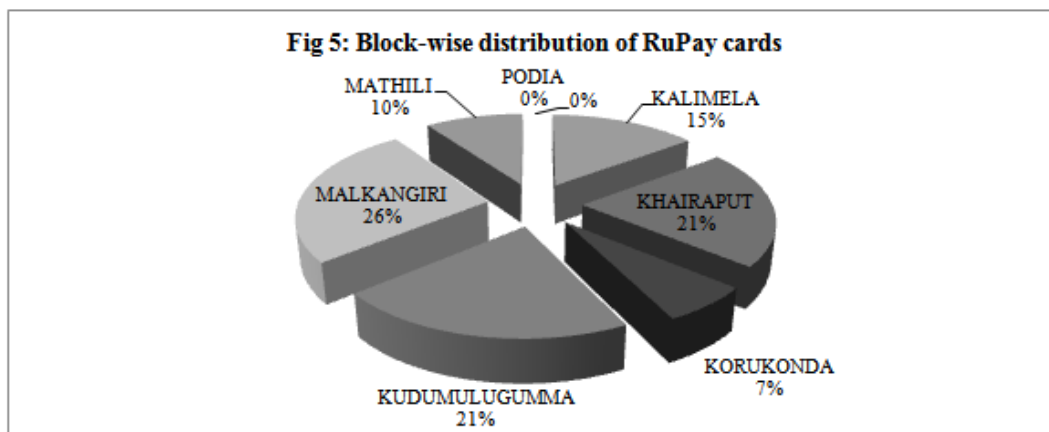
While interacting with the members, it reveals that the number of enrolments under RuPay card and related social security schemes was found to be low as compared to the total number of people having bank linkage. For instance, total number of accounts having Rupay card is only 61 which is around 15% of the total number of people having savings bank account across the 7 blocks. Figure-6 provides a block wise distribution of the same. While Malkangiri block had the highest percentage of respondents having the RuPay cards, it was lowest for Podia (Fig-5).

<sup>6</sup> DLCC Report, Malkangiri

<sup>7</sup> NRLM Bank Linkage Portal' Mar'2017

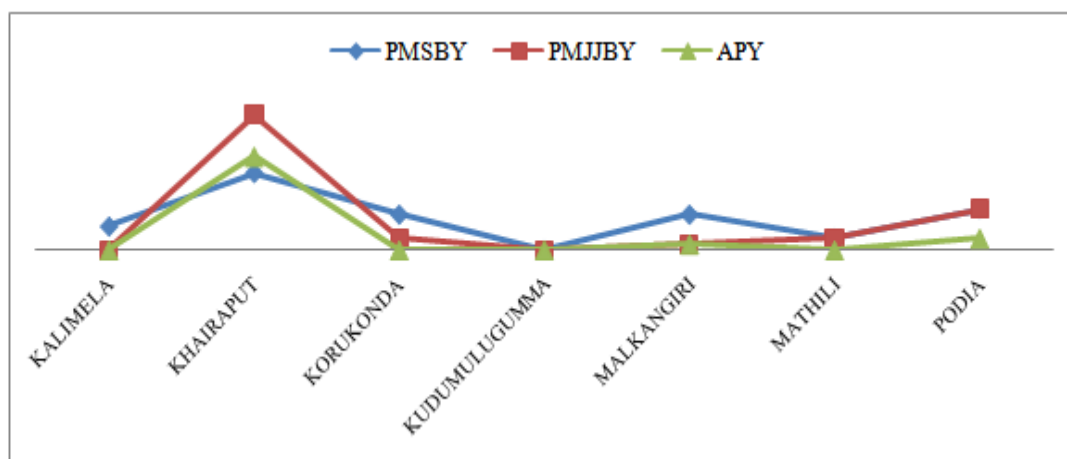
<sup>8</sup> PMJDY Website' June;2017





In terms of enrolment under Social Security Schemes (SSS) offered under the PMJDY scheme, it was found that the penetration has been low across all the blocks with only around 25% of the bank account holders availing the same. The responses received against this were overlapping but still the number of positive responses has been consistently low for all the three SSS. *Enrolments under PMSBY and PMJJBY have been better as compared to Atal Pension Yojana, where the enrolment has been low with around 5% responding positively for it.* Figure 6 provides a block wise distribution of the same.

Figure 6: Block-wise distribution of enrolments under Social Security Scheme



Similarly, **the number of people collecting remittances through the available bank accounts is very minimal.** This stark difference tends to point out to the extent of usage of the existing accounts on a regular basis.

Apart from remittances, the participants were asked about the other services that they usually avail through the bank branch in their area. It should be noted that there were multiple responses to availing related services that came as part of the PMJDY package such as overdraft, debit card, etc. **Around 78% of the responses said that BSBDA was their main engagement with the bank followed by around 75% responses for deposit related transactions. Loan related services were quoted by around 25% of the respondents followed by KCC with around 15% positive responses.**

**(iv) BC Model:** Primarily Business Correspondent (BC) model is initiated with the objective of reaching out the unbanked areas and financially excluded families and bring them into the fold of financial inclusion. In view of that all banks are being advised by RBI to engage BCs/Business Correspondent Agent (BCA) in their respective operational areas. The BCs are authorized representatives of the banks to offer services such as cash transactions where the lender does not have a branch. The PMJDY scheme also gives considerable importance to it. Implementation of BC model is very much essential Malkangiri district which has got nearly 90 unbanked GPs out of its total 108 GPs. However, the BC model has not been able to make a significant head way in the district. Out of all banks present in Malkangiri only 2-3 of them have only engaged 66 BCAs in the district. Kiosks run by SBI are however functional in two places across the entire district. The effectiveness of the BC/BCAs,

however, is not yet demonstrated and so need to be strengthened further to reach out the remote areas. It was also noted that people were availing financial services mainly through the bank branch or the nearest kiosk.

**(v) Financial Literacy:** Financial Literacy is considered as a key catalytic process to expand financial inclusion for poor. It helps educate/enhance members' understanding on financial planning and facilitates demand generation among them. Realizing its need and importance, the Government, RBI and NABARD together with other Banks, RRBs, OSCB, NGOs/CBOs, and MFIs are promoting financial literacy in the state. Nearly 145 FLCs have been established by various banks with the support of NABARD. The Financial literacy Centre (FLC) imparts financial literacy and educates clients through credit counseling/financial literacy sessions on various themes including on savings, credit, remittance, insurance, pension of financial planning etc.

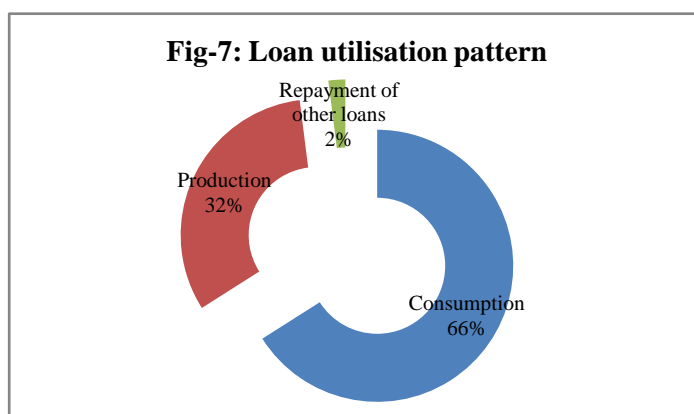
There are a few FLCs operating in the district which organized financial literacy camps in different villages wherein the participants were educated on various social security schemes like PMJJBY, PMJSBY, APY and other services and products provided by the banks. However, the feedback from the field has not been as positive as most of the camps are said to be not organized in a regular and systematic manner and also attended by very few SHG members. This suggests strengthening further the existing FLCs and also opening of new centers to effectively educate poor on various themes of financial inclusion.

**(vi) Civil Society Organizations-NGOs/CBOs/MFIs:** Considering the importance of financial services for poor a number of civil society organizations (CSO) including NGOs/ CBOs, SHPIs and MFIs have been involved in channelizing financial services, mainly credit to poor. Particularly MFIs are in the forefront in this regard. Their efforts in planning and offering diversified financial services to poor have been quite encouraging, especially in terms of the outreach and service delivery at their door steps of the members. It is reported that around 18 MFIs are working in the state out of which 02 have their operations in Malkangiri. Many of the NGOs/CBOs worked as SHPIs for NABARD to promote SHGs and linked them with various banks in the district.

**(vii) Financial Products and Services:** Access to affordable financial products and services play a pivotal role for the economic development of the poor. Among various products, loans are considered to be one of the most popular financial products for members and thus acted as an indicator to analyse the penetration of credit services in Malkangiri district. The fact that the district is characterised by lack of employment opportunities further made it important for us to see whether people were seeking/availing loans from the banks as a source of investment for enterprises, self-employment opportunities or for other productive purposes. *Out of the total 400 respondents, it was seen that only 139 i.e. around 34% (139 respondents) people had taken loans from the banks.* The number of loans taken seems to be relatively high in blocks like Malkangiri, Kalimela, Mathilias compared to the other blocks due to better accessibility in terms of infrastructure and financial institutions in these regions. It was interesting to see that maximum respondents among members interviewed from Podia had availed bank loans.

The study also tried to find out the loan repayment patterns as well across the selected blocks. Out of the total 139 respondents who have had taken loan from the banks, *only 42 i.e. around 25% seem to have responded positively when asked about repayment of the loans.* This indicates that along with efforts to enhance penetration of banking services, awareness about the functioning of the channels is also necessary to avoid the occurrence of NPAs or non-functioning bank accounts in the area. *Similar to the number of loans taken, the repayment schedule was also seen to be the strongest in Malkangiri block. Other remote areas like Korukunda and Kudumuluguma were lagging far behind in these parameters owing to their inaccessibility and inadequate follow-ups.*

In terms of loan utilization pattern across the seven blocks, it was seen that around 66% of the respondents used the loan amounts for consumption purposes while around 32% used for production purposes (Fig-7). There was also around 2% in the entire sample who said that they used the loans to repay other existing loans. Lack of opportunities in the area tends to directly get reflected in the loan utilization pattern of the district as well. Substantial percentage of loans being utilized in consumption purposes point out to the need to have better opportunities in the region. In terms of the average loan amount per borrowers, around 60% of the people responded to have taken a loan between Rs.





3,000- Rs.10, 000. This points out to moderate credit requirements of clients in Malkangiri. The study also observe that some of the members don't want take loans from banks or any other institutions because they have no idea on how to utilize the amount and thus not willing to take the burden of the credit on their families. Relatively low level of demand was found prevailing among the members, especially in the rural areas. Regular financial literacy, promotion of micro enterprises and enhancing better network of financial service providers can help generate demands, sustain the needs and create new opportunities in the district.

To get an overall understanding of the borrowing patterns of the respondents, questions pertaining to credit institutions were asked to members who have already availed loans from one or more institutions. These responses again are not to be seen as exclusive and can be overlapping in several cases. **While few respondents said to have taken a loan from family members, around 27% of them said that they had taken loans from the SHGs they are enrolled in (SHG-BLP). Only around 4% respondents said that they had taken loans from Banks and around 1% from MFIs.** This data particularly show that the respondents seem to rely more on the traditional financial service providers like the Banks.

During the interaction with few NGO and MFI who have been working extensively in the district and seem to have achieved positive results through their programs. For instance, the SHGs run by Parivarttan are quite well performing with hardly any NPAs. Similarly, Adhikar which is working in almost all the blocks with an outstanding of around 10 cr, demonstrates a very good recovery rate against its loans. While interacting with both the organizations, it was found that they have been successful in employing local youth in their programs which further helped them sustain the progress and reach out to more beneficiaries. Further both the organizations have been conducting continuous awareness programs and providing hand holding support to the customers which has helped them maintain the business side as well.

Loans utilization pattern does not give out positive data points either, where around 66% of the total loans taken were used for consumption practices and a substantial percentage was used to repay other loans. These data points and inferences derived from the field show that while financial inclusion measures have been initiated in the district, there still prevail many areas where efforts could be strengthened.

Apart from conventional credit channels, the study also tried to gauge the understanding that the respondents had about supporting institutions like FLCs and Business Correspondent Agents/Bank Mitras. Around 90% of the sample responded to have not visited a FLC in their areas. Although there are around 66 BCAs appointed mainly by SBI & UGB, not much of the members have had their interactions with these BCAs/BMs in the district. Institutions like this which were essentially established to work as an extension to the banks and reach the underpenetrated areas have not been able to flare well in areas like Malkangiri where it is needed the most. Apart from infrastructural difficulties, lack of clarity and adequate training for BCAs and synergy among different stakeholders also led to such situations.

Analysis of the quantitative information collected for the purpose of the study reveals the current situation of access to financial services in Malkangiri district. Even though around 89% of the sample is said to be having a bank accounts, the pattern of its distribution and usage is concerning. 15% said they were having a RuPay card and enrolment under the social security schemes ranged from 9-10% across the 7 blocks. Around 34% of the sample had availed a loan of which around 27% had got a loan through their SHGs and not through their individual accounts. While this shows that the SHG model is more prevalent in the district there is a need to also develop the practice of using individual accounts as well. So also the coverage under its social security schemes (PMJJBY, PMSBY & APY) has still been not so encouraging for the poor. Low level demand for financial services is attributed to inadequate efforts on financial literacy for the people. In view of the above challenges efforts should be made by all stakeholders to address the issues, especially access to and use of affordable financial services by the poor in the district.

## **V. MAJOR ISSUES AND CHALLENGES FACED IN GROWTH & EXPANSION OF FINANCIAL INCLUSION IN MALKANGIRI DISTRICT OF ODISHA**

As mentioned in the earlier section, apart from quantitative interviews, the study also tried to gather qualitative information from important stakeholders in the district to get a holistic view. Further given the limitations in the sampling methodology, it was seen necessary to have detailed discussions with government officials, bankers, NGOs, MFIs and other institutions working in the area to understand the prevailing situation in terms of financial inclusion from their point of view as well. As part of the survey, several government officials from the district like the project Director, Block Development Officers, senior officials of Odisha Livelihood Mission (OLM) were interviewed to further understand the problems and difficulties in the area which is hindering a sustainable growth of FI in the region. Apart from the officials, LDO, DDM and other Bankers at different blocks were also interviewed to understand the problems and challenges faced by them. During the course of the study, prevalent MFIs and NGOs, working in the area were also interviewed to get an idea about client concentration, product demand, etc.

Reaching out to all households with inclusive financial services and bringing them into the financial inclusion fold have, however, been a challenging task in the district mainly because of its intricate geographical locations and inadequate infrastructures, especially in the rural, remote areas. From the field findings and observations and interactions with various stakeholders, it is inferred that the status of the district in terms of access to diversified financial services and institutions has been not so encouraging in Malkangiri. No doubt, the district/block administration, banks and other stakeholders are making their efforts, but the growth of financial inclusion have not yet picked-up in the district. A few key issues and challenges that hamper the growth of financial inclusion in the district are as under:

- i. Issues arising due to poor Infrastructural facilities:** With poor infrastructure facilities, the blocks and GPs in district are not well connected, with some regions scarcely having all weather transport facilities. While there are a few pockets which are still reachable, some other places like the interior regions of Kudumulugma block, where it takes long hours for the villagers to reach the nearest Bank Branch. The expenses incurred during the process takes an additional toll on them. Difficult geographical terrain along with weak coordination and management among various stakeholders has further slowed down the FI process. Keeping financial inclusion at the background, it becomes imperative that the area should have better connectivity and transport facility for people to be able to visit the bank branches and avail the services.
- ii. Very limited internet connectivity:** The district lacks basic internet connectivity for development projects to take off. When discussed with telecommunication companies, they are too sceptical of investing in the district which is known for its unrest and disturbances from time to time. While the BC model has not been so effective in the district, banks which are in the process of initiating doubt the success of the model given the lack of basic internet facility for the BCs to function. Absence of any reliable agency for the maintenance and up-keeping of the IT equipments, if gone out of order, too has been a major concern in the district. As a result of which many banks find it difficult to quickly repair the IT equipments and that further delay their service delivery.
- iii. Low literacy Level:** The districts marked by low levels of literacy where most of the population, even the youth lacks functional, let aside financial literacy. Through most discussions, it came across that there is a need to organize mass awareness and financial literacy campaigns in the district as a pre requisite for any other initiative to perform well. Inadequate efforts on financial literacy, thus, have also been considered as another important factor that hampers the growth of FI in terms of not generating adequate demand for financial services among members. Low level of awareness and demand for banking services and long distance of bank locations from their villages/GPs often keep people demotivated to visit and avail banking services. Because of their locations in the remote, hilly and inaccessible pockets many of the people are said to be not having access to the banking services.
- iv. Poor coverage and performance of BC/BCAs:** No doubt a few banks have started engaging BC/BCAs to reach out to the unbanked areas and people in the district. However, the effectiveness of most of the BCAs has not been very encouraging so far. Through the analysis it was found that only around 15% of the total respondents were aware of the BC/BCA model and the services offered through it. While the BC model was essentially implemented to act as an extension of the banks to reach out to underserve areas, it is not able to flourish properly in Malkangiri owing technological and connectivity issues. Many of the BCAs are not adequately trained. Inadequate orientation, incentives, technological problem and frequent drop outs of BCAs etc have been the areas of concerns in this regard. The lack of penetration of the BC Model has subsequently led to limited access to financial services for the people.
- v. Limited presence of bank branches in the district** has been another important factor which also affects the growth of FI. There are a huge number of unbanked GPs (90 out of 108) which very well speak about the poor banking network in the district. All the banks currently operating in Malkangiri have got only 43 branches in the entire district. The Govt of Odisha, RBI, SLBC, and NABARD etc are continuously pushing banks to open new branches in the above unbanked areas but no significant progress is made in this regard. Inadequate infrastructure including rural connectivity and power supply has been a major issue in opening braches. Despite Govt's support to provide the physical office structure for opening of new branches only 3 branches were opened during the last FY. Many of the branches are also found to be under-staffed. With regard to SHG-BLP banks have been viewing SHG bank lending not as a business proposition but as a minority sector lending compulsion.
- vi. SHG-BLP & Issues Faced:** Despite its popularity as a model for service delivery and progress over the years, the SHG-BLP also encountered with a few issues including the increased NPAs in the SHG portfolio. There are more than 4,000 SHGs in Malkangiri having 45,695 members. While banks are consistently blamed for not taking adequate interest in lending to groups and not considering SHG lending as a value proposition, it is a fact that there are issues on demand side regarding quality of SHGs, monitoring and

management of groups by the promoting agencies. The steady increase in the NPAs of the SHGs is a major area of concern. Added to that the demands of matured SHGs for support services in terms of entrepreneurship development, enterprise-managed marketing and extension services, etc. have not adequately met for their graduation and growth. The program lacks consistent reliable data for proper planning and monitoring.

**vii. Low Demand for other financial service-Micro Insurance & Micro Pension:** Financial Inclusion also calls for providing micro insurance (life, accident, health, asset, credit, etc), micro pension, remittance facilities to SHG members and their households, but unfortunately sizable populations, especially the poor households in rural areas pockets still don't have access to good value insurance products. There is a low demand for micro insurance and pension services among people. Lack of affordability by poor is also considered as one of the key constraints. The demand for micro insurance depends on the individual and household income capacity. Similarly, other forms of financial services including *micro pension* and *remittance services* too are faced with a couple of constraints including lack of awareness and demand among clients, lack of clarity on the future returns from the pension scheme, low incentive structure for agents/aggregators.

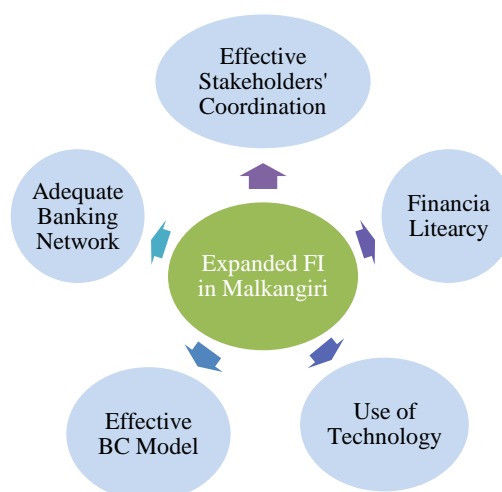
**viii. Inadequate coordination among important stakeholders:** The study also found that there is a lack of common understanding and coordination especially between line departments and Banks at the block level. While OLM and ICDS have been trying to improve the state of financial inclusion in Malkangiri through awareness camps, initiation of a tweaked version of Bank Mitras, the banks are accused of non-cooperation in terms of not granting loans and assistance to people. The banks on the other hand seemed over burdened with extreme volumes of work and understaffing in the existing branches. While BCAs seem to be a popular choice for both sides, the above stated problems need to be dealt with.

In view of the above stated challenges and other issues, collective efforts should be made by all stakeholders to address the issues for expanding further financial inclusion agenda of government in the district. Efforts should be made to provide diversified financial services consisting of savings, credit, micro insurance, micro pension, and remittance etc for the poor at the affordable cost. As such there is a strong felt need to sensitize/educate people on the value of these services, build collaborations among different service providers and assist people to avail that and strengthen their livelihoods in the process.

## VI. RECOMMENDATIONS AND CONCLUSION

Inclusive financial services and access to that by poor and vulnerable groups are viewed as prerequisite for poverty reduction and social cohesion. In the recent times, this has become an integral part of most of the development programmes that are designed and implemented to promote inclusive growth among the communities. The SHG members, who are the target group of all these visionary schemes and initiatives by Government need to be educated on the financial inclusion processes, products, delivery mechanism, etc. so that they have access to hassle free financial services consisting of savings, credit, micro insurance, micro pension, remittance, etc. at an affordable cost. Based on the field findings and observations, there are a few suggestions have been made to expand the financial inclusion in the district.

- **Expanding the Banking Network:** Availability of bank branches plays a key role in achieving access to finance for poor through banking services. As Malkangiri has got a huge number of unbanked GPs in the district, banks should open more branches to serve the poor and vulnerable group of tribal communities living in the district. The State Government should give priority to develop basic infrastructures in the areas and also to ensure other required facilities including rural connectivity and power supply for banks to better facilitate opening of branches.
- **Strengthening BC Model:** Although initiated, the BC model seems to be still in the infant stage. In view of its potentiality to reach out to the unbanked communities, the BC model can improve the status of financial inclusion in Malkangiri substantially, if well executed. As many of the BCs/BCAs are not adequately trained, efforts should be made by the concerned banks and district administration to orient them with the required knowledge and skills for sustaining BC operations. Also technology related support along with better incentive structures may be provided to keep them motivated and effective. Additionally, more Customer



Service Points (CSP) need to be set up with V-sat support in order to increase the banking infrastructure and outreach in the district.

- **Use of Technology:** Customized technological & maintenance platform should be created and support service on that should be made available to banks, BCs/BCAs and other institutions engaged in financial inclusion to make use of that while delivering the FI services. As transportation and communication are the major challenges in Malkangiri, technology through mobile banking, digital payments, etc. can play a vital role in branchless delivery model. It can also help reach large number of members in an effective and economic manner.
- **Financial Literacy:** In order deal with the low literacy level among members, Financial Literacy should be promoted and undertaken in a mission mode. It should cover all the important FI aspects including credit, savings, micro insurance, micro pension, remittance etc. Adequate and dedicated resource should be allotted to carry out financial literacy for members on a continuous manner. Investments in terms of establishing FLCs at the block and even GP level could help the customer get readily available information and guidance in terms of financial planning thus attracting more customers to avail financial service and product.
- **System of Incentivization:** The incentive based approach might be useful in the district. While the administrative department is already supporting banks in terms of providing free infrastructure and other amenities, there has to be a stronger system to incentivise to attract youth and other companies to come and operate in the region, most important of which should be telecommunication companies.
- **Holistic approach to development:** As stated above, Malkangiri district is characterized by not one but many issues which affect the overall growth of the region. To address these concerns, an integrated approach needs to be adopted, where different department starting with education, nutrition, infrastructure to banking and telecommunication must work in tandem. Government and other executive departments to coordinate with these entities to ensure growth.
- **Area-specific financial inclusion program:** Keeping in view the existing geo-political and socio-economic situations in the district, area-specific FI programmes should be developed and implemented in the tribal and remote areas to include them with mainstream financial system in a time bound manner. The FI service providers should also take deliberate actions in designing, delivering and expanding appropriate services including micro insurance, pension for the poor in the hilly and tribal areas. Their efforts on client education and financial literacy should be also expanded further in order to sensitize members on the various products and services and help them making household financial planning.
- **Financial Inclusion through microfinance Services:** With Financial Inclusion emerging as a major policy component in the country, microfinance is seen as an alternate tool to reach out to the unbanked populations. The MFIs as a whole continue to be making vital contribution towards expanding financial inclusion by offering various need based products and services for the clients in the state. Currently around 18 MFIs including 7 home grown organizations work in Odisha and offer financial services consisting of credit, micro insurance, pension etc. to people. Out of 18 only 2 are operating in Malkangiri and providing their financial services. They have been able to reach out members dwelling in the remote and hilly areas as well. In view of that more such institutions may be advised to operate in the district to cover increased number of members living in rural pockets.
- **Collaboration with Corporate & CSOs:** Collaboration with CSR, Civil Society Organizations (CSO) and Government line department should be strengthened further to expand financial inclusion among the communities. Reasonable portion out of the mandated profit of the company should be explored and utilized for FI in collaboration with the civil society organization in the district. Civil Society Organizations (CSO) including NGOs/CBOs/ Coop/MFIs etc should be involved in financial inclusion program planning and implementation process.
- **Promotion of Livelihoods:** Livelihoods financing and capacity building, exploring business opportunities; market linkage; technology adoption etc. should be made part of the financial inclusion domain and offered to members. Under the given situations, local youth could be trained and given employment; partnership with RSETI, OLM, Skill India etc. Also appropriate Business Development Services including forward and backward market linkages should be made available for the poor.
- **Effective Coordination:** Effective convergence of programmes and coordination among various stakeholders including Govt line Departments, Regulatory Bodies, Apex level Support Organizations, Investors, Donors, Banks, MFIs, NGOs/CBOs etc need to be strengthened further to better serve the needy and poor clients in a collaborative manner so that the excluded segment of the people are able to access and utilize the inclusive banking and other financial services to build and sustain their livelihoods.

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