SA-DHAN ANNUAL CONFERENCE REPORT - 2003

Sa-Dhan

The Association of
Community Development
Finance Institutions

CONVERGENCE AND COLLABORATIONS: SCALING UP FINANCIAL SERVICES TO THE POOR

Jacaranda Hall
India Habitat Centre
New Delhi

12th September 2003

ACRONYMS

ATMs	*Automated Teller Machines*
BASIX	*Bhartiya Samruddhi Investments and Consulting Services Ltd.*
CBOs	*Community Based Organizations*
CYSD	*Centre for Youth and Social Development*
DCCBs	*District Central Co-operative Banks*
DHAN	*Development of Humane Action*
DRDA	*District Rural Development Authority*
GDP	*Gross Domestic Product*
GOI	*Government of India*
IFC	*International Finance Corporation*
IIM	*Indian Institute of Management*
IRDP	*Integrated Rural Development Programme*
MACS	*Mutually Aided Co-operative Society*
M-CRIL	*Micro-Credit Rating International Limited*
MFI	*Microfinance Institution*
MIS	*Management Information System*
MYRADA	*Mysore Resettlement and Development Agency*
NABARD	*National Bank for Agriculture and Rural Development*
NBFC	*Non-Banking Financial Company*
NBJK	*Nav Bharat Jagriti Kendra*
NCAER	*National Council for Advanced Economic Research*
NER	*North-East Region*
NPAs	*Non-Performing Assets*
PACS	*Primary Agriculture Co-operative Society*
PREM	*People's Rural Education Movement*
RFI	*Rural Financial Institution*
RMK	*Rashtriya Mahila Kosh*
RNBC	*Residuary Non-Banking Company*
RRB	*Regional Rural Bank*
SGSY	*Swarnajayanti Gram Swarozgar Yojana*
SHG	*Self Help Group*
SHPI	*Self Help Promoting Institutions*
SIDBI	*Small Industries Development Bank of India*
SML	*SHARE Microfin. Ltd*
TRYSEM	*Training of Rural Youth for Self Employment*

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NATIONAL CONFERENCE ON CONVERGENCE AND COLLABORATIONS: SCALING UP FINANCIAL SERVICES TO THE POOR

BACKGROUND

It is estimated that nearly 370 million poor are working in the unorganized sector in India. With the employment elasticity dropping by nearly 76% in the last 15 years, and affecting the agriculture sector the most, it is hoped that the expansion of employment opportunities in the informal sector will help to create additional means of livelihood in the country. The Tenth Five Year Plan aims to create 10 million jobs per year, especially for the poor. Both the Central and state Governments have launched various schemes to achieve this objective. The first step in this direction is to provide financial services of some kind to the poor households. It is believed that in order to reach the poor, NGOs together with state agencies will have to promote SHGs which can then be linked to banks. The central feature of all these efforts and schemes is to facilitate timely and need-based credit and savings opportunities for the poor and their enterprises by linking them with the mainstream banking sector.

While substantial progress has so far been made in linking SHGs with banks to provide microfinance services to the poor, and in increasing the outreach of these services, a lot more still needs to be done in this direction. Simultaneously, it is also imperative to upscale the range of products and services that the poor need for improving their financial condition. This not only necessitates the rooting out of inefficiency at the level of the implementing mechanism of the microfinance programme in the country, but also demands a fresh look at the present set of interventions and collaborations between the Government, non-government organizations (NGOs) and the banking sector. Sa-Dhan's Annual Conference for 2003, titled "*Convergence and Collaborations: Scaling Up Financial Services to the Poor*" was thus held on the 12th of September 2003 at India Habitat Centre, Delhi to address these issues and to identify the ways and means of achieving critical levels of efficiencies at all levels of the microfinance programme for the poor.

OBJECTIVES OF THE CONFERENCE

There is a need to re-assess the prevalent interventions and collaborations between the Government, NGOs and the banking sector for scaling up the outreach of microfinance services to the poor. The Conference was primarily aimed at addressing this need, and exploring an ideal mix of mechanisms between all stakeholders for achieving the requisite quantum growth in the microfinance sector, which would ultimately help to alleviate poverty. Another objective of the Conference was to encourage and enable all institutions and agencies involved in the process to try and find creative solutions in order to spur the growth and expansion of the microfinance sector. Finally the Conference proposed to identify systems and channels whereby all stakeholders involved in providing financial services to the poor could optimize their roles and mutual relationships for achieving an exponential increase in microfinance services to the poor.

In view of the above objectives, the following issues and challenges were identified for discussion at the Conference:

- Need for capacity building of NGOs, MFIs and banks;
- Creating an enabling legal and regulatory environment for NGOs and MFIs to provide financial services to the poor, thereby creating a facilitating environment for the growth of microfinance in the country;

- Facilitating more optimal usage of the existing infrastructure including co-operative banks, RRBs and the NGOs;
- Identification of delivery channels for providing financial services to poor communities; and
- Lessons derived from existing partnerships and collaborations in the microfinance sector.
- Upgradation of the SHG movement in terms of technology and empowerment;
- Upscaling of the SHG-bank linkage programme;

EXECUTIVE SUMMARY

The Conference aimed at identifying key challenges in the area of providing microfinance services to the poor, assessing the different forms and structures of institutional finance in their present framework, facilitating the sharing of experience among all stakeholders with existing delivery models, and delineating the way forward in optimizing the outreach and viability of financial services to poor communities. It was attended by Government representatives, policy makers, bankers, and members of various NGOs and MFIs from across the country.

In her welcome address, Ms. Ela Bhatt, Chair, Sa-Dhan, pointed out that with a total size of 370 million, and representing 93% of the total working population of the country, the unorganized sector is quite large both in terms of size and financial contribution to the economy, yet its workers continue to be poor and invisible. She revealed that Sa-Dhan had made various recommendations for providing microfinance to the poor including making savings the basis for calculating the eligible loan amount for subsidy; establishing linkages with DRDA groups under the SGSY; capacity building of banks, NGOs and MFIs; and setting up a National Microfinance Equity Fund for building a corpus for MFIs. She claimed that the need of the hour was for all stakeholders to collaborate in convergence, and not competition, for the success of the SHG movement.

In the inaugural address, Dr. S. Narayan, Economic Advisor to the Prime Minister, asserted that the success of the micro credit movement in the country could be measured in terms of the employment generation and financial growth it has achieved in the last 15 years, but the issue of sustainability still needs to be addressed. He claimed that SHGs were being considered as the most efficient delivery mechanisms for implementing Government programmes pertaining to rural development and social welfare. While pointing out that the SHG movement now needs upgradation and an external input of technology, integration and empowerment, he maintained that the model which can succeed in India is one of low technology production, medium technology distribution, and high technology marketing. He also emphasized the need for using the skills and cohesiveness of SHGs to augment family incomes, and to help the poor develop special abilities in the areas of health, education and social empowerment.

The first Technical Session (which looked at different forms and structures of Institutional Finance in their present framework and the issues arising therefrom) was chaired by Mr. N. S. Sisodia, Secretary, Financial Sector, Ministry of Finance, GOI. While delivering the keynote address, he claimed, that despite its phenomenal outreach, the formal banking system in the country has failed to cater to the financial needs of the poor because of high transaction costs, inappropriate procedures and products, and lack of focus on savings. He revealed that as on 31st March, 2003, more than 7.17 lakh SHGs, covering 116 lakh rural poor households, had been financed by banks. The SHG-bank linkage programme has emerged as the largest and fastest micro business programme in the world. He lauded the SHG movement for providing an opportunity for participative decision making, efficient credit management, mobilization of thrift and for maintaining low transaction costs. The other concerns raised in his address were those of sustainability of MFIs, the interest rates to be charged by clients, the risks associated with loans given for investment purposes, the need for setting performance standards, regulation and supervision of MFIs, and capacity building for the microfinance sector.

In a subsequent presentation, Prof. M.S. Sriram of the Indian Institute of Management (IIM), Ahmedabad, stated that the state had taken several initiatives in the microfinance sector including setting up of the RMK, encouraging NABARD to set targets for the SHG-bank linkage programme, and promoting SIDBI as the major financier of MFIs. Besides, some of the

poverty-oriented schemes had been routed through microfinance programmes like SGSY, Swa-Shakti (Gujarat & elsewhere), Stree-Shakti (Karnataka), and Velugu (Andhra Pradesh). He also highlighted various areas in which the state can provide sustainable and profit-oriented services to the poor, including the setting up of a risk incentive fund for mainstream institutions, creating a legal framework to enable NGOs and MFIs to work more effectively, and allowing for better usage of existing infrastructure such as co-operative banks, NGOs and RRBs, among others.

While pointing out that the microfinance programme in India had become co-terminus with the SHG-Bank linkage programme, Mr. Vijay Mahajan, Managing Director, BASIX, claimed that simultaneously the percentage of small loans to the total bank credit had fallen dramatically from 18.3% in 1993 to 5.3% in 2003. He said that not more than 20% of the poor households have access to micro credit, and there is a lot of data to indicate that the formal financial sector has turned its back on the poor in the name of profitability and economic reforms. He said that all existing microfinance delivery channels including SHGs, MFIs, NGOs, Government agencies, RRBs, and Mutually Aided Co-operative Societies (MACS) need to be re-designed in terms of policies, products and procedures in order to be more effective in facilitating finance to the poor. Further, more innovative delivery channels could be used for reaching microfinance to the poor, such as STD PCOs, Internet kiosks, fertilizer and seed shops and cell phone SIM cards, etc. He also recommended the provision of a single outlet for all microfinance services, development of technology, reduction of cash transactions, and the setting up of Single Terminal Enabling Multiple Services (STEMs) to help the poor for quicker and timely access to microfinance.

Mrs. Asha Swaroop, Jt. Secretary, Ministry of Rural Development, GOI, informed that the Government had restructured the SGSY programme during the last year to make it more effective on the ground. Now out of the total allocated amount, only 20% has been kept aside for infrastructural development and 80% has been left to be used at the discretion of the DRDAs. The Government is also encouraging states to mobilize SHGs while laying emphasis on group funding, and promoting training facilities and capacity building programmes for all the parties involved in SGSY. As a result in 2002-2003, 50% of the beneficiaries of the programme were from SHGs and less than 50% were individuals. She asserted that the SGSY programme has so far been used to promote several initiatives like supporting Village Development Boards in becoming financial intermediaries, implementing the Action Research Project in a number of states, viz. retail farming services for farmers in Jharkhand and Madhya Pradesh, providing inputs for leather workers in Gujarat, and starting new projects for handloom workers in Tamil Nadu.

It was also pointed out during the Conference that extreme rigidity in products, delivery mechanisms and pricing strategies in state-sponsored programmes has hampered the development of a healthy microfinance sector in the country. Mr. Ramesh Arunachalam of the Chennai-based Microfinance Consulting Group made a case for establishing a clear sustainability mandate and for eliminating hidden costs at the outset of each microfinance project. Simultaneously MFIs must be given the freedom to set realistic interest rates. He also suggested that for scaling up the microfinance sector, there is a need for periodic assessment and flexibility in loan disbursement targets, establishing internal control and audit procedures during project execution, and controlling delinquency in repayment of loans.

The second Technical Session of the Conference (which provided a platform for experience sharing by stakeholders on their exploratory journey with the existing banking models) was chaired by Mr. Brijmohan, Executive Director, SIDBI, who averred that one of SIDBI's major achievements was to bring in the formal sector into the informal activity symbolized by the microfinance sector. He identified mainstreaming as the most urgent need for the microfinance

sector, which is already being facilitated by bank-SHG linkages. He also emphasized the importance of promoting strong, professionally managed MFIs to look after the micro needs of poor borrowers, of devising new need-based products for them and of building business and skill development services into the microfinance movement so that business ideas can be translated into real profit-earning activities for the microfinance sector.

The presentation made by Mr. Brahmananda Hegde, Head of ICICI Bank's Micro Banking Group, shared the experience of ICICI Bank, which is one of the few private commercial banks to make forays into the microfinance sector through an SHG initiative. Today the ICICI Bank-led SHG model has scaled up to reach nearly 2,00,000 rural poor households. By implementing this model, the bank managed to cover 1,948 villages and formed 9,402 groups until June 2003. Mr. Hegde claimed that the ICICI Bank-led model has achieved scale at a limited cost, and that its outreach is greater than that of most NGOs in India. The Bank also proposes to postulate a new model for scaling up whereby the partner/agent could establish SHGs, while ICICI would provide requisite financial services like working capital and loans. The promotion of Internet banking, establishing low cost rural ATMs, and offering Smart Card-based payment solutions, are among the other suggestions made by ICICI Bank for development of the microfinance sector.

The issue of whether RRBs can be used to serve low income clients was also considered during the Conference, through a presentation made by Mr. Sanjay Sinha, Managing Director, M-CRIL. The importance of RRBs in the delivery of formal rural financial services can be assessed from the fact that they account for 83% of the total number of rural bank branches, and 72% of the total credit disbursed in rural areas. Mr. Sinha affirmed that the most effective RRBs are those with the most professional leadership and a pro-active approach to implementing projects. He also stated that product design and operating efficiency are the key factors which enable RRBs to achieve both outreach and viability.

Two successful case studies were also cited, one each in the private and public sectors, to indicate how the existing infrastructure can be used to provide micro credit services and to create replicable models for providing financial services to the poor. The first of these case studies was that of Sanghamitra Rural Financial Services, an MFI promoted by MYRADA, which has proved to be a highly successful example of leveraging the mainstream Financial Institutions to lend to the poor. The second case study pertained to the linking of SHGs and PACS in Uttaranchal. Currently there are over 50,000 groups in Uttaranchal, which need direction to work cohesively for fulfilling their objectives. Co-operatives are thus expected to lead the way in scaling up the micro financial sector in Uttaranchal.

The concluding session (comprising Panel Discussion) of the Conference was chaired by Mr. G.C. Chaturvedi, Jt. Secretary, Banking and Insurance, Ministry of Finance, GOI, who stressed the need for developing an agent provocateur for microfinance at the local level, as he would be committed to work with the people who have no access to any financial resources. He also warned against merely notching up numbers by mechanically fulfilling the target of making more and more SHGs.

Mr. R. Prabha, Dy. General Manager, Canara Bank, highlighted the microfinance operations of Canara Bank, which today caters to about 38,000 groups representing a volume of Rs. 80 crore. He outlined the areas of concern being faced by Canara Bank in terms of debt recovery, quality parameters, and lending to NGOs and charitable institutions which is considered as unsafe under the existing laws, etc.

Ms. K.C. Ranjini, DGM, SIDBI briefly listed the concerns of the banking sector in the gamut of microfinance. She stressed the need for transparency in financial dealing and efficient management of funds, for adapting information technology, and for enforcing effective procedures to carry the microfinance sector forward. She also urged that regular and more focused discussions of all stakeholders should be held at smaller forums apart from such high profile Annual Conferences.

Mr. Vikram Akula, Managing Director, *Swayam Krishi Sangam*, presented a futuristic picture of the financial life of a poor landless labourer, who, ten years from now, could become a Smart Card-enabled borrower with access to loans, pension, and insurance for herself, and education and employment for her children. He voiced the aspirations of the entire microfinance industry of bringing virtual banking to the doorsteps of 75 million poor households in the country. He said that both Government agencies and bankers have realized that the poor are credit-worthy and that they can be offered low cost streamlined financial services. He also urged the Government to provide grants to MFIs, and bankers to lower interest rates and increase loan sizes.

Finally Ms. Priya Basu, Sr. Financial Economist, World Bank, outlined the problems of market failure and Government failure in the area of microfinance. She said that the former include high transaction costs, lack of credit information on the rural poor, limited price recovery, high supervision costs in rural areas, and the exposure of the poor to high systemic risks. The problems of Government failure mainly pertain to weak management and poor regulation, thereby necessitating an enabling legal and policy framework for lending to the poor. She claimed that certain financial innovations like the SHG-bank linkage programme, and the Kisan Credit Card had achieved some success, but still had a long way to go. She concluded by saying that the World Bank could play a very important role by acting as a clearing house of information and experience culled from implementing best practices around the world.

Mr. G.C. Chaturvedi concluded the Conference by pointing out that no single model could be applicable for the entire country and custom-made models of microfinance had to be developed for different areas, especially in view of the clear disparity in terms of spread of microfinance among the different regions in the country. He also said that the deliberations at the Conference would help in creating a new legal framework for offering sustainable and viable microfinance services to the poor.

Finally the conference was declared to be closed with vote of thanks by Mr. Mathew Titus, Executive Director, Sa-Dhan.

1.0. OPENING SESSION

1.1. OBJECTIVES OF THE SESSION

The main objective of the opening session was to delineate the key challenges in the microfinance sector, in consonance with the need to scale up the outreach of financial services to the poor. The following specific questions thus needed to be addressed during the session:

- What is the nature of the collaborations that are possible between various stakeholders in the microfinance sector, including NGOs, MFIs, banks and the Government?
- Is convergence between the functions of the various stakeholders actually possible?
- What are the operating models that can be implemented to ensure this convergence and collaboration?

1.2. "INTRODUCTION AND KEY CHALLENGES IN MICROFINANCE"-- MR. MATHEW TITUS, EXECUTIVE DIRECTOR, SA-DHAN

The opening session of the Conference commenced with an introduction by Mr. Mathew Titus, who revealed that the title of the Conference had been derived from the main challenge confronting the microfinance sector today, which is to reach 370 million unorganized workers and the low income segment of the population during the next five years. **With regard to the Sa-Dhan member clientele, there are two million clients and an outstanding of Rs. 220 crores in the sector, and the diverse financial needs of the sector and such vast resources at stake** thereby make it imperative to assess key issues like the economic and social impact, financial viability of institutions and regulatory framework for the sector. Mr. Titus asserted that the private sector alone could not handle the anticipated quantum growth in the microfinance sector, which necessitates the involvement of all concerned agencies including CBOs, NGOs, MFIs, commercial banks and existing institutions like the RRBs and PACS in the task of upscaling financial services to the poor. He outlined the following issues for discussion during the Conference:

- What is the nature of these collaborations and the extent to which they are possible?
- Is convergence between the functions of the various stakeholders actually possible?
- What are the operating models that can be implemented to ensure this convergence and collaboration?

The questions thrown up for discussion while addressing the above issues would therefore broadly concern:

- The environment in which such collaborations and convergence would take place;
- The interest rates to be set and the agency that would set them; and
- Identification of the funding agencies to provide microfinance.

1.3. "WELCOME ADDRESS"—MS. ELA BHATT, CHAIRPERSON, SA-DHAN

While delivering the welcome address to the Conference, Ms. Bhatt claimed that all the members of Sa-Dhan, comprising around 60 MFIs, as also other non-members, have moved forward in

the direction of providing microfinance services to the poor, but a lot still needs to be done, especially for the unorganized sector or the informal sector, which consists of 370 million workers or 93% of the total working population in the country. Ms. Bhatt revealed the findings of a recent NCAER study, according to which 55% of the country's savings accounts, 53% of the GDP, and 44% of the exports come from the informal sector of the economy.

She emphasized the need for developing more MFIs, and helping the unorganized workers to create their own SHGs for overseeing savings, credit and insurance facilities for themselves. She also highlighted the recommendations made by Sa-Dhan in this sphere, including bringing about need-based changes in the SGSY programme recommending subsidy to groups rather than to individuals, linking savings to the eligible amount of loan and subsidy, use of capital subsidy for creating common infrastructure, establishing linkages with DRDAs, building the capacity of banks, NGOs, and MFIs, and setting up a National Microfinance Equity Fund for corpus building through equity investment for MFIs. She, however, stressed on the importance of awareness of the limitations in reaching out to the poor. She was also concerned about the regional imbalances in terms of interest structures prevalent vis-a-vis RBI's flexible approach towards liberalizing the SHGs in terms of the interest rate charged. This necessitated upscaling of the SHG movement and adopting appropriate measures to deal with these concerns. She concluded her address by pointing out that most SHGs have been built by women, who have repeatedly proved their credit-worthiness. The need of the hour is thus for all concerned, including banks, NGOs and MFIs, and the Government to collaborate in convergence, and not in competition, to ensure the success of the SHG movement.

1.4. "INAUGURAL ADDRESS"—DR. S. NARAYAN, ECONOMIC ADVISOR TO THE PRIME MINISTER

In his inaugural address, Dr. Narayan said that the basic premise of the SHG movement is that micro credit groups should provide credit to their members, which would be used by them constructively in short-term activities, to generate income, repay debt, and for other financial uses. The micro credit movement has succeeded in that it has achieved most of these objectives. He insisted on the need to address the issue of sustainability. He averred that while SHGs are being considered as the most efficient delivery mechanisms for implementing Government programmes, they are also being seen as a means of facilitating social empowerment.

Mentioning a three path strategy of overall rural development, he emphasized the need to upgrade the SHG movement through an external input of technology, integration and empowerment. While arguing that the model which could succeed in India is one of low technology production, medium technology distribution and high technology marketing, Dr Narayan underscored the need for using the skills and cohesiveness of SHGs to enhance family incomes, create social awareness, and provide health and education facilities to the poor.

The second path laid out his concern regarding the failure of traditional methods and practices relating to agriculture. He added that a new revolution promoting the existing food-based agriculture into commercial agriculture is imperatively required.

The third path, according to him was to identify and implement Government schemes outlined in the Tenth Five Year Plan, obtain funds for the schemes and channelize them through SHGs.

Finally, he laid emphasis on creating sufficient awareness of using credit groups only as a sustenance mechanism among the poor to help them develop abilities in the areas of education,

health, etc. He concluded by saying that the concerned groups should act in a manner to promote SHGs as catalysts of social change.

1.5. ISSUES EMERGING AT THE END OF THE SESSION

The following significant issues emanated from the speeches delivered by distinguished speakers during the opening session of the Conference:

- The main priority in the microfinance sector in India today is to reach the low income segment of the population.
- Since the private sector alone cannot handle the phenomenal growth expected in the microfinance sector in the coming years, all concerned agencies including CBOs, NGOs, MFIs, commercial banks, Government organizations, and institutions like the RRBs and PACS need to collaborate in convergence, and not in competition, for reaching the poor.
- There is an urgent need to develop MFIs that can oversee and scale up the outreach of savings, credit and insurance facilities for the poor.
- The sustainability of the micro credit movement must be ensured.
- As most of the SHGs have been built by women, who have repeatedly proved their credit-worthiness, the SHG movement needs to be upscaled with a quality-service component.
- SHGs should be made catalysts of economic change and social empowerment, especially among the poor.

2.0. TECHNICAL SESSION I

2.1. OBJECTIVES OF THE SESSION

The main objective of Technical Session I of the Conference was to examine different forms and structures of institutional finance in their present framework, and to address the issues arising therefrom. The challenges that were thus identified for discussion during this session were those of:

- Controlling high transaction costs in the microfinance business;
- Promoting capacity building projects for rural workers;
- Creating a legal framework for augmenting the efficiency of NGOs and MFIs and the efficacy of delivery channels;
- Regulating and supervising MFIs;
- Establishing suitable internal and external audit procedures to evaluate the functioning of all microfinance agencies in the country; and
- Facilitating better usage of the existing microfinance infrastructure.

2.2. "KEYNOTE ADDRESS"—MR. N.S. SISODIA, SECRETARY, FINANCIAL SECTOR, MOF, GOVERNMENT OF INDIA

While chairing the first Technical Session, Mr. Sisodia pointed out that despite its vast rural network and phenomenal outreach, the formal banking system in the country, comprising of commercial banks, RRBs, and co-operative institutions, has failed to cater to the financial needs of the rural poor. He listed high transaction costs, existence of inappropriate systems and procedures, and lack of focus on savings as the reasons for this failure. In contrast to formal credit outlets, SHGs had successfully achieved their objectives of effective credit management, mobilization of thrift, low transaction costs and near full repayment, claimed Mr. Sisodia. He also cited the findings of an impact evaluation study to prove that SHGs, though instrumental in inculcating the savings habit among their members, and facilitating an increase in both net household incomes and average value of assets per household, had still not been significant enough in terms of achieving an increase in assets or income. In spite of limited success, the programme so far has been possible due to the synergy between the informal and the formal sectors. Equally important was to scale up the contents of the programme, its quality and its range of products. It was also imperative to ensure that the scaling up of the microfinance programme doesn't lead to the creation of an increasing number of SHGs while compromising on the programme quality. He also emphasized the need to guard against the hazards of implementation of the programme on a very large scale which inevitably would lead to politicization of the entire effort.

He emphasized the issue of setting performance standards, which were to include: Portfolio Management, MIS, Internal control system and Governance; in particular while expressing doubts over the sustainability of MFIs as the latter have no collateral to offer, suffer from weak governance, and depend upon donors for providing credit to their members. He also dwelt on the issues of high interest rates charged by MFIs, and the risks associated with loans given for investment purposes. He concluded his presentation by accentuating the need for regulation and supervision of MFIs, and for augmenting human and financial resources to enable capacity building for the microfinance sector.

2.3. "MICROFINANCE AND THE STATE: EXPLORING NEW AREAS AND STRUCTURES OF COLLABORATION"—PROF. M.S. SRIRAM, I I M, AHMEDABAD

At the outset, Prof. Sriram outlined the various initiatives taken by the state in the area of microfinance, including setting up of the *Rashtriya Mahila Kosh*, encouraging NABARD to set targets for the SHG-bank linkage programme, and promoting SIDBI as a major financier for MFIs. The routing of poverty alleviation projects through existing Government-sponsored microfinance programmes like SGSY, Swa-Shakti (Gujarat), Stree Shakti (Karnataka), and Velugu (Andhra Pradesh) are also part of the state initiatives. Prof Sriram, however, maintained that neither the public sector nor private sector banks have achieved the targets set for the weaker sections. Further the performance of both DCCBs and PACS has deteriorated and they have also been suffering from the problem of capital inadequacy. He suggested that the state could involve itself in more development schemes through its various channels by:

Incentivisation i.e. setting up a risk incentive fund for mainstream institutions, facilitating an increase in the number of Small Borrowal Accounts, penetration to weaker sections, and offering rewards on the basis of overall recovery performance;

Regulation i.e. creating a legal framework to enable NGO-promoted MFIs to work more effectively, facilitating an intermediary level financial institution with lower capital requirements, providing for membership-based financial service organizations to function under the Companies Act, harmonizing the working of RBI, allowing for change of ownership of RRBs and their mergers with each other, and carefully examining the parameters for granting permission to closure of RRB branches;

Introspection i.e. allowing for better usage of existing infrastructure including primary co-operative banks, bank branches in rural areas, NGOs, etc.

Thus in order to facilitate useful collaborations in the MF sector, the state needs to: reduce direct involvement, increase and restructure outlays finding the right outlets and create incentives and regulatory environment for implementation of various schemes.

2.4. "PROVIDING FINANCE TO POOR COMMUNITIES: A STOCK TAKING OF DELIVERY CHANNELS"—MR. VIJAY MAHAJAN, MANAGING DIRECTOR, BASIX

While claiming that there was extensive data to prove that the formal financial sector had turned its back on the poor in order to achieve profitability, Mr. Mahajan said that the percentage of small loans to the total bank credit fell drastically from 18.3% in 1993 to 5.3% in 2003. He pointed out that though microfinance has become co-terminus with the SHG-bank linkage programme in India, there is still a need to upscale the products and services offered by existing delivery channels for microfinance such as NGOs, MFIs, SHGs, Government agencies and co-operative institutions.

He also outlined the possibility of converging and introducing innovative delivery channels. The convergence would be of the current Microfinance delivery channels (SHGs, SHG federations promoted by NGOs and Government agencies, MFIs with SHG networks, MFIs with direct delivery channels, MACS etc), genuine players in the informal rural sector and other delivery channels including commercial banks, RRBs, credit co-operatives, NBFCs and RNBCs. The future delivery channels that could be availed for use in microfinance could include public telephone booths, cyber cafes and fertilizer and seed shops, etc. All these would require a back office service provider and a credit risk taker. The use of technology would also aid in proper compilation of records and procedures and reduce cost. Finally he suggested that a single outlet

should be set up for providing the poor easier access to all microfinance services, which would, in turn, facilitate technological development and reduction of cash transactions.

2.5. "EMERGING TRENDS IN SGSY"—MRS. ASHA SWAROOP, JT. SECRETARY, MINISTRY OF RURAL DEVELOPMENT, GOI

Mrs. Swaroop claimed that the SGSY programme has undergone major changes on the ground since its inception when the emphasis had been on individual beneficiary kind of lending. Over the last year, SGSY has been restructured, and now DRDAs are being offered as much as 80% of the total allocated amount to use it at their discretion. She revealed that so far nearly 15 lakh SHGs have received assistance under the programme, and that the Government now plans to use the programme to facilitate group funding, and capacity building efforts for all members associated with SGSY. The programme has also become a successful platform for promoting rural development initiatives. For instance the SGSY programme has supported the handloom programme in Tamil Nadu and sericulture in NER, Jharkhand and Bihar to provide financial support to the poor. NGO-supported channels too are being considered for implementing SGSY supported projects through the special project window of SGSY. On the issue of subsidy, in order to make the bankers willing to offer financial assistance to the poor the subsidy component has been made back-ended in order to provide assurance to the banks that 30% of the subsidy component would be kept with the bank. She expressed her optimism about the fact that with the growth of microfinance, the comfort level for the bankers might not be required in the time to come.

2.6. 'LESSONS FROM COLLABORATIVE MICROFINANCE PROGRAMMES FOR THE POOR"- MR. RAMESH ARUNACHALAM, MICROFINANCE CONSULTING GROUP, CHENNAI

Mr. Arunachalam decried the prevalent rigidity in products and delivery mechanisms, pricing strategies and institutional arrangements of collaborative state-sponsored and institutional finance programmes, which, he claimed, has not only hampered the development of a healthy microfinance sector in the country but also made it more vulnerable to external events. He said a contingency strategy is required as there is no best way of doing things in microfinance and multiple options are available. While arguing for a sustainability mandate for all microfinance organizations, Mr. Arunachalam said that MFIs should be allowed to set realistic interest rates and that hidden costs should be eliminated before the implementation of any microfinance project. He further added that microfinance has to be distinct from other development inputs that carry a subsidy component. He pointed out the example of revolving fund component to the SHGs where the SHGs treat them as grants and just pay back interest on the revolving fund rather than generating small repetitive transactions. Thus the repayment habit gets eroded and credit discipline gets affected. He said that loan disbursement targets should be assessed periodically and be made more flexible to preclude the possibility of delinquency.

Prior to articulating growth and/or outreach figures for loan portfolio and clients, practical assessment by the collaborators becomes essential in order to achieve the targeted growth. This would help lay proper methodology for meeting targets and also help build institutional capacity. As far as HRM, capacity building and training of staff were concerned it could be achieved by factoring in appropriate organizational methodology for establishing a conducive environment for the operation of the programme. As far as delinquency is concerned, laying down stringent audit and internal control procedures would not only enforce credit discipline but also prevent delinquency in the repayment of loans.

2.7. ISSUES EMERGING FROM THE PRESENTATIONS

The various presentations made during Technical Session I highlighted the following issues for consideration:

- The state should provide sustainable and profit-oriented microfinance services to the poor.
- Definitely there is a concern of high transaction costs in the formal banking system vis-a-vis the number of transactions, products, procedures and systems which need to be addressed in order to upscale the activity.
- There is need for creating a legal framework to ensure more effective functioning of NGOs and MFIs.
- The existing delivery channels for microfinance need to be re-designed and more innovative channels are to be explored to upscale microfinance services to the poor.
- Capacity building programmes must constantly be undertaken for all players at all levels in the microfinance sector.
- The development of a healthy microfinance sector presupposes flexibility and sustainability of products, delivery mechanisms and pricing strategies in microfinance programmes.
- Establishing effective internal and external audit procedures can ensure both efficacy of projects and timely repayment of loans.

2.8. OPEN HOUSE DISCUSSION

One of the queries raised by the participants pertained to the reluctance of bankers to disburse loans, and the need for providing them incentives to give loans. It was pointed out that while banks should be offered both tangible and intangible incentives for giving loans, so far no initiative had been taken in this direction. Another query was related to the role of NABARD in scaling up the outreach of microfinance services, and the mechanism for disbursing the promotional cost for local projects by DRDAs under the SGSY programme. The DRDAs under this programme also have funds to be disbursed to NGOs in four installments during various stages of the project implementation.

The participants also queried the need for legal barriers for microfinance institutions. It was pointed out that it is not appropriate to have a high capital adequacy for MFIs as they lend only to micro borrowers. However, a reasonable capital adequacy should be maintained because as the total loan assets go up, the equity base should go up too.

Another participant pointed out that selective NGOs should be made members of consultative committees in order to influence policy. It was argued that several state governments are indeed keen to appoint members of NGOs in key consultative positions, and that leading NGOs should make representations to the state governments in order to bring this about. But care must be taken not to thrust it on state governments and to allow them to implement it voluntarily.

The final query was related to the issue of women's empowerment in microfinance, and as to why women could not be given subsidies in their individual capacities when subsidies could be offered to corporate houses and MFIs, among others. The reply was that India has a long history of subsidization of various products, but now the realization has dawned that some of these

subsidies are unnecessary and can be done away with. Even the IRDP was based on subsidies to individuals, which led to a lot of misuse by borrowers. Thus the individual borrower should not be given subsidies while the microfinance sector by itself can be subsidized. As regards women's empowerment, a number of social campaigns are being run as part of state-sponsored development programmes such as '*Jan Shiksha Abhiyan'* (Public Education Campaign) under the SGSY programme, which aim to empower women socially and economically. With the conclusion of this discussion, the first Technical Session of the Conference was declared closed.

3.0. TECHNICAL SESSION II

3.1. OBJECTIVES OF THE SESSION

The main objective of Technical Session II was to facilitate the sharing of experiences by stakeholders regarding their exploratory journey with existing banking models. As part of this objective, the issues taken up for discussion were:

- Facilitating the development of strong, professionally managed MFIs to cater to the poor;
- Promoting partnerships among all stakeholders to provide scalable solutions for the microfinance sector;
- Developing cost-effective and replicable models of microfinance
- Improving product design and operating efficiency of RRBs and other agencies dealing with rural customers; and
- Anchoring SHGs and providing them support in the form of insurance and other activities.

3.2. "OPENING REMARKS"—MR. BRIJMOHAN, EXECUTIVE DIRECTOR, SIDBI

In his opening address of the Session, Mr. Brijmohan revealed that the SIDBI Foundation had been set up with the aim of encouraging banks to start serious lending to the microfinance sector by the year 2005. He said that by working towards this objective, SIDBI has succeeded in bringing the formal sector into informal microfinance activity. While SHG-bank linkages have, to an extent, achieved mainstreaming in the microfinance sector, the need of the hour is to promote professional, pro-active MFIs in order to deal with micro borrowers and to develop new need-based products for the latter. He put forth the example of ICICI bank which has taken up microfinance as a mainstream financial activity of the bank. Finally he concluded by stressing the importance of integrating business development and skill development services into the microfinance sector.

3.3. "SCALING UP MICROFINANCE: THE ICICI BANK STORY"—MR. BRAHMANANDA HEGDE, HEAD, MICRO BANKING GROUP, ICICI BANK

While stating that ICICI Bank is one of the few and relatively new commercial banks to make forays into the microfinance sector, Mr. Hegde revealed that the Bank-led model has managed to reach nearly 2,00,000 rural poor beneficiaries, and 9,402 SHGs until June 2003. While detailing the low-cost, three-tier structure used by the Bank to reach the rural poor, Mr. Hegde said that this model has also enabled the Bank to provide health-related social services in villages. He claimed that the model has achieved scale at a reasonable cost and that its outreach is greater than that of most NGOs in the country. He said that currently the Bank is on the lookout for NGO and MFI partners to identify and implement new microfinance projects on a large scale in order to reach an estimated 80 million poor households. He deliberated the modalities of partnering with NGO/MFIs and entrepreneurs to take up large scale implementation of their projects and building and promoting standard and cost-effective systems for nationwide implementation of such partnerships while also identifying sources of low cost funds for providing working capital assistance to the partners. The Bank is also seeking to promote MF via Internet banking and setting up ATMs in rural areas. Securitization of MFI portfolios to remove equity constraints on growth and facilitate benefit to banks and offering Smart card-

based payment solutions are the other ideas being developed by the bank to facilitate the growth of the sector.

3.4. "CAN REGIONAL RURAL BANKS (RRBS) SERVE LOW INCOME CLIENTS?"—MR. SANJAY SINHA, MANAGING DIRECTOR, MICRO-CREDIT RATINGS INTERNATIONAL LIMITED

Based on the recent study by M-CRIL on RRBs, Mr. Sinha raised the question as to whether RRBs could be successfully used to provide microfinance services to low income clients. Since they account for 83% of the total number of rural bank branches, and 72% of the total credit disbursed in rural areas, RRBs do constitute an important chain in the microfinance delivery mechanism. This necessitates the scaling up of the services they offer to rural borrowers, as also ensuring viability and cost-effectiveness of their products, besides increasing their outreach. But unfortunately after the high growth period up to 1996, the RRBs slipped into losses consequently focusing on the non-priority sector and on investments rather than advances as business strategies. Hence, the aforesaid study was conducted keeping in mind the parameters of policy context and strategic responses of the sponsor banks; trends in growth of the RRBs; outreach and financial performance; product viability and impact on outreach.

With reference to policies and strategic responses, it was found that the sponsor banks are more focused on lending, investment and prioritize the decentralization of the operation. Mr. Sinha also pointed out that RRBs with the most professional leadership and pro-active approach to executing rural projects have achieved the maximum success in targeting rural customers. He also emphasized on product design and operating efficiency as the key factors in the ability of RRBs to achieve both outreach and viability objectives.

3.5. "WORKING WITH EXISTING INFRASTRUCTURE: THE CASE OF SANGHAMITRA RURAL FINANCIAL SERVICES"—PROF. M.S. SRIRAM

In this case study, Prof. Sriram examined the profile of Sanghamitra Rural Financial Services, an MFI that is providing credit services to the poor. The MFI is active in eight operational districts of two states. It has so far assisted 1,052 groups in obtaining microfinance and 82% of its clients can be defined as 'very poor'. Prof. Sriram claimed that the case study of Sanghamitra had been taken up for discussion as it represents a successful example of using mainstream financial institutions to lend to the poor, as seen in its effective linkages with three RRBs. The organization has decided to focus on RRBs because of their reach and MF is more relevant to RRBs due to their focus and area of operation. This has helped it to achieve increased participation in the SHG-bank linkage programme apart from generating awareness about microfinance among rural borrowers. The only bleak outcome of the collaboration between Sanghamitra and one of the RRBs is that the latter has started poaching clients by using negative tactics thereby making Sanghamitra's transactions difficult. Also given the success visualized by the commercial banks, they are not coming forward to tie up with Sanghamitra.

However the collaboration has led to a highly successful example of leveraging the mainstream to lend to the poor with the risk and some transaction cost of Sanghamitra being absorbed by the channel. The fact that even bankers have started perceiving Sanghamitra as one of their legitimate competitors is sufficient proof of the credibility attained by Sanghamitra in the financial market.

3.6. "LEVERAGING A RELATIONSHIP OF THRIFT AND CREDIT: LINKING SHGS AND PACS"—MR. ANIL SHARMA, GOVERNMENT OF UTTARANCHAL

Mr. Sharma asserted that the implementation of a new Co-operative Act has boosted the development of Uttaranchal, which had been a neglected region when it was a part of the state of Uttar Pradesh. He said that co-operative banking in the new state would go a long way towards meeting the demand for short-term and medium-term loans, both for housing and personal needs. The initiatives undertaken in the co-operative sector in Uttaranchal have led to the proposition of the formation of a high-tech state co-operative bank. Co-operative banking has been opened up for the disbursement of short, medium and long term loans and to revive all PACS and to convert them into mini banks. Today more than 50,000 SHGs are actively working in co-operation with various agencies like the Rural Development Department of the Government, NGOs, PACS and *van panchayat*s in the state. Attempts are to be made in facilitating co-ordination between rural development initiatives and co-operatives. The co-operative movement is thus expected to play a significant role in scaling up microfinance services to the poor in Uttaranchal.

3.7. ISSUES EMERGING FROM THE PRESENTATIONS

On the basis of the experience of all stakeholders with existing banking models, and as witnessed in the presentations of the various speakers, the following key issues emerged for further consideration at the end of Technical Session II of the Conference:

- Mainstreaming is the most urgent need for the microfinance sector today.
- The existing rural infrastructure including PACS, RRBs, SHGs, and panchayats can be used effectively for reaching microfinance to the poor.
- The SHG-bank linkage programme should be implemented in association with other local need-based projects to scale up the outreach of microfinance.
- Local groups, especially women, Other Backward Castes and other such peer groups must be mobilized and involved in the rural microfinance movement as they form the crux of the rural population and can help in reaching the maximum number of low income households.

3.8. OPEN HOUSE DISCUSSION

One of the queries raised at the end of the Session related to the fact that banks often insist on forming SHGs themselves and then offering them credit instead of providing microfinance services to the existing SHGs formed by NGOs. The reason for this was said to be that the SHGs formed by banks are largely homogenous in character and constitution, which makes it easier for banks to offer their members subsidy support on the basis of some common criteria, rather than offering credit to heterogeneous or loosely knit SHGs formed by NGOs.

In response to another query, it was pointed out that PACS are functioning as 'mini banks' in Uttaranchal by accepting deposits and lending money to members, but they are not legally recognized as banks in the formal sense of the word. Another participant questioned the need for the poor to form SHGs before applying for loans. It was said that this is essential because the poor individually have no collateral to offer against the loans they take. However, ICICI Bank is offering loans to individual borrowers too if they offer liquid assets like gold as collateral. It was also argued that SHGs should intermediate on behalf of the poor as the latter actually have limited or no access to banks at all. SHGs and other agencies desirous of working with the poor

should thus be encouraged to do so by streamlining their products and management structures. These organizations can also successfully increase their outreach if they understand the needs of their clients and prioritize their services according to these needs.

3.9. CONCLUDING REMARKS

Mr. Brijmohan summed up the deliberations of the second Technical Session of the Conference by listing the following conclusions derived from the various presentations:

1. Banking institutions feel that intermediation by SHGs is an asset and should not be perceived as competition.
2. Fixing suitable rates of interest to be charged by financial institutions can overcome the inefficiencies currently prevalent in the microfinance sector besides also bringing down transaction costs.
3. Borrowers should be given the choice to approach alternate institutions apart from banks, for fulfilling their microfinance needs, even if these institutions may be more expensive to deal with.
4. It is imperative to move towards innovation in institutions, products and delivery mechanisms in order to make MFIs sustainable, and to propel the microfinance sector forward on its own steam, without letting it lean on the crutch of subsidies much longer.

With these remarks, the second Technical session of the Conference came to a close.

4.0. "WAY FORWARD"--PANEL DISCUSSION

4.1. OBJECTIVES OF THE PANEL DISCUSSION

The main objective of the concluding session of the Conference was to delineate the future course of action in the area of microfinance for the poor, after taking into account the prevalent forms of microfinance, delivery channels and the experiences of all stakeholders with the existing model of microfinance in the country. The issues to be discussed as part of this objective were:

- Promoting MFIs as profitable business ventures to ensure sustainability;
- Scaling up not only the outreach and delivery channels but also the quality of the microfinance programme;
- Grooming grassroot level MFIs as authentic representatives and service providers for the poor;
- Facilitating regular inter-change of ideas among all MFIs at small, focused forums;
- Integrating all financial resources into one comprehensive microfinance package to be offered to poor, illiterate consumers;
- Streamlining interest rates for rural lending; and
- Creating a proper legal and regulatory framework to strengthen the financial security of the poor.

4.2. "OPENING REMARKS"—MR. G.C. CHATURVEDI, JT. SECRETARY, BANKING AND INSURANCE, GOI

In his opening address to the panel discussion, Mr. Chaturvedi said that the appointment of agents' provocateur at the local levels could facilitate an interface between the microfinance sector and the poor who have no access to financial resources of any kind. He cautioned that merely adding numbers by mechanically forming more and more SHGs to fulfill targets would lead to failure in achieving the very objective of providing financial security to the poor.

4.3. PRESENTATION BY MR. R. PRABHA, DY. GENERAL MANAGER, CANARA BANK

Mr. Prabha revealed that Canara Bank had initiated its microfinance programme through the SHG route as far back as 1988, in association with MYRADA, and that today it services about 38,000 groups, accounting for a volume of Rs. 80 crore. He said that Canara Bank has three models of delivery wherein the bank acting as SHPI is not so encouraging, lending to NGO promoted groups is fairly good and lending through MFIs has got the maximum potential. He identified RRBs as the ideal vehicle for promoting microfinance because of their ability to forge strong bonds with both the commercial banks and micro credit borrowers. He concluded his speech by detailing certain concerns of banks like problems of debt recovery, 'unsafe lending' to NGOs that are seen mainly as charitable institutions, and compromises on quality, which hamper the expansion of the microfinance sector and more importantly the legal framework for the NGOs to operate microfinance.

4.4. PRESENTATION BY MS. K.C. RANJINI, DEPUTY GENERAL MANAGER, SIDBI

Ms. Ranjini claimed that the microfinance sector has come a long way in the last 15 years, when it started as a small micro credit movement. Yet certain major constraints in the programme still need to be addressed like lack of transparency in financial dealings, need for enhancing the capacities of MFIs and service providers to the poor who can equitably disseminate the huge volume of finance available in the sector, recalcitrance of MFIs and NGOs to adapt information technology in their transactions, and the obsession of microfinance agencies with numbers. These limitations obviate the more important aspect of building quality in products and services, and streamlining procedures and processes in the industry. Ms. Ranjini also recommended that smaller forums be used for regular point-to-point discussions and exchanges among representatives of the microfinance sector, instead of accumulating all issues for discussion at only high profile events like Annual Conferences.

4.5. PRESENTATION BY MR. VIKRAM AKULA, MANAGING DIRECTOR, SWAYAM KRISHI SANGAM

Mr. Akula started his presentation by depicting a futuristic vision of what a day in the financial life of a poor, uneducated woman would look like ten years from now. He envisioned that the latter would become a Smart Card-enabled borrower with access to loans, pension, insurance and education-related products. While asserting that this vision represented the aspirations of the entire microfinance industry to bring virtual banking to the doorsteps of 75 million poor households in India, he, however, stressed that this feat was possible only if the indigenous microfinance sector imbibes the best practices of its global counterpart. He emphasized the need for capacity building where the Government could get involved by providing grants. He listed the need for grants to MFIs, for increasing loan sizes and lowering loan rates, and for offering low-cost, streamlined services to the poor and bankers to assist the microfinance players with the technical nuances of finance. It was hoped that such requisite reforms would boost the growth of microfinance in the country

4.6. PRESENTATION BY MS. PRIYA BASU, SR. FINANCIAL ECONOMIST, WORLD BANK

In the final presentation of the Conference, Ms. Basu underlined the main challenges for improving poor people's access to microfinance in India. The fact that as per an RBI Survey, only 35-37% of the credit needs of the poor are met by formal financial institutions indicates how important it is to develop a customer-friendly, effective system of lending for the poor. The first step in this direction is to tackle the areas of Governmental and market failure.

The market failures include:

- The core question of transaction costs which are driven up tremendously by the small sizes of the rural loans and by the heterogeneity of the rural borrowers, which raises the due diligence costs;
- Lack of credit information on the rural poor drives up transaction costs;
- Limited price recovery, lack of national grades and prices, resulting in very little dissemination of prices, which makes credit risk assessment difficult;
- Practice of cash-based transactions in rural areas, leading to high cost of idle cash holdings;
- High supervision costs involved in geographically supervising the spread of customers in rural areas;

- Prevalence of high risk default perceptions related to rural lending, despite track records of unsecured loans having been repaid with speed and alacrity;
- High exposure of rural poor to systemic risks which increase the perception of lenders relating to default risks;
- Absence of a proper legal and regulatory framework, which stifles the growth of innovative financial products like commodity future markets and micro insurance products that could reduce default risk and strengthen the financial security of the poor; and
- Prevalence of rural interest caps that do not help achieve desired results as they do credit rationing instead of providing rural finance to the poor. Besides potential borrowers willing to pay are not served by rural financial institutions, as they cannot charge higher rates of interest which would reflect the borrower's risk profile.

The problems of Government failure are:

- Instead of correcting the market failures by addressing the fundamental issues, the Government has sought to address these problems by itself becoming a player in the rural finance market by setting up a wide network of institutions that have not really been able to serve the poor in an efficient manner.
- The weak management of Government-run institutions is due to pervasive Government control, lack of a commercial culture and poor regulation.

In view of the aforesaid economic scenario, she emphasized and concluded with the role that World Bank and multilaterals have to play:

- Working with the Government to address the policy legal and regulatory issues so as to improve the underlying framework and address market distortions, by drawing on the experience of best practices prevalent around the world;
- Helping in scaling up and making sustainable some of the innovative models of delivering rural finance;
- Providing capacity building assistance to self-help promoting agencies, and to promote linkages between banks and SHGs; investments in MFIs through the private sector arm of the World Bank, the IFC, that can support the long-term funding needs of the microfinance sector;
- Setting up a credit information bureau on small borrowers to help the Government tackle the problem of lack of information; and
- Helping banks and other RFIs to pilot new techniques and approaches for credit appraisal, credit monitoring and risk management; the World Bank can also work with financial institutions to scale up innovative models.

4.7. ISSUES EMERGING FROM THE PRESENTATIONS

At the end of the panel discussion on the future plans for the microfinance industry, the following key issues could be identified for action:

- An enabling policy and legal environment must be developed for supporting the activities of all MFIs and NGOs, and for ensuring viable, effective lending procedures in the microfinance sector.

- Committed agencies and individuals in the microfinance sector need to work with the poor consistently to meet their credit needs.
- Quality is a key component of microfinance services and should not be compromised in the quest for quantity or forming more and more SHGs indiscriminately.
- Microfinance systems need to be made more transparent, information-oriented and technologically advanced for reaching out to the maximum number of poor customers possible.
- The poor are credit-worthy and should be seen as bona fide clients in need of integrated, comprehensive financial services.

4.8.OPEN HOUSE DISCUSSION

At the outset of the general discussion, one of the participants averred that institutions like the World Bank also face the pressure to scale up and increase outreach, as a result of which they intentionally or unintentionally distort markets in the areas wherein they operate, thereby contributing to market risks. But this query was answered through the clarification that the World Bank does lend to a large number of state governments but these loans are carefully negotiated in order to prevent market distortions. The loans are priced and structured in a way that they do not interfere with the credit principles of SHGs. It was revealed that the World Bank is also exploring innovative ways of working with the Government to scale up microfinance.

Another query related to the proposed introduction of financial instruments like commodities and future markets in view of the size and scale of the MFI programme in the country. It was argued that this challenge is daunting but not insurmountable, and can be met by all MFIs if they devise means of scaling up microfinance products while at the same time ensuring their viability.

As regards the futuristic scenario of a modern woman's financial life in a village, depicted by Mr. Vikram Akula, one of the participants wanted to know if the proposed model would also presuppose the woman's social emancipation and education. The argument offered in response to this query was that MFIs should stick to their core competence of economic empowerment, which would automatically bring about social empowerment. Besides, the latter should be the priority of agencies in the social sector. However, until social issues like health and education for women are not addressed, MFIs need to incorporate technology such as Smart Card biometric feedback and text-to-voice data into their systems in order to cater to poor and illiterate clients.

Apropos Ms. Priya Basu's purported suggestion that the Government should keep out of direct intervention in the area of microfinance, it was suggested that while the Government itself should avoid becoming a player in the market, it should simultaneously ensure informed regulation and the creation of a regulatory, supervisory legal environment for market finance to thrive in. It should also consolidate the success achieved so far in the SHG-bank linkage programme.

In response to a query on the prospect of lending to federations, Mr. Prabha of Canara Bank spoke on behalf of the entire banking sector when he said that bankers feel comfortable in lending to only federations that are deemed as co-operative societies but not to charitable trusts or organizations, which enjoy no legal status. The necessity for developing need-based and innovative microfinance products was also stressed in view of the fact that the poor suffer from systemic risks such as unexpected illness (especially in states like Andhra Pradesh where HIV-AIDS is spreading rapidly in the rural areas), and that these risks adversely affect their loan

repayment capacities. It was emphasized that the state should involve itself in disbursing products only in certain areas like health and education infrastructure, and that the private sector should be allowed to participate in areas wherein it had proven its efficiency.

The participants also claimed that despite the success of the SHG-bank linkage programme and the rapid rise in the number of SHGs, the microfinance sector needs to show credible evidence that it is moving in the right direction. For this purpose, MFIs should be subjected to various levels of scrutiny, and an independent, objective study could be carried out by agencies such as the World Bank to review the efficacy of the programme at the ground level. It was also reiterated that finance is not the only input that would help the poor come out of the 'poor syndrome'. Merely forming SHGs is thus not sufficient and the focus should be on forming SHGs that are workable, efficient models of microfinance activity, and that disburse progressive credit. The quality of the SHG programme is therefore as important as the amount of credit it disburses to its members.

Finally, the fact that 95-97% of the SHGs are promoted by NGOs and then linked to banks, was cited as being instrumental in the success of the SHG-bank linkage programme. Consequently the prevalent cynicism against the SHG movement as being merely a game of numbers seems unjustified. This aspersion was laid to rest by stressing that while numbers and figures are extremely important in that they are indicative of the success of the SHG movement, they should constantly be coupled with quality to achieve outreach and to make the programme an effective delivery mechanism to carry microfinance to the largest number of poor people in the country.

4.9. SUMMING UP

The final session of the Conference came to an end with concluding remarks by the Panel Chair, Mr. G.C. Chaturvedi. He said that regarding the issue of disbursement of loans at the Governmental level for both microfinance and the unorganized sector, seven groups had been formed and they have since submitted their reports. Almost all the reports have listed the issues of capacity building, linkage, transparency, and regulatory mechanism, among others. Mr. Chaturvedi claimed that now the debate has narrowed down to the kind of framework to be devised for achieving the stated objectives, and identification of the ministries to be involved in this task. Lastly, he pointed out that no single model of microfinance could be implemented throughout the country, as there is a clear divide between the North and South, and different frameworks need to be developed for different states. The emphasis should thus be on developing sustainable models rather than on merely replicating one or more successful models everywhere. He assured the participants that the microfinance sector would definitely come out with a legal framework very soon, while according due importance to all major issues like capital adequacy, rates of interest, transaction costs, money-lending, etc. during the formulation of the framework.

5.0. VOTE OF THANKS

Mr. Mathew Titus finally brought the Conference to an end by proposing the vote of thanks, wherein he thanked all the panelists for their valuable time. He also thanked his colleagues and members of Sa-Dhan for suggesting the names of the esteemed panelists, and for making the Conference possible. Lastly, he thanked all the people who had supported the Conference through their resources and efforts.

APPENDIX

AGENDA

Opening Session

09:00	**REGISTRATION**
09:30 – 09.45	*Introduction to the Conference & Key Challenges in Microfinance* **Mr. Mathew Titus, Executive Director, Sa-Dhan**
09.45-10.00	*Welcome Address* **Smt. Ela R. Bhatt, Chair, Sa-Dhan**
10:00 – 10:30	*Inaugural Address* **Dr. S. Narayan, I.A.S., Economic Advisor to the Honourable Prime Minister, Government of India**
10: 30 – 10:45	**TEA**
Technical Session-I	*This session will look at different forms and structures of institutional finance in their present framework and issues arising therefrom.*
10:45 – 11:00	*Keynote Address and Session Chair* **Mr. N.S. Sisodia, I.A.S. Secretary, Financial Sector, Ministry of Finance**
11:00– 11:15	*Stakeholders, Partnerships, and Mechanisms* **Prof. M.S. Sriram, I.I.M, Ahmedabad**
11:15 – 11:30	*Providing Finance to Poor Communities: A Stock- taking of Delivery Channels* **Mr. Vijay Mahajan, Managing Director, BASIX**
11:30-11:45	**Participants Response and Questions**

11:45 – 12.00 **TEA**

12.00-12.15 *Emerging Trends and Experiments in SGSY*
Smt. Asha Swaroop, I.A.S., Jt. Secretary, Ministry of Rural Development, Government of India

12.15-12.30 *Lessons from Collaboration with State Agencies:*
Mr. Ramesh Arunachalam, Microfinance Consulting Group, Chennai

12:30 – 12:45 **Participants Response and Questions**

12:45 – 13:00 *Summing Up by Session Chair*

PRESENTATIONS

"Introduction and Key Challenges In Microfinance"-- Mr. Mathew Titus

"Microfinance and The State: Exploring New Areas And Structures Of Collaboration"—Prof. M.S. Sriram, I I M, Ahmedabad

"Providing Finance To Poor Communities: A Stock Taking Of Delivery Channels"—Mr. Vijay Mahajan, Managing Director, BASIX

"Lessons from Collaborative Microfinance Programmes For The Poor"—Mr. Ramesh Arunachalam, Microfinance Consulting Group, Chennai

"Scaling Up Microfinance: The ICICI Bank Story"—Mr. Brahmananda Hegde, Head, Micro Banking Group, ICICI Bank

"Can Regional Rural Banks (RRBs) Serve Low Income Clients?"—Mr. Sanjay Sinha, Managing Director, Micro-Credit Ratings International Limited

"Working With Existing Infrastructure: The Case Of Sanghamitra Rural Financial Services"—Prof. M.S. Sriram

"Leveraging A Relationship Of Thrift And Credit: Linking SHGs And PACS"—Mr. Anil Sharma, Government Of Uttaranchal

Sa-Dhan Annual Conference '03

Convergence and Collaborations: Scaling up Financial Services to the Poor

Mr Mathew Titus

Sa-Dhan
The Association of Community Development Finance Institutions

Reaching the low income segment of the population

Today our members are working with providing financial services to 2 million clients with an outstanding of 220 crores

Much more needs to be done in reaching 75 mil. poor economically viable households

- **Economic and Social impact**
- **Financial viability of Institutions**
- **Financial Services & Regulatory framework**

Briefly Sa-Dhan

- The Sa-Dhan Sub-group on Training documents and support the training initiatives of its members through encouraging the dissemination of innovations and best practices, both from India and abroad.
- The Sa-Dhan Sub-group on Standards is involved in an arduous & long drawn out work, of ensuring growth and yet maintaining high standards of accounting and reports, that cover both financial such as portfolio performance and non-financial such as social impact and governance.
- The Sa-Dhan Policy sub -group is drawing attention to remove institutional and policy constraints by researching, articulating and advocating required changes. Trying to establish linkages and partnerships between state arms and organizations and NGOs other microfinance service providers.

Annual Conference 2003

- Going to scale will require quantum growth
- This will not be possible only by the so called private sector. This will involve all as stated in the Sa-Dhan strategy for 1998:
  - Community-based organizations such as federations
  - Existing Ngo/Microfinance Institutions (MFIs) expanding
  - Banks and existing institutions such as RRBs and PACs entering the field
- So this is not only about us – the Sa-Dhan members – it is about each of the stakeholders: Government, Banks and MFIs

The issues this year

- Need for collaboration between the stakeholders:
  - What can banks and Government do with NGOs ?
  - Or what can Banks and Government do?
  - Or what can Government do with Microfinance Institutions including Community based ones ?
  - Do we need to establish a convergence in functions?
  - Some do promotion of self-help groups, some provide technical services, or some do the financial service and the promotion ?

Therefore what are the questions that emerge ?

- Finally, what is the environment that makes this collaboration and convergence possible:
- Who will set interest rates ? Are there going to be multiple authorities who regulate this and hence drive up the cost of regulation ?
- Who will fund all the start up ?
- Is it possible to expect that banks under the liberalised regime will continue to provide funding and support for this kind of work ?
- The Board of Sa-Dhan deliberated and recognized the ambition inherent in this subject. This is the first time we are attempting such a topic…perhaps the first in many more to come on the same subject!!

The Conference …2003

- Has two technical sessions:
  - First, that examines stakeholders, mechanisms, channels and collaborations
  - The second: Examines the nature of the different collaborations and what it entails
- Grateful, to our Chair, and Dr. Narayan for gracing this occasion and giving us the opening insights which will start us of on a productive day !!
- We welcome, all our members, guests from South Asia and the Rest of the world
- And last but not the least, members from the media

Microfinance and the State:
Exploring new areas and structures of collaboration

M S Sriram

INDIAN INSTITUTE OF MANAGEMENT
AHMEDABAD

Part I: The Present

- The state has taken several initiatives in the sector including:
  - Setting up of the Rashtriya Mahila Kosh to re-finance microfinance activities of NGOs
  - Encouraging NABARD to set targets for the self-help group (SHG) – Bank linkage programme
  - Emergence of SIDBI through its Sidbi Foundation for Micro-Credit as a major financier of microfinance institutions

Part I: The Present

- The policy pronouncements of the Reserve Bank of India from time to time – such as
  - including lending to SHGs as a part of priority sector targets,
  - exempting section 25 companies doing microfinance activities from registering as NBFCs under the new regulation
  - permitting the establishment of local area banks (now withdrawn)

Part I: The Present

- Routing some of the poverty oriented schemes through the medium of microfinance (SGSY)
  - The close linkage built by DWCRA schemes
  - The initiatives of various state governments in promoting schemes such as Swa-Shakti (Gujarat), Stree-Shakti (Karnataka) Velugu (Andhra Pradesh)

Part II: Performance of the mainstream sector

- Commercial Banks
  - Improvement in priority sector lending - but growth seen in "other" priority sectors, marginal growth in agriculture
  - Targets set for weaker sections not achieved by a small margin in public sector banks. The achievements of private sector banks nowhere near targets
  - NPAs in priority sector at 20%, while overall NPAs around 12%

Part II: Performance of the mainstream sector

- Regional Rural Banks
  - Turnaround in overall performance
  - Low deployment of credit - CD Ratio of 42% as against the commercial bank CD Ratio of 60%
  - NPAs improving - is it because they are not lending as much?
  - Growth of deposits faster than loans - possibly providing useful financial services to the poor - an outlet for their savings.

Part II: Performance of the mainstream sector

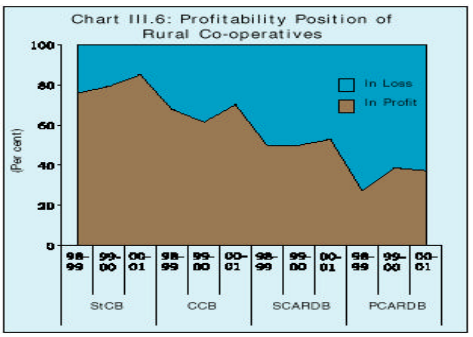
- Regional Rural Banks

Details	1997	1998	1999	2000	2001	2002
Resources Mobilised	16,971	20,978	26,319	31,306	38,696	44,873
Loans Outstanding	8,718	9,692	11,356	13,109	15,794	19,075
Interest income	1,606	2014	3286	3895	4625	5191
Other Income	87	107	157	205	234	372
Operating Profits	(53)	133	335	530	730	774
Net Profits	(589)	76	247	428	600	608
CD Ratio	50.3	46.2	43.3	42.14	42.07	42.51
Investment Deposit Ratio	14.66	16.82	19.69	20.00	20.38	15.67
Standard Assets	63.2	67.2	72.2	76.9	81.2	83.9
Non-Performing Assets	36.8	32.8	27.8	23.1	18.8	16.1

Source: Trend and Progress of Banking in India, RBI (Various years)

Part II: Performance of the mainstream sector

- Co-operatives
  - State Co-op Banks - performance improving but high level of NPAs 17%
  - The performance of lower tiers is Worse - a third of the CCBs are making losses. Overall level of NPAs is 33%
  - The performance of PACS is nowhere near desirable. Capital adequacy a problem in both CCBs and PACSs
  - LT Credit structure is in extended state of sickness

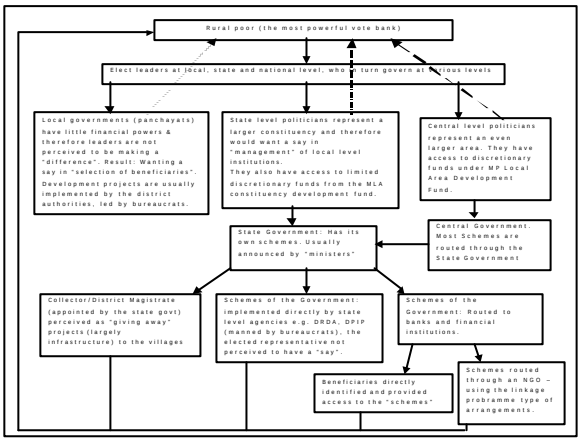


Part II: Performance of the mainstream sector

- Other schemes promoted by the State
  - DRI still in place, but banks unable to achieve targets
  - SGSY partly routed through SHGs. 40% disbursement to women under SGSY. Scheme much better than IRDP, but still could do with some toning up
  - KCC is being extended to levels less than Rs.5,000. Penetration to be achieved
  - SHG Linkage programme growing fast, but still has a miniscule share in the overall rural credit market

Part III: Understanding the dynamics of State Involvement in Development schemes

- Channels
  - implement schemes through own agencies
  - route schemes through banks
  - route schemes through NGOs
- Each of the above have their own dynamics



Part IV: New Areas for involvement of the State

- Direct Involvement
  - Given the dynamics it would become more and more difficult for the state to directly involve itself in this sector in an effective manner
  - State agencies are not oriented to implement aspects relating to financial services in a sustainable and profit-oriented manner
  - However the state can still earmark resources to ensure that it is delivered by professional agencies in an effective manner

Part IV: New Areas for involvement of the State

Incentivisation

- Earmark resources in a manner that commercial banks explore collaborations and involve themselves in channeling resources to the poor. Lessons from the structuring of returns on RIDF investments can be used.

Regulation

- Create a legal framework so that NGO promoted microfinance institutions can work effectively. Recognise that microfinance is much beyond SHGs.
- Ensure that entry barriers are minimal for loan companies and increase restrictions as sophistication of services increase.

Part IV: New Areas for involvement of the State

Incentivisation

- Set up a risk incentive fund for mainstream institutions.
- Design the fund to increase target areas such as - increase in number of small borrowal accounts, increase in penetration to weaker sections
- Reward on the basis of overall recovery performance

Regulation

- Create scope for an intermediary level financial institution with lower capital requirements and have phased capital requirements for additional services to be offered.
- Provide for membership based financial service organisations to function under the companies act (like the producers companies)

Part IV: New Areas for involvement of the State

Interrospection

- Allow for better usage of existing infrastructure - primary co-ops, bank branches in rural areas - if they could be managed strategically in collaboration with private sector or NGOs, leveraging of infrastructure and outreach is possible

Regulation

- Harmonise the working of RRBs and sponsor banks.
- Allow for change of ownership of RRBs, Merger of RRBs with each other for cross subsidisation, risk mitigation and economies of scale - with the proviso that outreach will not be compromised
- Permission for closure of loss making RRB branches to be examined very carefully.

Summary

- Reduced direct involvement
- Increased outlays
- Structuring of outlays and finding right outlets
- Creating incentives and regulatory environment for implementation

Thank You

Providing Financial Services to the Poor: A Stock Taking of Delivery Channels

Sa-Dhan Annual Conference

Mr Vijay Mahajan

September 12th 2003

Sa-Dhan
The Association of Community Development Finance Institutions

Just to Remind Us: Microfinance > Microcredit

- Microfinance services comprise
- Credit
  - ST/LT, consumption, production, investment
- Savings
- Insurance
- Money transfer
- Pensions…

The market for microfinance services

Nearly 100 million farms and firms, with a credit demand of over Rs 50,000 crore per annum and significant demand for savings and insurance.

- 110 million agricultural holdings, of which 80%+ are small and marginal
- 35 million non-farm enterprises
- The banks have reached only 37 million of these. Two-thirds are yet to be reached.
- The reach of savings and insurance services is still lower

Channels which only are seen as microfinance delivery channels today

- SHGs (over 7 lakh) and SHG federations (over 1000) promoted by NGOs/Govt agencies
- MFIs with SHG networks promoted by them – DHAN, Sanghamitra, PREM, CYSD, NBJK,
- Microfinance Institutions with direct delivery channels – SEWA, SHARE, BASIX, RGVN, VWS, etc
- Mutually Aided Coop Societies – over 2000 in AP alone

Traditional Delivery Channels

- Mahajans – village money-lenders
- Landlords
- Traders – agri-input, produce merchants
- Bishis/chittis/ ROSCAs
- Money guards
- Daily savings collectors
- Can these be integrated into microfinance?

Existing Delivery Channels

- Commercial bank and Regional Rural Bank branches - over 60,000
- Credit Cooperatives – over 90,000 :Bidar example
- Insurance companies agent network – over 2 lakh
- NBFCs (7000); RNBCs (Peerless, Sahara)
- All these need significant redesign of: policies, products, procedures and personnel.

Existing Delivery Channels which can be brought in for microfinance

- Urban cooperative banks – over 2500
- Post offices (for savings and insurance) – over 115 million savings accounts
- State Finance Corporations with their branches (over 500)
- SC/ST/BC/Minority/Women's development finance corporations (over 500 branches)
- All the above need significant re-orientation

Future Delivery Channels which can be brought in use for microfinance

- STD PCOs and Internet kiosks with smart card readers
- Fertiliser/seed shops, yarn merchants, with credit card swipe machines
- Cell phone SIM cards loaded with credit over the air
- All need a back office service provider and a credit risk taker.

The way forward

- Composite service providers – one outlet for savings, credit, insurance and fund transfer
- Formal financial sector needs to collaborate with MFIs, SHGs, SHG Federations and informal channels
- Introducing technology to capture transactions as they happen, to record better and cut costs
- Move towards reduced use of cash and more of electronic transactions
- The poor need STEMs not branches

(STEMs - Single Terminal Enablimg Multiple Services)

Some Questions

- What will create the mandate/incentive for catering to the financial services demand of the poor?
- Who will bear the cost of R&D?
- Who will bear the cost of scaling up of the validated model?
- What will be relative role of the government, private sector and the NGO sector?
- Can the regulators play a market development role?

Providing Financial Services to the Poor: A Stock Taking of Delivery Channels

Thank You

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Sa-Dhan
The Association of Community Development Finance Institutions

LESSONS FROM COLLABORATIVE M-F TYPE PROGRAMS FOR THE POOR – Primarily GOVT Sponsored

Mr Ramesh Arunachalam

CONTEXT

Reviews are **confidential** and so, I cannot and will not identify the specific context. Also field observations .

Generalizing across programs

NO INFERENCE on CAUSALITY – merely association

Data set is over the last 10 years (from 1993)

Multiple programs are involved and primarily in Tamilnadu and Andhra Pradesh

Strategic Choice and Attitudes - Implementation

Extreme rigidity about products, delivery mechanisms, pricing strategies and institutional arrangements, especially in collaborative state sponsored and institutional (bank) finance programs has

undermined the development of a healthy and competitive micro-finance sector in several ways

Strategic Choice and Attitudes - Implementation

- The **lack of tolerance** for alternative strategies/delivery mechanisms on the part of such programs has made the micro-finance sector more vulnerable and prevented evolution of its competitive dynamics and structure in a manner desired.
- This is particularly so, when the effectiveness of the so called "One Best Approach" is yet to be convincingly demonstrated
- **Example (Linkage Scheme and TN)**

Strategic Choice and Attitudes - Implementation

- The key attitude change required is here is that of **contingency strategist** –

  there is **no one best way** to manage (or do things) and

  indeed there are multiple (pluralistic) options available and the option chosen will depend on the institutional and strategic context.

Sustainability – Design and Implementation

Especially, when many stakeholders are involved, a **CLEAR sustainability mandate** must exist right from inception and more importantly, mechanisms (skills, attitudes etc) for achieving sustainability must be in place right from the beginning with clear and **specific roles** for the different stakeholders.

Otherwise, **role conflict** arises – each stakeholder assumes that others are responsible for putting in place the necessary sustainability mechanisms and no one does it finally

Sustainability – Design and Implementation

Invariably, **multiple stakeholders involved and multiple inputs** exist during the project period. After the project period, the remaining stakeholders (NGO-MFIs) are left to fend for themselves, **without any strategy to provide these multiple inputs and also meet to the additional costs.**

The quality of the intervention suffers and program deterioration and/or disintegration (worst cases) can occur.

Sustainability – Design and Implementation

Thus, whatever was achieved with **significant inputs during project period** is expected of the partners even after the project has withdrawn (like group formation and their capacity building as financial intermediaries)

And in the **absence of mechanisms that allow for cost recovery and/or alternative provision of resources**, these post project period activities are seldom effective in terms of quality of groups formed, facilitated and/or monitored.

Sustainability – Design and Implementation

This ties up with the need for sustainability mechanisms right from the beginning and shaping attitudes and thinking the same way.

Also, concern for **long term institutional sustainability** does not exist because the approach is a project-centered one with the longevity of the project itself in question

Pricing and Sustainability – Design and Implementation

Initially pricing of products does not take into account the actual costs – there are lots of **hidden subsidies, unreported subsidies** and the like which are ignored.

So, while everything is fine when (subsidized) project funding exists, **after its withdrawal,** program partners do not have many of the ingredients (portfolio, outreach etc) to maintain the large infrastructure and training/capacity building etc necessary to sustain the program – again affects **program quality**

Pricing and Sustainability – Design and Implementation

A conscious and well informed approach to costing and pricing of products (right up front) is therefore a vital component for long run sustainability

Related to this is the issue **of on-lending interest rates**. Agreed, sustainability does not come from having merely high on-lending rates (it is also a function of other factors as nicely given in Yaron's SDI).

Pricing and Sustainability – Design and Implementation

- These programs, on the one hand want sustainability but they often also argue for **"low" and NON USURIOUS interest rates** and are able to STRONGLY influence state policy to that effect – **legislations are in effect in some states now** (final as well as draft) on dealing with usurious interest rates.
- The net result is that post withdrawal of the project's support (in terms of finances for capacity building/other costs), **partner MFIs/NGOs are not able** to factor in even a reasonable portion of their actual costs into their on-lending rates.

Pricing and Sustainability – Design and Implementation

- **Giving MFIs the freedom to set interest rates** is very crucial and any decision on what is USURIOUS INTEREST should be made in consultation with the MFIs and also based on DATA from the strategic context
- Otherwise, the **very existence of the M-F sector** could be in danger as is happening in some places where the Govt sponsored programs are extremely dominant.

Multiple Inputs and Subsidies – Design and Implementation

In their enthusiasm, these programs tend to use different levels of intermediaries (groups for instance) as delivery mechanisms for many interventions (some of which are subsidized) and this really undermines the sustainability orientation of the micro-finance component.

The key lesson is that M-F has to be distinct from other development inputs which carry a subsidy component.

Multiple Inputs and Subsidies – Design and Implementation

- The revolving fund component to SHGs is a case in point whereby the groups expect that any further (external) loan given to them will have to be treated that way – **as a grant to them.**
- In several cases it can be observed that member clients in SHGs just pay back interest on the revolving fund (and the principal remains with a member for years) rather than generating small repetitive transactions, which is the basic reason for using a savings first SHG approach. **Thus, the habit repayment gets eroded and credit discipline gets affected.**

Loan Disbursements Targets – Implementation

- Sticking to loan size and other target estimates given in the initial proposal (which again had little relevance to actual client needs) and disbursing same quantum of loans to clients (be it individuals, groups/other intermediaries etc) to meet the original targets is clearly a **recipe for disaster**, especially where is no demand.
- When delinquency occurs and you go back to clients, they say, "we never asked you for these loans in the first place".
- **Periodic reassessment and flexibility is required**

On Receiving "Bad News" - Implementation

- These programs do not to want to hear "bad" news and they (perhaps unconsciously) shroud delinquency, the HIDDEN BEAST. Unless knowledge of delinquency exists, it cannot be properly tackled.
- Therefore, **a conscious strategy to encourage knowledge about delinquency (calls for a significant change in attitudes) so that it can be tackled upfront when it arises is very much required**. Story.

Rapid Growth – Design and Implementation

- Prior to articulating growth/outreach figures (for loan portfolio, clients and/or institutions), it is important that there is a **practical and collaborative assessment on the requisite institutional capacity required to achieve and/or manage that growth** – this is required from the perspective of all collaborators (NGO/MFIs, Govt Project Units, Banks etc)

Rapid Growth – Design and Implementation

- Otherwise, in trying to achieve **"targets" and for other reasons** (quantity), some components which are out of tune (in terms of capacity), use short-cut methods (acquire SHGs instead of forming them) to merely meet targets which invariably lead to poorer quality of clients, portfolio etc.
- **Acquisitions** also bring a problem of cultures and their management

Rapid Growth – Design and Implementation

- Also, when **growth is sudden, quick and quantum (not incremental)** and most importantly, not commensurate with the institutional capacity required to achieve/manage that growth, then program quality really suffers

Consequences of Rapid Growth – Implementation

- Rapid growth means that proper **internal controls, procedures and records are not in place.**
- A large proportion of the **program delinquency** occurs due to lack of such (appropriate) internal controls at all levels as also because of inappropriate/incomplete records and the like.

Consequences of Rapid Growth – Implementation

- Systemic (organizational) failures often found in these programs arise due to the lack of appropriate cash handling and other internal control/audit procedures.
- **Hence, establishment of comprehensive internal control and audit procedures in the design and their internalization during implementation and before project withdrawal is very crucial.**

Consequences of Rapid Growth – Implementation

- **For example, using <u>receipts</u>,** which represent the basic form of economic empowerment at all levels and for all transactions and of course, reconciling them on a daily (transaction) basis, **helps in reducing such organizational failures**

Too much in too little time - Implementation

- There has also been a tendency to introduce too many things (best practices for SHGs – 20-**25** of them) all at the same time rather than incrementally and also, suddenly change these (drop one or two of them and introduce other best practices without any rationale).
- The net result is that overall the implementation becomes directionless and undergoes so many changes that effectiveness ultimately gets undermined. **Example of fines.**

Too much in too little time - Implementation

- **The key lesson here is that when best practices are introduced, an incremental approach must be followed whereby a few are introduced and internalized.**
- The objective of facilitating OWNERSHIP over the best practices is more important (for sustaining and maintaining them) rather than the number of best practices introduced (and frittered away).

Human Resource Management - Implementation

Capacity building and training of staff becomes a futile effort when staff turnover is high – the net result is that your continuously keep on re-building some one's capacity (on same aspects) again and again which increases the total cost of capacity building and training.

- Hence, having **appropriate set of incentives and disincentives** at levels in the program right from inception and establishing the right environment for staff performance appraisal and development becomes very crucial

Product Design and Constantly Changing Strategies – Design and Implementation

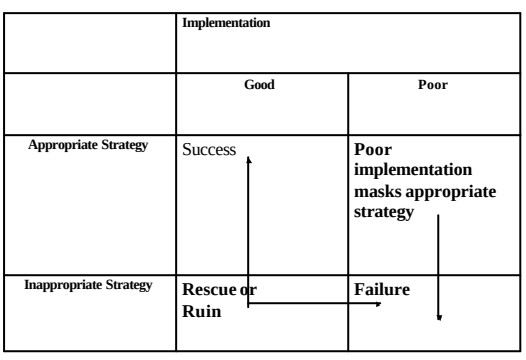
Constantly changing implementation strategies due to faulty product design and other factors) can be counter productive.

Take the case of agriculture loans with weekly repayments where large delinquency occurred because of inappropriate product design in the first place. A woman arguing that she could not be expected to pay back weekly repayments by "harvesting" her groundnut crop pre-maturely is a case in point.

Product Design and Constantly Changing Strategies – Design and Implementation

Part of the problem here is that the project assumed that there are multiple livelihoods and multiple individuals within a household who will pool and pay back money for the loan – it was inappropriate for the given context.

Had an appropriate product design been used, it would not have resulted in large scale delinquency that **caused great panic in the first place and in turn, led to multiple changes in strategy which ultimately undermined the success of the project.**



Monitoring - Implementation

- Where monitoring systems exist, information flows upwards to many stakeholders **but rarely is the monitoring loop (analysis and decisions) completed** with the result that something like a delinquency action plan (when it is there) sits on the table rather than be with field officer or group office bearers (who are the best people equipped to tackle it).

Monitoring - Implementation

- And without question, unless it reaches the ground operational level, no plan can be effective. **Therefore, ensuring that vital information (including that about the portfolio and its quality) is regularly analyzed and passed on to operational levels is very crucial and this feedback loop must be completed (and on time)**

Records and MIS – Design and Implementation

- Records maintenance by SHGs is proving to be most difficult and in many cases after project withdrawal, they are neither maintained by the groups nor by paid book-keepers.
- It is the **staff who maintain them** in many cases which means that they rarely get time to manage and/or develop their portfolio (which is very crucial for sustainability).
- Also, paucity of funds means that they give up sometime and there are no records

Records and MIS – Design and Implementation

- The key lesson is that **records need to be simplified** so that they can be maintained by the groups or paid book-keepers and also rationalized to provide the necessary information (like age of an overdue loan) for effective portfolio management.
- Technically correct appropriation of client repayments into interest and principal portions and appropriate sequencing of this is also required (fines first, interest portions next and principal last). **Otherwise, data for portfolio management gets distorted**

Internal Loan Portfolio - Design and Implementation

- Internal loans are rarely monitored and accurate portfolio data (including ageing information) on internal loans is most often absent.
- The result is that (in the long run), delinquency by some members in a group eats into the savings deposits of other members (peer pressure mechanisms notwithstanding).

Internal Loan Portfolio - Design and Implementation

- In several cases, one can find PAR for external loans at 0% while the internal loan portfolio PAR could be as high as 50 or more%. The result is that this early warning signal, when ignored, invariably spills over to the external loan portfolio at a later stage. It is also due to inappropriate product (facilitation).
- Therefore, the policy of ignoring delinquency in internal loans and tightly controlling delinquency in external loans WILL not and CANNOT WORK in the long run. Consistency is required. Hence, internal loans need to be facilitated by the project and given same importance as **external loans.**

Savings and Exit Policy – Design and Implementation

- The lack of an **Exit Policy** on savings at the SHG/Client level **retards growth in savings and results in significant client drop outs.**
- So, while designing (collaborative) programs and promoting groups, it is very crucial to ensure internalization of savings EXIT policy (right in the beginning) and also its implementation.

Scaling-up Micro Finance:

The ICICI Bank Story

Mr Bramhanand Hegde

September 12, 2003

Agenda

- Introduction
- ICICI Bank: The Journey Thus Far
- Postulating a New Model
- Challenges Before Us
- Innovative Ideas

Seeds that were sown…

- Started with small MFI exposures, an equity stake and a small SHG initiative
  - Found ways to work with the constraints and take a fresh look at this sector
  - Developed our own low cost structure in the field
  - Developed new ideas to work with voluntary organisations

…are ready for transplantation

- The bank-led SHG model has scaled up to reach nearly 200,000 rural poor households
- New models of partnership initiated with leading NGOs and MFIs
  - Providing scalable solutions for the micro finance sector
- Aggressive plans to scale up our own outreach and that of our partners across the country

Agenda

- Introduction
- ICICI Bank: The Journey So Far
- Postulating a New Model
- Challenges Before Us
- Innovative Ideas

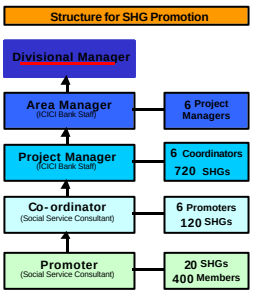
The Journey so far..

Bank-led Model

Changes to the original experiment

- Originally group promotion and development done by Bank staff
  - High cost
  - Not Scaleable
- Developed low cost 3 tier structure employing women from the community
  - Structure consists of
    - Promoters to promote and manage 20 SHGs
    - Coordinators to supervise 6 promoters each
    - Project Managers (Bank Officers) to supervise 6 coordinators each

Promoted Structure



What we have achieved

#	Particulars	SHG Position		
		March 2002	March 2003	June 2003
1	No. of villages covered	800	1,794	1,948
2	Total no. of groups formed	3,649	8,743	9,402
3	Total no. of groups financed	1,064	3,254	3,635
4	Total no. of beneficiaries	72,980	1,74,860	1,88,040
5	Loans disbursed (Rs. million)	240.9	763.1	854.5
6	Balance outstanding (Rs. million)	153.4	628.4	658.2
7	NPA as a % of outstanding	1%	0.41%	0.45%

- Other social activities relating to health and medical interventions also taken up on an on-going basis

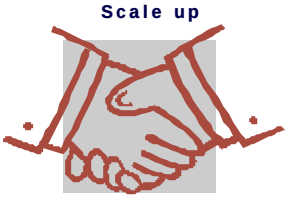
Bank-led Model: unique features

- ICICI Bank among very few banks to promote its own SHGs
- Model employs local people including leaders of existing SHGs to promote and monitor SHGs
- ICICI Bank lends to SHGs based on their needs rather than as a ratio of their savings
- Provides additional services like free Health Camps
- Model has achieved scale at reasonable cost
- Outreach greater than most NGOs in India

We rank fourth in disbursements to SHGs in FY 2003*

*Source: NABARD

Partnership Model: Joining Hands to Scale up



Partnerships

- ICICI Bank partners with selected NGOs on long term basis
- NGO sets up field organisation for promotion and management of SHGs as a service provider
- ICICI Bank provides credit, savings and other services such as insurance directly to the SHGs
- NGO plays active role in monitoring and collection
- ICICI Bank provides working capital assistance to NGO to meet cost of promotion during initial years
- NGO repays the working capital loan from donor funds when available or from service charges

Partnership Model: unique features

- ICICI Bank funding the cost of SHG promotion during initial years
- Marries the core competence of NGOs/MFIs with that of banks
  - Social Mobilisation skills with Finance
  - Lending directly to the borrowers through innovative channels
- Model overcomes constraints of
  - NGOs: Complete dependence on donor funding
  - MFIs: Capital Adequacy Requirements

A sustainable solution for Micro-finance

Agenda

- Introduction
- ICICI Bank: The Journey Thus Far
- **Postulating a New Model**
- Challenges Before Us
- Innovative Ideas

A possible model for scaling-up

- Based on our experience, we postulate a model
  - The Partner/Agent establishes
    - The micro-finance structures (SHGs/JLGs)
    - The requisite disbursement, monitoring and collection mechanisms and systems
  - ICICI Bank provides the necessary financial resources in terms of
    - Working Capital limit to the Partner to meet administrative costs when cashflows are inadequate
    - Loans to the micro-finance structures
  - Partner/Agent levies a service charge on the clients to generate revenue

Scale-up possible independent of donor funding

Based on our experience…

- Some premises we operated with
  - Field staff promotes 20 SHGs of 20 members each
  - 10 field staff are supervised by one Co-ordinator
  - A total of 6 Co-ordinators are supervised by one Project Manager
  - Programme targets the poorest with
    - First Loan of Rs. 3000
    - Second Loan of Rs. 6000 (2 year term)
    - Third Loan of Rs. 10000 (2 year term)
  - Partner agent levies a service charge of 6.0%

…this is the possibility

- The project reaches out to 1200 SHGs covering 24,000 individuals in 2 years
- The operations achieve break-even in the 3rd year of operations
- The Partner requires a working capital limit of around Rs. 3 million to implement the Project

Even if working capital limit is provided at 10% interest, the project can achieve a financial break-even latest by year 4

Detailed Calculations

Agenda

- Introduction
- ICICI Bank: The Journey Thus Far
- Postulating a New Model
- **Challenges Before Us**
- Innovative Ideas

However...

- With a poverty estimate of 400 million in India, there are nearly 80 million Households
- If 80 million households need to be reached with Micro-finance
  - Over 3,330 such Projects will have to be promoted!
  - Nearly Rs. 10.0 billion of Credit at low-interest rates would be required as working capital for Partners!

..there are challenges before us

- Challenge 1: Finding Partners to take up large scale implementation
  - Encouraging existing NGOs & MFIs to focus on commercially oriented social intermediation charging a service fee for services provided
  - Encouraging entrepreneurs to promote and manage such Projects
  - Developing systems and capabilities to identify prospective partners and entrepreneurs
  - Building and providing standard and cost-effective systems for country-wide implementation of such Partnerships

Challenges before us (contd.)

- Challenge 2: Identifying sources of, preferably, low cost funds for providing working capital assistance to partners
  - Identifying sources of such funds
    - Diverting Government funds meant for social development
    - Grant funding from Donor Agencies used as recyclable low-cost funds
    - Creating a fund akin to a Venture Capital fund with contributions from High Networth Individuals interested in long-term returns with positive social outcomes
    - Persuading banks to provide low-cost funds with a long-term outlook

Agenda

- Introduction
- ICICI Bank: The Journey Thus Far
- Postulating a New Model
- Challenges Before Us
- **Innovative Ideas**

Innovative ideas under development

- MFI Constraints
  - Smooth flow of funds for onlending often not available
  - Capital Adequacy requirements limit scale of operations
- Securitization of MFI portfolios
  - Removes equity constraints on growth
  - Immediate benefit for the bank

Innovative ideas under development

- Internet Banking
  - Internet based banking through Internet kiosks mushrooming in rural India
- Rural ATM
  - Low-cost ATM based on local conditions of connectivity and power availability
- Smart Card based payment solutions
  - Smart Cards with an e-purse application
  - Merchants to be enrolled to deploy POS terminals and accept e-cash

Contact

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Thank you

Assumptions of the Model

Assumptions

Structure & Portfolio

1 Field staff is hired and trained to promote SHGs

2 Each field staff promotes and **20** SHGs of **20** individuals

3 **10** field staff are supervised by a Co-ordinator

4 **6** co-ordinators are supervised by a Project Manager

5 Number of Project Managers **1**

6 Promotion of SHGs by one field staff

	Y0	Y1	Y2	Y3
Increme	0	5	15	0
Cumulat	0	5	20	20

7 Percentage of Clients taking loans immediately after having taken the previous loan

Loan 1	Loan 2	Loan 3
90%	85%	80%

8 Each individual borrows

Loan 1 (1 ye	Loan 2 (2 year)	Loan 3 (2 year)
3000	6000	10000

9 Partner/Agent levies service charge (as percentage of loan disbursed) of **6.0%**

Assumptions of Costs

Costs

1	**Monthly Salaries**	(Rs.)	
	Field Staff	3000	Inclusive of incentives
	Co-ordinator	7000	Inclusive of incentives
	Project Manager	12000	Inclusive of incentives
2	**Capital Expenditure**		
	Computers	100000	
	Deposits for Office, Electricity and Telephone	100000	
3	**Monthly Administrative Costs**		
	Conveyance	10000	
	Communication	3000	
	Rent	5000	
	Utilities	1000	
	Printing & Stationary	2000	
	Repair & Maintenance	1000	
	Computer Expenses	2000	
	Audit Fees	1000	
	Director Expenditure	0	
	Miscellaneous Expenses	2000	

Training Expenses per employee

	Y1	Y2	Y3	Y4	Y5
Startup Training	5000	0	0	0	0
Refresher Training (one every year)	1000	1100	1210	1331	1464

Cashflow Projections

	Y1	Y2	Y3	Y4	Y5
Number of Officers	6.00	6.00	6.00	6.00	6.00
Number of Clients Cumulatively	5,000	20,000	20,000	20,000	20,000
Number of Clients taking loans					
Loan I	5,000	19,000	3,000	0	0
Loan II		4,500	15,300	2,550	0
Loan III				3,672	12,977
Loan Disbursements (Rs.)					
Loan I	14,500,000	55,100,000	8,700,000	0	0
Loan II		27,540,000	97,155,000	15,331,500	0
Loan III			31,752,000	38,779,800	132,792,000
Total	14,500,000	82,640,000	137,607,000	54,111,300	132,792,000
Service Charge Received (Rs.)	972,000	4,474,800	7,959,600	3,661,200	7,243,200
Costs (Rs.)					
Monthly Salaries					
Field Staff	21,600	21,600	21,600	21,600	21,600
Co-ordinator	504,000	504,000	504,000	504,000	504,000
Project Manager	144,000	158,400	174,240	191,664	210,830
Capital Expenditure					
Computers	100,000				
Deposits for Office, Electricity and Telephone	100,000	-	-	-	-
Monthly Administrative Costs					
Conveyance	120,000	120,000	120,000	120,000	120,000
Communication	36,000	39,600	43,560	47,916	52,708
Rent	60,000	66,000	72,600	79,860	87,846
Utilities	12,000	13,200	14,520	15,972	17,569
Printing & Stationary	24,000	26,400	29,040	31,944	35,138
Repair & Maintenance	12,000	13,200	14,520	15,972	17,569
Computer Expenses	24,000	26,400	29,040	31,944	35,138
Audit Fees	12,000	13,200	14,520	15,972	17,569
Director Expenditure	0	0	0	0	0
Miscellaneous Expenses	24,000	26,400	29,040	31,944	35,138
Training Expenses	107,000	17,100	37,710	37,171	31,288
Total Costs	1,701,600	1,918,500	2,070,450	1,267,955	1,265,593
Net Surplus/Deficit	(1,701,600)	4,197,420	4,984,950	(884,855)	4,685,808
Cumulative Surplus/Deficit	(1,701,600)	(3,504,180)	2,484,310	1,887,821	6,427,185

Break-even in year 3

Loan can be repaid by Year 3

Financial Cashflow

	Y1	Y2	Y3
Principal Outstanding at end of year	**2,762,000**	**1,742,600**	**0**
Inetest Cost on Loan from Bank @10%	**138,100**	**225,230**	**98,392**
Repayment	**0**	**1,157,500**	**2,066,222**

Back

Outreach vs Viability

Can the Regional Rural Banks really serve low income clients?

- presentation at the Sa-Dhan Annual Conference
New Delhi, 12 September 2003

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The background

- Established through an Act of Parliament in 1976
- Objective: Development of the rural economy through the promotion of the farm and non-farm sectors
- To bridge the credit gap between the formal financial institutions and small farmers & rural entrepreneurs

Overview of RRB performance

- Capital and ownership distributed in the ratio of 50:35:15 among central government, sponsor bank & state govt
- High growth until 1991 (196 RRBs with more than 14,000 branches)
- 172 of these slipped into losses due to low emphasis on profitability and credit recovery (cumulative recovery rate of 40% till 1993)
- This resulted in the loss of net worth and started eating into deposits

Consequent policy initiatives

- RBI stops branch network expansion
- Blanket ban on fresh recruitments
- Recapitalisation of RRBs to make the net worth positive
- Opening up of non-priority sector for RRBs
- Focus on investments rather than advances as the business strategy
- Introduction of IRAC norms

Objectives – questions for the study

- Has the viability objective of recent years drawn the RRBs away from their original focus on serving low income clients?
- Is it possible for RRBs to service small, low income clients in a viable manner? What products succeed and which ones fail on this account?
- What modifications to loss-making products would make them a viable proposition for the RRBs?

Relevance of this study

Importance of RRBs in the delivery of formal rural financial services

	PSBs	RRBs	CBs	Private, foreign & others
Number	27	196	397	76
Total branches	46,118	14,473	n.a.	5,595
% rural branches	42%	83%	n.a.	20%
Total deposit balances (Rs billion)	9,688	432	944	2,340
Total credit outstanding (Rs billion)	5,094	184	823	1,716
Credit in rural areas, % of total credit	10%	72%		2%
Credit in "small" rural accounts, % of total outstanding credit	6%	65%		1%

…and their performance in the banking industry

Indicator	All RRBs	All scheduled commercial banks
Credit-Deposit Ratio	39%	49%
Deposits/total liabilities	77%	81%
Priority sector advances/total advances	73%	30%
Cost of funds	7.4%	7.3%
Return on advances	12.3%	11.5%
Return on investments	19%	11%
Return on total assets	1.3%	0.57%

RRB sampling criteria…

- Financial health – NPA levels, RoA, capital base
- Lending commitment – C-D ratio
- Geographical location
- Sponsor Bank (bigger, better)

The sample selected…

SampleRRB	SponsorBank	Financialperformance(%)			Region
		C-Dratio	RoA	NPA	
RRB1	Syndicate Bank	66	1.9	7.4	South India
RRB2	Syndicate Bank	57	3.2	9.6	North India
RRB3	State Bank of India	57	(3.9)	16.0	East India
RRB4	State Bank of India	27	(0.7)	20.9	Central India
RRB5	SBI subsidiary	65	2.4	13.0	South India

Relative performance as sponsors of RRBs

Particulars	SBI	Syndicate Bank	All RRBs
Market Share	16% branches, 15% deposit a/c, 18% of advances	8% of Branches, 20% of deposits & 16% of advances	
C-D Ratio	41%	73%	42%
NPAs	20%	9%	18%
Profit contribution	2%	20%	
Profitability Status	25 earning profit, 5 under losses	9 earning profit, one under losses	176 earning profit, 20 under losses

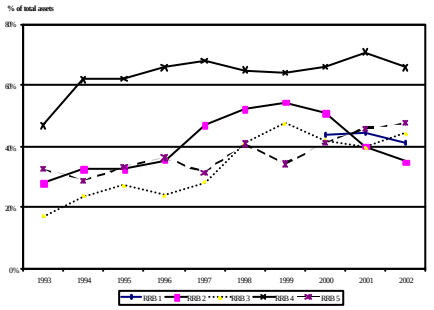
Important findings relate to…

- The policy context and strategic responses
- Trends in growth, outreach and financial performance
- Product viability and impact on outreach

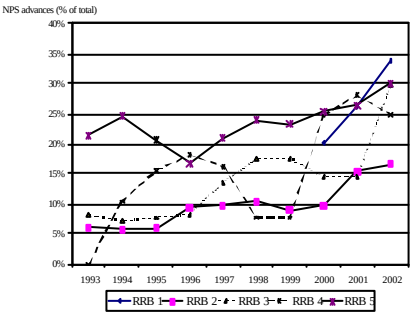
Policies and strategic responses…

Policies/business strategy of sponsor banks	Policies of the government/RBI/ NABARD
• Lending/investment focus • Decentralisation of operations, deputation of SB officials	• Exposure to NPS advances • Relocations/mergers of branches

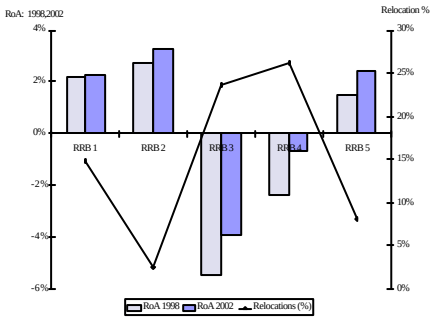
Investments increased from 25-30% up to 40-45% of total assets



Non-priority sector advances increased from 5-10% to 25-35% of total advances



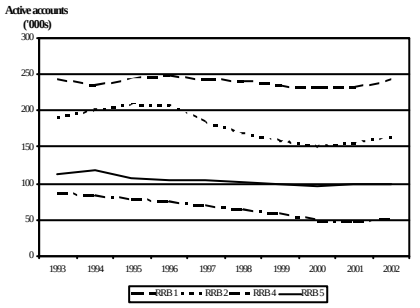
…but branch relocations appear not to have made any real impact on profitability



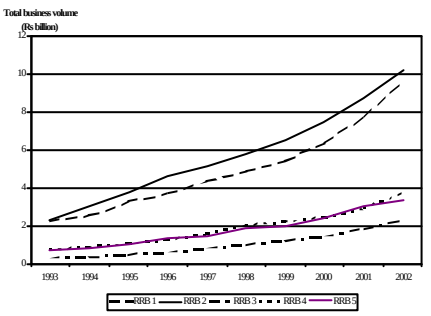
Trends in Growth and Outreach

Over the past ten years…

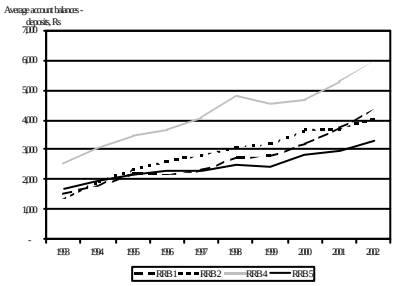
There has been no real growth in the number of deposit and advance accounts



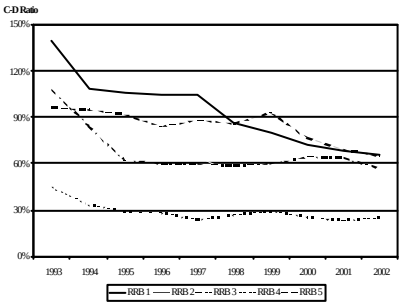
…but consistent growth in business volume



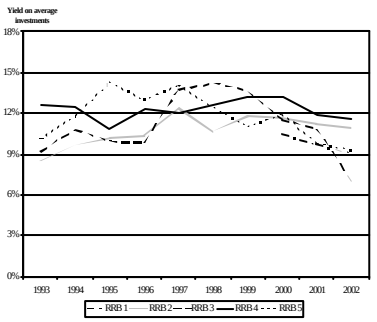
so growth has come from an increase in average balances



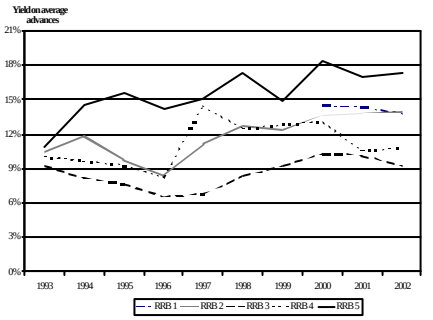
There has been a consistent decline in the C-D ratio over the past ten years but a stabilising trend is visible



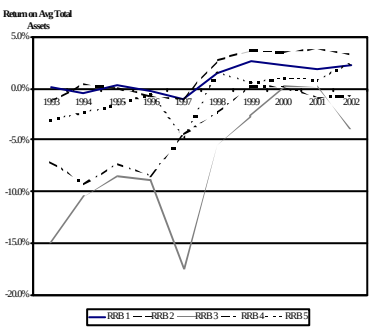
Consistent decline in the yield on investments over the past 3-4 years



…a small but consistent improvement in the yield on advances



…and some improvement in profitability

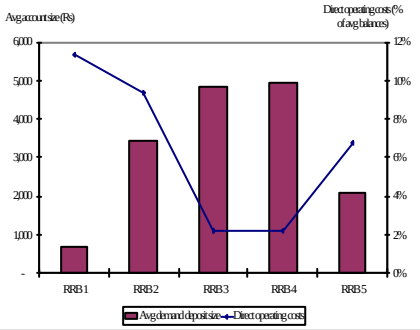


Product viability & outreach

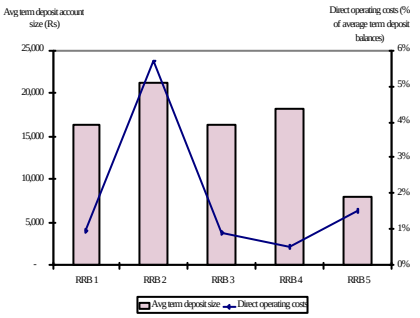
To relate product viability to outreach

- The majority of the deposits and advances of RRBs are of small size (<Rs25,000)

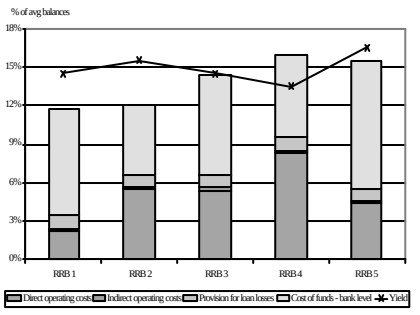
There is the expected inverse correlation between the size of demand deposits and operating cost



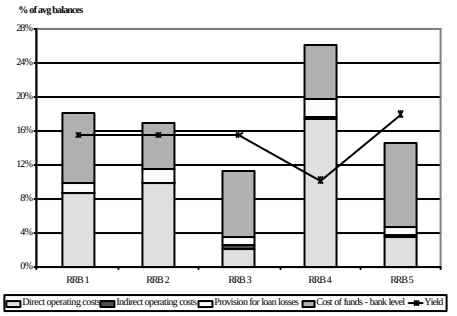
…but no such correlation in the case of term deposits



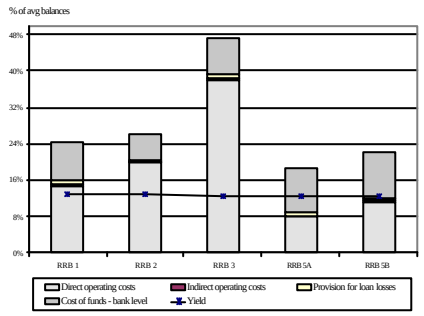
The Kisan Credit Card provides a reasonable margin but reaches relatively few low income clients



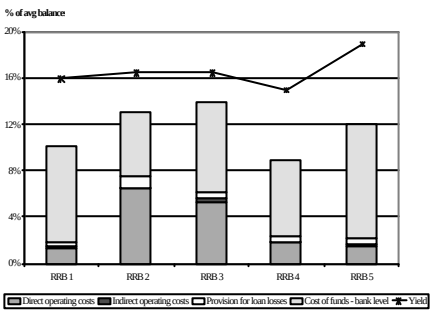
…ISB loans with greater outreach provide a marginal return at best



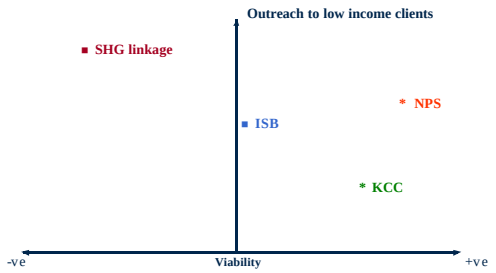
…while the negative return on the high outreach SHG loan is tolerable because it is but a small proportion of the portfolio



…it is the secured loans of the non-priority sector that provide some banks with outreach as well as income



Outreach-viability tradeoff



Conclusions

- The most effective and efficient RRBs are the ones with the most professional leadership and pro-active approach to adjusting operations/products to match local conditions
- Product design along with operating efficiency are the key factors in the ability of RRBs to achieve both outreach and viability objectives
  - the SHG product is hampered by "social control" of interest rates
  - the ISB loan by poor selection of clients
  - KCC and secured NPS are clear winners & innovations in NPS actually improve the outreach of RRBs to low income clients.

Above all,

it is possible for RRBs to maintain viability while serving low income clients

Thank you…

…for your attention!

Working with Existing Infrastructure: The Case of Sanghamithra Rural Financial Services

Girija Srinivasan, Consultant
and
M S Sriram
Indian Institute of Management Ahmedabad

Introduction

Sanghamithra

•Promoted by MYRADA one of the pioneers in the microfinance movement in India.

Reasons for spin off:

•To keep financial services and other developmental activities separate

•To demonstrate at scale that financial services to the poor can be profitably delivered

Sanghamithra: Objectives

•To work with poor and provide credit services with the support for SHPIs

•To create replicable models for financial services for the poor

•To encourage and collaborate with institutions with similar objectives

•To collaborate with governmental and non-governmental organisations to bring about necessary changes to get the poor access to financial services

•This Presentation focusses on Sanghamithra's influence on the formal financial sector and examines the linkages built by them.

Sanghamithra: Some Statistics

- Works in 2 states
- 8 operational districts
- No of groups assisted 1052
- Percentage of clients defined as very poor (holding less than 2 acres) 82%
- On time repayment rate 99.31%
- Operational Self-Sufficiency 133%
- Financial Self-Sufficiency 92%
- Interest rates comparable to banks

Sanghamithra: Strategy for involving the Banks

- Involvement at the operational level
  - All transactions of the groups are routed through banks
  - Sanghamithra has been able to get facilities of immediate honour of outstation cheques, by maintaining balances in the main branch
  - Problems in areas where a common bank does not operate in HO as well as borrower areas.
  - Banks are realising the transaction costs involved in dealing with the groups. Some costs are now being transferred back to Sanghamithra

Involving Banks: Does it work?

- Sanghamithra has been working with three banks in its area – all RRBs
- The strategy of focussing on RRBs is with twin objectives
  - RRBs have the reach and therefore it makes business sense
  - Microfinance is more relevant to RRBs than commercial banks because of their focus and area of operation
- The collaboration is with
  - Cauvery Grameen Bank
  - Chitradurga Grameen Bank and
  - Adhiyaman Grama Bank

Demonstration Effect: Cauvery Grameena Bank

- Increased participation in SHG linkage programme
- Greater awareness about microfinance – seeing Sanghamithra as a competitor.
- Processing time for loan applications down
- Sanghamithra groups taken over by CGB
- No of groups linked by CGB greater than that of groups financed by Sanghamithra
- Microfinance is a part of the lexicon of senior management of the bank

Demonstration Effect: Chitradurga Grameena Bank

- Number of groups cumulatively linked by the bank were 800 upto the entry of Sanghamithra. They doubled in a year after the entry of Sanghamithra.
- Processing time drastically reduced
- Larger amounts being lent to groups
- Increased client contact
- Poaching of clients by negative tactics – making Sanghamithra's transactions difficult
- Clients perceive that transacting with the bank is easy and friendly
- Enthusiasm in lending to watershed development groups and investing in capacity building of SHGs formed under a Government Programme

Demonstration Effect: Adhiyaman Grama Bank

- Increase in average loan size to SHGs
- Discretionary powers to branch managers increased – post Sanghamithra
- Share of SHG portfolio at 22% of the total loan portfolio (significant increase from the past)
- Reduction in processing time
- The continued presence of Sanghamithra in the district is to ensure competition so that the tempo does not get affected

Demonstration Effect: Commercial banks

- Slow to respond to Sanghamithra
- Perceptible change in attitudes towards SHG linkage, though it is still not seen as a "core" activity
- Willing to channel SGSY schemes with greater enthusiasm to groups
- Unlike RRBs, support from head office has not been as enthusiastically forthcoming

Sanghamithra: Lessons

- Great example of leveraging the mainstream to get to lend to the poor
- The risk and some transaction costs of Sanghamithra is absorbed by the channel – which the banks were quick to realise
- As the poor transact through the bank with Sanghamithra, the banks are able to see the flows and the performance
- Bankers perceive Sanghamithra as a legitimate competitor – therefore the objective of Sanghamithra partly achieved
- Withdrawal strategy is a problem as the bankers might shift focus when competition moves

Thankyou

Leveraging a relationship of thrift and Credit

Linking SHGs & PACs

Mr Anil Sharma

Initiatives in RD Sector

- Operation SHG launched.
- GOI target : 11492 SHGs by 2004.
- RDD Uttaranchal target : 18000 groups till 2004.
- Till July 2003, 14592 groups formed.
- Other initiatives: -
  - ❖ Anchor NGOs.
  - ❖ Insurance cover for SHGs.
  - ❖ Sectoral linkages.
- Problem area : Linking the SHGs to the Banks.

Initiatives in Cooperative Sector

- New Self Reliant Cooperative Act comes into force.
- Hi-tech State Cooperative Bank to be formed.
- Cooperative Banking opened for :
  - Short, Medium & Long term loans.
  - Loans for Horticulture & Medicinal plant projects.
  - Housing Loans.
  - Personal Loans.
- Revival of PACS taken as a challenge.
- All PACS to be converted into Mini Banks.

The Uttaranchal Self Reliant Act

- **Salient features:**
  - **Seven or more individuals** can form a society **who;**
    - **Intend to use the services of proposed society.**
      &
    - **Are ready to share the profit/ loss of the proposed society.**
- **The registrar will be obliged to register the society if he doesn't inform the promoters within a specified time.**
- **Power to register societies delegated at Tehsil level.**
- **Any society that retires the Government capital can convert itself into a Self Reliant Society.**
- **Registering SHG as a self reliant cooperative society.**

Principles Of Co-operative

- Voluntary & Open membership.
- Democratic member control.
- Member economic participation.
- Autonomy & Independence.
- Education Training & Information.
- Cooperation amongst cooperatives.
- Concern for community.

The Way Forward - I

- **PACs in hills unviable.**
- **SHGs not getting loans.**
- **Can we link both?**
- **Can SHGs & PACs find solution in each other?**

The Way Forward - II

- Getting PACs to accept SHGs as member / potential clients.
- Revival of PACs through Micro Credit.
- Opening the coordination between Rural Development and Cooperatives.

Getting Together

- Breaking the ice - steps taken to work together.
- DRDAs and DCB managers meet.
- Exposure visits of PACs Secretaries.
- Learning by doing:
- Chakrata : leading the way.

Groups Groups & Groups

- **Over 50000 groups in Uttaranchal**
- **Groups formed by**
  - **Rural Development Department.**
  - **DASP.**
  - **NGOs.**
  - **Van Panchayats.**
  - **Swajal.**
  - **PACs.**
- **Groups need direction and finance.**

Beginning with the PACs

- **Initiatives by PACS Secretaries.**
- **Priority issues:**
  - **PACS work as SHPI.**
  - **PACS takes up other groups – ATI Chamoli.**
  - **PACS work as a village based Cooperative Mahila Bank.**
- **NABARD Schemes.**
- **Initiative in Dehradun, Haridwar & Almora follow.**
- **Kotdwar Bank Next in line.**
- **By January 2004 whole Uttranchal will be on march.**

Coverage of this experiment

- Learning from BIDAR experience.
- Aim to form state level Cooperatives of SHGs.
- A unique Cooperative structure based upon SHGs.

Cooperatives & Linkage with other sectors

- **Cooperatives & Industry.**
- **Cooperatives in Agri-Export Zones.**

Cooperative leads the way. . . .

Thanks.

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