SHG Federations

Development Costs and Sustainability

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SHG Federations: Development Costs and Sustainability
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Message from Rabobank Foundation

Last year, during the Microfinance India Conference we had published a report entitled *Community-Owned Microfinance Institutions—Enabling Double Bottom-line Impact*, which was widely circulated and greatly appreciated. We were enthused by the positive feedback to take the agenda of financial inclusion in India forward and support this publication on financial federations in India based on self help groups (SHGs) with a focus on development costs and sustainability challenges faced.

The SHG federations have been in existence for more than 15 years. The need for and roles of SHG federations, and financial federations in particular, have been a matter of debate for more than a decade. While the norms for SHGs for formation, membership, governance, financial dealings, financial linkages and costs of promotion have been well evolved and widely accepted as standards by policy-makers, financiers and funders, the same level of clarity for federation of SHGs has not evolved. This has been primarily due to the lack of consensus on how the federations should evolve, balance between size and ownership/closeness to members, financial versus non-financial intermediation roles of federations and consequently the costs of promotion of a sustainable federation. There is a growing movement towards transforming federations into micro-finance institutions (MFIs) that provide loans and other financial services to SHGs.

Though several thousand federations exist in India and many of them undertake financial intermediation, especially in provisioning of loans to SHGs, successful, viable and sustainable federations in financial intermediation are not many. Policy support to financial federations is equivocal. Financiers to such federations are few, though more banks are now showing interest in engaging with federations. Being community-based organizations, federations with appropriate business models would ensure sustainability and quality of service to members who are also the owners. These federations exhibit strong cooperative characteristics in terms of ownership and governance. This publication proposes to examine some existing federations to compute the social investment required for their development, their operational costs and profitability and the prospects for their financial and organizational sustainability. This will serve the ultimate objective of influencing policy and practices in promotion and financing of such financial federations.

The Rabobank Foundation supports institutions run on cooperative principles across 25 countries following Rabobank's rich history of 110 years of cooperative banking. Rabobank's cooperative structure and its commitment to local involvement have remained the cornerstones of Rabobank's values and practices for more than a century. The history of Rabobank has always been characterized by its cooperative nature: people working together, banks joining forces and specialized business divisions combining their knowledge. A distinguishing feature of the cooperative structure—one that underpins every move that Rabobank has ever made and continues to make—is a primary commitment to serving the best interests of the customers.

Rabobank Group is a full-range financial services provider founded on a stable co-operative structure committed on long-term relationships with clients in the Food & Agribusiness sector. Rabobank's Triple A credit rating from both Moody's and Standard & Poor's since 1981, specialized market knowledge and group diversity have created an excellent combination to grow and strengthen Rabobank's global Food and Agribusiness Franchisee. Rabobank Foundation deeply appreciates the effort put in by Girija Srinivasan and Ajay Tankha to compile this report. Their experience in the sector has been invaluable to provide the perspective on the complexity of diverse SHG federations in India. Rabobank Foundation would also like to express its gratitude to ACCESS Development Services, especially Vipin Sharma and his team for providing support and coordinating with all stakeholders to get this report published.

Pierre Hedel
Managing Director
Rabobank Foundation
November 2010

Foreword

Microfinance in India is unique as there are two very well-established mechanisms to deliver microfinance. While the Self Help Group–Bank Linkage Programme (SBLP) pioneered and spearheaded by the National Bank for Agriculture and Rural Development (NABARD) is the more mainstreamed national model, the so called 'alternate' channel to deliver microfinance through MFIs has also grown significantly in the last decade. While, in some cases specific organizations like Dhan, PRADAN, MYRADA, etc have innovated on the SHG model to form federations of SHGs, with the introduction of the MACS Act in 1996 and the Velugu programme in Andhra Pradesh, formation of SHG federations got a major boost. While the largest number of SHG federations exists in Andhra Pradesh, the MACS Act has been replicated in several other states, giving further momentum to SHG federation building. However, barring a few sporadic cases, the viability of SHG federations seems tenuous almost everywhere, with most of them not doing too well as financial intermediaries.

With the current discomfort with growing commercialization of MFIs and the ability of SHGs to leverage all their financial requirements by themselves through informal grouping, there has arisen the need to better assess the investments required to form good SHG federations. ACCESS, with support from Rabobank Foundation, has undertaken this important study to examine the viability and costs of SHG federations. The study has examined the sustainability of SHG federations purely on financial intermediation margins. It has also looked at the need of other complementary and value-added services, particularly in social intermediation, enterprise promotion, and empowerment (which several federations are already undertaking) that could enhance the value, viability, and rationale for promoting SHG federations. In view of the fact that many new programmes of the government, World Bank, and IFAD, among others, are likely to invest in SHG federation promotion, this study is well-timed to provide ground evidence on 'what it takes' and whether it is worth pursuing the idea of promoting community-owned and community-managed financial institutions.

I recall, at the Microfinance India Summit in 2003, Prof Malcolm Harper had raised a set of questions on the need for SHG federations. Many of these questions still remain valid and unanswered. One of the questions related to the very purpose of promoting federations whose value outweighs the costs. He had said 'I believe strongly that the burden of proof is on anyone who proposes a new intermediary; they must show that it serves a purpose whose value outweighs its cost'. I hope this effort will attempt to answer this one.

On behalf of ACCESS, I take this opportunity to thank the Rabobank Foundation for supporting these two important studies and for their faith in ACCESS's abilities to deliver outcomes on time. Particularly, I would like to thank Pierre Hedel, Managing Director and Arindom Datta, at Rabobank Foundation for giving us the opportunity to take up these explorations in SHG federation building experience. I would also like to thank the authors Girija Srinivasan and Ajay Tankha for agreeing to undertake this difficult study and assimilate diverse and disparate federation building experiences to come to certain conclusions. While I do recognize that this was not an easy task, the findings of the study will have significant value for the sector. Within ACCESS, I really appreciate the excellent coordination between the authors and the editors / printers to enable its publication on time. And, finally, I would like to thank the young intern, Rohan at ACCESS, who has provided critical support to the authors in undertaking field visits and collating and cleaning the data.

At the end, while continuing to engage on issues and challenges linked to community structures helps ACCESS to better align with its vision and mission; I am sure it equally benefits those in the sector that seek to achieve double bottom line impact and ways to enable and empower communities.

Vipin Sharma
CEO
On behalf of ACCESS Development Services
November 2010

Preface

The SHG–Bank Linkage Programme is acclaimed as the largest microfinance programme of the world. Of late, the quality of SHGs has been an area of concern. Self help groups require many types of ongoing support to ensure their sustainability. Federations can provide their member SHGs with some or all of the support they require to improve their quality. The need for and roles of SHG federations have been a matter of debate. There is a growing movement towards converting federations into MFIs that provide loans and other financial services to the SHGs. While the norms for SHGs—for formation, membership, governance, financial dealings, financial linkages, and costs of promotion— have been well evolved and widely accepted as standards by policy-makers, financiers, and funding entities, the same level of clarity for federation of SHGs has not evolved. Hence, a study to examine and compute the social investment required for development of financial federations, their operational costs and profitability, and the prospects for their financial and organizational sustainability is needed to fill this gap.

We are thankful to Rabobank and Access Development Services for their support in commissioning this study and publication. We are grateful to those federations who willingly participated in the study and frankly discussed their operations. We sincerely thank BMASS and their promoter Ganjam District Administration, Sanginee and their promoter Parivartan, ASSSL and their promoter CECOEDECON, Savera Mahila Manch and their promoter IBTADA, Boond Bachat Sangh and their promoter Shramik Bharti, Indur Intideepam MACS Federation and their sponsor GRAM, Pragathi MACS and their promoter Pragathi Sewa Samithi, IKP, Dharmasagar and their promoter SERP, PALMA and their promoter PWDS, and GMSS and their promoter Chaitanya for their help and co-operation. All of them readily agreed to spare their time, share materials, and resolve repeat enquiries. Many individuals in these organizations provided information and facilitated our field visits.

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At ACCESS Development Services, Suryamani Roul was responsible for the smooth and efficient facilitation of the study. In Bhubaneswar, Amulya Mohanty, senior sector expert, was a useful sounding board and rich source of information, and contributed the case study on Sanginee. We also benefited from Mohan Baliyarsingh's participation in the field visits and data collection. At Hyderabad, V. Chiranjeevi, despite other important commitments ensured full logistical support and later joined in the field visits. Mrudula enthusiastically participated in the field data collection and acted as interpreter. B. Srinivas developed the rigorous cost estimates for IKP mandal samakhyas with SERP officials. In Jaipur, Rajesh Jain, evinced keen interest in the study and Sanjay Joshi participated in the organization visits. From the Delhi office, Rohan Trivedi joined the study and was largely responsible for preparing at short notice the case studies on Boond Bachat Sangh and ASSSL. Radhika Agashe, S. P. Mishra, Satya Prakash Choubey, and Lalitha Sridharan took care of all necessary arrangements.

This study would not have been completed without the substantive contribution of Phani Priya who helped us with data analysis and research support. Our special thanks go to her.

The views offered are those of the authors. We are responsible for errors in reporting, interpretation, and presentation, if any. We would be happy to receive your feedback.

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Abbreviations and Acronyms

AC	Administrative Committee
AGM	Annual General Meeting
AP	Andhra Pradesh
APDPIP	Andhra Pradesh District Poverty Initiatives Project
APDPRP	Andhra Pradesh District Poverty Reduction Programme
APMAS	Andhra Pradesh Mahila Abhivruddhi Society
APRACA	The Asian and Pacific Regional Programme Agricultural Credit Association
ASP	Ankuram Sangamam Poram
ASSEFA	Association for Sarva Seva Farms
ASSSL	Apni Sahakari Sewa Samiti Limited
BC	Business correspondents
BASIX	Bhartiya Samruddhi Investments and Consulting Services (BASICS Ltd.)
BDP	Business Development Plan
BDS	Business Development Services
BF	Business Facilitators
BISWA	Bharat Integrated Social Welfare Agency
BMASS	Block Mahila Sanchayika Sangh
BMC	Bulk Milk Cooling
BOD	Board of Directors
BSS	Boondh Bachat Sangh
CASHE	Credit and Savings for Household Enterprise
CDS	Community Development Society
CECOEDECON	The Centre for Community Economics and Development Consultants Society
CEO	Chief Executive Officer

CGAP	Consultative Group to Assist the Poor
CGMST	Chaitanya Grameen Mahila Swayam Siddha Trust
CIF	Community Investment Fund
CIRM	Centre for Insurance and Risk Management
CLF	Cluster Level Federation
COMFIs	Community Owned Microfinance Institutions
COO	Chief Operating Officer
CRAR	Capital to Risk (Weighted) Assets Ratio
CRP	Community Resource Person
CSFPL	Credible Securities Finance Private Limited
CSP	Customer Service Points
DHAN	Development of Humane Action
DMASS	District Mahila Sanchyika Sangha
DRDA	District Rural Development Agency
DWG	Dairy Working Group
EC	Executive Committee
EDP	Entrepreneurship Development Programme
EED	Evangelischer Entwicklungsdienst
EMI	Equated Monthly Installment
FWWB	Friends of Women's World Banking
GMSSS	Gramin Mahila Swayam Siddha Sangha
GMSST	Gramin Mahila Swayam Siddha Trust
GP	Gram Panchayat
GRAM	Grama Abhyudaya Mandali
HDFC	Housing Development Finance Corporation
HIVOS	Humanist Institute for Development Cooperation
IASC	Indian Association for Savings and Credit
ICDS	Integrated Child Development Services
IDPMS	Indo Dutch Project Management Society
IFAD	International Fund for Agricultural Development
IFMR	Institute for Financial Management and Research
IIMF	Indur Intideepam MACS Federation Ltd

IKP	Indira Kranthi Patham
ILO	International Labour Organisation
IMD	Intivelugu Mahila Dairy Producer Company Ltd
INAFI	International Network of Alternative Financial Institutions
JLG	Joint Liability Group
LPG	Liquefied Petroleum Gas
MACS	Mutually Aided Cooperative Society
MBT	Mutual Benefit Trust
M-CRIL	Microcredit Rating International Limited
MF	Microfinance
MFI	Microfinance Institution
MIS	Management Information System
MNREGS	Mahatma Gandhi National Rural Employment Guarantee Scheme
MoU	Memorandum of Understanding
MS	Mandal Samakhya
MT	Mahalir Thittam
MYRADA	Mysore Resettlement and Development Agency
NABARD	National Bank for Agriculture and Rural Development
NBFC	Non-Banking Financial Company
NEFT	National Electronic Fund Transfer
NGO	Non Government Organization
NMG	Nominal Membership Group
NPA	Non Performing Assets
NPM	Non Pesticide Management
NREGA	National Rural Employment Guarantee Act
OB	Office Bearers
OIKOCREDIT	Oikocredit Ecumenical Organisation
p.a	Per annum
PD	Project Director
PDS	Public Distribution System
PLF	Primary Level Federation
PMSS	Pragathi Mahila Sewa Samithi

PRADAN	Professional Assistance for Development Action
PRI	Panchayati Raj Institution
PSS	Pragathi Seva Samiti
PWDS	Palmyrah Workers Development Society
RBI	Reserve Bank of India
RGB	Rushikula Gramya Bank
RGB	Representative General Body
RGVN	Rashtriya Gramin Vikas Nidhi
RLF	Revolving Loan Fund
RMK	Rashtriya Mahila Kosh
ROA	Return on Assets
ROI	Rate of Interest
RSGIC	Royal Sundaram and General Insurance Company
RTGS	Real Time Gross Settlement
SAPAP	South Asia Poverty Alleviation Project
SBT	State Bank of Travancore
SC	Scheduled Caste
SERP	Society for Elimination of Rural Poverty
SEVAI	Society for Education Village Action & Improvement
SGSY	Swarnajayanti Gram Swarojgar Yojana
SHGs	Self Help Groups
SHPAs	Self Help Promoting Agencies
SHPI	Self Help Promoting Institution
SHEPHERD	Society for Human Equality People's Education and Rural Development.
SIDBI	Small Industries Development Bank of India
SJTT	Sir Jamsetji Tata Trust
SKS	Swayam Krushi Sangham
SMCS	Swayamshree Micro Credit Services
ST	Scheduled Tribe
TFI	Total Financial Inclusion
TNWCD	Tamil Nadu Ministry of Women and Child Development

TRIPTI	Targeted Rural Initiatives for Poverty Termination and Infrastructure
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
UP	Uttar Pradesh
VO	Village Organization
WB	West Bengal
ZS	Zilla Samakhya

1 Introduction

The Self Help Group (SHG) movement, which commenced in the early nineties, has been experiencing exponential growth in the country. The SHG bank linkage programme which is acclaimed to be the largest micro finance programme in the world, has been founded on some basic assumptions—SHGs will be formed and nurtured by Self Help Promoting Agencies (SHPAs) who will also provide comprehensive training to the members in group dynamics and management. The well capacitated SHGs will be bank linked and such linkages will be sustained over a period of time. After the initial phase of nurturing and ensuring growth of the self help group, the SHPAs will withdraw and the SHG bank linkage will provide the necessary impetus for the continued well being and sustained growth of the groups. The members of SHGs, on demonstration of their credit-worthiness will, in due course, become individual customers of banks. Thus, the simplicity of the model has enabled large scale growth of the groups. However, the initial assumptions of a direct, sustainable SHG-bank relation are difficult to realize on the existing large scale.

Several issues have emerged with regard to the quality of groups and the quality of bank linkages. Book keeping is an issue faced by several of the groups whose members are largely illiterate. With growth in funds the need for verification/auditing of the books is now a felt need. Groups are occasionally disrupted by conflicts which require external counseling and intervention. As recent studies indicate, over a period of time, the recovery rates tend to fall which requires frequent portfolio review. Moreover, the financial linkages with banks have not been smooth and require external intermediation. Even in areas where the bank linkages have been established, it has been found that the groups require gap-filling financial services since there are delays in loan sanction and more often than not timely disbursement of bank loans has been an issue. Thus, the SHGs require many types of ongoing support beyond

finance, such as auditing, portfolio review, conflict resolution, linkages with bank/MFI, gap filling financial services especially credit and savings.

Federations can provide their member SHGs with some or all of the support they require. Thus, some of the Self Help Promoting Institutions (SHPIs) like Development of Humane Action DHAN, Government of Kerala (for the state wide program Kudumbashree) had facilitated SHG federations even in the early nineties. Compared to the phenomenal growth in the number of SHGs, the growth rate of federations has been slower. The need for and role of SHG federations has been a matter of debate.

While SHGs undertake core financial services of savings and credit, the roles the federations take upon themselves vary. Almost all of them provide group maintenance services such as book keeping/verification support, conflict resolution, enabling bank and other linkages, etc. There are several other single or combined roles that the federations undertake—provision of financial services, addressing social issues that affect their members, implementation of government schemes, enhancement of livelihood of members including joint procurement of inputs and marketing of produce, etc.

There have been a few studies on federations which have provided insights into their functioning and the issues to be addressed by promoters and policy makers.

Ajay Tankha (2002) had studied the costs of promotion of SHGs under different support regimes that included minimalist approaches limited to facilitating bank linkages, large project formats centered on women's empowerment and integrated livelihoods development initiatives by leading NGO promoters incorporating the federation of SHGs. He suggested that the type of emerging SHG-based institutions was constrained by the existing regulatory framework and the legal forms available in different states. He also estimated costs of promotion of SHGs and their federations under different programmes. He noted that the scale of support provided by government agencies and donors, where available, was commensurate with the observed costs.

The Andhra Pradesh Mahila Abhivruddhi Society APMAS (2003) was one of the early attempts to look at the efficiency and profitability of SHG federations. It covered 26 federations of SHGs and concluded that all 3-tier SHG federations were unprofitable with revenues considerably lower than operating costs. This was also a period of experimentation (for instance, of models introduced by CARE-India's partners under the Credit and Savings for Household Enterprise (CASHE) project)

amidst debate about the utility of financial and non-financial SHG federations. In a widely circulated document that year Malcolm Harper raised ten questions about the utility of adding another link in the chain of financial intermediation for delivering financial services to the poor which polarized opinion and debate on the issue. However, in the absence of both sustained experience of federation functioning as well as comprehensive studies a clear picture failed to emerge.

Sa-Dhan (2004) conducted a national level research study on twenty seven federations to document the characteristics and practices among federations and their promoting institutions. The sample had a mixture of financial (20) and non financial (7) federations and sought to heighten awareness of the diversity in SHG federation types that had been promoted in different regions and contexts. In total, seven federations were considered for financial analysis. Since many of the federations were in a nascent stage, the study found that financial systems were largely absent with a few exceptions. High delinquency rates and high operational costs were constraining the financial federations in achieving financial sustainability. The study dwelled extensively on measures to be taken to achieve organizational and financial sustainability. An important parameter of analysis, which is of continuing concern, was the locus of control of federations—whether it rested with the community members or with the promoting institution.

A study by Ajay Nair (2005) indicated that both SHGs and SHG federations could be financially viable even when all costs, including those subsidized by the promoter agency, were accounted for. Three SHG federations that provide a wide range of services were studied, using a case study approach. The findings suggest that federations could help SHGs become institutionally and financially sustainable because they provide the economies of scale that reduce transaction costs and make the provision of these services viable. Though all three federations studied in this paper offered financial services, the study did not conclude that this is essential for sustainability since other initiatives like resource centers of Mysore Resettlement and Development Agency MYRADA are also financially sustainable. This study also showed that SHG federations were able to achieve *financial* sustainability but they had difficulty achieving *organizational* sustainability. SHG federations' organizational sustainability depends on progress achieved in federation governance, staffing, and organizational processes and systems. Major constraints in forming sustainable SHG federations include the inadequate capacity of promoter agencies, limited knowledge base about SHG federations, and the lack of legal frameworks. Nair concluded

that rather than whether a SHG federation can become financially sustainable, the questions appears to be: how long it would take, how much promotional investment would be needed, and what the success rate of such a transformation process would be for the average initiative: this requires further study.

The study on the status of SHG federations in Rajasthan (2006) was an exploratory study aimed at understanding the existing structures, role of the promoting organizations and the institutional needs of the federations and status of the SHG clusters and federations in Rajasthan, besides generating baseline data on the organizations promoting SHG federations/clusters. The study also explored the cost of promoting a federation in respect of three promoters. However, the costs captured only promotion cost of federation and operational cost of one year—the total cost of promotion of federation till it achieves viability, i.e., cost of promotion of SHGs and the investments needed in subsequent years, however, were not calculated. The study identified capacity building requirements at the promoter and federation levels.

A *Consultative Group to Assist the Poor* Occasional Paper (CGAP 2007) addressed the question of sustainability of SHGs in India. Covering nine well-functioning SHG programmes it reported that many well-executed SHG programmes are achieving financial sustainability even when all promotion and support costs are included through amortization. One of the SHG programmes studied was a Mandal Samakhya (MS) promoted under the United Nations Development Programme- South Asia Poverty Alleviation Project) UNDP SAPAP (later Velugu and now IKP) programme as part of a three-tier federation for which promotion costs and financial analysis at village organization and SHG level were also developed.

APMAS (2007), based on the study of federations in eight states, covering eighteen federations, analysis of quality assessment data of 83 SHG federations, and APMAS' experience in supporting SHG federations over a period of six years, prepared a status report on federations to contribute to the body of knowledge, and to serve as a reference document to policy makers, planners, practitioners, and academics. The report traces the origin and emergence of different types of federations; analyses the performance of social, financial, and livelihood federations; highlights the emerging practices and challenges; and has made recommendations for strengthening the functioning of federations.

On the functioning of financial federations, the report of APMAS highlights the following: (a) many development interventions have treated federations mainly as a short-term mechanism to channel donor-funded loans for the improvement

of livelihoods. A long-term vision is lacking, which hinders the development of a financial organization. (b) The government-promoted federations are provided with capital grants and fund management and repayment status is lower than that of the other federations which are accessing funds from external financial institutions. (c) Systems like fund management, internal controls, bookkeeping, and legal compliance require considerable improvement. (d) In financial federations, as the board members do not have adequate technical capacities, dependence on promoters and staff is high. (e) The majority of financial federations are limited to offering single products. Financial federations seem to be performing better in the delivery of services such as training, conflict resolution, grading, and monitoring of SHGs. *The report has not attempted to cover the costs of promotion of different types of federations.*

Girija Srinivasan and Srinivasan N (2009) had carried out a comparative study of community owned micro finance institutions (COMFIs) which included three federations. The study found that COMFIs are more inclined to serve women and the poorer sections of the population than other MFIs. Products and services had been influenced by the members and there was a continuing search for improvement to enhance the utility of services to the customers. When these institutions are of the appropriate size (to render effective peer monitoring and review feasible) they function effectively; when they grow beyond the optimal size (which will vary from context to context) the governance and control systems become weak. The study concludes that while there are advantages in setting up MFIs in the community-ownership model, one needs to focus on some key features while designing them—these relate to the choice of form, design of member participation, structure of governance and management, organizational processes, control systems, and distribution of economic benefits.

1.1 WHY THIS STUDY?

There is a growing movement towards enabling federations into financial intermediaries that provide loans and other financial services to the SHGs. The financial function is undertaken by federations for a variety of reasons: (a) to ensure timely credit to the groups since bank linkage has not been smooth; (b) to develop need based products, especially for livelihood enhancement; and (c) to partially cover the costs of the critical non-financial services that the groups require and which are provided by the federation. However, there is a lack of consensus on how these

federations should evolve, balance between size and ownership/closeness to members, financial versus non-financial intermediation roles of federations, and consequently the costs of promotion of a sustainable federation. While the norms for SHGs—for formation, membership, governance, financial dealings, financial linkages, and costs of promotion—have been well evolved and widely accepted as standards by policy makers, financiers, and funders, the same level of clarity for federations of SHGs has not evolved. This requires study.

Though several thousands of federations exist in India and several of them undertake financial intermediation, especially provision of loans to SHGs, successful, viable, and sustainable federations in financial intermediation are not many. Many of the established federations are operating in a highly competitive environment where several MFIs are operational. How the federations weather competition and remain relevant to the members and fulfill their needs requires investigation.

Policy support to financial federations is equivocal. Financiers to such federations are few, though some banks are now showing more interest in engaging with federations. Being community-based organizations, federations should get their business model right to ensure sustainability and quality of service to customers who are also owners.

1.2 OBJECTIVES OF THE STUDY

A study has been commissioned by Rabobank Foundation and Access Development Services to examine and compute the social investment required for development of various models of financial federations, their operational costs and profitability and the prospects for their financial and organizational sustainability. The second objective is to build different scenarios for the future roles of such institutions considering the financial inclusion agenda of Reserve Bank of India, expansion of micro lending by banks and exponential growth of MFIs. The larger objective of the study is to influence policy and practices in organized growth and promotion of financial federations.

The **key questions** that have been explored during the study are:

(a) At what scale of operations is the financial federation organizationally and financially sustainable? What is the trade-off between size and community ownership/participation?
(b) Are federations cost-efficient? How do federations remain relevant and provide need based financial services in a highly competitive environment?

(c) Are federations better equipped to develop products / refine products for satisfying members' diverse needs for financial services? What are the product innovations that have been carried out by the federations?
(d) How do the leading financing banks envisage the role of federations? What are the critical constraints in financing the federations?
(e) How do the promoters ensure that governance and management roles are balanced in federations? Do promoters remain with the federations—why and how? What lessons can be learnt for government as promoter and NGOs as promoters?
(f) Does federating impact SHGs? If so what are the positive and negative fall outs on deepening of services, participation of members in governance, discipline in using services of the federation, autonomy of SHGs, etc.
(g) Based on the experience gained so far what is the future scenario for financial federations?

1.3 DEFINING FINANCIAL FEDERATION FOR THE STUDY

The study team initially held discussions with the resource organizations especially APMAS; Access in Orissa and Andhra Pradesh; Center for Micro Finance, Rajasthan; Self Help Promotion Center, West Bengal; and also some of the funders like Friends of Women's World Banking (FWWB), National Bank for Agriculture and Rural Development (NABARD), Small Industries Development Bank of India SIDBI etc., to understand the status of financial federations in the states. A wide web search on the recent documents on financial federations was carried out. A brief desk analysis was carried out to select the federations for study.

The purpose was to cover a representative range or different federation models and types currently functioning successfully in varied contexts.

In selecting the federations, the following factors have been considered –

(a) Age and maturity of federation, duration of micro finance operations.
(b) Type of promoting institution
(c) Geographical region
(d) Size of the federation in terms of tiers and number of groups associated with it
(e) Sources of finance and revenue of the federations
(f) Coverage of alternative legal forms of the federations

The federations selected for study have been in operation for more than 2 years.

Though some of the large government Initiatives such as Indira Kranthi Patham (IKP), Mahalir Thittam have been covered under the study, there are several issues in the government being a promoter of federations. Due to the fact that these initiatives involve large scale investments and grants in terms of human resources, revolving funds etc., federations promoted under such programmes are not on an equal footing with those promoted by NGOs and civil society players. While these federations have been included in the study for drawing comparisons and to provide some indicative figures, they have largely been excluded for analysis of financial operations and costs of promotion.

Usually federations have more than one tier and not all tiers are undertaking financial intermediation. In this study we have covered those federations in which at least one tier other than SHGs had a financial intermediation role. Preference was largely given to federations which had a financial intermediation role at a higher tier than the cluster level since the higher tiers had the necessary outreach and business volumes to support professional staff and investment in systems. As a consequence, panchayat and cluster level financial federations, e.g., as promoted by Society For Education Village Action And Improvement SEVAI and OUTREACH respectively, have not been covered.

One of the evolutionary paths of the federations appears to be to promote a corporate MFI, usually a non-bank financial intermediary (NBFC); this is a largely promoter driven initiative to fuel growth and expansion. Indeed, several SHPIs that have promoted SHG federations have moved from developing a financial intermediation role for them to creating alternative channels for the flow of credit in the form of promoting a dedicated NBFC for the NGO's SHG members under various credit delivery methods. The very existence of the federations and the roles they play vary widely once the corporate MFI is operational[1]. These federations have not been studied.

After analyzing the various typologies and models, the study team **excluded** the following types of federations from the study.

(a) Federations formed for the purpose of channelizing investments in corporate MFIs.

1 For example, AMMACTS has floated Future Financial Services, a NBFC and largely adopting JLG model of lending; a distinct shift from the SHG model followed earlier. Federations promoted by SHEPHERD, Tamil Nadu were financial intermediaries and after promotion of Nannayasurabhi Development Financial Services, a section 25 company, the federations play only a social intermediation role.

(b) Federations which rotate mostly grants/revolving funds.
(c) Federations which have formed a company (section 25/NBFC) and scaled down/ceased to be financial intermediaries.

Thus, the sample has covered the following ten financial federations. These include two government agency promoted federations operating at the block level—one a registered society and another a mutually aided cooperative society (MACS), two NGO promoted MACS federations of Andhra Pradesh, two NGO promoted cooperatives in formed under liberal cooperatives in Orissa and Rajasthan, three mutual benefit trusts in Rajasthan, Tamil Nadu and Uttar Pradesh and an unregistered body in Maharashtra. These are:

1. Block Mahila Sanchayika Sangh (BMASS), Jagannathprasad, Ganjam district, Orissa.
2. Dharmasagar Mandal Samakhya, Warangal district, Andhra Pradesh
3. Pragathi Mutually Aided Cooperative Credit and Marketing Federations Ltd. (Pragathi MACS), Warangal district, Andhra Pradesh
4. Intur Intideepam MACS Federation Ltd. (IIMF), Nizamabad district, Andhra Pradesh
5. Sanginee Secondary Cooperative Ltd., Kalahandi district, Orissa
6. Apni Sahakari Sewa Samiti Limited (ASSSL) , Phagi district, Rajasthan
7. Savera Mahila Manch, Alwar district, Rajasthan
8. PALMA Women's SHG Federation, Kanyakumari district, Tamil Nadu
9. Boond Bachat Sangh, Kanpur district, Uttar Pradesh
10. Chaitanya Grameen Mahila Swayamsiddha Trust, Ahmednagar district, Maharashtra

Brief details of the federations studied are presented in Table 1.1.

1.4 ORGANIZATION OF THE BOOK

This book has been organized into six chapters. Chapter 2 traces the evolution of SHGs and their federations and basic models and typologies of federations. The case studies of the financial federations studied are presented in Chapter 3. The analysis of development costs of financial federations is carried out in Chapter 4. Chapter 5 explores the issues facing financial federations in organizational and financial sustainability. In Chapter 6 issues relating to replication, scaling up, future directions, and policy imperatives are discussed.

Table 1.1 Details of federations covered

Name of the federation / promoter	*BMASS, Jagannath-prasad*	*Dharmasagar Mandal Samakhya*	*Pragathi MACS*	*IIMF*	*Sanginee*	*ASSSL*	*Savera*	*PALMA*	*Boondh Bachat Sangh*	*CGMST*
Promoter	Govt. Of Orissa	Govt. of A.P.	Pragathi Sewa Samithi	GRAM	Parivartan	CECOEDECON	Ibtada	PWDS	Shramik Bharti	Chaitanya
Location	Orissa	Andhra Pradesh	Andhra Pradesh	Andhra Pradesh	Orissa	Rajasthan	Rajasthan	Tamil Nadu	Uttar Pradesh	Maharashtra
Year of formation	1999	2003	2004	2002	2005	2004	2004	2005	2002	2008
Year of commencement of MF operations	1999	2003	2004	2004	2005	2004	2006	2008	2002	2009
Legal status of federation	Society	MACs	MACS	MACS	Secondary Coop-erative	Cooperative	Trust	Trust	Trust	Unregistered
Number of villages	220	n.a	207	457	381	n.a	29	272	n.a	26
Number of blocks/mandals	1	1	n.a	n.a	7	1	1	9	1	n.a
Number of members (in SHGs)	14,537	16,284	45,489	38,836	11,707	3,742	1,469	6,960	2,436	2,365
% of SCs	31	n.a	n.a	35	29	n.a	49	4	n.a	n.a
%of STs	4	n.a	n.a	6	49	n.a	nil	nil	n.a	n.a
%of minorities	0.3	n.a	n.a	8	6	n.a	20	38	n.a	n.a

Name of the federation / promoter	*BMASS, Jagannath-prasad*	*Dharmasagar Mandal Samakhya*	*Pragathi MACS*	*IIMF*	*Sanginee*	*ASSSL*	*Savera*	*PALMA*	*Boondh Bachat Sangh*	*CGMST*
Non financial services										
Clients of federations	SHGs	Village MACS	Village MACS	Cluster MACs	Individuals and JLGs formed out of SHGs	Individuals in SHGS	SHGs	SHGs	SHGs	Individuals in SHGs
Number of savings products	1	nil	2	nil	2	4	1	nil	2	3
Number of loan products	2	4	6	9	2	5	4	1	1	3
Number of insurance products	2	3	3	2	1	1	1	1	1	1
Non Financial services										
MIS, audit, book keeping to SHGs/ clusters	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
Trainings	yes	yes	yes	yes	yes	yes	yes	yes	yes yes	yes
Linkage to govt schemes,	yes	yes	yes		yes		yes	yes		

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2 Evolution of SHG-based Financial Federations in India

2.1 EMERGENCE OF SELF HELP GROUPS AND BANK LINKAGE

Several types of savings and credit groups of varying membership have been functioning in India[1]. However, the documented evidence of SHGs as they exist today in India were formed by MYRADA[2] a NGO. It is interesting to note that the SHGs emerged in 1985 due to breakdown of the large cooperatives organized by MYRADA. By 1986–7 there were nearly 300 SHGs in MYRADA's projects. MYRADA then approached NABARD for an action research project[3] on self help groups which funded the research.

1 In certain states such as the southern states and Maharashtra, sanghams or village development groups, mahila mandals, yuvak mandals were formed for identifying beneficiaries for specific schemes, undertaking activities of common interest, assisting and following up on recoveries of loans made to members and revolving the recovered money for continued assistance to the community. These were usually large groups – sometimes over a 100 members. Several of SEWA's women groups in Kheda district, Gujarat were of more than 50 members. (http://aloe.socioeco.org/article876_en.html.)

2 MYRADA was originally the acronym of the Mysore Resettlement and Development Agency, but the official name is now MYRADA. It is a large NGO working directly with 1.5 million poor people.

3 Myrada's proposal to NABARD was for Rs 3 million to (a) match the savings of the groups, and (b) provide training in institutional capacity building to the groups.

Within the same timeline, Asian and Pacific Regional Agricultural Credit Association (APRACA)[4] weighed options and agreed on further action for effectively increasing credit access for the poor[5]. In India, NABARD, the apex development institution and a member of APRACA, carried out an elaborate study which gave useful insights into the dynamics of group organization, saving potential, and repayment ethics of the poor. Encouraged by the results of the study and action research project of MYRADA, NABARD, in consultation with the Reserve Bank of India (RBI) Commercial Banks and NGOs, launched a pilot project in 1991–2 for linking of SHGs with banks. In the year 1996, based on the successful experience of the pilot, RBI directed banks to include linking of SHG as its mainstream activity. Since 1998, Government of India accorded a national priority through its recognition of bank linkage programme in Union Budgets.

Self help groups are voluntary associations of people formed to achieve collective social and economic goals. They may comprise of 15–20 women and/or men, although they generally consist exclusively of women members. The initial operations of SHGs start with collecting savings from members. The SHGs meet short term credit needs of members and learn to manage funds by extending small loans to members from their own funds. The identification, formation, and nurturing of groups is carried out by NGOs, other development agencies or banks with the promoters inculcating habit of thrift among members. Once the groups are trained and strengthened, they are linked to nearby banks, usually within six months of formation. Banks provide collateral-free credit in increasing proportion to the group's accumulated savings. Adopting a flexible approach, all the decisions about the functioning of the group, borrowing from the bank, internal lending including purpose of loan and rate of interest charged by the SHG to the final borrower, etc. are left to the discretion of group members.

The SHG-bank linkage model has been designed as a partnership between three agencies, viz., the SHGs, banks and NGOs/other SHPIs. The design is built on combining the 'collective wisdom of the poor, the organizational capabilities of the social intermediary and the financial strength of the Banks' (Mishra, Alok: 2006).

4 The Asian and Pacific Regional Agricultural Credit Association (APRACA) promoted by FAO is an association of central banks and agricultural credit institutions operating in Asia and Pacific regions with its emphasis on rural finance.

5 A memorandum was signed among its members to study the existing informal self help organizations of the rural poor in order to initiate a project to link them with banks.

2.2 PROGRESS OF SHG–BANK LINKAGE IN INDIA

Since its pilot in 1992, the SHG-bank linkage programme has emerged as the leading microfinance programme in the country. It is recognized as an effective tool for extending access to formal financial services to the unbanked rural poor, especially women. By the end of March 2009, 4.7 million SHGs[6] were linked to the mainstream banks (see Table 2.1.1).

Table 2.2.1 Progress of SHG–bank linkage in India

Year	*No. of SHGs financed during the year (in millions)*	*Loan disbursed (in billions)*	*Loans outstanding (in billions)*	*% increase over previous year*		
				SHGs financed	*Loans disbursed*	*Loans outstanding*
2006-2007	1.11	65.70	123.66			
2007-2008	1.23	88.49	169.99	11.04	34.69	37.47
2008-2009	1.61	122.53	226.79	31.13	38.47	33.41

Source: Annual reports of NABARD

Important highlights of the progress of SHGs as financial intermediaries are[7]:

- As on 31 March 2009, a total of 6.1 million SHGs had saving bank accounts with the banking sector with outstanding savings of Rs 55.45 billion; the growth rate has been 22 per cent in the number of SHGs and 47 per cent in amount of savings over the previous year. The average savings per SHG with all banks was Rs 9,060 as on 31 March 2009.
- As seen from Table 2.2.1, till 31 March 2009, a total number of 1.61 million SHGs were disbursed loans; average bank loan disbursed per SHG was Rs 76,128. As of 31 March 2009, a total number of 4.2 million SHGs had an outstanding loan of Rs 226.8 billion. The average bank loan outstanding per SHG had increased from Rs 46,884 as on 31 March 2008 to Rs 53,689 as on 31 March 2009.

6 Annual Report of NABARD, 2008–9

7 Though the programme is nearly 20 years old, the reporting on the programme has undergone changes; since three years NABARD reports on banking details—savings, credit, and NPA—as furnished by banks.

- NABARD has been reporting the recovery performance of banks since the last two years. As on 31 March 2009, based on the data reported by 292 banks, NPAs to total bank loans outstanding against SHGs were only 2.9 per cent. However, the overall recovery rates for the programme have reportedly been falling[8].
- As on 31 March 2009, the share of women SHGs in total SHGs with saving bank accounts was 79 per cent. 85 per cent of the groups that were disbursed loans were women's groups. The share of women's groups in the total SHGs with loans outstanding is 78 per cent. The women's self help movement has emerged as an important facilitator of the objective and strategy for achieving financial inclusion, contributing to inclusive growth, and generating social capital in order to address larger issues like poverty eradication and women empowerment.

2.3 FACTORS CONTRIBUTING TO THE EXPONENTIAL GROWTH

Reserve Bank of India's policy guidelines for linkage banking, especially allowing banks to open bank accounts and lend to unregistered bodies like SHGs, non-insistence on physical collateral for loans and total flexibility in loan purpose and amount were path breaking developments. This policy support which the central bank provided for the SHGs to avail credit from banks has enabled the phenomenal growth of SHGs. The lending institutions accepted the rules and regulations adopted by each SHG—related to size and purpose of loans, interest and repayment schedules—without imposing its own norms or standardizing SHG functions.

The SHG programme has had the sustained support of NABARD, over a period of 20 years. NABARD has made every effort at the national, state, and district levels to analyze and maintain progress, remove policy and operational hurdles, provide funds for training for a variety of stakeholders, and persuade banks to increase their coverage. It has also made efforts to extend the programme to the more neglected and remote parts of the country.

8 'The repayment by SHGs stood at 88 per cent the year before last and is falling further'. (Dr. Karmakar, Managing Director, NABARD, as reported in The Hindu, September 11, 2010.) http://www.thehindu.com/news/states/tamil-nadu/article625470.ece

The simplicity of the model enabled thousands of promoters of various types of institutions—government, NGOs, and banks—to be involved in SHG promotion. Thus, a massive number of institutions support the SHG movement, though with each entity in its own way[9].

Donors like IFAD, UNICEF, and UNDP had involved the state governments for designing and implementing projects[10] which had at their core institutional development of SHGs; based upon the success of these projects the government adopted a programmatic approach and SHG promotion was mainstreamed within the government.

Lending to SHGs required a different skill set, knowledge, and attitude from what the bankers were used to. Training and exposure was provided for bankers to assess and promote SHGs as financial intermediaries which were supported extensively by NABARD.

2.4 WEAKNESSES OF THE PROGRAMME

The following initial premises on which the SHG bank linkage programme has been built are not holding well;

(a) The groups will manage on their own after the initial capacity is built; the SHPIs will build the capacity of the groups, link them to the banks and scale down their involvement. If banks are the SHPIs, the relationship continues more as a lender than as the capacity builder.
(b) Once the groups are linked to the banks, they will not need external assistance and the banks will continue the banking relationship on the basis of the business opportunity.
(c) Individual borrowers with larger loan requirements from among the SHGs will build a credit history and graduate to a direct relationship with the banks.

However, with the growth of the programme, and the maturing of the groups, several issues, especially regarding the accumulation of funds, have emerged.

9 The large number of diverse institutions also represented a weakness—the objectives and quality of SHGs promoted has been uneven.

10 IFAD's projects in Tamil Nadu, Maharashtra and Andhra Pradesh and UNICEF's project (Kudumbashree) in Kerala

While the policy support for lending to SHGs has been unequivocal, such support for organizational sustainability of the groups has not been clear. The minimal promotional funding for group formation and linkage with banks has resulted in lack of institutional support mechanism for the large number of groups. Several studies have indicated the poor quality of book keeping at SHG level and falling repayment rates. The SHGs required several on-going services which they cannot procure individually from the market. While NABARD set the direction for the SHG-bank linkage programme and has taken industry level initiatives to ground the programme, there has been very little direction setting for the ongoing support services to SHGs.

Similarly, in those states where the SHG-bank linkage programme has been well established, the number of groups linked per branch has increased to such an extent that it is making the monitoring and supervision of groups difficult, resulting in falling recovery rates.

Overall, the apathy of bankers towards adopting a business development approach to SHG lending is leading to the disintegration of groups, with SHG members turning to other sources including MFIs for financial services etc., in several states. Apart from the investment in forming and nurturing a SHG going waste, the members lose an opportunity to access savings services. Delays in loan processing by banks means that even repeat loans to well performing groups materialize with a gap of 3 to 6 months. With the change in branch staff the gap is usually larger.

Government recognition and mainstreaming of the initiative has often been perceived as an indicator of success, but such recognition has been a double-edged sword. On the one hand, it provided the thrust required to expand rapidly; on the other, it has become vulnerable to government management patterns: target-oriented quick group formation, predetermined criteria for identifying beneficiaries and forming groups without assessing affinity among the members, and the tendency to further separate each caste or community for group formation, especially for subsidy distribution. The bureaucratic practice of using the SHGs channel to implement state-sponsored programmes flows from a culture believing that these SHGs are the final link in the delivery chain, and not institutions with a mission and programme of their own.

Since the major drive to promote SHGs, through the means of thrift and credit, was with the goal of improving financial services to poor, their function was largely viewed as financial provision and management. This tended to minimize the major

role they have played (or have the potential to play) in empowerment of poor and improving the livelihoods of poor and marginalized. How to balance the financial and empowerment goals of SHGs has been a challenge.

2.5 WHY SHG FEDERATIONS—FINANCIAL AND NON-FINANCIAL?

The promoters of SHGs have considered networking and federating them to provide a sustainable institutional mechanism for the growth of SHGs and their members. The early SHG federations were promoted by Pradan (presently DHAN) in Tirupati (1992), and in Madurai (1993), CDS, Alappuzha (1993) and MYRADA (1996). CARE initiated its microfinance (MF) activities in the early 1990s in Chevella and the nearby mandals of Rangareddy district, and has, through its partners under the CASHE project, supported various types of federation structures of SHGs in Andhra Pradesh, as well as some in Orissa and West Bengal.

The idea of federation beyond the village level is usually externally mooted but carried forward with the consensus of SHGs. At present self-help groups are federated at village, cluster, district and even at state levels for a variety of reasons—some are to assist the promoters in achieving their development goals and others that fulfil the needs of SHGs and its members. To a large extent the objectives of networking SHGs are promoter driven.

The SHG federations have been formed for achieving the following (often inter-linked) objectives;

Provision of maintenance and monitoring services and promotion of new SHGs: The primary purpose of federating SHGs is to ensure the sustainability of SHGs through providing them need based services such as book keeping, auditing, conflict resolution—both internal and external, linkages with banks, etc., and federations play an important part in SHG capacity building. Federation leaders play a critical role in forming new groups and enrolling them as members of federations; when community leaders are involved in group formation the costs of formation are lower. Federations create a space for internal learning for SHGs by sharing their experiences. Federations act as social or financial intermediaries between financial institutions and SHGs, thereby reducing assessment, monitoring, and paperwork costs through cost sharing. Through better monitoring the repayment performance of the groups can also be improved. SHG federations can offer several services in a

sustainable manner and can also modify the services in order to suit requirements. Finally, SHG federations can motivate and support other members of the community to form SHGs and avail of financial and non-financial services.

Financial services: Federations largely provide gap filling financial services. Credit is the predominant financial service offered by the federations. This has been necessitated to a large extent due to issues faced by SHGs while accessing bank credit. Federations are able to gauge the imminent needs of SHGs and fulfil them, often by way of emergency loans. Flexible savings products are also designed and offered for the members of the SHGs, especially by those federations which are registered under the co-operative form. The federations make possible the aggregation of demand for their services that makes it financially viable for the insurance companies to deal with SHGs.

Empowerment: Several promoters consider federation building as a critical process for empowering poor women. Federations offer better scope of empowering members beyond what can be achieved by individual SHGs. Federations provide to the SHG members a sense of identity as part of a large organization and build solidarity and collective strength among the members of different SHGs. Federations have the potential to produce leaders. The scale of the federations also creates opportunities for the federation leaders to deal with mainstream institutions, viz., banks, MFIs, government departments, etc. on more equal terms than is possible for SHGs—though not always with success.

Advocacy and deepening poverty reduction efforts: Federations provide a platform for advocating the rights and entitlements of members. Government departments and local governments engage the federations in implementing pro-poor schemes[11]. Government schemes pertaining to education, health, and social benefits are implemented by the federations in collaboration with government agencies that are currently responsible for providing these services but are ineffective in doing so.

Improving livelihoods of members: SHG federations provide forward and backward linkages pertaining to the livelihood activities of the members. Activities such as aggregation of demand for various inputs and collective marketing of produce provide an opportunity for realizing higher margins. The federations are

11 Under one type of federation format adopted in Tamil Nadu, SHG animators/members from 10 to 20 neighbourhood groups within a 2–4 km radius come together as a Panchayat Level Federation. Panchayat leaders (the majority of whom are women) usually participate in these meetings and various local issues and implementation of government schemes are discussed.

in a unique position to organize members' production of goods and services, and negotiate with markets at a higher level. Fragmented marketing of small volumes of individual production has been the bane of the rural smallholders. The federations with their reach at the local and district level markets and the rural network in the form of groups could play a very significant role in improving the income earning capacities of their members (Srinivasan: 2009). These federations are also involved in dissemination of improved technology for improving production. A trend is also seen where the livelihood related services which are initiated at federations are hived off to a specialized institution.

Investment vehicle: Of late, federations are being formed as special purpose vehicles (SPVs) for mobilizing funds from SHGs to launch and invest in specialized corporate MFIs. These federations are registered under specific legal forms such as Mutual Benefit Trust.

As a withdrawal strategy for promoters: Donors, project implementers, and SHPIs find that federation building provides a sustainable exit strategy. Several projects in the nineties did not specifically provide for federation building in the design but these structures emerged as exit strategy at the time of project closure, leaving little time and resources for capacity development of the federations. However, the projects that are presently implemented have federation building as part of their grass root institution strengthening mechanism.

While these can be broad goals for forming federations, often the federations fulfil more than one goal.

2.6 FINANCIAL OR NON FINANCIAL: WHAT SHOULD BE THE ROLE OF FEDERATIONS?

Almost all federations are multi functional. Most of the federations provide the SHG with various maintenance services. There have been equally strong proponents to advocate and oppose the financial intermediation role for federations.

Necessity for the Financial Intermediation Role

The necessary support from banks has not been forthcoming for SHGs. The efforts that are needed on the part of SHPI/group leaders in order to make the banking relationship functional are phenomenal. In spite of the long running programme, the quality of bank linkages in terms of timely credit has been an issue. Target oriented

linkages by banks in the months of February and March to fulfil annual targets when groups do not have much credit demand are affecting the quality of linkages. Bank loan is usually for a term of 36 months and availing a second loan while the first loan is yet to be repaid is not possible in many of the branches. Repeat loans to well performing groups materialize with a gap of 3 to 6 months. Any change in bank personnel brings in uncertainties for the linkage. *Financial federations can address some of the issues relating to timely credit.*

Adequate credit is another issue. Branch managers rarely measure the quality of the group. Loans are extended on the basis of the past repayment of loans. It is not unusual for groups to get a loan in spite of not conducting their meetings[12] regularly or observing other practices contributing to sound functioning. Since they do not systematically assess the group, the branch managers restrict the quantity of loans in order to contain the credit risk.

Overall, the apathy of the bankers in general towards adopting a business approach to lending to SHGs is leading to disintegration of groups and SHG members are turning to other sources including MFIs for financial services etc. Apart from the investment in forming and nurturing a SHG going waste, the members lose an opportunity to access savings services. *Federations can play a critical role in ensuring that the credit needs of the groups are met.*

In states where the bank linkage programme is well established, the number of groups per branch is very high. In areas where groups hold weekly meetings, the footfall in the bank branches from the SHG leaders is very high, affecting the other business of the bank. The time lag between two loans is also increasing in such branches. *Federations can play an intermediary role in this context, thus bringing down the transaction time and cost for both banks and groups.*

Product innovation from banks for SHGs has been minimal. The potential for offering savings services is high for well functioning federations with the appropriate legal framework. The savings product that is available for members of SHGs has certain limitations. It is an inflexible and regimented form of saving under which the member can neither increase nor reduce the amount voluntarily nor can fail to save as per the agreed interval with the group. Further the amount saved cannot be withdrawn; at best a loan can be taken subject to availability and group decision. *A*

12 Regularity of meetings is very critical since meetings enable transparency in operations, accountability, and participatory decision making. Without meetings the leaders become centres of power.

well working federation can design suitable savings products. Similarly, the loan available from the group has limitations.

Insurance products for the poor are rarely marketed to individual SHGs. Aggregation of demand is beneficial for both the insurance companies and the members of SHGs; design features can be improved and costs can be brought down. Thus *federations can play an active role in widening the range of financial services and improving the availability of products* in line with the needs of the members.

Several federations take on a financial intermediation role to cover the cost of providing other services to the SHGs. SHGs appreciate the financial services and are willing to pay for the services; however, similar appreciation and prompt payment for non-financial services has rarely been forthcoming.

Financial intermediation by federations is critical to improve financial discipline among primaries. The primaries 'listen' to the rules and regulations set by the federation only if they see positive/negative incentives for compliance/non-compliance; denying financial services is a strong incentive for the SHGs to improve performance.

Why Federations Should not be Financial Intermediaries

Attempts to create federations should not be undertaken until the groups have attained a mature level of functioning and have developed the capacity to manage it democratically. *The quality of SHGs is a major issue and federations should first take up institutional strengthening of SHGs.* The quality of a federation will inevitably be only as strong as its constituent SHGs. Financial intermediation takes up the time and energy of the available human resources, and hence, the task of strengthening the SHGs gets neglected.

Moreover, financial intermediation requires special skills and managing various risks (credit risk—risk of default, operational risk—internal controls and frauds, market risk—unfair competition, Governance risk—lack of skill in board of directors, interest rate risk—ability to cover costs) which require specialized staff, proper systems, and very good controls to avoid frauds. *The absence of specific financial intermediation skills could prove to be difficult for small sized federations.*

One of the empowering aspects of SHG membership is that it allows the groups to choose from among financial service providers—banks, co-operatives, MFIs, etc. *Federations can demand loyalty and insist on SHGs availing financial services only from the federation, which is essentially a loss of freedom.*

Another consideration in this context is that the existing financial institutions are not properly regulated or supervised. SHG federations will need supervision but may not receive it. India has a vast network of banks; some are not functioning properly, but the way to improve matters is to reform the banks, not to create yet another set of institutions.

The day-to-day operations of a federation would be demanding on the members; many SHG members already complain about the amount of time that their membership demands. Undertaking of financial intermediation *by SHG Federation could increase the time required to be spent by SHG members, and consequently, the burden of membership.*

2.7 BASIC MODELS AND TYPOLOGIES OF SHG FINANCIAL FEDERATIONS

As per the Micro Finance State of the Sector Report 2009, 103,000 federations are functioning in the country, out of which 97 per cent are primary level federations. Secondary level federations number about 3,150 and the apex federations (tertiary) are 52. Orissa, WB, AP, Kerala, and Tamil Nadu account for more than 90 per cent of all federations; AP alone has more than 41,500 federations. Several of them undertake financial intermediation, especially credit provision to SHGs. The basic models and typologies of financial federations can be grouped as per the following parameters.

(a) Promoter, (b) geographical coverage/structure, (c) size (d) functions, (e) legal status, (f) funding sources for operations, and (g) others such as promoter controlled or members controlled.

(A) Promoter

There are largely two groups of promoters of federations—the state governments and NGOs.

State governments have been the major promoters of SHGs and their federations as far as the outreach and number of institutions are concerned. There are two major goals around which the government programmes and projects promoting federations are built. One is women's empowerment and the other is poverty reduction. While programmes and projects implemented by the Department of Women and Child Development (DWCD) and Women Development Corporations (WDCs) explicitly focus on women's empowerment, projects like IKP, Kudumbashree etc. target women for poverty reduction initiatives.

These initiatives were initially launched through projects from multilateral agencies such as IFAD, UNICEF, UNDP, etc.. Since the multilateral agencies involved the governments in the design, implementation, and monitoring of the projects, the projects were later mainstreamed by the governments. The governments have scaled up these initiatives, usually through a programmatic approach by setting up/ strengthening separate departments/corporations[13] and funding these initiatives out of the state budget or specific schemes of the central government[14], and through externally funded projects by multilateral agencies (e.g., Tamil Nadu, Andhra Pradesh, and Maharashtra). While a few state governments have provided scope for the engagement of NGOs for promotion of SHGs and their federations, largely the grassroots institution building is carried out by state machinery through their own organizations (AP, Kerala, and Maharashtra). *The financial services agenda for the federations has been shaped by the governments in order to: a) provide competition to MFIs and their high cost debt, b) address quality issues in bank linkages, and c) to ensure sustainability of federations.*

The non-governmental organizations have been the other set of promoters[15]. They have sourced funds from different sources including bilateral agencies, international NGOs and governments. *The emphasis of NGOs on federation building is on adopting empowering processes, leadership development, developing need based products for improving livelihoods of the members.*

The state governments, especially those implementing externally funded projects, have recourse to larger resources, follow a more target oriented approach in building SHGs and federations, and thus, form larger numbers of SHGs and federations. The agenda set for the federations are also larger in terms of delivering the government's poverty alleviation and social security schemes. State governments also tend to disburse subsidies such as seed capital, zero cost revolving funds, interest subsidies, etc.

13 The Department of Women and Child Development (DWCD) and its women development corporations are a major player in the formation of SHGs and their federations in Orissa, Tamil Nadu, Karnataka, Maharashtra, and Bihar.

14 Swa-Shakti and Swayam Siddha are the major central government initiatives for building SHGs and their federations.

15 The early 90s witnessed the evolution of SHG federations promoted by NGOs such as MYRADA and PRADAN/ DHAN. It is interesting to note that both MYRADA and PRADAN who are pioneers of SHG federations do not believe in the financial role of SHG federations. DHAN federations had undertaken financial intermediation for special products—enterprise, housing etc., and recently DHAN has taken a policy decision to scale down such financial intermediation.

through these structures; though the rationale is targeting the poor and vulnerable for poverty reduction, it has often created a dependency syndrome, undermining the self-reliance of the institutions.

The details of some of the government initiatives for federations are given in Annexure 2.1.

(B) Geographical Coverage

The financial federations are usually of three to four tiers, covering specific geographical areas or administrative divisions.

Basic tier: consists of the self help groups
Primary level federation: at the level of village, panchayats or a cluster of villages
Secondary level federation: at block/district/state level
Tertiary level federation: at district or state level.

Irrespective of the promoting organization, it is seen that the initial structure was of two tiers—SHGs at the base and a village level or cluster level organization for a group of villages as the second tier. However, an additional tier or two have emerged over a period of time for a variety of reasons. Some of the tiers have emerged specifically for monitoring purposes. While in the case of NGO promoted institutions the additional tiers have evolved over a period of time, some of the large government initiatives like Kudumbashree have provided for three-tier structures even in the design stage.

In the financial federations not all tiers are engaged in the financial intermediation role. Each tier adds costs and the intensity of efforts needed in financial intermediation requires that investments be made in human resources and systems. A balance is sought to be struck on the different roles that different tiers play. For example, in Pragathi Mutually Aided Cooperative Credit and Marketing Federations Ltd (PMSS), there is a four-tier structure; the village level federations and apex federation are financial intermediaries whereas the Mandal level Mutually Aided Cooperative Society (MACS) has been formed for closer monitoring of village MACs.

In the three-tier structure there are examples where all three tiers take on the financial intermediation role. For example, Grama Abhyudhaya Mandali (GRAM) has been promoting self help groups since the early 1990s. In order to provide adequate

financial services to the SHGs, especially savings and credit, and also as a withdrawal strategy for the NGO, GRAM promoted 20 Mandal level MACS in Nizamabad and Adilabad districts of Andhra Pradesh from the year 2001. However, there was a felt need for another community owned institution to regulate and supervise the Mandal MACs and to source adequate funds from mainstream financial institutions. Thus, the Mandal MACs have formed Indur Intideepam MACS Federation (IIMF) which is the federation of mandal level MACs. All the tiers are engaged in financial intermediation.

However, there are also examples where the base SHGs and one of the two upper tiers are involved in financial intermediation. In Tamil Nadu, the panchayat level federations (PLF) are emerging as financial intermediaries where as the block level federation plays the role of monitoring of PLF, establishing convergence with government programmes, etc.

(C) Legal form

The financial federations can further be classified as per the legal form under which they have been registered.

MACS: In the states where there is an enabling Act such as Mutually Aided Co operative Societies (MACS) Act, the federations have largely been registered under this Act. The SHGs themselves cannot be members of the MACS, and hence, the individual members are members and shareholders of MACS. By law, the Act allows MACS to form MACS of their own in turn, and hence, the apex MAC is formed with the membership of cluster level MACS. This Act enables the federations to function without government interference and is suitable for providing savings services to the members of SHGs.

Andhra Pradesh has the largest number of federations and most of them are registered as MACS. Financial federations of SHGs are being increasingly registered as cooperatives under new MACS-type legislation in other states as well, e.g., Karnataka, Bihar, Rajasthan, and Orissa. These include federations promoted by The Centre for Community Economics and Development Consultants Society (CECODECON) and the Sanginee, Secondary Cooperative Limited.

Societies and Trusts: In states which do not have an enabling Act, the federations are registered as societies and trusts. This legal form restricts the financial services, especially those that the federations can offer. The BMASS in Orissa are registered

as societies even as new forms of cooperatives are emerging in the state. Ibtada[16] federations such as Savera Mahila Manch are registered as trusts, as is the Boond Bachat Sangh in U.P.

Co-operatives: Some of the federations are also registered under the old Co-operative Societies Act, e.g., Bagnan, West Bengal. However, very few financial federations of SHGs are registered as such co-operatives.

Mutual Benefit Trusts: The recent trend has been to register the federations as Mutual Benefit Trusts (MBTs). Mutual benefit trusts have been a useful innovation to channel funds available with the community[17] to invest in specialized MFIs, especially non-bank financial companies (NBFCs) (Pathak and Sriram, 2004). While some of the MBTs are functioning as financial intermediaries between the MFIs and SHGs, there are others who are channels for investments. There are also stand alone financial federations who are registered as MBTs, as in the case of Chaitanya promoted federations.

(D) Functions and Services

The federations can be classified as per the financial services and non-financial services they offer to the SHGs and their members. Financial federations undertake such functions and services that fulfil the needs of members. Group strengthening and maintenance services are provided by all of them.

Credit is the major service offered by financial federations. Several federations have listened to the owner members and developed a variety of credit products to suit the life cycle, enterprise, and emergency needs. The federations with appropriate legal forms offer a variety of savings services. Many of the secondary and tertiary federations have a tie-up with insurance companies and offer insurance products. Some of the federations offer in-house insurance services on the principle of mutuality.

Some of the financial federations have also undertaken livelihood promotion services, either through the federations or through separate and appropriate institutions.

The Government promoted federations also undertake delivery of social security schemes. It is seen that implementation of the Government schemes—mid day meals, PDS, widow pension, NREGA etc., are not remunerative but often taken up as a social mission.

16 Ibtada is an Urdu word for 'the beginning'

17 As was the case with ASSEFA MBTs in Tamil Nadu.

(E) Size

The size of the federations in terms of number of member SHGs has an impact on the organizational and financial sustainability of the federations. In the tiered structure the cluster federations usually have the smallest number of SHGs and each tier caters to a larger number of SHGs. While smaller sized federations will have a closer contact with member SHGs, they may not be able to afford to hire professionals or build adequate systems to manage their work. Financial federations have to manage several risks in their operations, and thus, arriving at the right size to manage the financial services is critical for sustainability of operations.

(F) Funding Sources

The financial federations can be classified as per their funding sources for their working capital. While some mobilize savings, others largely borrow from banks and apexes for meeting their lending targets. Some of the federations largely depend on grants for revolving funds as the source for their lending to SHGs. Sources of funds for financial federations are given in Table 2.7.1.

Table 2.7.1 Sources of funds for financial federations

Funding sources	*Some examples of financial federations*
Savings and internal resources	Bagnan, West Bengal, Boond Bachat Sangh
Savings and loans	GMSS, Chaitanya, Mandal MACs under IIMF, Mandal MACs of ASP, CECOEDECON
Largely external loans	PLFs, Tamil Nadu, BMASS, Orissa, Sanginee
Largely Govt revolving funds/grants	Mandala Samkhya of IKP
Largely external donor/NGO revolving funds/grants	Ibtada

(G) Lenders/Funders of SHG-owned Financial Federations

There are four types of funding support that the financial federations require and access.

(a) The federations need grant support for the promotion cost of SHGs and the federation structure which includes cost of promotion of SHGs, clusters and higher level tiers, investment in systems, and human resources.

(b) The federations and their promoters require capacity building.
(c) The federations need funds for on-lending; these include seed money and revolving funds assistance in the initial growth phase before viability is achieved. The federations raise bank loans for on-lending and some of the banks require a guarantee for their initial exposure to federations.
(d) Some of the federations need quasi equity for raising loan funds since their own equity may not be adequate for raising bank loans to meet the members' needs.

Initially FWWB and Rashtriya Mahila Kosh (RMK) provided immense support for the federations—for promotion, capacity building, and loans. Several of the well established federations accessed their first commercial loans from FWWB.

Government has been the largest funder of SHG federations for their promotional and capacity building support costs. These funds are allocated by the governments: (a) out of the budget for specific programmes and projects and (b) by mobilizing loans and grants from multilateral agencies. The major central government schemes include Swayam Siddha, SGSY etc., The state governments have also had their own flagship programmes and projects—IKP (AP), Kudumbashree (Kerala), Mahalir Thittam and Vazhndhu Kattuvom (Tamil Nadu), Mission Shakti (Orissa) etc.

NABARD has funded several NGOs and banks for promotion and capacity building of SHGs and their promoters. Though a scheme of support has been announced by NABARD for promotion and capacity development of federations in 2007, the disbursement to federations has been miniscule. NABARD also provides quasi equity support to some of well established federations.

Several European NGOs have funded local NGOs for promotion, capacity development, and also for seed capital and revolving fund assistance to the federations. Rabobank Foundation, OXFAM Novib, Cord Aid, and HIVOS have provided such funding. These agencies have a range of products to offer the federations in each stage of their growth—seed capital, subsidized loans, guarantees, loans at commercial rates, etc.

SIDBI has also lent to federations based on credit rating. They have provided grant support to a few federations for capacity building as part of national Micro Finance project funded by DFID and IFAD.

Private sector banks have been the major lenders for federations. However, of late, public sector banks are also showing interest in financing to federations.

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Annexure 2.1

MAJOR GOVERNMENT INITIATIVES FOR PROMOTION OF FINANCIAL FEDERATIONS

Government of Tamil Nadu has been a pioneer among the state Governments to implement SHG development programme. Tamil Nadu Corporation for Development of Women (TNCDW) implemented the IFAD-supported project from January 1990 till 1998. It was the first project to mainstream the SHG strategy in a state-sponsored programme (Fernandez, 2006). After the end of the IFAD project the state government continued to fund a similar project, Mahilir Thittam, which was progressively extended to the entire state by the year 2002 through a network of NGOs. Nearly 441,000 SHGs have been promoted by TNCDW through various projects[1]. Before IFAD programme ended, federations were considered necessary for improving strength and sustainability of SHGs and the groups were organized into Cluster Level Federations (CLFs). Vazhndhu Kaatuvom, a new project, conceived by the Government of Tamil Nadu and funded by the World Bank, is being implemented. The major focus is on the poor with special focus on the ultra-poor through support for productive activities and investments, using the Community-driven Development (CDD) approach. In this project, NGO involvement is neutralized.

The State Government in order to further strengthen the movement and have now formed federations of SHGs at village panchayat, block and district level. Panchayat Level Federations (PLFs) have been formed in all the 12,618 village panchayats in the State; however, they are largely not vibrant. In order to accord legal status to the PLFs and facilitate them to access bank credit the government have ordered to register all PLFs under Tamil Nadu Societies Registration Act, 1975. A detailed action plan has been drawn up to restructure all the PLFs in the state over a period of three years in a qualitative manner. The Government is also encouraging banks to provide bulk loans to well functioning PLF.

Kudumbashree is a women oriented community based poverty reduction programme implemented by the Kerala state Government, supported by the Government of India, NABARD and UNICEF. The programme grew out of the two UNICEF supported poverty alleviation programmes in Alappuzha and Malappuram districts. The grassroots of

1 As seen in http://www.tamilnaduwomen.org/home.php?page=PLF on 15 September 2010.

Kudumbashree are Neighborhood Groups (NHG in short) that send representatives to the ward level Area Development Societies (ADS). The ADS sends its representatives to the Community Development Society (CDS), which completes the unique three-tier structure of Kudumbashree. There are 194,000 lakh NHGs, over 17,551 ADSs and 1061 CDSs (in rural and urban areas) in Kudumbashree[2]. This model focuses more on community participation and convergence through Neighborhood Group (NHG), Area Development Society (ADS), and Community Development Society (CDS). The bank loans are raised directly by the NHG or as bulk loan through the CDS—the direct linkage of NHG with the banks is the predominant model. The Government acts as a proactive facilitator of Kudumbashree programme, by deploying a mission team of those interested and committed to the institution. The focus areas include promotion of micro enterprises, food security, minimum needs fulfillment, child development, destitute development, etc.

Indira Kranti Patham (IKP), UNDP's South Asia Poverty Alleviation Project started in 1994 in Andhra Pradesh and was implemented in 20 mandals (Sub districts) spread across three districts. SHGs in each mandal are federated into a Mandal Samakhya (MS), and are registered under the APMACS Act. This model has been scaled up under the World Bank funded Andhra Pradesh Rural Poverty Reduction Project (APRPRP) in Andhra Pradesh covering all the rural areas in the State. Indira Kranti Patham (IKP) is a state-wide poverty reduction project to enable the rural poor to improve their livelihoods and quality of life through their own organizations. It aims to cover all the rural poor households in the state with a special focus on the 30 lakh poorest of the poor households. It is implemented by Society for Elimination of Rural Poverty (SERP), Dept of Rural Development, Government of AP. SERP is an autonomous society registered under the Societies Act, and implements the project through District Rural Development Agencies (DRDAs) at the District level. IKP presently is funded by the APRPRP and Government of Andhra Pradesh. There are 1,06,75,321 members in 9,49,066 SHGs exclusively for women. A total of 36,391 Village Organizations (VOs), 1099 Mandal Samakhyas (MSs) and 22 Zilla (district) Samakhyas have come into existence in 22 districts[3]. Though initially the bank loans to SHGs were to be the primary source of loans; presently the VOs and Mandala Samakhyas rotate the Community Investment Fund as revolving fund for lending to SHGs. A few of the well functioning of VOs have received bulk loans from banks. Plans are afoot to grade and link Mandala Samakhyas to the banks for bulk loans. IKP implements several social security schemes of the government for insurance, pension, etc., through the MS.

Mission Shakti was launched in 2001 in Orissa by the State Government with the objective of empowering women through formation and promotion of 100,000 self help

2 As seen in http://www.kudumbashree.org/?q=homepage on 15 September 2010.

3 As seen in http://www.rd.ap.gov.in/ 15 September 2010.

groups by 2005. The objective was enlarged and extended to cover 200,000 SHGs by 2008. This is related to the Department of Women and Child Development. Mission Shakti receives technical resources and assistance and faculty support from CARE-CASHE.

Mission Shakti had achieved the following milestones by December 2008:

(a) 372,746 SHGs had savings bank accounts in banks with savings of nearly Rs 2.4 billion.
(b) More than 90% of SHGs had access to formal financial institutions with cumulative loans of nearly Rs 13 billion.
(c) Quality microfinance services had been extended to 4.5 million families.

Under the umbrella of Mission Shakti, the SHG federation building process was initiated in 2003 in a few districts. But the process has accelerated only recently. Mission Shakti promotes block level federations (BLFs) focusing on non-financial services to its clients, though it has not closed the door for financial services. The proposed federation structure is a three-tier structure, i.e., SHGs at village level, primary level federations at the GP level and secondary federation at the Block Level. Another tier is to be added when all the BLFs federate at the district level. Block level federations are to be registered under the 1860 Societies Act and one of the ICDS supervisors in each block would be deputed to the block level federation to take care of the day-to-day management.

Panchayat Raj and Rural Development (P&RD), the major promoter in West Bengal and Madhya Pradesh works through NGOs for extension and training. P&RD stated that it would form federations based on activity and location and on the need and pace of the movement.

3 Case Studies of Major Government and NGO-promoted SHG Federations

3.1 BLOCK MAHILA SANCHAYIKA SANGHA, JAGANNATH PRASAD, GANJAM DISTRICT, ORISSA

Background and Area of Operations

The Ganjam District Administration started Block Mahila Sanchayika Sangha (BMASS) as an action research project in 1998 to cater to the financial and social needs of poor women and for upliftment of their economic status. For this, setting up of a Block level organization was envisaged, under the banner Mahila Sanchayika Sangha (MASS). BMASS was registered under the Societies Registration Act, 1860. A BMASS was formed in each of the 23 blocks of the district. The initial experiment related to federating the women SHGs that had been formed in the programme

area by ICDS functionaries. Three of the most remote blocks in the district, including BMASS, JP were handed over to CARE-India in 2002 to be nurtured under the CASHE project with technical assistance and systems and human resource development towards strengthening the microfinance programme. BMASS Jagannath Prasad (BMASS JP) started functioning in March 1999 as a federation of 57 SHGs.

The skeleton MASS got the life and energy to cater the need of rural households of JP Block after its partnership with CARE-CASHE. A Partnership Capacity Assessment Tool was administered which was followed by preparation of a Business Development Plan (BDP). As per the BDP, support was provided by CARE to MASS. Efficient local staff members were recruited; infrastructure was created; tailor made training programmes were conducted for EC members, staff and SHG members; and technical assistance was provided to build the BMASS as a community-owned federation to cater to the financial services requirements of its members.

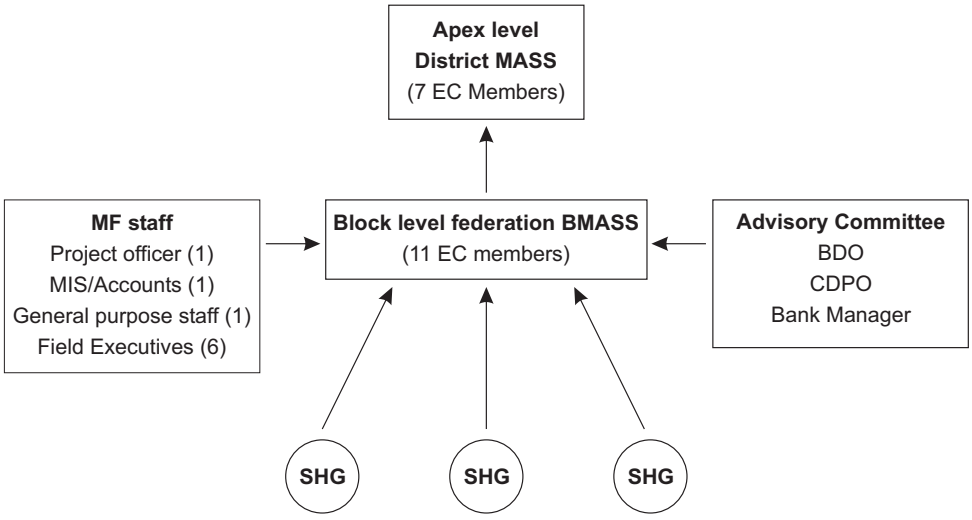
BMASS has a special status because of its proximity to the block administration. In fact, it has been provided office premises free by the block authorities. One of the positive features of BMASS is the linkage and convergence that is facilitated with other government programmes such as Swarnajayanti Gram Swarozgar Yojana (SGSY). For example, no SGSY finance is given unless the group is registered with BMASS. Extension services like agriculture, fisheries, and industries' departments work closely with BMASS and the SHGs. Also, a large number of community works for which SGRY funds are placed with the gram panchayats by the DRDA are executed by the SHGs.

Figure 3.1.1 gives the structure of BMASS Jagannath Prasad. There are no gram panchayat (GP) level clusters or intermediaries between SHGs and BMASS. In the recent past due to the intervention of Mission Shakti, 24 GP level federations have been formed. However, the GP level federations are not functioning and their roles have not been defined.

BMASS is managed by 11 Executive Committee members who have been elected democratically from various gram panchayats. The President and Secretary are selected from amongst these 11 EC members.

The Executive Committee meetings are held twice a month and the General Body comprising a representative from each SHG is held once a year initially. The attendance at the EC meetings is monitored by the apex body—District MASS

Figure 3.1.1 Structure of BMASS, Jagannath Prasad, Ganjam



and is 95 per cent. The tenure of the executive body was initially for one year but in the recent past due to various operational problems, the tenure of the Executive Committee was extended to two years. The old EC members and nominated members train the newly elected members on bye-laws, federation governance and their role and responsibilities.

The District Mahila Sanchyika Sangha (DMASS) is a district level federation formed with the representatives from 23 Block level MASS and is also registered under the Societies Registration Act, 1860. The DMASS Board consists of an Executive Committee comprising 7 members who are selected from the BMASS presidents and secretaries. There also exists an advisory committee with the District Collector as chairman, the President of DMASS (elected member), Lead Bank Manager, ICDS Programme Officer, Project Director—DRDA, Assistant General Manager—NABARD, and District Social Welfare Officer. The advisory committee plays a key role in making policy decisions for DMASS and the BMASSes. The major services offered by DMASS are monitoring and supervision of BMASSes, negotiating with banks for loan funds, training and capacity building support, and reviewing the performance of block level project managers.

BMASS staff consists of a project officer, an MIS/accounts specialist and a general purpose staff at the office. Field operations are undertaken with the help of 6 executives.

Outreach and Programme Status

As of March 2010, BMASS JP reached out to 14,537 members in 1065 SHGs in 220 villages of 24 gram panchayats (see Table 3.1.1). Of these, 1,030 SHGs have been enrolled with the BMASS. 30 per cent of the SHG members belong to the SC community and nearly 5 per cent are STs. In three village clusters covering 12 GPs in remote locations with tribal population, a camp approach is adopted wherein financial dealings are conducted in the panchayats rather than in the BMASS office.

Table 3.1.1 Outreach of BMASS Jagannath Prasad

Parameter	*2008*	*2009*	*2010*
Number of villages covered	220	220	220
Number of SHGs	898	968	1065
Number of members in SHGs	12362	13343	14537
Number of Clusters	3	3	3
Number of SCs in SHGs	33.07%	31.76%	30.58%
Number of STs in SHGs	4.83%	4.62%	4.38%
Number of minorities in SHGs	0.21%	0.19%	0.25%

In terms of financial outreach (Table 3.1.2), BMASS JP in 11 years of operations has made a total loan disbursement of over 304 million to the SHGs. Disbursements of over Rs 91 million were made during 2009–10. In addition, SHGs disbursed nearly Rs 34 million in loans out of its own funds. The loan outstanding from the BMASS to 764 SHGs and 8002 members as on 31 March 2010 was Rs 66.57 million with an average loan outstanding per borrowing SHG of Rs 87,042.

Total member savings of SHGs as on 31 March 2010 were over Rs 41 million or about Rs 38,907 per SHG. The average saving per month at the SHGs was Rs 45. In addition, deposits with the federation by SHGs amounted to nearly Rs 5 million.

Table 3.1.2 Financial outreach

(a) Savings and Borrowings

Savings	*As on 31 March 2008 (Rs)*	*As on 31 March 2009 (Rs)*	*As on 31 March 2010 (Rs)*
Total member savings at SHGs	26,315,254	33,669,744	41,436,644
Total SHG savings at federations	3,076,517	3,946,957	4,940,217
Borrowings			
By SHG members - Cumulative loans disbursed at SHG level (internal funds)	2,764,500	34,650,600	465,560,700
By SHGs - Loan outstanding at federations level	34,654,407	49,933,249	66,569,363

(b) Loan disbursed during the year

Loan disbursed during the year	*2008 (Rs)*	*2009 (Rs)*	*2010 (Rs)*
By SHGs to members (out of own funds)	8,645,070	12,054,828	33,781,145
By federation to SHGs	47,383,000	69,899,000	91,169,000

(c) Number of federation loans outstanding

Parameter	*2008*	*2009*	*2010*
Number of members	5412	7032	8002
Number of SHGs	597	691	767

Products

Financial products of BMASS JP are given in Table 3.1.3. BMASS has a limited range of loan products. It offers 2 types of loans—a general multi-purpose loan for 10 to 24 months and a smaller emergency loan for a similar duration. The general loan is linked to savings. The emergency loan is not savings-linked but is limited to Rs 10,000. Interest charged on both types of loans to SHGs by the federation is 12 per cent reducing balance (plus 1 per cent processing fee). SHGs on-lend funds to members at 12 to 18 per cent p.a. The BMASS also raises resources through mandatory deposits of Rs 100 per month by the member SHGs on which dividends are paid. Over Rs 400,000 were paid as dividends by BMASS to the SHGs during 2009–10.

Table 3.1.3 Financial products offered by federation

(a) Savings

Product	*Amount (Rs)*	*RoI*
Compulsory saving	100 per SHG per month	Dividend paid at the end of 2 years based on profit made by the federation

(b) Loans

Product	*Amount (Rs)*	*RoI*	*Duration*	*Any other charges*
General loan	10,000 to 40,000	12% reducing	10-24 months	Loan Processing Fee, 1% of total amount borrowed
Emergency loan	5000 to 10,000	12% reducing	10-24 months	Loan Processing Fee, 1% of total amount borrowed

(c) Insurance

Product	*Sum Assured Amount (Rs)*	*Premium*	*Duration*	*Details*
Life Insurance (Women's Welfare Fund)	Death -10,000 Accidental death – 15,000	Single Rs 50 With spouse Rs 80	One year	Covers SHG members aged between 18 to 55
Shakti Security Shield (RSGIC) for accident and loss due to fire/flood etc.	Up to 25,000	Rs 35	One year	Varying benefits. Covers both SHG member and spouse or parent/guardian
Tatkal Bima (Bajaj Allianz) Savings cum protection plan	25 times contribution on death	Rs 1000 per year	5 years	8% interest paid on contribution at end of period

Three types of insurance products are made available by the federation. Details of these are given below. Table 3.1.3 (c) These include an in-house life insurance product that covered 9625 members by March 2010, a composite product of accident, hospitalization, assets loss due to fire/flood etc. of Royal Sundaram and General Insurance Company (RSGIC) covering 6218 members and the Tatkal Bima, a savings cum protection plan of Bajaj Allianz subscribed to by 200 members.

Other Services Provided by BMASS Jagannath Prasad

In addition to the financial services BMASS JP provides a range of non-financial services to the member SHGs. These include MIS and auditing services to SHGs. In addition, trainings are conducted on functional and financial literacy, business development services, and various livelihood promotion activities, BMASS facilitates linkages under different government schemes like SGSY, Midday Meal Scheme, Supplementary Nutrition Programme, and Disaster Management programmes. It has helped provide LPG distributorships and in the procurement of paddy. An important innovation is the 8 grain banks in tribal areas with high level of food insecurity which facilitate savings in kind and borrowing from the grain banks in the lean season by needy members.

Sources of Funds

Details of sources of loan funds to BMASS JP are given in Table 3.1.4. Loan operations of BMASS JP are supported by the Rushikula Gramya Bank (RGB), the regional rural bank and the State Bank of India with combined loan provision of nearly Rs 108 million. Loans outstanding to these banks were over Rs 52 million. BMASS borrowings from the Rushikulya Gramya Bank are at 9.5 per cent p.a. The banks prefer to lend to the BMASS instead of directly to the SHGs for two reasons: (a) to reduce their transactions costs and (b) sound systems and impressive performance record of BMASS.

Bank finance is supplemented by savings of nearly Rs 5 million mobilized from the SHGs. In the initial years grants of Rs 10,000 each from the DRDA for the initial 57 member SHGs were routed through the BMASS along with bank loan of Rs 15,000 per SHG. Upon repayment the grant component of Rs 570,000 was retained in the BMASS as revolving loan fund. From 2001–2 for a period of five years BMASS JP was one of three BMASSes that were the beneficiaries of grants for administrative support costs, capacity building, and systems development at all levels under the CASHE project.

Table 3.1.4 Funding sources (Amount in Rs)

Bank loan	
Rushikulya Gramya Bank	60,932,780
State Bank of India	46,803,620
Savings	
Savings mobilized	4,940,217
Grants	
Government	585,000
CARE	2,786,282
Total	116,047,899

The channelling of bank funds for SHGs through BMASS has been at the expense of direct bank linkage. Thus, comparatively few SHGs are linked to banks. The latest data suggest that only 174 of 1030 member SHGs were directly linked to banks and the rest had to rely entirely on the BMASS for their loan requirements—138 under SGSY and 36 under direct bank linkage.

Operations and Performance

The BMASS societies were formed in 23 blocks of Ganjam district. They have emerged as low-cost financial intermediaries. Including BMASS JP, the three BMASS supported under the CASHE project are clearly ahead of the rest in terms of repayment performance with recoveries at over 95 per cent while other BMASSes in Ganjam district with similar loaning programmes register repayment performance of 70 per cent or so. It would appear that technical support under the CASHE project has made an important contribution to making these BMASSes viable.

An analysis of the financial data confirms the prevailing situation. Operational self-sufficiency of BMASS JP has been well over 100 per cent during the past three years with impressive yields and profit margins. In fact, in the year 2009–10 the operating surplus available for recycling is over Rs 2 million. As far as portfolio quality is concerned PAR or portfolio at risk at 30 days is restricted to only about 4 per cent.

Challenges and Issues

BMASS JP is a good example of successful partnership between the government, NGO and the community—in the form of an organization that is owned by the community but controlled by government. Despite the fact that it is a successful and viable initiative providing low cost credit services and attractive return on SHG deposits, as also a range of insurance products, certain issues remain about the suitability of its present form and structure to scale up to provide sustainable long-term services to meet the unmet financial needs of the community to help in absorption and deepening of credit.

As a registered society there are serious limitations to its acting as a financial intermediary. Its acceptance of SHG deposits is not consistent with its present legal form. Besides, it is liable to income tax on operational profit. Nevertheless, tax provisions are not made nor the taxation requirements invoked by the authorities. Systems of lending are transparent and BMASS loans are made through cheques. However, repayments by SHGs, which are made at the BMASS office, necessitate transportation of substantial sums of money, raising the possibility of theft.

With the advent of the Mission Shakti programme, funds available to BMASS JP for strengthening SHGs have been utilized for meeting part of the costs of training and administration. In the remaining BMASSes of Ganjam district not supported by the CASHE project, Mission Shakti is bringing about greater professionalization of staff through meeting the costs of one subject matter specialist and one multi-purpose worker. Nevertheless, the CEO of a BMASS like Chatarpur continues to be a part-time coordinator holding the charge in addition to her duties with the ICDS. Indeed, in districts other than Ganjam, BMASSes are being registered with an additional tier at the gram panchayat level. However, though there are no clear instructions to this effect, Mission Shakti does not seem to envisage a financial intermediation role for the BMASSes since it invariably emphasizes the non-financial role of block level federations at workshops. In the World Bank supported TRIPTI project being implemented in the 10 coastal districts too, it is understood that the financial intermediation role will rest with the GP level organizations rather than with the BMASSes.

3.2 DHARMASAGAR MANDAL SAMAKHYA, DHARMASAGAR, WARANGAL DISTRICT, ANDHRA PRADESH

The Genesis

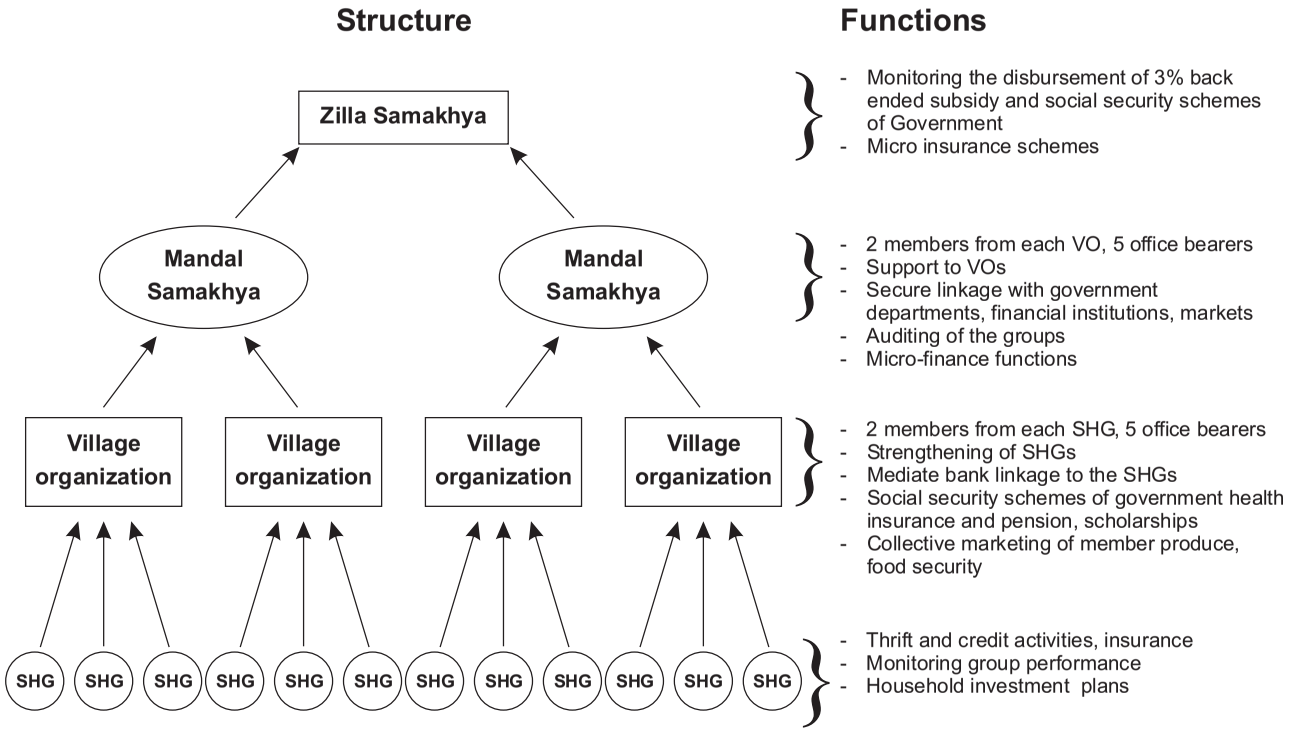
The Andhra Pradesh District Poverty Initiatives Project (APDPIP) was built on United Nations Development Program (UNDP) supported South Asia Poverty Alleviation Project (SAPAP) and AP Government's investments in institution building through women Self Help Groups (SHGs). A follow up APDPRP programme by way of scaling up APDPIP in the rest of the Districts of AP was initiated in 2003. In the year 2005 the government decided to extend the same approach to all rural areas of AP, under the name 'Velugu' and leverage the programme with funds from ongoing programmes from the state budget. The capacity building needed for thousands of women groups formed under DWCRA prompted the government to adopt a state-wide strategy. Credit from World Bank supports the overall strategy of the Government of Andhra Pradesh to address rural poverty reduction in a holistic manner and the present government has renamed Velugu as Indira Kranthi Patham (IKP). The present project is implemented in 916 mandals. Thus IKP is an integration of World Bank supported APDPIP, APDPRP, Government of India's Swarna Jayanti Gram Swarozgar Yojana (SGSY) and state government funds. The Society for Elimination of Rural Poverty (SERP) implements the project.

The Federated Structure

The entire programme is built on the foundation of community-based institutions which gives a role to the poor women in terms of taking initiatives in planning, implementing, and monitoring the development programmes. Community-based institutions have been developed into four tier structures. Self help groups are formed with 10 to 20 members at the hamlet level. All the SHGs together in a revenue village are organized into a Village Organization (VO). There can be more than one VO in a village if the total membership exceeds about 200 women. The VOs are formed with representatives from each SHG. The VOs in one mandal are federated to form the Mandal Samakhya (MS). The MS typically has 4000 to 6000 women as members. Around 20 Mandal Samkhyas form the Zilla Samakhya (ZS).

There are 1,06,75,321 members in 9,49,066 SHGs exclusively for women. A total of 36,391 VOs, 1099 MSs and 22 ZSs have come into existence in 22 districts . The roles and responsibilities are well laid out for each structure and their office bearers. The perception of the groups on whether they needed the VO and MS has not been considered since the project accepted the requirement for such a structure. The structure is illustrated in Figure 3.2.1.

Figure 3.2.1 Federated Structure of Dharmasagar Mandal Samakhya



The IKP promoted institutions of SHGs,VOs and MSs adopt a multi-dimensional poverty reduction strategy. The major strength of this strategy is the convergence of government programmes. The federations enable the poor to access different government services. A variety of government development and welfare schemes are now being routed to members through this four-tier, community-based structure. These include housing for the poor, contributory old age pension scheme (Abhayhastam), group insurance scheme for landless labourers, schemes for the differently-abled, special credit line for procuring rice at subsidized prices (Rice Credit Line), interest subsidy (Pavlavaddi) on bank loans, support for MNREGS, introduction of non-pesticide management (NPM) systems in agriculture, comprehensive development of assigned lands, nutrition and health monitoring (presently on a pilot basis), certain targeted interventions in education, etc. The MS and VOs not only address the financial needs of the members, but also marketing of produce. A unique feature of the programme has been the focus on the Poorest of Poor, the SC and ST, the single women and the disabled. SC and ST households mobilized into the SHGs account for 90 per cent of such rural households.

IKP Initiatives for Micro Finance

SHGs mobilize savings and undertake lending. As of March 2010, the total corpus of SHGs—savings, net earnings, and other revolving funds—amounts to nearly Rs 45 billion. The major thrust of IKP has been in promoting SHG bank linkages. Nearly 75 to 80 per cent of the groups have had bank linkages. During 2009–10, SHGs have mobilized bank loans amounting to Rs 65 billion.

Bank linkages: The SHGs on completion of six months of operation are linked to banks—the first loan is Rs 50,000 and in the second round the amount is fixed at Rs 100,000. In the third round, SHGs under the guidance of MS prepare a micro credit plan[1] which captures the credit requirements of each household which are financed in total by the banks within two years. The maximum loan size is Rs 500,000[2].

1 The microcredit plan has definite steps:a) overview of the SHG, 2) biodata of individual member for prioritizing basic needs fulfillment, c) identification of income leakages through analysis of income and expenditure of a family, d) identification of credit, e) aggregation of the credit needs and working out the repayment schedule.

2 IKP mentions that if a household can access Rs 100,000 in stages over a period of 10 years, they can come out of poverty.

Total financial inclusion (TFI) pilots: in the service area of each branch two villages are chosen for TFI. Under the TFI the total credit requirements of a household, viz., education, housing, debt swapping etc., are also included, and thus, each village receives credit of about Rs 7.5 million to Rs 10 million. Thus, a saturation approach is followed.

During 2010–1, the IKP is also piloting community-based sustainable agriculture under which credit is to be supplied for inputs and for aggregating of produce and marketing and the maximum limit set is Rs 1 million per group.

The IKP has provided adequate human resource support to the bank branch managers—a Sanghmitra is placed within the bank who acts as a liaison staff between the group and the bank manager. A sub-committee at each VO and at the MS ensures that bank loans are flowing smoothly to the groups and that repayments are also in order.

The bank credit is subsidized by the state government—the groups get the credit at 3 per cent per annum and the interest subvention is paid out of the state budget. Only groups which have repaid their loans on time are eligible for the subsidy. This has spurred the groups to maintain good repayment record with the banks.

In spite of such large credit dispensation, MS is being promoted as financial intermediary. The following reasons have been cited to justify the financial intermediation role of MS:

- Banks usually adopt a target-oriented approach and lend between the months of January and March every year whereas the credit demand among the group members is high in the months of July to September.
- With the many groups getting linked to a bank branch, documentation of loan applications is an issue. Though the project is assisting the banks in this respect, repeat loans are also disbursed with a time lag of 2 to 3 months.
- Banks are hesitant to provide loans for consumption, higher education, housing, etc.,
- Last but not least, financial intermediation will improve the financial sustainability of MS.

Loans from MS: Initially the project had a strategy only comprising SHG-bank linkage. Each MS on an average has a community Investment Fund of Rs 4.5 to Rs 5 million[3]. This is an important innovation in the project. As per the original project design by World Bank the VOs were to be provided grant support in the form of

3 Some of the older Mandal Samakhya even have up to Rs 20–30 million in own funds.

individual loans at 0 per cent interest for the poor members of SHGs. The project changed this methodology and demonstrated that subsidized loan is not a sustainable mechanism and evolved the CIF mechanism, positioned the fund at MS level and rotated as normal loans to the SHG members.

Experience of the CIF mechanism has shown that lending by MS enables the SHGs to meet the total credit needs of a family. CIF is not adequate to meet the credit demand; credit needs for health care and for higher education of children, which is a long term investment, are increasing and the members require larger credit. Since the last two years, 50 well functioning MS were identified and linked with Rashtriya Mahila Kosh for bulk loans. During 2010–1, on the basis of rating, 100 MSs have been identified for availing bulk loans from commercial banks. As per Mr. Rajasekhar, COO, the bulk loans are meant to supplement the bank finance and not supplant the efforts of the bank; however, the capacity to manage finances has to be systematically built up.

Dharmasagar Mandal Samakhya

The Dharmasagar Mandal Samakhya has been functioning since 2003. The MS caters to the needs of 1340 member SHGs with 16,284 members as of March 2010. These SHGs are have formed 52 VOs who are the members of the MS. The VOs and MSs are registered under the Mutually Aided Cooperative Societies Act.

The outreach of the MS is given in Table 3.2.1 below.

Table 3.2.1 Outreach of Dharmasagar MS

	2008	*2009*	*2010*
Number of SHGs	976	1108	1340
Number of members	11,908	14,376	16,284
Number of VOs	37	47	52

The key motivating factor for the rural women to join SHGs has been the benefit from the various government programmes.

Governance

The President and Secretary of each of the VOs form the General Body of the MS. The General Body elects the Executive Board and five members are chosen as office bearers. The Executive Committee meeting is held every month on the 6th and

there are 10 agenda items which are discussed. The agenda includes the review of performance of VOs and also of staff. The office bearers of the MS spend about 4 to 5 days of their time in a month for Mandal related activities for which they are compensated on the basis of their wage loss.

At present there are six functional committees at the MS—for dairy, higher education, bank linkages, CIF, poorest of the poor, total financial inclusion, and insurance. The committee members take up need based field level interactions. The MS contributes to these members on the basis of their wage loss. If a member works for 12 hours they get around Rs 100. There is no other payment for the time spent by the committee members.

The IKP staff ensures the orderly functioning of the MS and the VOs. Though the MS has been operational for more than 7 years, the staff salaries are largely met by IKP. The staff which supports the MS includes Mandal Co-ordinator, and four Mandal Bookkeepers who are paid by the project. The MS has two paid staff—a computer operator and one accountant.

Financial services: All the three institutions in the structure undertake financial intermediation though the sources of loans funds vary. SHGs mobilize savings and rotate them as loans. Though initially the bank loans to SHGs were to be the primary source of loans; presently the VOs and Mandal Samakhya rotate the Community Investment Fund as a revolving fund for lending to SHGs. MS has mobilized grants from the district administration for providing education loans to SHG members[4]. MS had availed of a bulk loan from RMK and has plans to avail loans from commercial banks.

The interest rates on different sources of loans are as shown in Table 3.2.2 below:

Table 3.2.2 Structure of interest rates

CIF	*MS to VO -6%; VO to SHG – 9%; SHG to member -12%*
RMK	RMK to MS –9%; MS to VO -12%; VO to SHG – 12%; SHG to member -18%
SHG-bank linkage	Bank to SHG: initially 10 to 12 %; on prompt repayment SHG the interest rate is at 3% and the interest difference credited back. SHG to member differs from group to group.

4 Under CIF the MS has received Rs 78,29,000 from IKP. They have mobilized Rs 14,70,000 from the local Warangal district for providing education loans. The retained profit of the Mandal Samakhya amounts to Rs 36,30,000.

MS has availed of a bulk loan of Rs 500 million from RMK for on lending to the groups. Proposals have been made to obtain loans up to Rs 20 million from commercial banks for on-lending. Mandal Samakhya is keen to become a financial intermediary to fulfil the loan needs of the members fully since the members often have to borrow from the 7 to 8 MFIs which are operational in the area of the MS.

Other Services

Distribution of Government schemes;
The Government of Andhra Pradesh, in close cooperation with SERP, is utilizing the community infrastructure ofVO and MS for distribution of government schemes for members.

(a) **Distribution of insurance:** Two insurance schemes—one each of the state government and central government—are distributed by the MS. The Aam Aadmi Yojana, covers the male members of the SHG households and enrolment in the scheme is voluntary. Abhaya Hasta, the state government's insurance scheme, provides triple insurance cover for the members—accidental insurance, pension, and scholarship for children studying in 9th to 12th standard—against a reasonable premium[5].

(b) **Distribution of old age pension:** Old age pension is being distributed by the VOs[6]. The VOs get 1 per cent as commission on the total disbursement.

Collective marketing: Maize and paddy procurement are carried out by the MS in cooperation with the concerned procurement agency of the government. The office bearers of MS are provided training for measuring the moisture quantity, safe keeping of the collected grains and ensuring timely transport of the commodities. These are seasonal activities.

5 The member pays Rs 365 and the government provides a subsidy of Rs 365 against this triple benefit.

6 The Zero Mass and CSP are the two technology companies which are involved in this process. The Mandal Development Officers prepares the list of people who are eligible for old age pension and the list is approved by the PD, DRDA. Zero Mass is engaged as the service provider for preparing the smart card and with the photo identity of the eligible members. Zero Mass provides the cash at the village organization level and the VO distributes the pension before the 5th of every month. The village organization is trained for utilizing the bio-metric device for paying the old age pension.

The MS has established a chilling centre for dairy with grant support from IKP[7]. The chilling plant has been operational for the last one year. The office bearers of dairy sub-committee educate the SHG members of the MS to provide the milk for the chilling plant. This initiative has severe competition from the private dairy owners who are paying Rs 40 per litre, whereas Vijaya Dairy with whom the MS has a tie up is paying only Rs 28 to Rs 30 per litre. This is one of the primary reasons for the chilling plant being under-utilized. At present the costs incurred by the MS for operating the chilling plant are nearly covered by the income they earn out of the commission from Vijaya Dairy. The staff to oversee the operations of the chilling plant is paid by the project.

Community Resource Persons

The important initiative which has been taken by IKP has been to develop a cadre of community resource persons (CRPs) in each MS. Mandal Samakhya identifies members of SHGs[8] with potential as CRPs who will be barefoot technical assistance providers to other mandals for institution building, auditing, training etc. About 300 CRPs of Dharmasagar Mandal were trained by IKP intensively and they provide services to Mandals within Warangal and also outside the district. Some of them also provide the necessary support to the other similar initiatives in UP and Bihar. The incentives to CRPs are structured in such a way that MS also benefits through institutional charges[9].

Social initiatives: There are several other social initiatives undertaken by the MS such as anti arrack movement, campaign for girl child marriage after 18 years, no dowry to be given, promotion of literacy among girls, pulse polio campaign, etc.

Management Information System: The MS has computer based MIS system. The VO furnishes details on the performance of the VO to MS every month. At present the MS does not monitor the savings and loans at SHG level. The loans outstanding at MS level and the repayments from VO are tracked on a month to month basis.

7 The dairy grant for the chilling plant has been to the tune of Rs 420,000.

8 Each VO has 1 to 3 members which are community resource persons.

9 For a performance of 15 days they are provided Rs 210 per day within the district, Rs 350 outside the district and Rs 500 outside the state. For each day of a CRP's work an institutional charge is paid to MS. The MS has at present an accumulated fund of Rs 17 lakh as the institutional charges of CRPs and the MS is proposing to purchase a building out of this fund.

Financial Performance of the MS

The MS implement several schemes and adjusting the financial statements for financial intermediation role alone proved to be difficult without adequate time spent with the concerned staff to allocate the costs and incomes for financial intermediation. The financial statements are presented in Appendix B.

The MS has adequate resources out of several grants it has been able to mobilize. The MS earns about Rs 46,000 as interest every month out of CIF and education loan. The MS is confident that they will be able to pay the staff salary.

At VO level, one community accountant is functional whose salary is paid by the VO. On an average, a VO is able to earn an income of Rs 4000 per month out of the interest on loans and about Rs 2000 has to be paid as interest to MS. The remaining Rs 2000 is used for meeting the expenditure such as office rent, meetings and payment to the community accountant.

Organizational Sustainability

The core thrust of IKP is to make MS sustainable; initially young professionals were recruited as community coordinators and placed in each mandal. About 8 master book keepers were recruited and positioned in each mandal. However, over a period of time the number of book keepers has been reduced to 4-6. It has been found that the community based staff were easier to be managed by MS and their salaries also worked out to be reasonable. Now MS recruits the local staff and project staff is gradually withdrawn.

Challenges and Issues

IKP finds that though the banks have been supporting the SHGs, they require long credit history. Even after three or four linkages, the sensitivity of the banks to provide repeat finance is still low. At present 3 per cent interest rate rebate is motivating many groups to repay the loans. However, there is a need to look at the rebate mechanism probably loans of higher amount may attract less rebate over a period of time. How this will affect the repayment culture needs to be seen.

The government attaches top priority to SHGs. The structure set up by the SERP has been a good institutional infrastructure. When a massive programme of institution building is undertaken and scaled up throughout the state, the quality issues seep in. Several experts from the state indicate that though there are 1 million groups in the

state, only about 25 per cent may be functioning well and of good quality. Regularity of meeting has been falling steadily and record keeping has been a major concern. The repayment of bank loans is good at the overall level, but there are no reliable records on repayment of internal loans. Banks are not paying adequate attention to the quality of the groups. The SERP staff for institution building plays a very keen role on checking the quality of the groups but still the SHG group quality has been deteriorating. The VO and MS cannot be strong if the quality of the groups is weak.

The bulk lending role for MS needs to be considered carefully in the wake of large number of players in Andhra Pradesh. Access to credit is not a major issue for members. Deepening of financial services in terms of savings and insurance products seems to be the need of the hour.

The financial ownership of the member VOs in MS is weak. VOs do not have a financial stake in the MS. This has the potential to weaken the sustainability of MS.

3.3 PRAGATHI MACS

Introduction

Pragathi Sewa Samiti (PSS) has been forming self help groups from 1995 with the objective of encouraging savings and channelling government schemes towards vulnerable households. In 2001, PSS partnered with CARE in the CASHE project; as a result, PSS was able to increase the outreach of the project through SHGs in addition to improving capacity in providing micro finance services.

Pragathi Mutually Aided Co operative Credit and Marketing Federation Ltd (Pragathi MACS) was formed in 2004 by PSS. The MFI is registered under MACS Act '1995 of the Andhra Pradesh State Government, and accordingly, has formulated its bye-laws to facilitate its functioning. This district level federation has village MACS as members. Another tier at the mandal level has been formed since 2007 but at present these are not registered bodies. As on 31 March 2010, the organization has 45,489 members, with 3,907 SHGs in 38 village level MACS.

Pragathi MACS is acting as policy maker as well as supervisor of the village federations of SHGs. Apart from lending to the village federations; Pragathi MACS provides monitoring and managerial support to the village MACS. Appointment, deputation, and management of staff, ensuring good governance, and MIS are the elements of critical functional support given by Pragathi MACS for which it has entered into specific MOUs with village federations.

Organizational and Governance Aspects

Governance and transparency

The grassroots leaders govern the various institutions in the federated structure, viz., SHGs, village MACS, MS, and Pragathi federation. Each SHG has two leaders. The SHG leaders are elected to the position of Board of Director of village MACS. Each village MACS has a President and a Vice President. Mandal leaders are elected from among these board members. The Board of Directors of Pragathi MACS are elected from its general body which consist of the President and Vice President of all the village level MACS.

The Board of Directors of the Pragathi federation have a term of three years. They are eligible for re-election. The board meetings are held once in every quarter, and also as per need. Board meetings are held in each mandal by rotation. The general body members are also invited for such meetings.

The federation's annual general body meeting is the crucial meeting where the business plan is presented and approved and critical decisions such as increase in share capital, appointment of auditor, proposals to donors, etc. are taken. When new board members are elected, their roles and responsibilities are read out to them; usually there is no separate in-depth training for such board members. They learn on the job.

Two committees of the board, viz., Advisory Committee and Loan Sanction Committee are functional. The Advisory committee consists of five members including the CEO, two retired bankers, the programme manager of Pragati Sewa Samiti (parent NGO), and another local NGO. The role of the committee is to advise the board on financial management and fund raising. The committee members attend board meetings and meet special visitors. The committee meets on a half-yearly basis. The Loan Sanction Committee consists of a few directors, CEO, and Manager Operations and decides on loan applications.

The members of the Board of Directors have been associated with the organization for several years and are active in day to day activities including group formation, information dissemination, and loan approvals. They devote about a week each month for such activities, for which they are paid nominal amounts as decided by the individual MACS.

The Board of Directors of the federation takes key decisions on the basis of the information provided by the CEO. In each board meeting the quality of the portfolio, setting of the interest rate, and mobilization of funds are discussed. Board meetings

also provide the platform for reinforcing the values the organization stands for—self help, transparency, etc. The dependence on the CEO is largely for fund raising, analysis of pros and cons for key decisions, motivation, etc.; the board members being from the grassroots, depend largely on the second level management for the micro finance operations.

While the Board of Directors are committed, their ability to provide fiduciary and strategic supervision is dependent on the information and guidance they get from the CEO. The Board of Directors is qualified in several aspects such as their ownership, active involvement, social development, and insights into the ground realities, but their lack of qualification in specialized areas such as micro finance, accounting etc., is seen as an impediment to good governance. Several bankers are reluctant to lend to the Pragathi federation since they have doubts about the grassroots leaders' ability to provide strategic direction.

Organizational structure

The Chief Executive of Pragathi MACS is the promoter of the MACS and has three decades of experience in the development sector and a decade of experience in micro finance. The MFI has a strong second line of management. At the head office level there are six departments with dedicated managers for administration, credit, operations, internal audit, MIS, and livelihoods. They have support staff. The departments have been expanded during 2008 and several new staff members have been recruited to strengthen the operations, especially in MIS and internal audit. The Area Managers are in charge of mandal federations, Village level MACS have managers and field officers. Strengthening of MIS and internal audit departments is expected to improve the operations and ensure adequate information to managers at each level.

The organizational structure ensures staff accountability. Some of the staff have dual accountability—overall accountability to the CEO and also to the Board of Directors of the respective federation. The organization has very low attrition levels due to good management, opportunity to rise to higher levels, competitive salary package, and good values adopted by the organization. The good work of the parent NGO on social issues also helps the image of the federation and their staff.

The organization has links with several service providers such as Access Development Services, Intellicap, and Micro Save. The organization is a member of both The *International Network of Alternative Financial Institutions* (INAFI) and

Sa-Dhan, networks of MFIs. Entry level staff are provided on the job training. The budget for training has been adequate for the last two years.

The organization uses on the job training methodology for grassroots leaders. Leaders' meeting at the village level and BoD meetings are used for building their perspective and capacity. Governance, book keeping, and financial management are the topics discussed during the monthly meetings. Training in compliance with the MACS Act is provided very often but the effectiveness of the training is low.

It is difficult to make any observations on the ability of the structure to enhance MFI's efficiency and productivity, to optimize the costs to the clients and on the ability of the staff to meet client needs for the following reasons:

(a) The self help groups which were originally formed by PSS now have dual membership with the Pragathi MACS and also the World Bank funded Indra Kranthi Patham. There is an informal understanding with IKP that Pragathi MACS will continue to lend to the groups. The SHG members are borrowing from several sources and are also saving with both village federation of Pragathi MACS and SHG under the IKP. This undermines the productivity of Pragathi MACS.

(b) The staff at the village federation has limited access to the books of accounts of the groups, and hence, their understanding of the client needs. The Board of Directors are the crucial link between the members and their quality and interest differs from one federation to another.

(c) Pragathi MACS, which expanded its portfolio through the partnership model of private sector banks, had to suddenly contend with the waning interest of the banks in this model. With change in business model from partnership to direct lending, the resource mobilization has been hit consequently affecting the overall productivity and efficiency of the staff of Pragathi MACS as well as village federations. (Please see the section on financial details for further details).

Outreach and Portfolio Growth

Initially, only rural women belonging to households living below the poverty line were included as members of SHGs. While working with the CARE project scheduled castes were targeted and depth of outreach was achieved. Severe competition has led to focusing on vulnerable, above poverty line households. Since women prefer

to be part of IKP due to many benefits the programme offers, further scope for formation of groups in rural areas is restricted and this has been one of the reasons for initiating micro finance work in urban areas. Urban operations were initiated in 2007. At present, more than 90 per cent of the clients are from rural areas.

The organization has registered reasonably good growth rate in outreach as seen from Table 3.3.1 below:

Table 3.3.1 Growth of Outreach

Parameter	*2008*	*2009*	*2010*
Number of villages covered	195	207	207
Number of SHGs	3659	3721	3907
Number of members in SHGs	42216	42583	45489
Number ofVOs/Clusters/Primary federations	38	38	38

Though the organization had planned for a robust loan portfolio, the achievement has not been very satisfactory as seen from Table 3.3.2 below.

Table 3.3.2 Savings and loans portfolio

	As on 31 March 2008 (Rs)	*As on 31 March 2009 (Rs)*	*As on 31 March 2010 (Rs)*
Total savings at federations	3,04,05,000	2,84,10,000	82,53,000
Loan outstanding at federations level	20,83,24,000	18,93,88,000	24,36,58,000

The key constraints in growth include;

(a) The MFI built up its portfolio under the partnership model which is not favoured by many of the lenders now. The term loans are not easy to come by since the MFI has low equity. Share capital has been increased recently by converting the savings deposited by the village MACS into shares. The capital of Rs 25 million is inadequate to leverage the large loan requirement of Rs 600 million.

(b) Governance structure is seen as a major weakness by the mainstream financial institutions who consider that the board of grassroots women cannot provide adequate supervision for a growing organization.

(c) Financial institutions also feel that the co-operative is not a secure legal form. The organization is now considering the option of forming a NBFC to enable growth.

Inability to mobilize adequate loan funds viz a viz growth in outreach is affecting growth in portfolio as well as client satisfaction. Severe competition is prevalent in the area of operation since as many as 8 MFIs are competing with the federation. These factors are affecting the growth of the Pragathi MACS.

The board meetings are the key forum for understanding client needs. Since relatively well off members in the groups do not encourage poorer members to avail loans, Pragathi MACS and village MACS now identify and encourage such members to avail loans. Dropout rate is monitored through feedback from grassroots leaders in board meetings, but is not separately tracked. However, client retention has become an issue due to slow disbursement of loans.

Products and Services Offered

Savings: The savings products are minimal and mostly relate to compulsory savings. Members save in SHGs every month on the basis of which they avail loans from the banks under IKP. The members also save with village MACS. Each group saves Rs 500 to Rs 1000 per member per year with the village federation for which the village federation pays interest at the rate of 6 per cent per annum. Each group has to save 20 per cent of the loan as savings with village MACS. A few of the village federations have also initiated fixed deposits from the individual members. Details of savings products are given in Table 3.3.3 below.

Pragathi MACS accepts mandatory savings as fixed deposits from village federations. Village federations have to save 15 per cent of the loan amount with the Pragathi MACS.

Table 3.3.3 Savings Products

Level	*Products*	*Interest rate*
Federation level	Mandatory savings from MACS	6%
	Fixed Deposits	9%
MACS level	Mandatory savings from SHGs	6%
	Fixed Deposits	9%
SHG level	Regular savings	As per profits

Loans: The members of SHGs access loans from five sources—from their group, the local bank, village fund under IKP, village MACS (of Pragathi MACS) and other MFIs. Excessive indebtedness of some of the members is an area of concern.

Sources of Funds

Table 3.3.4 Source of funds

SHG	Member savings Bank loan Loan from village MACS Individual members borrow from MFIs as well
Village MACS	Group savings Borrowings from federation
Mandal Samakhya	No funding
Pragathi MACS	Deposits from cluster MACS Loans from banks Managed funds on behalf of banks

Sources of funds at different levels of the MACS federation are given in Table 3.3.4 above. Pragathi MACS has borrowed from eight institutions (banks and other funds) under the direct term loans and has partnership arrangement with three banks. The term loans are for a period of 3 to 6 years and carry interest ranging from 9.75 per cent to 16 per cent. Loans outstanding are given in Table 3.3.5. Pragathi MACS has flexibility in fixing the terms of loan to the borrower. In respect of managed loans, the loan terms are as laid out by the financing bank. Under the managed loan portfolio the federation gets a commission of one per cent on loans disbursed and one per cent on loans recovered. Village MACS receives the loans at the same rates as negotiated by the federation from the bank. Thus, village MACS gets a margin of two to 3.5 per cent, depending on the cost of the loan.

Table 3.3.5 Loans outstanding

Loan outstanding to external institutions (Rs)	*2008*	*2009*	*2010*
Loan outstanding from federation to banks	16,63,89,000	18,77,44,000	22,18,80,000
Loans outstanding under partnership arrangement			3,60,00,000

Pragathi MACS has a variety of loan products to offer the SHG members. Table 3.3.6 gives the loan particulars. The interest rate has been changed to a flat rate since June 2009. With 12.5 per cent interest and loan processing fee of 2 per cent, the effective rate of interest is about 25 per cent. The member has to deposit 10 per cent of the loan amount as savings deposit with MACS. Village MACS in turn keep 15 per cent of the loan amount as deposit with the federation.

The repayment period is as per the purpose of the loan and the expected cash flows.

Table 3.3.6 Loan particulars

Product	*Loan amount (Rs)*	*Interest rate*	*Repayment period*	*Tenure*	*charges*
Group Loan	3,000 to 20,000	12.5% flat	Monthly	12-20 months	loan processing fee-2%, documentation fee-Rs 50
Microenterprise loan	5000 to 50000	12.5% flat		12-20 months	Same as above
Crop loan	3000 to 25000	12.5% flat	monthly interest and half yearly principal	6-12 months	Same as above
Agriculture and allied business	5000 to 50000	12.5% flat	mntly/qtrly/hyrly	12-18 months	Same as above
Education loan	3000 to 20000	12.5% flat	mnthly/qtrly	12-20 months	Same as above
Housing loans	10000 to 50000	11% flat	mnthly/qtrly	15-30 months	Same as above

Insurance: The insurance products that are offered to the members are given in Table 3.3.7 below:

Pragathi Sewa Samithi, NGO is the agent for the distribution of the insurance products; PSS also manages Abhay, the mutual insurance. Pragathi MACS carries out all the work relating to information dissemination, paper work for insurance enrolment, settlement of claims etc. At present the federation does not earn any income for this service.

Table 3.3.7 Insurance products

Abhay – mutual in-house insurance (12,000 members)	Rs 200 per member for two years.	Credit- life insurance; Rs 10,000 is the pay out in case of death of the member. Payout is first adjusted towards loan outstanding.
Bajaj Alliance (life and general)	Rs 3 per Rs 1000 per year	Rs 10,000 minimum and Rs 40,000 maximum
LIC Endowment	Rs 50 and above	Sum assured and reversionary bonus in case person is alive. Else, sum equal to death benefit sum assured vested bonus if any

Diversification of Business

The organization is planning to undertake marketing of commodities to provide need-based services to the members and also increase avenues of income. Pragathi MACS is in discussion with Oiko credit for construction of godowns for undertaking marketing operations in paddy, turmeric, maize, cotton, etc. and one of the MACS has undertaken cotton marketing during the year by borrowing working capital funds from Pragathi MACS. The definite business plans for this line of business and roles of Pragathi MACS and village MACS are yet to be concretized.

MIS

At present the village federations do not have any MIS on SHGs, since IKP is keeping such information. Only the details of savings and loans of SHGs with village federation are available. The MFI lends to village federations, who in turn lend to SHGs/members. The agency therefore requires internal checks and controls not only to monitor village federations but also SHGs/members to safeguard against various types of risk.

The federation at present does not prepare any separate portfolio reports (including Demand Collection and Balance) for its loans against village MACS. The statements prepared by MACS for their loans to SHGs/members are consolidated and shown as the position of federation. These figures include the loans lent by MACS out of their own funds apart from the loans from the federation. Portfolio tracking is being carried out by the MIS officer and the credit officer. While the MIS officer compiles the data received from the village MACS, the credit officer keeps record of the loan

disbursement and loan repayments from MACS. The MIS for loan tracking is getting stronger with computerization of the MIS at federation, MS and village MACS levels. These reports are very detailed, including member-wise, group-wise positions on demand, collection, and overdues.

Financial Results

The income of the federation is derived largely from the loan portfolio—interest and the loan processing fees. Pragathi MACS also charges two per cent per annum as administrative charges for the management of own funds of village MACS. The total income of the federation has registered a marginal fall of 5 per cent during 2010 as compared to 2009, in line with the fall in loan outstanding by 8 per cent during the year.

The net margins have been steadily decreasing largely due to the increase in personnel and other administrative expenses. The return on assets ratio has declined from 1.8 per cent in 2008 to 0.6 per cent in 2010, though the yield on gross portfolio has increased from 16.7 per cent in 2008 to 18.5 per cent in 2010 due to increase in interest rate. However, the yield is low as compared to the rate of interest.

Loan loss provisioning and reserve at Pragathi federation is as per the MACS Act where 15 per cent of the surplus is earmarked for such eventuality. During 2010, the provision on loan losses expenses has been made to the extent of one per cent of the total outstanding loans as per the recommendations of the external auditor and funding agencies. At village MACS, there is no appropriation of surpluses for loan losses.

The financial statements and key ratios can be seen in Appendix B.

Loan Delinquencies and Action in Case of Loan Delinquency

The portfolio quality for the last three years is given as under in Table 3.3.8.

Although the overall portfolio quality is very good for the MACS, with 98.61 per cent of the portfolio being in good health, overdues in absolute amounts are increasing and the age-wise analysis shows slight deterioration. The increase in loan dues are attributed to: (a) large size of initial loans which are not being followed up by equal or larger loans, (b) local politics, (c) risk associated with housing and agriculture loans, and (d) increase in risky consumption loans.

Table 3.3.8 Portfolio quality

Particulars	*31 March 2008*		*31 March 2009*		*31 March 2010*	
Total principal outstanding associated with loans that are:	Amt	%	Amt	%	Amt	%
On time (and never refinanced) Rs	204,921,165	98.37	186,403,000	98.43	240,284,300	98.61
Late (at least 1 payment)						
0 days						
0–30 days	875,255	0.42	1,183,000	0.62	1,189,400	0.48
31–60 days	725,700	0.35	636,000	0.33	978,700	0.40
61–90days	1,265,690	0.61	965,000	0.51	657,400	0.27
91–120 days	536,280	0.26	201,000	0.11	548,200	0.22

Challenges and Issues

The biggest challenge for PMSS is loan mobilization. As per the CEO, many of the lending institutions, especially the private sector banks, are not comfortable lending to co-operatives and prefer NBFCs.

Share capital mobilization is another area of concern. The debt leverage ratio of the Pragathi MACS is at 1:7, on capital of Rs 250 million. In case Capital adequacy ratio is stipulated at 15 per cent it may be difficult for MFI to maintain the required level of CRAR unless it makes efforts to shore up the capital on an ongoing basis.

However, the ability of the members to raise additional share capital is limited. They prefer to mobilize their liquid money into savings. Though NABARD has Micro Finance Development and Equity Fund (MFDEF), they do not invest in quasi-equity of MACS. It is very difficult for MACS to mobilize other forms of private equity.

At present there are several opportunities for qualified personnel to get more lucrative jobs. Many private companies are recruiting from rural areas. So, for the MACS to recruit and retain qualified personnel is a major challenge.

3.4 INDUR INTIDEEPAM MACS FEDERATION (IIMF)

IIMF is the apex federation of 20 mandal-level[10] MACS in the districts of Nizamabad and Adilabad in Andhra Pradesh. Grama Abhyudaya Mandali (GRAM) the parent NGO incubated the IIMF as an umbrella organization that would support the higher order institutions of SHGs, in pursuit of its long-term objective of bringing together large numbers of the rural poor and disadvantaged in the area through a process of social mobilization.

Two critical roles are played by IIMF. One is of the financier of mandal level MACS; the federation functions as a bulk financier, sourcing loans from banks and other financial institutions and on-lending to MACS. The other role is of policy setter and supervisor of MACS. Though the mandal-level MACS have independent operations and identities, they follow the policies that they set themselves as part of the federation's governance board.

GRAM's support to SHGs, MACS and their federation is in the form of capacity-building, training, secondment of staff, and provision of external technical expertise. In times of crisis and issues the IIMF turns to the promoter for advice and services.

Outreach of IIMF

Details of outreach of IIMF are given in Table 3.4.1. As of March 2010, 38,836 members in 2180 SHGs formed the member base of the Mandal MACS and the federation. The 20 member MACS were of differing age and size as well as profitability.

Table 3.4.1 Outreach of IIMF

Parameter	*2008*	*2009*	*2010*
Number of villages covered	553	553	457
Number of districts	2	2	2
Number of SHGs	3623	3507	2180
Number of members in SHGs	45,246	44,110	38,836
Number of Mandal MACS (primary federations)	20	20	20
Number of financial federations (Mandal MACS and IIMF)	21	21	21
SCs in SHGs	36.4%	35.9%	34.7%
STs in SHGs	7.8%	7.1%	6.1%
Minorities in SHGs	8.4%	8.8%	8.3%

10 Administrative division within a district in Andhra Pradesh

There has been a reduction in the number of SHGs over the years due to: (a) SHGs becoming defunct for internal reasons, (b) SHGs withdrawing to join IKP MACS in order to avail subsidized schemes, and (c) double reporting that took place earlier and has been adjusted now. The federation has a high coverage of SCs, STs, and minorities who are considered vulnerable.

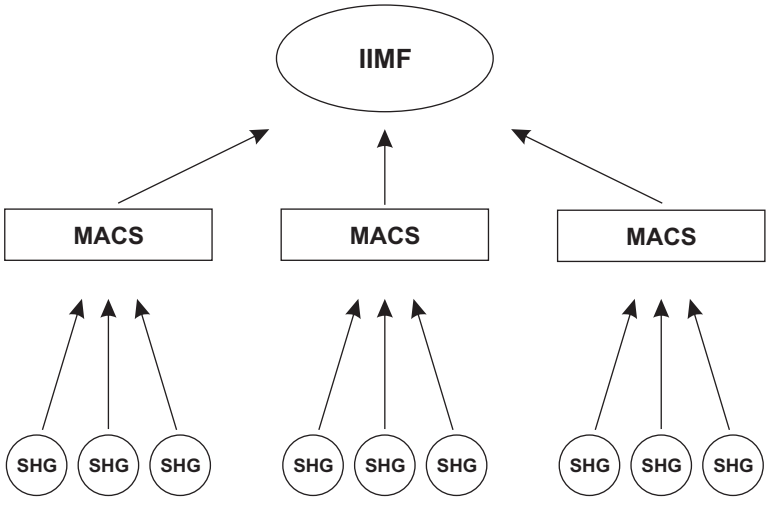
Structure, Ownership and Governance

The IIMF is a three-tiered structure. At the base, the members form SHGs facilitated initially by the staff of GRAM. A SHG typically has 15 to 20 members. These SHGs are the grassroots-level management units of the IIMF. The SHGs meet on a monthly basis and carry out most of the member-level financial transactions.

The SHGs in a mandal join hands to form a co-operative society under the Mutually Aided Cooperative Societies Act. There are twenty MACS formed from the SHGs in twenty mandals—15 in Nizamabad and 5 in Adilabad district. The individual members contribute to the share capital of the MACS.

The twenty MACS in turn are members of the apex-level cooperative society which is the Indur Intideepam MACS Federation. In 2002, all the MACS as institutional shareholders were federated into Indur Intideepam Mutually Aided Thrift & Credit Cooperatives Federation Ltd (IIMF).

Figure 3.4.1 Structure of IIMF and its constituents



Governance Structure

Figure 3.4.1 gives the structure of IIIMF. The SHGs elect two representatives for the management of SHGs. All the SHGs in a village elect one person through their leaders as the Village Representative. A Representative General Body (RGB) is also constituted comprising the village representatives of SHGs. The RGB meets once every month to review operations and to undertake preliminary appraisal of loan applications. The members of RGB elect the Board of Directors of the MACS, who meet at least once a month to undertake an appraisal of the loan applications and to take policy decisions. The General Body of MACS consisting of all its individual members meets once every year.

The IIMF general body has 20 members, one from each MACS. The IIMF board has only 11 members, one each from the first eleven MACS that were formed and affiliated. In practice the Chairpersons of the other nine MACS are also invited to attend the board meetings of the federation. The board comprises leaders elected through the electoral process as per the by-laws of the MACS and the IIMF. The chairperson is also elected from among the directors. The director of GRAM plays an advisory role and has been mentoring the IIMF board in critical decisions.

Management

The management of IIMF is headed by the CEO, who is a qualified professional with experience of working in a new generation MFI. There are 118 staff members at different levels in the MACS and the federation. These staff members, who are originally from GRAM are working for and with the co-operative institutions now. The staff has been fully oriented to work as per the directions given by the boards of management of the institutions concerned through a 'subordination process'. Unlike in many other MFIs, the CEO does not have overriding powers on aspects relating to the board. The clear delineation of roles, decentralization of powers in favour of the constituent MACS with norms to govern their conduct and financial discipline-based transactional relationship, make the institution a well governed one.

However, there are some challenges being faced in governance and the balance between management and the board. While the leadership quality continues to be strong, it is seen that the pace of emergence of new leaders is slow. There are many members who are continuing to serve more than one term as Directors. The SHGs appear to select leaders who do not have too many family responsibilities, and thus, can spare time for the work of MACS and IIMF. In some MACS a few leaders dominate; there is also a division between old and newly elected leaders.

Operations

SHGs rotate their saving as loans, apart from borrowing from MACS. Some SHGs are also linked with banks. Each MACS provides loans to SHGs and their funding sources are savings from members, loans from IIMF, and internal resources. IIMF sources loans from external lenders but does not mobilize savings.

At present, IIMF is the only institutional source of funds for the MACS[11]. The MACS prefer IIMF as the source of funds as the latter is extending credit at competitive interest rates. Other reasons are that the local public sector banks prefer disbursing loans under the 'Velugu' programme while the private sector banks are not too keen on directly lending to the MACS. The private sector banks prefer to lend to IIMF as it is perceived to be the better managed entity.

The federation borrows from different banks and also raises some grants. It provides loans to MACS at 13 per cent and the MACS in turn provide loans at 18 per cent to SHGs. Members avail loans from the SHGs at 21 per cent. (Earlier the rate of interest charged by MACS to SHGs was 21 per cent with a margin of 8 per cent). The reduction in interest rates has impacted the profitability of some MACS. Loans are given for different livelihood activities as well as for consumption purposes. Loans outstanding at different levels are given in Table 3.4.2.

Table 3.4.2 Loan outstanding to external institutions

Loan outstanding to external institutions	*2008 (Rs)*	*2009 (Rs)*	*2010 (Rs)*
Bank loan outstanding under SHG-bank linkage	56,181,893	58,039,184	82,060,211
Loan outstanding from IIMF to other institutions	151,945,631	169,672,728	204,398,153

The field officers appraise the proposals for loans and offer their recommendations. The boards of MACS take the credit decisions based on the appraisal; but the decisions are guided by the norms that have been finalized and circulated by IIMF.

Products

The members can save, borrow and get insured with their MACS through the SHGs. Apart from compulsory savings with their SHGs, the members are also required to save with MACS depending on the norms of their MACS. Total savings and loans outstanding are given in Table 3.4.3 below.

11 The MACS which had also direct access to loans from the local banks and other financial institutions for the purpose of on-lending, have now stopped direct borrowings.

Table 3.4.3 Savings and loans

Savings	*As on 31 March 2008 (Rs)*	*As on 31 March 2009 (Rs)*	*As on 31 March 2010 (Rs)*
Total savings at SHGs	30,503,202	38,041,296	40,373,316
Total savings at MACS	23,130,820	24,509,140	24,509,140
Total savings at IIMF	NA	NA	NA*
Loans			
Loan outstanding at SHG level#	83,966,398	87,539,503	76,519,601
Loan outstanding at MACS level	192,495,859	218,792,152	271,444,890
Loan outstanding at federations level	155,411,547	160,830,657	199,364,575

* Out of internal funds

Loans

In loans, a variety of purposes and tenures are available. The rates of interest and period of loans differ from purpose to purpose. The loans have periods ranging from 11 months to 24 months. The minimum loan size is Rs 10,000 with the maximum set at Rs 50,000. A uniform processing fee of 1 per cent is levied. Each loan has a custom-designed repayment schedule depending on purpose and cash flows that might result. The loan products offered (Table 3.4.4) show that the MFI has taken into consideration the users' requirements to the extent possible.

Table 3.4.4 Loan products offered by IIMF

Loan Product	*ROI (%)*	*LPF (%)*	*Max loan size (Rs)*	*Max repayment period (months)*	*Details of repayment schedule**
Crop Loans	18	1	25,000	11	Option1: EMI, Option-2: one or two bulk instalments for principal and interest payable monthly, 50% of the principal to be paid within 180 days of disbursement.
Agriculture Investment Loans	18	1	50000	24	Option-1: EMI, Option-2: Principal payable once in 6 months and interest payable monthly.

Loan Product	*ROI (%)*	*LPF (%)*	*Max loan size (Rs)*	*Max repayment period (months)*	*Details of repayment schedule**
Agriculture allied Loans	18	1	50,000	24	Cash flow based monthly instalments for Dairy loans. For goat and sheep loans interest payable monthly and principal repayment for every 3 months.
Non Farm-Micro Enterprise Loans	18	1	50,000	24	Cash flow based Monthly Instalments
NMG Non Farm-Micro Enterprises Loans	21	1	10,000	18	Cash flow based Monthly Instalments
NMG Crop Loans	21	1	10,000	11	Repayment conditions apply as 101 Product.
Asset purchase	18	1	50,000	24	In addition to Cash flow based Monthly instalments, principal repayment can be done once in six months with interest payable monthly.
General purpose Loans.	18	1	25,000	24	Cash flow based monthly instalments.
NMG Dairy Loans	21	1	25,000	24	Cash flow based monthly instalments

* Repayment Schedule

Every member is covered by a Mutual Death Relief Assurance for which they make a one-time payment of Rs 100 and upon their death the next of kin is paid Rs 3,000. Additionally, cattle insurance has been arranged in partnership with Royal Sundaram, a mainstream general insurance company.

The mandal-level MACS operate in a highly competitive environment; Even though technically any self-help group member is eligible for the subsidies of the government, the field-level functionaries of IKP who are vested with the responsibility for dispensing

the government programme benefits do not allow access for groups other than those formed specifically under the IKP. Several MFIs have also opened branches in the field area of mandal-level MACS. Though IIMF does not have concrete data, the grassroots leaders suspect that the members may be borrowing from multiple sources, thus reducing the business of the federation. Overall, the low growth rate of loan business and low client satisfaction have both been areas of concern.

Different Lending Methodologes

IIMF with GRAM's handholding support has set up dairying as a large scale home based livelihood for women small holders, and as an entry point to promote more such producer institutions for livelihoods and income impact. Dairy farmers are formed into activity groups and enrolled as nominal members of MACS (since many of them are already members of MACS promoted by IKP, and the MACS Act allows membership in only one MACS). These groups have a limited agenda of availing credit and discussing issues related to dairy. According to the staff the working, credit off-take and repayment record of these groups have all been excellent.

By contrast, the performance of SHGs has been full of issues: (a) meeting and attendance of members is weak, (b) internal recovery rate is usually poor, and (c) with availability of cheap bank credit, SHGs are clamouring for linkages with banks, which affects the loan business of mandal MACS. However, the grassroots leaders see the SHGs as the building blocks for higher level institutions and there is reluctance to dispense with the SHG methodology.

Financial Highlights

The total loans outstanding at IIMF in March 2010 were Rs 19.9 million. There has been a healthy 25 per cent growth in loan portfolio at as compared to 2009. The equity and owned funds were at Rs 31.39 million, which was three times the level obtaining in March 2007. The vigorous growth in owned funds brought down the leverage ratio to less than 6. The annual loan loss provision has increased in absolute amounts during 2010 as compared to 2009 and is at one per cent in 2010 . IIMF is working profitably, posting a return of two per cent on average total assets in 2010. However, the loan disbursements and outstandings have not been registering vigorous growth as the organization found it difficult to raise larger volumes of funds

from banks and financial institutions. Presently, it has borrowings from seven different institutions including five banks. The cooperative form of organization and the low margins at which loans were given has led to lower credit ratings. The financial statements can be seen in Appendix B.

The federation has no overdues; however, the MACS have portfolio at risk and the repayment is not uniform; borrowers have been allowed to delay repayments until they have the money to repay.

Out of 20 MACS, which are members of the federation, about 13 MACS are operationally self-sufficient covering their entire costs. Some of the mandal-level MACS are not able to achieve viability since their member base is small. Expansion of the member base would necessitate larger amounts of loanable funds, which are difficult to access. The IIMF board had been discussing a strategy for the revival of weaker institutions and possibilities of merging small MACS that operate in contiguous areas. IIMF, at the same time, is also expanding operations through the constituent MACS; some of the mandal MACS are expanding operations to other mandals where there is potential.

Foray into Livelihoods

While the federation and some of the mandal MACS are achieving high levels of self sufficiency, whether income is increasing at the household level or not has been an issue before the federation and GRAM. Dairy farming has been chosen as an activity with plenty of potential and a producer company has been formed for the collection of milk from members, and processing and marketing of the same. IIMF and GRAM have joined hands to float and manage the company. MACS borrow from IIMF and provide loans to members for the purchase of milch animals and milk is collected by the producer company. The producer company is collecting and marketing raw milk in the initial period until such time as the dairy becomes functional. It is a top-down model created by a community based organization (CBO) in its transition from microfinance to livelihoods for income impact. As at end of December 2009, 9,500 active women milk producers joined Intivelugu Mahila Dairy Producer Company Ltd (IMD) (see details in Box 3.4.1)

Box 3.4.1 Intivelugu Mahila Dairy Producers Company Ltd.

With a modest beginning IIMF established a five ton Bulk Milk Cooling (BMC) system for aggregation and marketing of milk in 2005 to evolve into an independent producer institution. Raw chilled bulk milk was the only product of the pilot dairy. With transparent systems and efficient logistics the dairy started paying better price to producers, which has attracted more women to participate. In order to upscale the project IIMF needed financial support. GRAM helped IIMF articulate a project expansion plan with loan and grant mix to reach out 25,000 women milk producers in Nizamabad and Adilabad districts.

The work resulted in flow of financial resources for the project from 2008. Manaveeya (OIKOCREDIT) approved a term loan of INR 83.29 million to set up 20 new BMC systems. Agriterra and Rabobank Netherlands contributed grants amounting to Euro 94,825 and Euro 79,000 respectively for the years 2008 and 2009 to cover deficit operation costs. Sir Jamsetji TATA Trust (JTT) approved a grant Rs 9.38 million for 2009–11 for productivity enhancement through training of self employed para vets to provide technical inputs to milk producers. NABARD supported GRAM to train 100 women milk producers on scale dairy, under their Micro Enterprise Development Program.

While IIMF received and managed loans, GRAM received and managed grants for the project. For unified control an empowered Dairy Working Group (DWG) was constituted with representatives of GRAM, IIMF, and the Milk Producers for monitoring and exercising control on the activities of the dairy. A Letter of Engagement was also signed to this effect by IIMF and GRAM.

Altogether, an internal loan of Rs 3.65 million from IIMF (2005) for the pilot, an equipment loan from a friendly dairy cooperative Rs 1.5 million (2007) and absorbing Rs 31.57 million loan (2008-2009) from Manaveeya by the end of 2009, the project has established 13 BMCs having total installed capacity of 58.5 tonnes/day. Enhanced business in 2009 and 2010 is a result of expansion and consolidation.

The Intivelugu Mahila Dairy Producer Company Ltd (IMD) has been finally incorporated in December 2009. IMD's board has replaced the DWG. Efforts are ongoing for demerger of assets and liabilities from IIMF to IMD.

In order to develop brand and market capability, IMD as a joint venture with its promoter CBOs—IIMF and Adarsha Differently Abled MACS (together holding 51 per cent) with private experts (holding 49 per cent) promoted a milk processing and marketing company Deccanstar Rumenavian (P) Ltd (rumen stands for ruminants that produce milk and meat and avian for birds that produce meat and eggs). Deccanstar installed a processing plant to launch products from March 2010. IMD is focusing on consolidation of BMCs for bulk milk sale and Deccanstar on products and marketing. It is expected that Deccanstar may take at least a year to achieve a comfortable market to produce further value addition to IMD.

Building on functional IMD environment, GRAM facilitated a linkage with the Department of Animal Husbandry, which has entered signed a Memorandum of Understanding (MoU) with IMD to provide artificial insemination and first aid service infrastructure to para vets being trained under the JTT-funded productivity enhancement project. IMD owned the project under incubation from GRAM by creating a fund for the same and began to absorb the veterinarians cost.

Based on an internal review IMD has inter alia decided to take an expansion holiday. It has been estimated by GRAM that without further expansion and capital infusion in 2010, if IMD can work to consolidate the existing BMCs, with some grant support, it can result in self sustainability from 2011.

Interventions such as producer companies that link households as suppliers of raw material positively impact incomes. (Provision of timely and adequate credit can enable reduction in overall interest cost but market linkages in areas such as dairy will provide a quantum jump in income realized at the producer level.) When the income streams are assured, the MACS would also find it less risky to provide credit for such household enterprises. The risk reduction achieved is not only at the household level (which receive the income from the producer company), but also at the level of the financing institution, which gets its loan installments from the producer company through prior arrangement.

Building on the dairy initiative and in order to strengthen environmental sustainability concerns GRAM is working with communities on biogas and such other projects. In such projects, using carbon credits as collateral for obtaining loans and for building up community equity over a period are good ideas that are being explored.

Challenges and Priorities

Competition from the government's large scale poverty alleviation programme that also includes subsidies and waiver of bank loans exerts enormous pressure. Being a member-driven institution has at times given rise to some unrealistic expectations about loan-pricing and the tolerance of default. While the board takes suitable decisions, especially for dealing with default, it is also acutely aware of members' interests. The thin margins leave little scope for posting high profitability and limits growth rates. Raising funds from banks and financial institutions has been difficult on account of the present 'form' which is a co-operative.

While the MACS appreciate the role of federations as a rule setter, there is a sense of loss of freedom among constituent MACS. Finding the right balance between autonomy of Mandal MACS and ensuring good practices in microfinance operations is a challenge for the IIMF.

In the governance board, the MFI would benefit from inducting one or two external experts so that the borrower influence on decisions is moderated. The external experts on the board would also lead to independent views being discussed and serve as a valuable source of knowledge and experience for the members on the board with regard to macro-trends in the microfinance market. IIMF has been finding it difficult to find such external expertise.

With the organizational delinking of the federation from GRAM, the training and capacity building of grassroots leaders has taken a back seat.

Finding more professional staff will remain a critical challenge. The growth of the institution would be faster if suitable staff with the necessary skills of handling larger organizations is available. Due to its location and form, IIMF finds it difficult to attract the best talent. The federation is heavily dependent on its CEO for professional expertise in operations.

3.5 SANGINEE SECONDARY COOPERATIVE LTD, KALAHANDI, ORISSA - PARIVARTAN[12]

Background and Area of Operations

Sanginee Secondary Cooperative Ltd, Registered under Orissa Self Help Cooperative Act, 2001, based at Bhawanipatna in Kalahandi District of Orissa is a client owned, client controlled and professionally managed cooperative of women. The forerunner of Sanginee is the savings and credit programme undertaken by the promoting NGO Parivartan, from 2000 to 2006 under CARE-India supported CASHE programme. Parivartan has been operating in Kalahandi area since 1990 in the areas of women empowerment, natural resource management, community health care services, and education.

SHGs and SHG federations were promoted by Parivartan under CASHE programmeand the federations were registered under Orissa Self Help Cooperative Act 2001. Three primary federations were brought together to form Sanginee Secondary Cooperative. However, over the years, looking at the discomfort of the

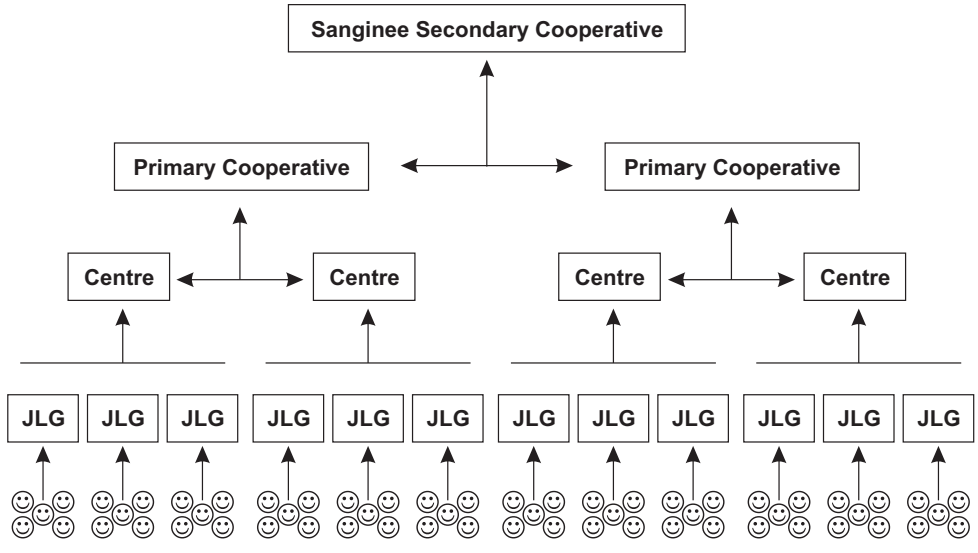
12 Case prepared by Amulya Mohanty, ADS, Bhubaneshwar

members in attending SHG meetings and inadequate peer pressure in SHGs for loan repayment, Parivartan shifted its strategy and promoted Joint Liability Groups (JLGs) in place of SHGs.

Governance

Sanginee has a three-tier structure, with Sanginee at the top (see Figure 3.5.1 below). Primary cooperatives are the second level with centres composed of JLGs at the last levels. A JLG consists of five members and three to five such JLGs form a centre. Approximetely, 25 such clusters form a primary cooperatives which are further united to form Sanginee. With the evolution of the present financial services delivery structure, the three primary cooperatives are now functioning as branches of Sanginee. In addition, Sanginee has created several branches that are not registered, but support Sanginee in expanding its outreach. One to two members from each centre constitute the general body of each of the branches. Sanginee is managed by a seven member board, elected democratically from the General Body of these branches. Earlier, the tenure of the board of Sanginee was for three years. Recently the bye-laws have been amended increasing the tenure to five years. There is a provision for the old members to be reelected as board members.

Figure 3.5.1 Structure of Sanginee



The Board meetings of Sanginee are held at quarterly intervals and all seven members attend regularly. Also, there exists an advisory committee comprising of the CEO of Parivartan (parent organization), a bank employee, a community researcher, a Chartered Accountant and the CEO of a development agency. The advisory committee plays a key role in making policy decisions for Sanginee. The Vice-President of Sanginee functions as the Chief Executive Officer (CEO). The General Manager assists her and is further assisted by the finance manager, operations manager, and HR manager. An accountant and cashier report to the finance manager, whereas the MIS in-charge, along with various branch managers, report to the operations manager. All the staff members working with the cooperative are engaged by the cooperative and none of the staff from the NGO are involved. However, the substantial salary and capacity building expenses of the staff are met by the NGO Parivartan. The number of staff members of the cooperative rose from 34 to 49 during the period 2007–8 to 2009–10 and the expenses on staff increased from Rs 0.63 million in 2007–8 to Rs 1.47 million in 2009–10.

Management

As noted by a CRISIL rating in July 2010, Sanginee has a good track record of management in microfinance and community development programme with sustainable operations. The MFI has also received technical support from microfinance consulting agencies such as Access Development Services and MicroSave, which has helped it streamline its processes-control mechanism. Currently, MicroSave provides support in strategic business planning and developing of its operations, auditing, and accounting manuals.

Sanginee had adequate credit approval mechanisms with decentralized mechanism such that 1st loans and loans up to Rs 10,000 are sanctioned at the branch level. The above-mentioned strengths were partially offset by SSCL's following weaknesses: (a) limited resource profile, (b) small scale of operations, and (c) an average risk management system.

Outreach

As of March 2010, Sanginee has reached out to 11,707 members from 7 blocks of Kalahandi district. Out of these members, almost 70 per cent members belong to BPL families. As the district is predominantly tribal, almost half of the members of Sanginee are STs and more than a quarter of the members belong to SC community. Details of physical outreach are given in Table 3.5.1 below.

Table 3.5.1 Physical outreach

Parameter	*2008*	*2009*	*2010*
Number of villages covered	283	345	381
Number of JLGs	910	1312	1683
Number of members in the Cooperatives / JLG members	7787	9468	11707
Number of centres	76	121	165
% of SCs in the co-operatives	34	35	29
% of STs in co-operatives	53	54	49
% of minorities in co-operatives	5	8	6

In terms of financial outreach (Table 3.5.2), Sanginee has disbursed over Rs 114 million to the JLGs since inception. Disbursements of nearly Rs 5 million were made during 2009–10. The loan outstanding as on 31 March 2010 was about Rs 4.9 million with an average loan outstanding per borrowing JLG as Rs 42,714. Sanginee started mobilizing savings towards the end of 2009. As on March 31 2010, the total savings mobilized by Sanginee was about Rs 0.6 million.

Table 3.5.2 Financial outreach

Savings and borrowings	*As on 31 March 08 (Rs)*	*As on 31 March 09 (Rs)*	*As on 31 March 10 (Rs)*
Share value in Sanginee	6300	20,06,300	35, 67,400
Total Savings at Primary cooperatives	76,58,799	7,62,909	2,81,686
Total savings at Sanginee	0	29,687	592,675
Loan outstanding at JLG Level	19,673,392	23,168,120	34,742,768
Loan disbursed during the year	2008	2009	2010
By Sanginee to JLGs (Rs)	21,954,000	31,255,000	48,822,000
Number of loans provided –members	6002	8468	10237
No of loans provided – JLGs	710	838	1143

Saving Products

Initially all the primary cooperatives were mobilizing shares and savings from the primary members. However, with the emergence of Sanginee, the savings mobilized from members in the primary cooperatives were returned to the members and the

shares in primary cooperatives were transferred to Sanginee. Each member can purchase a maximum of 15 shares and currently, the share value is Rs 200.

Sanginee offers compulsory saving products to its members. Savings cum Recurring Deposit, which has to be taken compulsorily with loan, is the product that is currently available. Sanginee also offers fixed deposits as per the requirements of members with no fixed term. Sanginee provides 6–7 per cent interest on yearly basis on the deposits. Sanginee has plans to introduce term deposits in the near future. Savings products are given in Table 3.5.3.

Table 3.5.3 Savings products

Savings	*Product features*	*Purpose*	*Term*	*RoI*
Recurring Deposit	Minimum Rs 10 per individual & multiples of Rs 10 per week	Small savings for future uncertainties	1 year	5%
Fixed Deposit	Any amount for minimum of one year time.	Child education, marriage, house construction etc.	Min. 1 year	6%

Loan Products

Sanginee offers loans mostly for income generation activities. Other than income generation, loans are offered for education and house construction. Loan products are given in Table 3.5.4.

Table 3.5.4 Loan products

Product	*Features*	*Purpose*	*Term*	*ROI*	*Other fees/charge*	*Shares/ margin*	*Collateral*
Business (JLG)	Up to Rs 22,000 in first five loan cycles	Any business or IGA	50 weeks	12.5% p.a. flat	LPF-1%	No margin money, only 200 as share money for one time	Nil
Emergency Loan	Up to Rs 3000	Health related/ House repairing/ Education	51 weeks	12.5% p.a. flat	Nil	Nil	Nil
Individual Entrepreneur Loan	Up to Rs 40,000 in first four loan cycles	Any kind of enterprise	52 weeks	12.5% p.a. flat	LPF-1%	No margin money, only 200 as share money for one time	Nil

Insurance Products

Sanginee provides loan-linked life insurance to increase the capacity of household to absorb shocks under circumstances of untimely death. In addition, this insurance protects Sanginee against the risk of suffering losses owing to death of the member/ spouse. In addition, Sanginee is acting as an agent for the insurance agencies. Insurance products are given in Table 3.5.5.

Table 3.5.5 Insurance products

Insurance Product Name	*Birla Sunlife (Bima Suraksha Super)*	
Description	Credit Linked Life Insurance	
Premium	According to the loan amount, fee below covers both member and spouse:	
	Loan amount	Premium
	Rs 1000 to Rs 5000	Rs 200
	Rs 5001 to Rs 10,000	Rs 300
	Rs 10,001 to Rs 15,000	Rs 400
	Rs 15,001 to Rs 20,000	Rs 500
	Rs 20,001 and above	Rs 600
Sum Assured	Min Rs 5000 and Max Rs 50,000 (according to loan amount)	
Optional/ Compulsory	Compulsory for Business and Entrepreneur Loans	
Tenure	1 year	
Nominee	Sanginee	

Non-financial Services

In addition to the above financial products Sanginee provides non-financial services in the form of skill development, micro enterprises, and marketing. It facilitated SGSY linkage with subsidy for raw *dhal* processing. Besides, it has plans for a federation of vegetable cultivators, taking loan from Sanginee. Sanginee clients are also benefited with the mother NGO Parivartan spreading health awareness and supporting schools and livelihoods.

Sources of Funds

Sanginee has a limited funding profile. Sources of funds are given in Table 3.5.6. It has been dependent on other MFIs and larger NGOs for funding. Most of the funds are coming from these sources and only recently, a part of the funds have flowed from SIDBI and FWWB. It has not thus far been able to access bulk loans from commercial banks. Since it borrows from various MFIs, the rate of interest is high, ranging from 12 to 16.5 per cent perannum. In fact, a large proportion of its funds comes from Swayamshree Micro Credit Services at 16.5 per cent.

The borrowings are supplemented by savings of nearly Rs 0.6 million and share capital of about Rs 4 million mobilized from the members.

Table 3.5.6 Sources of Funds

Loans	*Amount (Rs)*	*ROI*	*Term*
BASIX	2,000,000	12%	30 months
BISWA	11,500,000	16.5%	18 months
CSFPL	10,000,000	15%	18 months
FWWB	15,500,000	13.5%	18 months
Parivartan	2,500,000	15.5%	24 months
SIDBI	4,500,000	12%	36 months
SMCS	61,000,000	16%	18 months
Savings	*Amount (Rs)*	*ROI*	
Compulsory savings	622362	5%	

Operations and Performance

Financial performance ratios are given in Table 3.5.7 below. SANGINEE has been able to inculcate the culture of savings, solidarity and repayment to loans taken from any external agencies. Its programme performance in financial and other quantitative terms has also been quite good. Despite, working with majority of poor that too in a tribal belt, it has maintained a quality portfolio with a repayment rate of 98 per cent and PAR> 60 days of one per cent. Sanginee has achieved borderline self sufficiency with OSS at 109 per cent and with CAR at 13 per cent. Return on assets is only 3 per cent due to high cost of loan funds.

Table 3.5.7 Financial performance ratios

Portfolio Quality Ratios	*Value*
Recovery Rate	98.36%
Portfolio At Risk > 60 Days	1%
Efficiency & Productivity Ratio:	
Financial Cost Ratio	14%
Operating Cost Ratio	8%
Yield On Portfolio	25%
No. of Borrowers per Field Officer	330
Sustainability & Profitability Ratio	
Operational Self-Sufficiency	109%,
Return on Performing Asset	3%
Capital Adequacy Ratio	13%

Challenges and Issues

Operating in the tribal belt of Kalahandi is in itself a challenge for Sanginee. However, since it also offers credit-plus activities in collaboration with Parivartan, this has helped it not only to improve its relationship with clients, but also to retain a strong customer base and considerable advantage over potential competition from other large MFI players. However, the tough terrain of the tribal belt has come in the way of mobilizing funds from private and public sector banks. While FWWB and SIDBI have extended their support to the co-operative, support from mainstream banks has not been forthcoming thus far. Though Sanginee was not keen on mobilizing member savings, it has been forced to do so owing to paucity of funds. Moreover, the high rate at which the cooperative is currently borrowing from various MFIs is one of the major hindrances for the cooperative. If the NGO-MFIs fail to raise adequate resources; it will not only impact business growth but also asset quality. Failure to provide credit on time will divert borrowers to other MFIs. This will have a negative impact on the asset quality of Sanginee.

3.6 AAPNI SAHAKARI SEWA SAMITI LTD (ASSSL)—CECOEDECON[13]

Background

The Centre for Community Economics and Development Consultants Society (CECOEDECON) is a civil society organization pursuing integrated participatory development and advocating human rights. Its vision is one of holistic and socially responsible development, aimed specifically at improving the lives of the under-privileged and marginalized. Capacity building is at the core of CECOEDECON's activities, and the organization promotes independent and effective members of society.

ASSSL is a financial federation of SHGs established through CECOEDECON in 2001, and legally registered as a co-operative society working in the district of Jaipur. The federation is a growing body that focuses on the needs of the poor, providing financial services, mostly to women members, but also to some men.

Over time the cooperative has grown, not only in scale, but also in scope, as the 2001 Rajasthan Cooperative Societies Registration Act greatly increased the autonomy of microfinance practitioners. The federation is permitted to operate as a 'mini-bank', taking in deposits and creating a range of products. In addition, the federation is permitted to set its own interest rates and is thus significantly independent from the state regulatory authorities. Since 2004, its outreach has grown steadily, more products are being offered, and the federation is staring to benefiting from returns to scale as it can attract valuable funding interest.

CECOEDECON has played the role of parent institution during the growing stages of the federation. In addition to promoting the first SHGs, CECOEDECON has trained staff and borrowers alike, installed systems, and created an accountability framework that allows for a self-sufficient ASSSL.

Outreach

As of March 31st, 2010, ASSSL had 3,742 members organized into 254 SHGs. To ensure the manageability of such a large number of clients, the SHGs in turn were grouped into five geographical clusters. Details of client outreach are given in Table 3.6.1.

13 Case prepared by Rohan Trivedi, ADS, New Delhi

Table 3.6.1 Client outreach

Parameter	*2008*	*2009*	*2010*
Number of villages covered	1	1	1
Number of SHGs	100	160	254
Number of members in SHGs	1449	2759	3742
Average membership per SHG	14	17	15
Number of Clusters	0	4	5
Number of financial federations	1	1	1

Table 3.6.2 Financial outreach

	As on 31st March 2008 (in Rs million)	*As on 31st March 2009 (in Rs million)*	*As on 31st March 2010 (in Rs million)*
Total savings of SHGs	8.4	16.44	21.63
Loan outstanding to SHGs	16.23	24.0	32.4

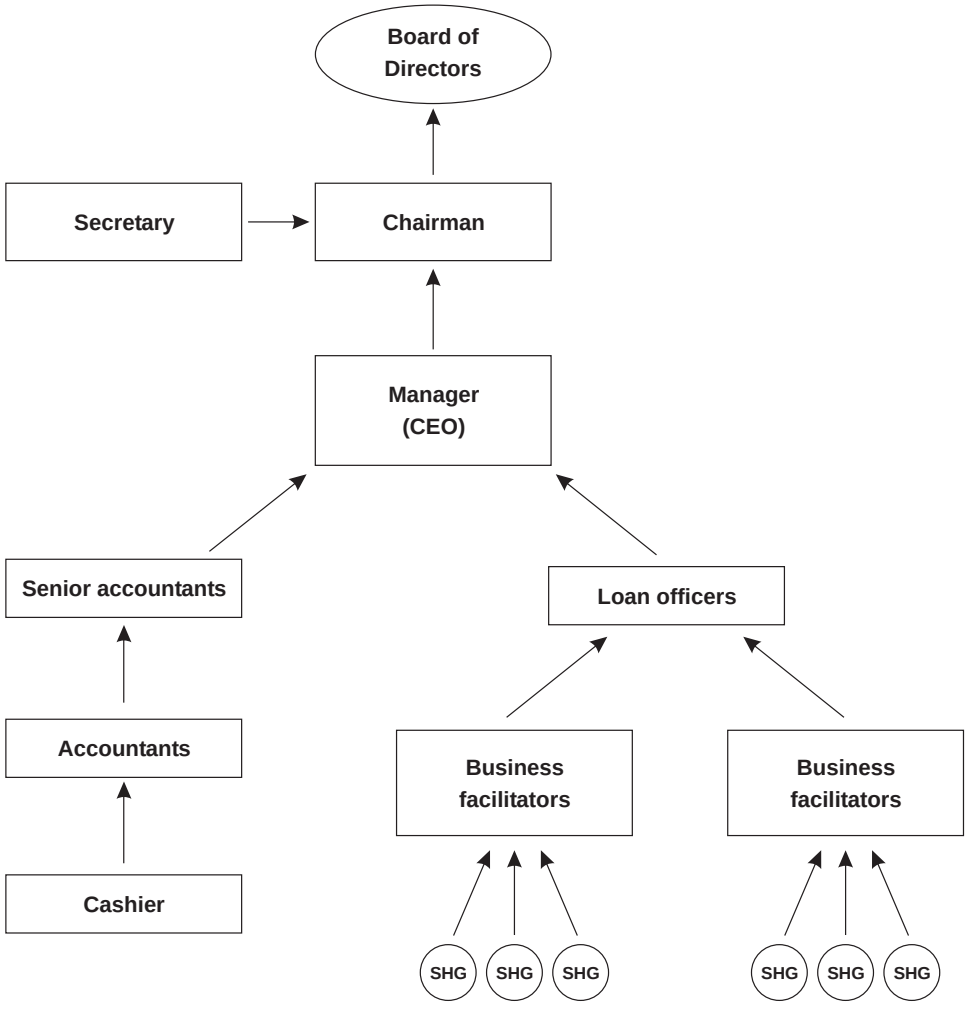
Clusters were only considered in 2008, when the client base was large enough to warrant a new administrative unit. Outreach has continued (and accelerated) since then, with growth in the number of SHGs covered from 100 to 254 over the last two years. As far as financial outreach is concerned (Table 3.6.2 above) an impressive increase in savings mobilized has been accompanied by a doubling of the loan outstanding to Rs 32.4 million.

Structure

The structure of the organization is given in Figure 3.6.1 below. ASSSL is effectively a three-tier federation. Individuals hold membership in an SHG of approximately 15 people which is the most common and manageable format. These SHGs are promoted by the federation and offered rudimentary training on the merits of membership, responsibilities, and logistics. Where CECOEDECON was once in charge of forming these groups, it is now the federation itself that takes on this responsibility. SHGs are mandated to meet once a month.

SHGs are grouped into clusters for administrative ease, wherein the interests of up to 50 SHGs at a time can be represented in one forum. Each SHG and cluster meeting is attended by a Business Facilitator, which serves as a focal point for the transactions for a group of SHGs. There is no real staff at the cluster level and it serves as a convenient meeting point between the top administrators and the field-level leaders.

Figure 3.6.1 Organizational Structure



Governance and Management

SHGs are monitored by a team of 10 Business Facilitators, each of whom is responsible for 25–30 SHGs. Business facilitators are the key to maintaining the community-oriented nature of the federation. One BF is present at every SHG meeting, both as a

source of guidance and a liaison to the Loan Officers. Instead of the typical federation format in which SHGs elect representatives, the Business Facilitators play a similar role in standing up for the interests of their constituent SHGs.

Business facilitators communicate directly with Loan Officers who are in charge of physical disbursement of credit and collection of repayment. Three loan officers govern the entire cash flow system, managing eight clusters (as of September 2010). Whereas the business facilitators provide capacity-building services, loan administrators have a straightforward job that is centred on the financial transactions.

Loan officers report to the Manager or CEO, and provide direct reports on the state of the loan portfolio. Since the federation is entirely financial, the administration takes a financial perspective that takes precedence over livelihoods development and social issues.

ASSSL is governed by a representative board of directors composed of administrators and cooperative members. 13 members are elected at the Annual General Meeting. One member is appointed by the parent organization CECOEDECON, and the final position is held by a person from an associate development organization of CECOEDECON, the Kishan Sewa Samiti. From the board onwards, each level is meant to provide a strong linkage of reasonable size, so that groups at each level feed into larger bodies of representation.

Ownership

ASSSL distinguishes between two types of members—provisional and permanent. Provisional members tend to be newer participants in the savings and lending of the federation, and may not be supported by a fiscally responsible SHG. These individuals do not have voting rights, nor does their deposit secure a share of ownership. As a cooperative, a proportion of the federation is owned by these established, full members.

Permanent members are a substantial minority (just over 400) and have met strict conditions and screening by the board. Their SHGs have been formally rated, and attained an A grading. They tend to have repaid responsibly and in a timely manner, making them exemplary clients.

Voting rights allow the permanent members to attend the AGM and have a strong voice in decision making. In essence, the federation is community-represented, but not formally owned by the community of borrowers.

The restriction in the number of permanent members is hard to explain. It is understood that these are members of long standing from the older SHGs, ten years or older. The NGO and leadership are keen to restrict membership to prevent the ingress of political elements that would divert from the developmental path, which is a possible consequence of large open membership. Under pressure from the provisional members to enter the ranks of permanent membership, a rigorous rating of the SHGs is underway as a first step in the process of increasing the number of permanent members.

Sources of Funds

Unlike credit unions, the Cooperative Society is not based upon the idea of 100 per cent self-sustainability. Savings deposited with the federation are a major source of lending funds, but external credit is equally important to the existence of a loan portfolio.

Table 3.6.3 Source of funds

Source	*Amount (Rs)*	*RoI*	*Duration*	*Repayment terms*
Loans from banks and external agencies (RMK and SIDBI)	13,259,906	8% and 12%	60 months	Quarterly
Savings	18,131,245	4.5-13%	1-60 months	Client Request
Own Surplus Fund	5,568,795			

Table 3.6.3 above gives sources of funds for ASSSL. The major source of funds for ASSL's lending programme has been the deposits mobilized from a range of savings products from SHG members and as also from non-member 'creditors' making deposits in excess of Rs 1,00,000 each. These accounted for nearly 50 per cent of funds for operations. The two external sources of funds have been SIDBI and Rashtriya Mahila Kosh, with the former being the main source accounting for about 80 per cent of the cooperative's borrowings. Periodic credit ratings (CRISIL and MCril) are arranged by SIDBI as part of its appraisal process. In the past FWWB and RGVN, apart from SIDBI and RMK) have provided loans and capacity building support. A smaller share of the lending was facilitated by the federation out of its surplus reserves. In addition, CECOEDECON has provided ASSL and the other federations with loans to the extent of Rs 4.5 million over the years, until 2007 at a 'subsidized' 9 per cent per annum, but thereafter at 15 per cent per annum.

Operations

From savings deposits and external credit, the federation disburses loans to both SHGs (for on-lending) and directly to individuals, charging 18 per cent on a declining balance basis. Three loan officers provide cash to the SHGs, who in turn provide the funds to their constituent borrowers. These same loan officers are in charge of collecting monthly repayments.

Individual lending is a mechanism for diversification, allowing the federation to provide a different type of service to a small, but significant demographic. About 10 per cent of clients receive individual loans directly from the federation, which involves a strenuous application process that is scrutinized at each level of qualification. Credit to individuals tends to be of larger amounts so that selected clients are not bound by loan size. In addition to the federation's profitability, this permits some borrowers to make larger investments and move towards more formal financial inclusion.

For initial membership, each client must deposit Rs 11 with the federation as membership fee. As provisional members seeking a loan, they must deposit 10 per cent of the total value as a security deposit in their savings account. For permanent members, a deposit of Rs 1,000 serves the purpose of collateral as well as a sort of share capital.

Financial Products

Loans

The federation offers a number of purpose- specific loans, all of which have the same terms and conditions. Loans are classified according to their intended purpose—dairy, enterprises, agriculture, consumption, and others. While some are meant to generate income, others are promoted for their social value, albeit with identical terms of 10–36 months. The margin requirement (as mentioned above) is 10 per cent of the loan value, and the institution charges a 1 per cent service fee on top of the 18 per cent interest on principal. Details of loan products are given in Table 3.6.4 below.

Table 3.6.4 Loan products

Product	*Purpose*	*term*	*ROI (flat/ reducing*	*other fees/charges*	*shares/ margin*
Diary	Income	10-36 months	18%Reducing	1% service	10%
Enterprises	Income	10-36 months	18%Reducing	1% service	10%
Agriculture	Income	10-36 months	18%Reducing	1% service	10%
consumption	Social cause	10-36 months	18%Reducing	1% service	10%
Others	Social cause	10-36 months	18%Reducing	1% service	10%

Savings

In addition to compulsory savings to generate the loan portfolio, the federation offers three savings products. Fixed deposits are accepted for 1–5 years, at nine to 13 per cent rate of interest. Recurring deposits can be made on a monthly basis, and earn an attractive rate of interest. Finally, savings deposits can be made at five per cent rate of interest per annum. The attractive savings rates mean that the bulk of savings (around 80 per cent) of SHGs are transferred out to the cooperative and only a limited amount is retained within the group for rotation. Indeed, the cooperative does not at present track SHG level savings and internal lending. Savings products are given in Table 3.6.5 below.

Table 3.6.5 Savings products

Product	*Features*	*Purpose*	*term*
Compulsory Deposit	Loans against Security	Generation of Funds	As terms of loan
Fixed deposit	1–5 years, 9–13% p.a. interest	Generation of Funds	Up to 5 Years
Recurring Deposit	Attractive Interest Package – 2% higher than Banks	Monthly deposit	Up to 5 years
Saving deposit	5%	Generation of Funds	Voluntary

Insurance

Though ASSSL's priority is to provide savings and loan products to its members, it also offers them a life insurance product. CECOEDECON has partnered with LIC to offer a basic life insurance policy. The premium is Rs 5.5 for each 1000 rupees of coverage. Premiums are paid annually, and in case of death the claim is paid out to the primary dependent. The society, however, has the first claim in the event of there being any loan outstanding in the name of the deceased.

Financial Performance

As of March 2010, the total loans outstanding were Rs 32.4 million, a growth of more than 30 per cent on the previous year's lending base. Savings also grew substantially, from Rs 16.4 million to Rs 21.6 million. The institution has a sound financial base made up of internal savings (fixed, compulsory) as well as external loans at reasonable rates of interest. SIDBI charges approximately 12 per cent, and RMK eight per cent, on bulk loans to the federation for on-lending. During 2009–10 the ASSL lent over Rs 24.3 million (see Table 3.6.6).

Table 3.6.6 Loan portfolio

Loan disbursed during the year (Rs millions)	*2007-08*	*2008-09*	*2009-10*
By cooperative to SHGs/members/individuals	15.46	19.1	24.32

Until 2009–10 ASSSL received substantial support from CECOEDECON. The resulting comfortable profit margins over the years have led to appropriations from surpluses into building and welfare accounts, details of which were not readily available. Net fixed assets have risen considerably, even as the average loan portfolio has experienced a modest increase.

Net operating profits have declined in the last year, indicating that the federation may be due for a revaluation of expenditures and practices. Income from interest and fees has stagnated at Rs 3.6 million during 2009–10, while expenses on the same heads have reached Rs 1.5 million—up over 10 per cent from the previous year. The factor affecting profitability appears to be administrative expenses on personnel. The organization doubled its expenditure on salaries and honoraria from 2008 to 2009,, and again from 2009 to 2010. This has also been because of the withdrawal of support for two staff by CECOEDECON that had been provided thus far. ASSSL had 12 full-time employees as of March 2010, and this human capital investment has clearly eroded some of the co-operative institution's profits. The level of profit fell from Rs 1.4 million in 2008–9 to below Rs 1.0 million in 2009–10.

An estimate of portfolio at risk (PAR) shows that the portfolio quality is moderately sound. Portfolio at risk at the end of the past two financial years has been over 5 per cent in both years. This is somewhat higher than desirable levels.

Because operating income has stagnated during 2009-10 and costs increased, the federation's financial ratios appear to be suffering, although they remain positive. Operational self-sufficiency has declined to just 128 per cent, however the institution is able to run on its own. Profit margins have declined, portfolio yield is less than the rate of interest charged, and the RoA has been nearly cut in half over the last year.

Although the financial position has suffered over the last year, the investments are hopefully efficient and timely in order to provide a return to heightened profitability in the near future.

Challenges

The last year has seen major investment in systems and staff. ASSSL now has a strong structure in place, but it remains to be seen whether the expenditure is worthwhile. Ideally, the institution should be able to expand both outreach and lending, without too much further hiring and will then be able to focus on operations. If the structure is sound, the institution can grow around a formal, efficient system.

As yet a purely financial federation, ASSSL needs to take another step forward and investigate the livelihoods approach. Now that the institution is past the preliminary stages of promotion it can afford to think about specific projects meant for the well-being of clients. The structure of SHG-cluster-federation is well-established, and it is now time for the federation to directly involve itself in livelihoods activities. Given CECOEDECON's numerous projects in agricultural, educational, and health areas, it seems a reasonable proposition to initiate activity at the federation level.

Specialization of loan products would be a useful addition to the federation's procedures. Although loans are earmarked for certain activities, there are no differentiating factors in the terms and conditions of these loans. If the federation could do a needs-assessment and follow-ups with the members, it might find that credit utilization is not homogenous across agriculture, or dairy, or consumption.

Training does not appear to be a significant component of ASSSL's work, and the co-operatives' individual members could surely benefit from a more formal, regular, and comprehensive educational campaign.

3.7 SAVERA MAHILA MANCH, ALWAR, RAJASTHAN—IBTADA

Background and Area of Operations

IBTADA is an NGO registered under the Rajasthan Societies Registration Act and is operational in Alwar district of Rajasthan, with Meo-Muslim and Scheduled Caste communities. Ibtada has promoted self help groups to enable poor women to access easy, cheap, and timely credit. It is also working on education, health, and livelihoods issues.

Ibtada started work in 1997 for the uplift of women of economically poorer sections in socially backward communities located in pockets of Alwar district. At present it is operating in six blocks, viz. Ramgarh, Umrain, Laxmangarh, Thanagazi,

Kishangarh, and Tijara. Ibtada formed SHGs from October 1998 to June 2001 (the second phase of group formation started in 2007.)

Thereafter, for three years the focus was on forming and strengthening the SHG clusters (or *Mahila Sabhas)* by Ibtada. Educated local youth were selected to be trained as *munshis* to keep records and conduct meetings of around 25–30 SHGs, with the groups paying them a monthly fee.

During 2004–5 the process of federation formation started and two block-level federations, Savera and Sangharsh, in Umrain and Ramgarh blocks respectively, were registered under the Trust Act in December 2006. Over time Ibtada has cut down its support to the two federations with a view to creating a separate identity for them with emphasis on cost recovery and self-sufficiency while adding other services for livelihoods, insurance, and special savings, along with leadership building and systems development.

Organizational and Governance Structure

Ibtada has adopted a three-tier federation structure with around 10–15 SHGs forming a cluster *(Mahila Sabha*) and about 10–15 clusters linked to form a federation *(Mahila Manch*). It is expected that federations will facilitate withdrawal of Ibtada in terms of both microfinance as well as other developmental activities by providing a structure to enable SHG women representatives to interface with other financial and developmental institutions.

As of 31 March 2010, Ibtada had promoted 52 cluster level and five block federations, out of which Savera Mahila Manch and Sangharsh Mahila Manch are older federations with three years of independent functioning in financial intermediation and in other activities. These SHG federations are working independently with only minimal support from Ibtada; they operate out of a common office in Alwar. Ibtada provides only monitoring support to these two block level federations. Though both federations have separate staff, they had a common computer operator/ accountant and infrastructure until January 2010. They continue to share office premises and infrastructure. Ibtada is still directly involved in other blocks in SHG formation, bank linkage, exposure visits, livelihood promotion, and training of para workers, etc. For the purpose of sustainable functioning of the SHGs, Ibtada has introduced the following systems:

(a) The federation provides accounting and meeting services to SHGs which pay monthly fees for these services.
(b) The SHGs pay service fees of 1.5 per cent of bank loan amount ; and
(c) All SHGs bear cost of books and stationery

Monthly SHG meetings are attended by group *munshis* who help women conduct the meetings and maintain the proper records. From each SHG two leaders are nominated to attend monthly cluster meetings. In clusters four office bearers are selected. From each cluster two leaders are nominated to attend the monthly federation meeting. In the federation there are four leaders—Chairperson, *Chhoti* Chairperson, *Sachiv,* and Treasurer. Earlier a loan committee functioned at the federation level, which is now at the cluster level. The cluster level tier acts as a bridge for the flow of information to and from SHGs to the federation. SHG quality issues are also addressed at the cluster level.

The Savera federation has six staff. The staff structure is given in Figure 3.7.1 below.

Figure 3.7.1 Staff Structure

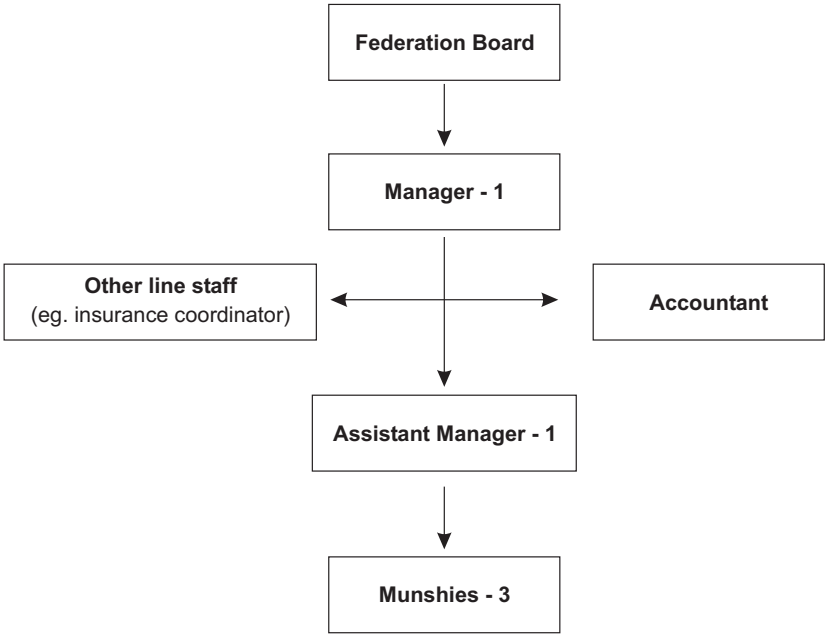
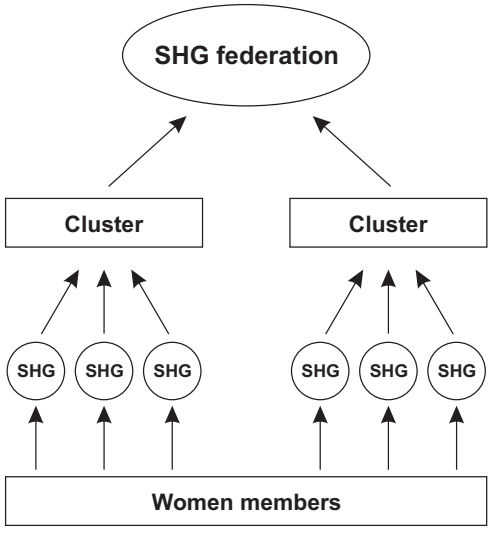


Figure 3.7.2 outlines Savera's federation structure. The federation has a 28 member board, representing 14 cluster level federations. From these 28 board members, four get elected as Office Bearers (OB), namely, president, vice president secretary and treasurer. The major functions of the federation are: (a) to provide financial services to SHGs in the form of loans and other support from Ibtada; (b) to monitor the performance of the cluster level federations and SHGs; and (c) to establish links with external agencies, especially banks.

Figure 3.7.2 Federation Structure



It has been reported that though the federation has constituted sub-committees to deal with different subjects, they remain defunct due to poor transport facilities and members' inability to devote more time for federation work due to their domestic and productive compulsions[14].

Outreach and Programme Status

Physical outreach of Savera is given in Table 3.7.1 below. As of March 2010, Savera federation covered 1,469 women members from 131 SHGs in 29 villages through 14 cluster level federations. Around half the members belonged to the SC community and nearly one-fifth to the minority Meo community.

In terms of financial outreach (Table 3.7.2), loan outstanding at SHG level was around Rs 10.43 million or nearly Rs 79,600 per SHG. Federation lending to SHGs out of subsidized funds from Ibtada on various accounts stood at Rs 2.31 million at the end of March 2010. The 133 SHGs had cumulative savings of over Rs 4.68 million or over Rs 35,740 per SHG—an impressive performance that would compare favourably with SHG savings performance anywhere.

14 APMAS –Enable (2010).

Table 3.7.1 Physical outreach

Parameter	*2008*	*2009*	*2010*
Number of villages covered	26	28	29
Number of SHGs	106	131	131
Number of members in SHGs	1217	1456	1469
Number ofVOs/Clusters/Primary federations	11	13	14
Number of financial federations	1	1	1
Number of SCs in SHGs (%)	53.74%	49.04%	48.88%
Number of STs in SHGs	nil	nil	nil
Number of minorities in SHGs	20.13%	19.85%	19.81%

Table 3.7.2 Financial outreach

(a) Savings and borrowings

Savings	*As on 31 March 2008 (Rs)*	*As on 31March 2009 (Rs)*	*As on 31 March 2010 (Rs)*
Total savings at SHGs	3,230,970	3,648,450	4,683,210
Total savings at federations (term deposits)*	NA	NA	661,301
Outstanding			
Loan outstanding from SHGs to members	7,809,350	9,180,600	10,427,206
Loan outstanding at federations level	990,282	1,866,010	2,314,971

*Fixed Deposit services are provided by the federation.

(b) Loans disbursed

Loans disbursed during the year	*2008 (Rs)*	*2009 (Rs)*	*2010 (Rs)*
By SHGs to members	6,153,170	9,871,800	11,550,195
By federations to SHGs	1,142,240	2,596,054	2,894,000

Loaning by the federation to SHGs was modest at about Rs 2.9 million during 2009–10. This is because the federation is mediating limited funds provided by Ibtada the parent organization, raised in turn from donors. It is able to cover 72 out of 131 SHGs, a little over half the number of member SHGs.

(c) Number of loans outstanding out of federation loans

Parameter	*2008*	*2009*	*2010*
No of SHGs	28	64	72

Funding Sources for Federation

Table 3.7.3 Sources of funds since inception

Loans	*Amount (Rs)*	*RoI*	*duration*	*repayment terms*
Ibtada-Dewan livelihood loan	1,565,000	5%	5 years	Flexible
Ibtada Housing loan	400,000	10%	3 years	quarterly/monthly
Ibtada Livelihood loan	300,000	10%	3 years	Flexible

Table 3.7.4 Loan outstanding to external institutions

Loan outstanding to external institutions	*2008 (Rs)*	*2009 (Rs)*	*2010 (Rs)*
SHG Outstanding under SHG-Bank Linkage	2,020,000	2,470,000	2,730,000
Federation borrowings	Nil	Nil	Nil

Savera does not borrow from banks. The only source of funds for on lending for Savera federation is the promoter Ibtada. Sources of Ibtada loan funds are given in Table 3.7.3. As on March 2010, total loan received from Ibtada by Savera was Rs 2.26 million. As against Rs 2.31 million of SHG members' loan outstanding with the federation,, Rs 1.92 million was outstanding from the federation to Ibtada. Donor grants and government funds mobilized by Ibtada have been lent to Savera and other federations at rates of interest ranging from five per cent to 10 per cent. The amount outstanding on account of SHG-bank linkage was Rs 2.73 million (Table 3.7.4).

Products Offered by the Federation

Table 3.7.5 Savings products

Product	*Term*	*RoI (%)*
Fixed Deposit	3–5 years	9%

Savera federation mobilized term deposits for periods ranging from three to five years at 9 per cent rate of interest to the extent of Rs 699,601 as on 31 March 2010 (Table 3.7.5). This constituted a significant proportion of resources available for lending to the SHGs and supplemented the external resources generated.

Table 3.7.6 Loan products

Product	*Features*	*Purpose*	*Term*	*RoI (%)*	*other fees/ charges*
Livelihood loan	Rs 20,000 maximum	Livelihood activity	15 months	18	1.50%
Biogas loan	Rs 4,000 maximum	For biogas plant	20 months	6	nil
Housing loan	Rs 30,000	Housing	36 months	15	nil
SHG loan		For SHG linkage	12-24 months	18	1.50%
Sanitation loan	Rs 10,000 maximum	For construction of toilet/bath	20 months	12	1%

The federation provides three types of loans for the benefit of SHG members—for livelihoods, biogas, and housing (Table 3.7.6). The interest charged on loans of different tenures ranges from 1 per cent per annum for sanitation loan and 6 per cent per annum for biogas, to 15 per cent per annum for housing and 18 per cent for livelihood loans. The quantum of loans provided would inevitably be limited by the fund availability. The federation also arranged third party insurance contracts to 850 members as per details given in Table 3.7.7 below.

Table 3.7.7 Details of insurance product

Product	*Purpose*	*Premium paid*	*Benefit*
Bima Kavach of Birla Insurance	Life cover to members	Rs 100 one time	Death benefit Rs 10,000; Rs 110 after 3 years if no claim

Non-financial Services Provided by Savera

Financial services delivery has not been the sole objective of Ibtada, nor of the federations promoted by it. Apart from the range of financial products it provides a host of related services to facilitate the smooth flow of these services. These include bookkeeping, MIS, and audit of SHG operations.

More importantly, it provides livelihoods support services such as the Heifer International programme and agricultural input packages and has a robust girls' education programme. Ibtada runs bridge schools for girls in almost all its project villages. SHGs contribute money towards the salary of teachers. Indeed, it is the non-financial services provided that form the major thrust of the federation's activities and its credibility among the community.

Operations and Performance

The operations of the federation cover both financial and non-financial activities. As far as sources of income are concerned, income from lending operations was Rs 214,162 out of the total operating income of Rs 634,309 in 2009–10 or barely 33 per cent of the total. Other important contributors to income were SHG contributions for federation services, including *Munshi* fees for bookkeeping and education. Each member SHG provides a service fee ranging from Rs 50 to Rs 250 per month, depending on its age. Besides, provision of agricultural input kits on credit constituted an important part of revenues. A service charge of 1.5 per cent imposed on loans accessed under the SHG-bank linkage programme provides a further source of revenue.

For the years 2007 to 2009, Ibtada contributed 50 per cent of the manager's salary, accountant's salary and office rent to the federation. From April 2009 onwards, the federation has been meeting all costs itself and is potentially self-sustaining.

On the costs side, administrative expenses on personnel is the major cost head, along with the activities of staff engaged in multiple functions related to both microfinance and livelihoods development.

The federation has been generating a modest surplus each year, even in 2009–10, when all support from Ibtada has been withdrawn. However, there is an anomalous situation where the contribution to income of what would be the core activity for a financial intermediary is so limited in relation to other impositions and contributions for non-financial services. This is evidenced by the extremely high operating expense ratio of 24 per cent in 2009–10. Other indicators too present a distorted picture in view of the additional activities, contributions, and expenses covered. While other sources of revenue like SHGs contributions can be assumed to be stable, Savera federation does not appear to be intended as a professionally operated financial intermediary geared to long-term growth and sustainability. On-lending is undertaken for the purpose of meeting the unmet credit needs of SHGs as well as earning some interest to contribute to the income of the federation. Hence, financial intermediation is only one part of the federation's activities. Other focus areas include quality of SHGs, leadership development for women, increase in quality of life of SHG members, livelihoods promotion, etc.

Issues and Challenges

Savera has not yet built the capacity or the need for bulk external borrowing, which might, perhaps, happen in a subsequent phase. The sister federation Sangharsh is understood to be negotiating a loan of Rs 2.5 million from Annanya Financial Services. Other newer federations have borrowed from BASIX for their operations. Federations were promoted because bankers did not internalize SHG bank-linkage, but the fact remains that banks appear to be reluctant to lend to such federations either.

This is matched by the limited vision of the promoters for a role for the federation as a scaled up versatile financial intermediary. In fact, funding provided thus far by Ibtada has been largely earmarked by loan purposes, e.g., livelihoods, bio-gas, housing, toilets, etc. It is not clear if these have been donor requirements or a set of priorities set out by Ibtada, either based upon expressed needs of the community, or otherwise.

It would appear, as also confirmed by Savera staff, that Savera federation is not primarily a financial federation, that its financial role is designed to provide supplementary livelihoods loans or bridge loans to SHGs, and that it is not in a position to operate on a large scale. The promoter's vision for the federation was one of providing livelihoods and social services to SHGs based upon a contributory mechanism, with funds provided by SHGs from surpluses generated through rotating own funds.

At present, there is not much competition from MFIs in the district aimed at taking over the role of credit provision to the SHG members. Though Alwar is full of MFIs, and some SHG members are also accessing loans from MFIs, it is not affecting the SHGs and federation in a major way. If that were to materialize the role of Savera federation as a financial intermediary could come under serious pressure.

3.8 PALMA WOMEN'S SHG FEDERATION, KANYAKUMARI DISTRICT, TAMIL NADU—PALMYRAH WORKERS DEVELOPMENT SOCIETY (PWDS)

Background and Area of Operations

Palmyrah Workers Development Society (PWDS) was started in 1977 for the socio-economic development of the Palmyrah worker community who were found to be one of the most marginalized sections of society. The target area was the entire

Kanyakumari district of Tamil Nadu and the adjacent Neyyattinkara taluk of Kerala. The concern of PWDS was a combination of two major issues, viz., the fate of the Palmyrah industry and the living conditions of the workers. The issues confronted by the community were listed as lack of livelihood income, lack of access to health and education facilities, poor habitat conditions, and so on. To mobilize the community, PWDS used the strategy of organizing Mantrams (village groups consisting of 40 to 60 members each) with savings and credit as their core activity that served as a platform for their overall development. Having accommodated other rural artisans also into their fold, it grew larger and graduated as a district-level registered organization named Palma Thozhilalar Peravai (Rural Artisans Federation) over a period of time. Simultaneously, from 1999–2000 onwards PWDS has been receiving support from the Tamil Nadu government's Mahalir Thittam for promoting SHGs—over 824 SHGs have been formed by PWDS in the district.

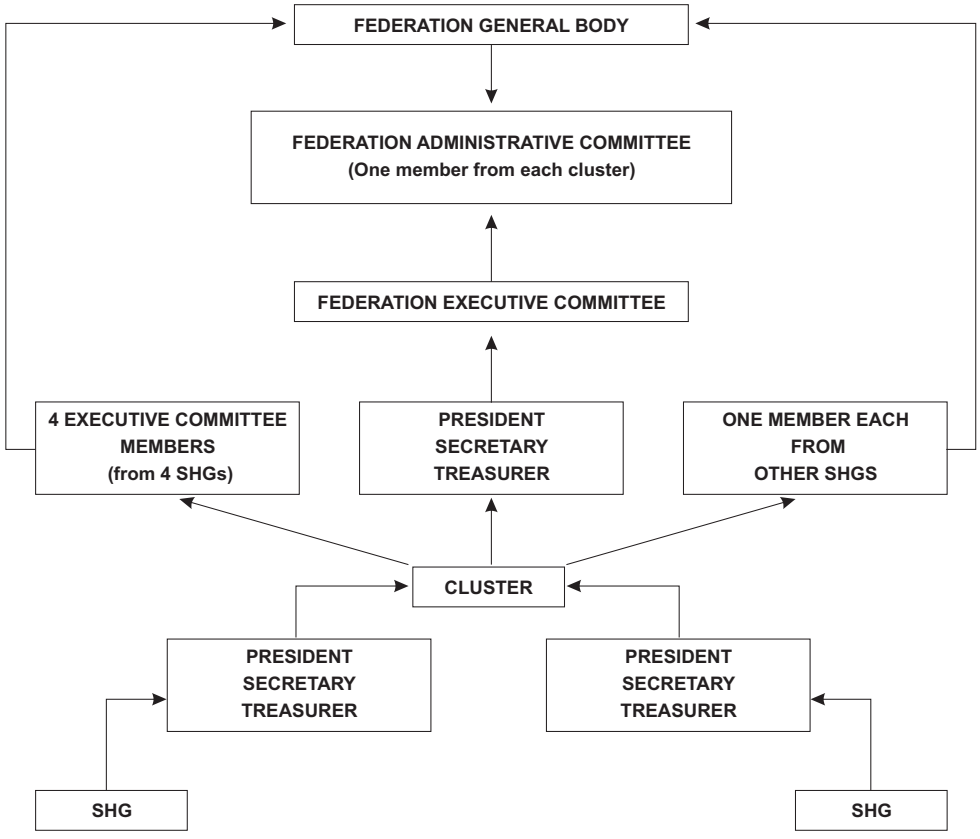
The Indian Association for Savings and Credit (IASC) was promoted by PWDS in collaboration with HDFC in 1997, when access to banks was virtually closed to poor women. It is a Section 25 company which now covers both SHGs and JLGs in 25 districts (having started from Kanyakumari district) and is soon to become a NBFC. Being governed by a board consisting of an equal number of members, each from PWDS and HDFC, it functions as an independent association.

During the period 2004–5 several leadership improvement programmes were launched by PWDS to strengthen SHGs in Kanyakumari district. The federation concept was introduced, SHG capacity for self-governance was enhanced and they were motivated to federate themselves into active cluster level bodies. In December 2005, the apex organization of clusters was formed with a set of regulations to govern the entire operation and PALMA SHG Federation was registered as a trust under the Trust Act.

Till September 2008 PALMA federation was functioning as a non-financial federation with the help of donations; thereafter it was able to acquire funds to provide loans to member SHGs. Nevertheless, social activities remain its main focus and financial support is only limited to members of the Federation. The purpose behind initiating an internal financial activity as a business was enhancing its corpus fund as well as extending immediate support to the members during emergency—a facility not available in IASC.

Organizational and Governance Structure

Figure 3.8.1 PALMA SHG Federation Structure



PALMA has a three-tier federation structure (Figure 3.8.1 above) with the 435 member SHGs at the base, along with 57 unregistered intermediate clusters which are part and parcel of the registered apex body. SHGs meet on a weekly basis and their savings requirement range from Rs 50 to Rs 100 per month per member. SHGs share out profits every few years. Up to 15 SHGs are members of a cluster.

The three office bearers of each member SHG in a cluster (around 10 SHGs and 30 members) elect three cluster-level Office Bearers, who alone have the right to get into the governance of the federation. These functionaries, along with the

remaining SHG representatives (one ordinary member from each SHG) constitute the general body of the PALMA Federation (apex). The general body elects an apex federation Executive Committee consisting of one member from each cluster. This in turn elects a 10–15 member Apex Federation Administrative Committee including President, Vice-President, Secretary, Joint Secretary, and Treasurer. At present there are 10 members in the committee. The Executive Committee can call, on a needs basis, the services of specialists such as lawyers, auditors, and finance specialists as also promoter-secretary PWDS to assist in their decision-making. Rotation of leadership of SHGs and federations is carried out every three years.

For PALMA federation there are monthly cluster level meetings and federation meetings. Cluster level federations are involved in the process of lending and collections. The responsibilities of the clusters include: (a) addressing common issues at local level; (bi) forward and backward linkages and communication between SHGs and the apex body; (c) scrutiny and recommendation of loan applications; (d) facilitating equated monthly installments (EMI) collections; and (e) facilitating social audit.

Staff structure of federation

A professional staff member with adequate experience is the manager of the federation. There are 24 staff members including one programme coordinator (from PWDS), one insurance coordinator, 18 field staff/coordinators and three clerical staff. For health insurance, SHG volunteers act as Insurance Promoters getting 10 per cent of premium collections. Group monitoring is mostly carried out at cluster level, with field staff making need based group visits.

Lending procedures

The SHG at its business meeting resolves to apply for loan for a specific purpose. The application is submitted by SHG leaders to the cluster level federation (CLF). After proper scrutiny the same is recommended to the federation for loan processing. The applications are then placed before the Federation Administrative Committee for necessary resolutions and the office is authorized to release the loan upon securing proper documentation. The loan amount is electronically transferred to the SHG's bank account using National Electronic Fund Transfer (NEFT)/RTGS (Real Time Gross Settlement) facility.

Outreach and Programme Status

288 SHGs from 23 clusters joined the PALMA federation at the time of its inception. By the end of March 2010, 435 SHGs were members of the federation (out of over 800 PWDS promoted groups) of which 360 SHG are active borrowers (see Table 3.8.1 below).

As of March 2010, PALMA federation covered 6,960 women members of 435 SHGs in 272 villages through 57 cluster level federations. Around 4 per cent of members belonged to SC community and 40 per cent belonged to minority communities.

Table 3.8.1 Physical outreach

Parameter	*2008*	*2009*	*2010*
Number of villages covered	272	272	272
Number of SHGs	288	396	435
Number of members in SHGs	4608	6336	6960
Number of VOs/Clusters/Primary federations	23	56	57
Number of financial federations	1	1	1
% of SCs in SHGs	4.3	3.6	3.6
% of STs in SHGs	nil	nil	nil
% of minorities in SHGs	41.1	37.1	38.3

The member SHGs of PALMA had total savings of nearly Rs 3.76 million and average savings of Rs 8640 per member as of March 2010 (Table 3.8.2). This excludes the per SHG membership contribution of Rs 20,000 to the federation.

Table 3.8.2 Financial outreach

(a) Savings	*As on 31 March 2008 (Rs)*	*As on 31 March 2009 (Rs)*	*As on 31 March 2010 (Rs)*
Total savings at SHGs	3,420,000	3,507,650	3,758,500
Total savings at federations	nil	nil	Nil
Loans outstanding			
Loan outstanding at SHG level	12,745,500	13,545,500	24,065,300
Loan outstanding at federations level	NA	10,259,500	20,237,700

(a) Loans disbursed during the year	*2007-08 (Rs)*	*2008-09 (Rs)*	*2009-10 (Rs)*
By SHGs to members	14,092,600	15,072,500	15,099,500
By Federation to SHGs	NA	1,120,000	34,500,000

In terms of loan outreach, PALMA Federation, in less than two years of operations, made total disbursements of over 36.5 million in loans to SHGs, with Rs 34.5 million lent during 2009–10[15]. In addition, there was disbursement at SHG level of over Rs 15 million of loans out of own funds during the year. The loan outstanding from the PALMA federation to 360 SHGs and 1,565 members as on 31 March 2010 was over Rs 24 million (Table 3.8.2). Thus, average loan outstanding per borrowing SHG was Rs 66,848.

Table 3.8.3 Number of loans outstanding out of federation loans

Parameter	*2007–8*	*2008–9*	*2009–10*
No of members	-	672	1565
No of SHGs	-	112	360
No of clusters	-	28	56

The number of SHG loans outstanding in 2009–10, the second year of financial operations was 360 (Table 3.8.3 above) covering 1,565 members.

Funding Sources

Table 3.8.4 Sources of funds since inception

Loans	*Amount (Rs)*	*RoI*	*duration*	*repayment terms*
Loans from banks—SBT	50,00,000	11.50%	36 months	EMI
Savings	*Amount*	*RoI*	*duration*	*repayment terms*
Life Membership Subscription by SHGs	82,70,000	-	-	Non refundable
Grants	*Amount*	*RoI*	*duration*	*repayment terms*
Grants—PWDS	75,00,000	-	-	-

Table 3.8.4 provides data on sources of funds since inception for PALMA. PWDS has received donor support mainly from EED, Germany, a church auxiliary, and from TN WCD in the form of assistance for training of newly formed SHGs. Other

15 In the form of Rs 1,00,000 loan for a 12 month period to each of 345 SHGs from the revolved corpus.

donors include Abbott Fund, Global Fund and International Labour Organization (ILO). PWDS has provided Rs 7.5 million from its local resources as revolving fund for the operations of the federation.

SHGs pay a one-time non-refundable life membership fee of Rs 20,000 on entry to the federation which accounts for nearly Rs 8.3 million—a major share of federation resources. Recently the federation has received bulk loan support of Rs 5 million from State Bank of Travancore (SBT), Marthandam branch. Other banking channels and wholesalers are being tapped for the future.

Financial Products

At present PALMA has only one loan product available for a range of income generation and other purposes to the SHGs (details in Table 3.8.5). SHG are entitled to a loan of a maximum of Rs 100,000 at 9.2 per cent flat or 18 per cent reducing balance interest for a period of one year, which is recovered in equated monthly instalments. SHGs on-lend these funds to members at 24 per cent per annum.

Table 3.8.5 Loan product

Loans	*features of the product*	*Purpose*	*term*	*Rate of interest*	*other fees / charges*	*collateral*
Micro Loan	Need based SHG loan with speedy processing	Sustainable Low Carbon Farming, IGP, education	Short Term Loan (One year)	9.2% Flat	Cost of Application Rs 10	Nil

PALMA has developed a customized group health insurance product in collaboration with Bharati AXA, ILO, CIRM (IFMR), Chennai and PWDS (details in Table 3.8.6). The health insurance covers 1,495 members (4,304 family members) paying premium of Rs 663 per year for a family of four members with 20 per cent co-payment, and Rs 923 without co-payment.

Though the concept of insurance met with a lot of resistance among the poor, the Micro Health Insurance scheme introduced by Palma SHG Federation gradually picked up due to its reputation and recognition, and created considerable impact in the lives of its members. It was made possible because of the systematic implementation of the programme. From the point of negotiating with the company to obtain products and rates suitable for its members, to the point of facilitating the claims, the machinery worked well within the federation as well as the external collaborating

bodies like CIRM. The Federation benefited through reasonable income in the form of service charges; workers such as Insurance Coordinator and Insurance Promoters through fair commission and salaries, and above all, the policy holders through a smooth flow of claims. On the whole, it created extensive awareness among the poor, particularly women, to volunteer for new policies and renewals.

Table 3.8.6 Insurance product

Insurance	*Features of the product*	*Purpose*	*Premium paid*	*Benefit*
Group Health Insurance	Tailor-made for SHG - includes maternity coverage, pre-existing disease coverage and provides cash less facility	Health Security	Rs 8,58,990 (1,493 families, 4,304 family members)	Rs 6,45,112 (excluding cashless) 151 members

Non-financial Services Provided by PALMA

Apart from microfinance related services such as health insurance, SHG monitoring, rating, evaluation and auditing, the federations have been engaged in various social campaigns. These include campaigns against genetically modified seeds, use of plastics, and conservation of water resources.

Two proposals for federation level income generation involve sanitary napkin distribution and a purified water plant. The federation is also involved in capacity building and EDP, skills training. However, SHG members are more interested in social activity with 11 members elected to the Panchayati Raj institutions (PRIs).

Operations and Performance

It is clear that PALMA federation has been able to attract funds from donors and even from the local bank, probably on the strength of the standing and experience of the promoter NGO. PALMA federation has effectively been operational only in the year 2009–10 and it would be premature to conduct an in-depth analysis on its sustainability. In fact the federation has not yet been rated on its capacity as a microfinance intermediary. Nevertheless, the federation's lending to SHGs is well in excess of that under direct bank linkage, for which the loans outstanding of the member SHGs have been stagnating at Rs 7.5 to 8 million.

However, it is observed that some of the financial ratios such as portfolio at risk 30 days were at the desired level of only 0.04 per cent. Similar is the case with the yield on the loan portfolio. While operational self-sufficiency also appears to be

satisfactory at 113 per cent, during 2000–10, over Rs 1 million or over 40 per cent of the administrative costs—the major cost head—were being borne by PWDS[16]. This was apart from other contributions from Mahalir Thittam and other sources towards training and capacity building of staff and SHGs and towards delivery of the health insurance product. It is understood that administrative support from PWDS has been withdrawn with effect from 2010–1 so the next year a clearer picture will emerge of PALMA's ability to meet its full costs from its operational revenues. Further, in view of the large grant fund available, loan servicing costs are very low. This would change as the federation resorts to increased commercial borrowing.

Issues and Challenges

The PALMA federation emerged as a financial intermediary in response to the aspirations of the women members who wanted to have their own organization, since there were issues with the local banks regarding the supply of loans under SHG bank linkage. At the same time, there are currently several options regarding the best means of delivering financial services to poor households. In Tamil Nadu the revolving fund support and bank loans arranged by the state government to the panchayat level federations (PLFs) are enabling them to emerge as potential financial intermediaries—in competition, and even conflict, with the NGO initiatives. MT intends PLFs as financial intermediaries and they are being trained to act as NGOs/CBOs through whom funds and development programmes can be channelled. It is understood that instructions from government staff are for PLFs to delink from their parent NGOs. Each PLF has been given Rs 10,000 as seed money by Mahalir Thittam (MT), and Rs 100,000 is given as incentive grant to PLFs achieving MT's rating parameters, as a fund to generate income to cover their cost of operations. Besides, banks are being pressurized into giving loans to PLFs. Rs 50 lakh has been sanctioned as loan by a bank to one PLF.

While there is not much MFI presence in Kanyakumari district, the possibility of multiple membership and borrowing is becoming real. For example, the President of PALMA and other members are also members of Panchayat Level Federations

16 Earlier, rent free accommodation was available for the federation from PWDS. Since last year rent of Rs 1,000 per month is charged for the federation and Rs 1,000 per month for the insurance project office.

(20–25 SHGs) supported by MT and can access loans from that source. In fact, SHGs have three possible sources of loans, viz., bank linkage, PLFs, and PALMA federation. Administrative committee (AC) members of the federation, however, assert that dual membership of PALMA federation and PLF is discouraged, as also multiple sources of loans from bank linkage and federation—the SHG leadership is responsible and scrupulously monitors the situation.

Federation AC members are considering acquiring and running a separate NBFC for financial activity. This has been done by other microfinance organizations. Tamil Nadu also provides several instances of NGOs promoting credible Section 25 companies that attract bulk funds for SHGs. AC members want to function as a bank to obtain larger loans and higher financial profits. Federation AC members are keen on developing group enterprises at federation level—in the form of a large income generation project. However, the Honorary Director is of the view that they should let the federation stabilize for a couple of years before attempting expansion to NBFC.

3.9 BOOND BACHAT SANGH, KULGAON, KANPUR DISTRICT, UTTAR PRADESH–SHRAMIK BHARATI[17]

Shramik Bharti is a not-for-profit organization based in Kanpur, and with operations in the Greater Kanpur area of Uttar Pradesh. The institution's mission is to support capability development, and to develop self-sufficient clients who are prepared to successfully manage their livelihoods. Through microfinance, livelihood promotion, community health, and grassroots democracy, Shramik Bharti aims to eradicate poverty and build a productive society.

The organization has been involved in microfinance activities for almost three decades. Initially, the process revolved around individual lending through borrowings from SIDBI and RMK with the gradual formation of SHGs. This strategy was employed to great effect, as the organization took on approximately 10,000 clients by 2002. But as the ideas of democratic governance and self-determination became more apparent, the federation model gained credibility. Instead of widening outreach, Shramik Bharti has used the model of community ownership to create an efficient, aggregated financial system.

17 Case prepared by Rohan Trivedi, ADS, New Delhi

Federation Background

Boond Bachat Sangh is a federation of 169 SHGs, operating in the peri-urban district of Kulgaon, Uttar Pradesh. The federation was registered as a Mutual Benefit Trust in 2002 by its parent organization, Shramik Bharti. Although previous federations have been established by Shramik Bharti, this is the first financial organization, and thus, a break from tradition. Since inception, Boond Bachat Sangh (BSS) has become a self-sufficient financial federation, with the stated goal of providing a socially responsible forum for community-based lending. Because the federation is independent of external funding, the structure is determined by the members, with their collective interests in mind.

In the first four years of operation, Shramik Bharti played a central role in promotion and organization of the federation and its constituent SHGs. Costs and revenues were borne by the parent institution, with the provision of financial services directly by Shramik Bharti. Training sessions by Shramik Bharti staff helped organize SHGs, identify leaders, and teach specialized leadership skills. The initial outlay of training and educational materials was essential to the future self-sufficiency of BBS.

Over the last 4 years Boond Bachat Sangh has been transformed into a member-owned, and member-operated federation of SHGs. Savings at the individual level are mobilized by SHGs, facilitated by clusters of 25–30 SHG representatives, passed on to the federation level, and structured as loans for over 2000 members. Outreach continues to grow under the leadership of BBS, and the federation is now a profitable, self-sufficient financial entity. Shramik Bharti continues to provide logistical and technical support as requested by the federation, but is not directly involved in day-to-day operations.

Outreach

Table 3.9.1 Client outreach

Parameter	*2007*	*2008*	*2009*	*2010*
Number of Clusters	4	4	4	4
Number of SHGs	149	159	169	166
Number of members in SHGs	2116	2254	2425	2436

Table 3.9.1 provides data on client outreach of Boond Bachat Sangh. Growth in outreach has stagnated in the last year, with the dissolution of three SHGs but the addition of only 11 clients. In previous years, the rate of growth has been steady, but it may be that the federation has reached a level of saturation where it is difficult to find new individuals interested in SHGs.

Table 3.9.2 No. of SHGs, with federation loans outstanding

Parameter	*2007*	*2008*	*2009*	*2010*
Number of SHGs with federation loans outstanding	78	83	90	92

As of March, 2010, 92 SHGs had federation loans outstanding, so a total of 74 were essentially inactive at that time (see Table 3.9.2). The proportion of active federations has remained consistent, between 50 and 55 per cent.

Financial outreach

Table 3.9.3 Financial outreach

Parameter	*As on 31 March 2007*	*As on 31 March2008*	*As on 31March2009*	*As on 31 March 2010*
Total internal savings of SHGs	6,164,101	7,157,187	8,673,004	10,475,285
Total savings deposited with federation	17,12,948	15,63,106	2,197,812	2,851,645
Total savings of SHGs	7,877,049	8,720,293	10,870,816	13,326,930
Loan outstanding at SHG level	6,193,792	7,584,155	9,710,291	10,859,762
Loan outstanding at federation level	1,169,478	1,496,361	2,166,703	1,890,585

An analysis of financial outreach (details in Table 3.9.3) shows that the availability of savings is increasing quickly, and has accelerated in the last three years. Because of the savings-oriented structure of the institution, unutilized funds and compulsory deposits grow quickly and allow for the expansion of the loan portfolio. Federation lending has slowed down slightly, while the loans outstanding at the SHG level have continued to grow.

Structure and Governance

The structure of Boond Bachat Sangh is given in Figure 3.9.1. Boond Bachat Sangh is built around individual savings. SHGs are formed by 10–15 individuals with the assistance and guidance of BBS staff members—this is the most basic and fundamental unit of organization. SHGs appoint a leader who is given specialized training and

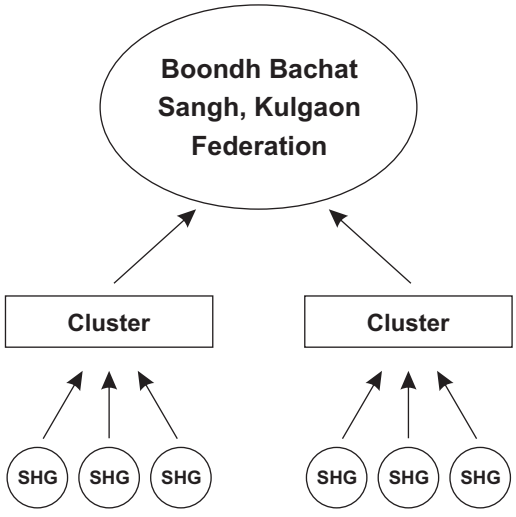
serves as the financial representative of the constituent individuals. These groups meet regularly for discussion and feedback, in addition to informal conversations between members. SHGs are often unified by the social bonds that connect their members.

Each SHG is assigned to one of four clusters, with approximate membership of 40 SHG leaders. Facilitation is the key at the cluster level, allowing a large number of SHGs to be managed effectively by the federation. The cluster is a convenient intermediary between SHG and federation, created for operational ease and participation, with a single spokesperson from each SHG responsible for advancing their interests. SHG leaders act as both an upward and downward liaison between the federation and SHGs.

Four clusters are thus managed by the federation body, making for a convenient structure that still maintains contact with each administrative tier. Boond Bachat Sangh effectively uses intermediate levels to manage the mobilization of savings, and the disbursement of loans. Feedback channels are also well-established so that grievances can be aired and successful arrangements can be reported back to the leadership.

Each SHG nominates a representative who serves as the main connection to the federation. The General Body of the federation serves the interests of each SHG through representation, and all candidates are educated about their roles and responsibilities.

Figure 3.9.1 Structure of Boond Bachat Sangh



Decisions are considered and executed by the Board of Trustees, a responsible and balanced panel of individuals that present the interests of the federation, the SHGs, and the members.

Shramik Bharti appoints the Chairperson, who in turn selects two knowledgeable individuals with expertise in microfinance as impartial board members. The remaining two seats are held by members of the General Body, each of whom serves a term of 3 years as the elected leader of the SHG. Equal representation is a key aspect of the federation's success, because each level has a different approach to the overall well-being of the members.

Management

The federation's operations are conducted by the Chief Executive Officer and Chief Financial Officer, both appointed by the Board of Trustees. These individuals are servants of the federation and work closely with the auditor to manage day-to-day operations, as well as the long-term strategic plan. They are in close contact with the representatives who constitute clusters, as this is the most effective communication channel to the SHGs.

In the initial stages of the federation the staff was entirely supplied by Shramik Bharti. As Boond Bachat Sangh grew in confidence and established operational systems, Shramik Bharti slowly phased out its involvement and turned the management over to a very qualified staff. There are currently four full time employees of the federation, in addition to four book-keepers. All eight personnel are paid salaries or honoraria from the federation's revenue.

Source of Funds

The federation's sole source of funds is the savings of SHG members. BBS would prefer that SHG members meet their basic loan requirements through their own internal funds, SHG bank linkage and other government bank programmes, with the federation stepping in to meet shortfall of requirements.

Products

Savings and loans

Savings products are given in Table 3.9.4. Savings are deposited by individuals with SHGs, but also at the federation level. Each SHG is required to deposit Rs 1,000 per

annum with the federation, in addition to surplus unutilized funds that the SHG holds. Compulsory deposits are made on a monthly basis, and earn 6 per cent interest while held by the federation. The group unutilized fund may also be deposited monthly with the federation, where it earns 6 per cent interest. Not only does this arrangement provide security for the SHGs funds, but it grows in value and thus increases the lending base of the entire federation.

Table 3.9.4 Savings products

Product	*Features*	*Purpose*	*Term*
Compulsory Deposit	6% per annum interest	Generation of loan funds	Monthly
Group Unutilized Fund	6% per annum interest	Safeguarding unutilized funds	Monthly

Table 3.9.5 Loan products

Product	*Purpose*	*Term*	*RoI*	*Other fees / charges*	*Shares / margin*	*Collateral*
Loan	Livelihood promotion or consumption purposes	Monthly repayment	12% Reducing	None	None	None

Loan products are given in Table 3.9.5. Loans are provided from two sources. Primarily, the SHG pools the savings of its members, and uses this as the foundation of a loan portfolio for its 10–15 constituent members. Secondarily, the federation mobilizes compulsory savings and unutilized funds to provide loans to the SHGs. If SHGs are unable to fully fund the needs of their members, the federation steps in to fill the deficit.

Loans from the federation to SHGs are disbursed at 12 per cent interest, with size dependent upon the annual deposit made by the SHG. Members borrow directly from the SHG (with little or no interaction with the federation) at 18 per cent on a declining balance basis. Additionally, there is an initial upfront fee of 1 per cent of the loan's value.

Insurance

In addition to savings and loans, the federation facilitates registration for the HDFC Life Insurance Policy. Members of Boond Bachat Sangh pay an annual premium of Rs 35, for coverage of Rs 10,000 in case of death. The claim is paid to the dependent in case of the policy holder's death.

Operations

Boond Bachat Sangh's operational model is aggregating savings and disbursing loans.

The model has been very successful in balancing loan portfolio growth with the needs of clients. By transferring money to the federation, SHGs have an effective outlet to safely deposit savings while earning a reasonable margin. Besides, Boond Bachat Sangh which is registered as a for-profit mutual benefit trust distributes 90 per cent of its surplus for distribution to SHG depositors.

Unlike some recently formed federations, Boond Bachat Sangh does not borrow from banks. Although demand is slowly growing for larger loans, the strength of the self-sustained federation is a sense of community ownership that comes naturally to the members—they elect their peers to conduct the internal business of the federation. By seeking external credit, the federation may compromise on its autonomy. Direct bank linkage to SHGs is thus considered a more feasible, and attractive proposition that would not require bulk borrowing at the federation level.

Banks are simultaneously hesitant to provide credit to the federation as it is perceived as increasing the bank's risk. The scale is also insufficient to reap real benefits, and the costs of collection and default would likely be perceived as far too high.

The arrangement is such that the SHGs are content to continue in the financial federation format. This structure has worked for some years now, and the rewards are apparent in the approximately Rs 150,000 profit earned by the federation in 2009–10.

Training

During the initial stages of the federation, Shramik Bharti spent significant resources in forming SHGs and training the members. Individuals underwent a discussion-based orientation, meant to clarify the processes of saving and lending, the general guidelines, among other things. The elected representatives—a distinct group of SHG leaders—were provided with a more intensive training regimen that focused on leadership and logistics. Over 2–3 days, 25–30 SHG representatives learned the details of their responsibilities as delegates to the Cluster level, and eventually the federation level. In addition to transmitting information between top and bottom, their role is especially delicate when it comes to loan recovery. Shramik Bharti thus invested significant financial and human resources in building a capable, knowledgeable, and responsible General Body.

As the federation has entered a stage of self-sufficiency, outreach has stagnated and the need for ongoing training sessions has not been apparent. From 2008 to 2009, SHG numbers actually dropped, before picking up slightly in the next year. Conscious of the costs, B.B.S. never redesigned its training programme and has spent virtually nothing on orientation and further promotion in the last three years. If they are to increase outreach and take on new clients with more savings, they will have to effectively train the new members and representatives.

Financial Performance

As of March 31st 2010, the total loan portfolio outstanding was approximately Rs 12.7 million. Positive growth in the portfolio has been the trend over the last three years, but the pace of expansion is slowing as the number of SHGs remains static.

Operating profits have risen to about Rs 150,000 in 2010—the federation was actually at a net loss in 2007, so this is quite an impressive feat. Interest remains the largest source of income growth, which has accelerated over the last year. On the expenditure side, interest paid (by the federation to SHGs) and personnel costs are the most prominent items. Adding staff members in recent years has increased costs, but the operating margin has also risen in the same time. The federation now appears to have finished the hiring stage and should be able to maintain personnel costs at a consistent level. Operating expenses have increased, primarily due to loan loss provisions that have become a substantial impediment to further profitability.

Because of its internal mobilization of savings, the federation is not leveraged and holds very little debt.

The institution's financial standing is strong. Revenues more than cover the costs and the total funds earn a positive return through the year. Operational self-sufficiency peaked in 2009, when expenses were exceptionally low and revenues high. In the last year, the figure has balanced out at a robust 122 per cent. This is without taking into account the inputs booked to Shramik Bharti's account. The gross financial margin is about four per cent, and the portfolio yields around 12 per cent. Financial costs do not account for very much of the expenditure, as this is primarily spent on administrative expenses and personnel.

The portfolio at risk has jumped in the last year, from an average of seven per cent to a new peak of almost 28 per cent. At the same time, the yield has remained relatively level. The apparent deterioration in on-time repayment may indicate a quality problem, but could also be the product of a different repayment schedule from previous years. BBS continues to earn a solid return on its asset base, at approximately 9 per cent.

In the last three years, the primary source of growth of the portfolio has been the interest earned on internal savings. Of course with the limited scale of its operations, Boon Bachat Sangh continues to need the moral and physical support of Shramik Bharati as they subsidise cost of staff and training and MIS from other project funds. It needs to more than double its revenues in order to meet all its costs and reach a viable scale of operations. The addition of more clients will help introduce new funds into the federation but also spread the risk across more borrowers. Consequently, outreach expansion must be an objective in providing a new injection of capital into this potentially profitable federation.

Challenges and Priorities

Stagnation is a serious concern for Boond Bachat Sangh. Over the last four years, the number of SHGs has remained relatively constant around the 160 mark. Loan portfolio growth requires additional sources of funds, and thus an effort to expand outreach. Although interest and penalties do increase the lending base there is no substitute for more savings, and a larger network of clients.

The credit issue is one that must be carefully weighed by the federation and its 2500 members. It is a judgment of great importance, not just in the subject but in the federation's decision-making process—does the final decision accurately describe the individuals and SHGs desires? Is there a compromise reached between members? Does the federation have its own agenda or is it entirely directed by the SHGs? These are questions that need to be looked as part of the issue of transformation.

If borrowing from banks by the federation is a serious possibility going forward, the federation will have to put good systems in place to convince the banks that funds placed by them will not be at risk. This means investing further in good software (like an MIS) that catalogues the members, their loan histories and savings habits, and much more information relating to the federation's operations.

Cost-consciousness is a strength of the federation, but one that will undoubtedly be tested by growth. Training materials, staff costs, and systems implementation can all be expensive processes, but ones that need to be critically evaluated in their effective worth.

Boond Bachat Sangh is prized for its outstanding social structure, where individuals are meant to feel connected to the community and responsible for their own well-being. The federation is meant to be a governing body that represents the best interests of individuals, not purely economically, but also in terms of providing guidance, advice, and a forum for discussions. Value is not just in a loan, but in the additional services that give members a feeling of community, of membership, of self-determination, and of ambition.

3.10 CHAITANYA GRAMEEN MAHILA SWAYAMSIDDHA TRUST, MAHARASHTRA—CHAITANYA

Chaitanya NGO was promoted in 1991 with a mission to develop capabilities and quality of life of the rural poor women and youth by promoting/ strengthening self reliant, sustainable community owned institutions. In pursuit of its mission, Chaitanya has initiated a number of developmental projects in seven districts of Maharashtra and has promoted 14 SHG federations in different blocks in these districts; while Gramin Mahila Swayamsidha Sangh (GMSS), Khed is eighteen years old,[18] two other federations were started in Pune district in 2004. Chaitanya started expansion of federations in 2008 with the support of GMSS Khed. Suzlon Foundation and Rotary Club of Pune North in collaboration with The Rotary Foundation (TRF) have funded the costs of promotion.

Box 3.10.1 The mother federation

Gramin Mahila Swayamsidha Sangh (GMSS), Khed is the first federation of Self Help Groups (SHGs) that was promoted in 1991 by Chaitanya. GMSS was registered in 1993 under the Societies Registration Act, 1860 and Bombay Public Trusts Act. Since then GMSS has been working with a mission 'to build institutions which are owned and governed by rural poor women and ensure their access to efficient financial services'. Besides offering financial services, GMSS is also involved in a number of social projects for tackling domestic violence against women through legal counseling and other support services. After starting with a mere 14 SHGs in 1991, GMSS had more than 500 SHGs as its members in March 2010. GMSS's gross loans outstanding to its members were Rs 29.5 million in December 2009. In an effort to develop more federations such as itself, GMSS joined hands with Chaitanya in the promotional efforts. GMSS lends to federations promoted by Chaitanya in other blocks. Loans outstanding to other federations stood at Rs 131 million as on 31 December 2009.

Before embarking on the expansion of federations Chaitanya had several round of consultations with different stakeholders and capacity builders. Chaitanya availed technical assistance from Micro Save, Opportunity International, and other consultants in the key areas of process mapping, business planning, MIS, etc., over a two year period to develop the set of systems and good practices to ensure efficiency in federation promotion. Thereafter, funding support was secured for promotion of SHG federations in Maharashtra. The good practices followed by Chaitanya in federation promotion are given in Annexure 3.1.

The federations are promoted by Chaitanya with the intent of: (a) creating a forum for sharing, learning, planning, and monitoring, (b) providing financial services such as

18 It is the oldest federation in Maharashtra.

savings, credit, and insurance to the members, (c) addressing the social needs of members, especially health, legal aid, and (d) providing livelihood enhancement services.

The case of Chaitanya Grameen Mahila Swayamsiddha Sangh, Ahmednagar which is one of the older federations in the second series is presented in Box 3.10.1.

The federation was formed in 2008 and began financial operations in the year 2009. The federation is yet to be registered and plans are afoot to register the federation under the Mutual benefit Trust Act[19]. The federation has a three-tier structure—SHGs at grassroots, cluster level federation which provides non-financial services, and federation which is a multi-functional federation providing financial services. The process of forming and nurturing the federation followed by Chaitanya is given in Annexure 3.2.

Outreach

Though the initial preparatory work was carried out in 2008, the federation commenced SHG formation in 2009. Average number of members per SHG is 13 and average number of SHGs per cluster is 12. Client outreach is shown in Table 3.10.1. The number of SHGs covered has nearly doubled during 2009–10.

Table 3.10.1 Physical outreach

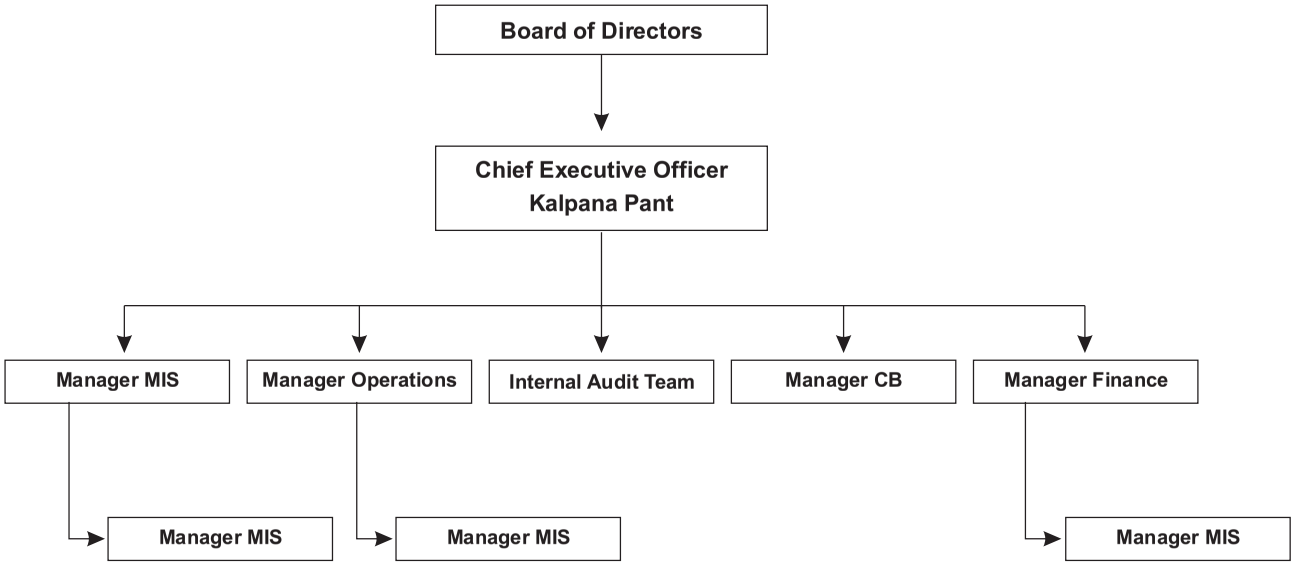
Parameter	*2009*	*2010*
Number of villages covered	19	26
Number of SHGs	97	183
Number of members in SHGs	1411	2365
Number of Clusters/Primary federations	7	15
Number of financial federations	1	1

Governance

SHG members elect a President and a Secretary. A cluster consists of minimum 10 SHGs and is managed by representatives elected by SHG members. The cluster representatives are then elected to the Executive Council which governs the functioning of the entire federation. GMSS, Ahmednagar is governed by a 12 member Executive Council consisting of members from the SHGs. The governance structure is given in Figure 3.10.1.

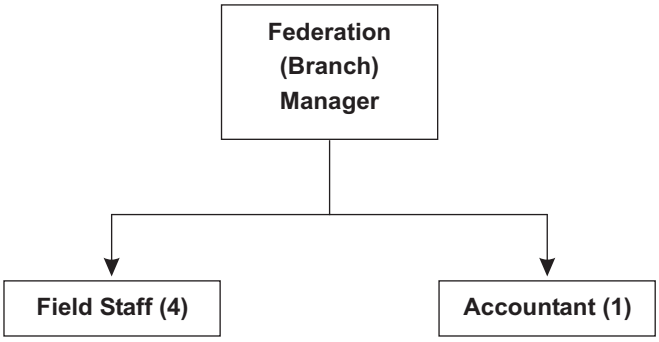
19 Maharashtra has not enacted the Liberal Cooperative Act. NGOs generally have reservations in registering federations under the State Cooperative Act, given the potential danger of government interference in cooperatives.

Figure 3.10.1 Governance Structure at GMSS Ahmednagar



There is a central support team at Chaitanya which oversees the functioning of the Nagar Federation along with fourteen other federations. It is headed by Kalpana Pant as CEO and has the following Section in-charges assisting her—the Accounts section, Management Information Systems (MIS) personnel, Manager Finance and Regional Managers. At the federation, the branch manager oversees the functioning of four field staff who are responsible for operations at the village level. The accountant is also responsible for MIS at the federation level.

Figure 3.10.2 Organizational Structure at Federation Level



The organizational structure at the federation level is given in Figure 3.10.2 and the staffing structure in Table 3.10.2 below. The staffing of the federation consists of staff of parent NGO as well as the federation.

Table 3.10.2 Staff structure (number of persons)

Organization	*2008*	*2009*	*2010*
Parent organization	2	3	11#
Federation	Nil	4	5
Total	2	7	12

For fourteen federations

It is expected that by 2012–3, the federation will absorb the staff costs including the contribution of the central support team.

Products Offered

GMSS offers savings services, loans, and insurance services to the members. Savings at SHG and federation level are shown in Table 3.10.3. The year 2009–10 is effectively the first year of operations.

Tables 3.10.3 Total savings and loan outstanding

Savings	*As on 31 March 2009 (Rs)*	*As on 31 March 2010 (Rs)*
Total savings at SHGs	n.a	2,752,000
Total savings at federations	92,500	309,000
Loan outstanding		
Loan outstanding at SHG level	n.a	2,045,000
Loan outstanding at federations level	Nil	1,622,087

n.a. is not available

Savings

Savings products are given in Table 3.10.4. The group mobilizes savings of Rs 50 to 100 from each member each month. Thus, a group of 15 members will save Rs 750, out of which Rs 200 is saved with the federation. The rest is rotated by the SHG as loans among members. Some very poor groups mobilize only Rs 20 per month as savings. GMSS offers the following savings services.

Table 3.10.4 Savings products

Product	*Features*	*Purpose*	*Term (years*	*RoI (%)*
One time saving	Paid once by group at the time of joining to the federation	To become federation member	5	4
Monthly Savings	Paid by group monthly	To contribute in federation savings	5	4
Security deposit / Fixed deposit	5% amount is deducted from the loan amount and kept in the federation as fixed deposit	Kept in federation as member's saving	5	7

Loans

SHGs can borrow from the federation as well as from the local bank. The federation lends to the group which has an outstanding loan from the bank; however, the reverse does not happen. Federation loan products are given in Table 3.10.5. Banks usually do not lend to groups who have already availed a federation loan. The federation sanctions loans to individual members on the basis of recommendations of the group. Five per cent of the loan amount is retained as fixed deposit and this amount is contributed by individual members. The MIS also tracks the individual record. Bearer checks are issued in the name of the individual at the federation office on a predetermined distribution day and a session on financial literacy is also held on that day. The federation offers the following loan products; the maximum loan term is 24 months. The interest rate charged to the individual member is 24 per cent. The SHGs retain a margin of three per cent for the loans from federation as the federation charges 21 per cent interest.

Table 3.10.5 Loan products

Products	*Purpose*	*Term*	*ROI (%)*	*Fees/charges*
Long term loans	Livestock, Irrigation, Infrastructure Shop construction, Equipment/Machineries Vehicle purchase etc.,	2 years max	21 % by federation and 24% for members.	5% FD and 2% processing fee
Short term loans	Agriculture, Service and trading and household consumption loan	1 year max	21 % by federation and 24% for members	5% FD and 2% processing fee
Emergency Loans	For any emergencies/ accidents	3 months	21 % by federation and 24% for members	Nil

GMSS offers short term and long term individual loans of up to Rs 25,000 for income generation to the members. It also offers interest-free emergency loans of up to Rs 20,000 repayable after three months. All loans are without collateral.

Insurance

GMSS has tie up with Royal Sundaram for providing insurance services to its members (Table 3.10.6).

Table 3.10.6 Insurance product

Product	*Purpose*	*Premium paid*	*Benefit*
Royal Sundaram accident insurance	Accident	only member- Rs 60/- member and spouse –Rs 90/-	Up to Rs 25000 accident benefit

Besides financial services, GMSS offers other services, viz., financial audit, and training to SHGs and their members.

The flagship intervention of Chaitanya is the development of *Jankars* i.e. community resource persons, to build capacity of SHG members and to address social issues. Once the federation has been operational for six months, those SHG members who are willing and have potential are selected and trained by Chaitanya to act as community resource persons in specific fields such as legal aspects, health, livelihood etc., These *Jankars* become the pillars of the clusters and federation; the women's ownership of the federation increases multi-fold. These community resource persons draw their travel cost from the federation; they receive an honorarium on a voluntary basis from the group/individual who has received their input.

Financials

The federation has commenced earning from its lending operations only in 2010. The operational self sufficiency is at a low of 16 per cent. The repayment rate is 100 per cent. Since the federation is yet to scale up operations the efficiency indicators and the profitability indicators show lower performance. The financial statements as well as the key ratios are given in Appendix B.

Chaitanya has clear plans for the federations to break even; the performance standards that will be achieved by the federation by 2011–2 are given in Table 3.10.7 below:

Table 3.10.7 Performance standards

	2010	*2011*	*2012*	*2013*
Loan outstanding with SHGs	1,622,087	31,69,530	41,99,750	68,11,833
Return on average assets	-53%	-7%	2.16%	3.82%
Yield on loan portfolio	10.6%	23.6%	23.7%	23.7%
Operational self sufficiency ratio	16%	89	106	112
Number of SHGs per staff	15	16	21	25
Number of SHG members per staff	197	195	253	304

Thus, the federation is poised to achieve break even by the year 2012. To provide for the central office team's costs will take up to year 2013. Thus, it is likely that the federation will be financially sustainable over a five year time frame.
The plans of Chaitanya for the federation for 2011–2 include:

- Registration of the federation as Mutual Benefit Trust
- Direct linkage with banks and other financial institutions for loan funds.
- Additional Savings and loan products to be developed based on needs.
- Focus on achieving the five social indicators[20] for the SHG members

Support from Chaitanya

GMSS enjoys strong technical support from Chaitanya and benefits immensely from its long experience of working with SHGs and federations. A central team in Chaitanya oversees the entire federation promotion process providing hand holding support to the federation staff. The technical services provided to the federations include audit, MIS, financial management, facilitating ratings, and linkages with banks. Chaitanya also organizes study tours and exposure visits to office bearers. Once a quarter all the office bearers of the federations assemble together for planning and review meeting.

The overall thrust of Chaitanya in the coming year to ensure sustainability of the federations includes: (a) Centralized recruitment and training for new staff, (b) developing common policies for all federations in consultation with the office bearers of newly promoted federations—including policy for withdrawal of Chaitanya and to achieve organizational and financial sustainability, (c) form a Section 25 Company as a community owned company to provide technical and financial services to all the federations.

Challenges

The federations are to be registered under Mutual Benefit Trust Act. While this legal form is likely to enable members to make equity investments and mobilize savings, there are no precedents of banks financing MBTs. Chaitanya is clarifying the legal position of MBTs.

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20 Reduction in anemia amongst women. All children of SHG members below age of 18 in school, access to safe drinking water for all, increase in income by Rs 5000, All SHG members free of domestic violence

Registration of the federation in a suitable legal form which attracts ownership in financial terms is critical for the sustainability of the federations. So far there has been little competition from MFIs in the area of operation. The landscape is fast changing; SKS and a few other aggressive MFIs have entered the area of operation of federations. Holistic financial services need based credit plus activities and strong community ownership can only ensure the sustainability of federations.

With the introduction of Micro finance Bill, the capital adequacy norms can be raised to the level of NBFCs (15 per cent CRAR); federations can find it difficult to raise adequate equity and there should be quasi equity support to well functioning federations.

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Annexure 3.1

GOOD PRACTICES IN SHG FORMATION AND FEDERATION

Choosing the Location and Establishment of Office

In the initial process of assessing the area and identification of villages, there is freedom for the central team to identify the likely villages to work in.

The local team is first recruited for establishment of the groups and trained centrally.

Since Chaitanya will be new to some geographical areas, credible institutions are identified where the interviews for the local staff recruitment are held in order to provide sense of security to local staff.

Experienced Jankars (community resource persons) from other locations participate in the interview for recruitment of local staff.

Office is established from the beginning to ensure cost effective operations and ensure an identity. Local team is involved in the choice of location and female staff has a choice to stay on the premises.

The Manger and three staff act as a team sharing similar type of work for the first year.

Establishment of SHGs, Clusters, and Federation

New SHGs are established in a time bound manner; within a week of entering a village, the groups are formed through systematic process.

If older groups formed by other agencies are keen to join, the books are audited, accounts settled and thereafter the groups are included on the basis of their request letter.

While in the first year the management team forms the groups, this process is taken over by local Jankars (community resource persons) from the second year making the process cost effective.

Group recognition test ensures that the groups are made aware of their quality.

After six months clusters are formed at village level; this forum enables the groups to have an identity and address issues facing women.

After nine months, federation formation is initiated. 70 to 100 groups join the federation by the first year.

The legal form of the federation as mutual benefit trust enables the groups to be members of the MBT.

Federation Operation

The groups buy shares of the federation out of their monthly savings; a part of the savings is used in purchase of shares and the rest is used for internal lending of the groups. This enables the federation to build its share capital and ownership of the groups.

The operations are member-centric with participatory processes and transparency of performance details of the federation.

The SHGs decide whether or not to join the group; there is no compulsion from the federation to enrol all SHGs promoted. The non-member SHGs get the non-financial services supports from the federation with the staff attending all the monthly meetings and provide support for book keeping and MIS.

Good norms are practised for lending—savings to credit ratio is 1:10. Pre-disbursement, the member receives financial literacy training.

The staff efficiency ratio is high at 60 groups being attended to by a field staff.

Chaitanya has worked out the very detailed business plans and viability plans of the federations and at the loan outstanding level of Rs 5 million, the federation becomes viable. This level of business is reached within 2 .5 years normally, but in tribal areas this may be achieved over a period of 4 to 4.5 years.

Annexure 3.2

Process mapping for federation by Chaitanya

Processes adopted		*Q1*	*Q2*	*Q3*	*Q4*	*Q5*	*Q6*	*Q7*	*Q8*	*Q9*	*Q10*	*Q11*	*Q12*	*Q13-Q16*
Establishment of office														
Area mapping, identification of villages by central team	Central team													
Local team identification and recruitment	Central team along with old Jankars													
Establish office which has provision for the female staff to stay	Central team													
Outputs achieved; Federation operational area selected, local team identified and office established upfront														

Essentially by central unit

Carried out local jankars and clusters

Jointly by local team and central team

Carried out by local team

(Contd.)

Processes adopted		*Q1*	*Q2*	*Q3*	*Q4*	*Q5*	*Q6*	*Q7*	*Q8*	*Q9*	*Q10*	*Q11*	*Q12*	*Q13-Q16*
Training of staff – a simultaneous process as establishment of office														
Training of key staff at central level	By the Training center at Chaitanya													
Outputs achieved; Understanding of SHG concept and Chaitanya promoted micro finance structure by new staff There is simultaneous process of training of staff and carrying out village surveys														
Establishment of groups														
Detailed village profile	Carried out by local team of 4 staff with onsite support from central team who visits for 5 to 6 days in a month													
Three meetings in consecutive weeks to meet women, identify and form groups														
Bank account opened by fourth week of visit to village, group records distributed														
Two types of training for group strengthening – roles and responsibilities of members and leaders and record keeping														
Local jankars identified and recruited and training conducted by central team														

Essentially by central unit

Carried out local jankars and clusters

Jointly by local team and central team

Carried out by local team

(Contd.)

Processes adopted		*Q1*	*Q2*	*Q3*	*Q4*	*Q5*	*Q6*	*Q7*	*Q8*	*Q9*	*Q10*	*Q11*	*Q12*	*Q13-Q16*
Outputs achieved; 10 groups are formed per month by the 4 member team in first six months. On an average 5 to 6 months groups formed per month by the staff in the initial one year; In the second year local jankars are forming the groups with the support of cluster leaders. In three years, 250 to 300 groups are formed.														
Cluster formation														
Clusters formed when 5 - 6 groups are functioning in a village; clusters take initiatives to form more groups.	LT													
Group recognition test after 6 months of formation														
Outputs achieved; Increase in number of groups with the support of cluster office bearers, greater understanding of SHG concept by members through visit to cluster meetings. Initiation of village level programmes by SHG members – greater recognition to SHGs by village community.														
Federation formation														
Federation formation	Central team													
Role clarity of the federation leaders; on the job training, exposure visits	LT													

Essentially by central unit

Carried out local jankars and clusters

Jointly by local team and central team

Carried out by local team

(Contd.)

Processes adopted		*Q1*	*Q2*	*Q3*	*Q4*	*Q5*	*Q6*	*Q7*	*Q8*	*Q9*	*Q10*	*Q11*	*Q12*	*Q13-Q16*
Central training for federation leaders and exposure visits														
Registration of federation as MBT	CT													
Loan need assessment, loan policy developed	LT and support from CT													
SHG enrolment as members on the basis of membership eligibility test														
Share capital mobilized and loans disbursed														
Support services to all recognized SHGs in the federation irrespective of membership														
Outputs achieved; End of second year-Cluster and federation office bearers understand their roles and responsibilities, loan disbursement mechanisms in place, member awareness on loan policies, system of pre-loan disbursement counseling established. Strong cadre of Jankars for support to SHGs End of third year-Staff and office bearers informed on steps to increase sustainability of federations, 50% sustainability, and loan counseling centre established. End of fourth year-100% sustainable.														

Essentially by central unit

Carried out local jankars and clusters

Jointly by local team and central team

Carried out by local team

(Contd.)

Processes adopted		*Q1*	*Q2*	*Q3*	*Q4*	*Q5*	*Q6*	*Q7*	*Q8*	*Q9*	*Q10*	*Q11*	*Q12*	*Q13-Q16*
Support services from Chaitanya														
Financial support for operating expense by Chaitanya through grants and phased out completely by fourth year														
MIS – individual member tracking is done by the central unit – however the decisions on loan as well as default are taken by the federation office bearers. The central MIS unit provides data and the CEO and operations persons will guide. and decision making on loans														
Internal auditing through office bearers and senior staff														
External auditing for regd federations														
Accompaniment support / technical assistance/ monitoring – by regional managers on a regular basis														

Essentially by central unit

Carried out local jankars and clusters

Jointly by local team and central team

Carried out by local team

(Contd.)

4 Development Costs of SHG-based Financial Federations

4.1 INTRODUCTION

The impact of the SHG movement was felt globally by the beginning of the 21st century. While the Grameen model was predominant it was difficult for the international microfinance community to ignore the numbers being added to the microfinance clientele under SHG bank linkage model in India. This recognition was accompanied by disbelief that a model involving minimal funding and support could be a sustainable, low cost, and an effective delivery mechanism for microfinance with substantial empowerment benefits to the women members.

Both multilateral and bilateral donors started asking questions about the cost of promotion of SHGs with a view to determine the development cost involved in formation of SHGs and the 'subsidy' involved in supporting them. The underlying attempt was to estimate the total promotion costs that needed to be incurred in forming and sustaining the SHGs. A few studies provided estimates of the cost of promoting SHGs and their emerging financial and non-financial associations, where

formed[1]. Based upon interviews with a leading NGO promoter in 2001, Tankha (2002), for example, reported costs 'in the range of Rs 15,000–25,000 per SHG for the development of structures of SHGs linked to livelihood programmes to the (non-financial) federation stage'.

The above range generally also applied to other prominent NGO SHG promoters under a wider 'microfinance plus' model involved in watershed development. These promoters received funds from international donor agencies and government programmes such as the IFAD Programme in Tamil Nadu and various SHG programmes of the Andhra Pradesh and other state governments. Tankha (2002) also reported costs of around 'Rs 15,000 per SHG for the development of the three-tier structure of SHGs, village organizations and the financial intermediary mandal samakhyas' under the UNDP-SAPAP project in three districts of A.P., which was the forerunner of the Velugu and IKP programmes.

In any event, the establishment of these SHG federated structures has required a certain level of investment and financial support from NGO, donor and government sources. Since external investments of this type are necessary to get the SHG federations up and running, it is a matter of interest and debate as to what have been the cost-effective methods or models of SHG federation. However, despite the fact that several studies have been carried out on functioning of SHG federations including rigorous assessments of their performance, there has been no major attempt at assessing and understanding the costs involved in establishing SHG federations in different areas adopting different models.

To fill this gap the present study seeks to analyse the development cost of SHG-based federations engaged in financial intermediation as reported by ten NGO and government promoters. These costs represent the initial costs necessary to build a federation structure for sustainable financial operations.

1 For example, Harper (2002) reported the cost of the process of SHG formation to be in the range between Rs 1,200 and Rs 20,400 for different types of promoting agencies. Similarly, Tankha (2002) reported a range of between Rs 4,000 and Rs 12,000 per SHG for different types of programmes. These and other estimates are reported in CGAP (2007).

4.2 METHODOLOGY OF COST ESTIMATION AND ANALYSIS

Development Cost Concepts

Using cost-benefit analysis it is possible to set decision rules for the choice between alternative development projects, through assessing returns to investments. Where tangible outputs result, these involve discounting future costs and benefits accruing to project participants to arrive at the net present worth of a project. However, where intangible outputs result it is least-cost analysis or cost effectiveness analysis that determines the least cost combination of tangible costs that realize the same intangible benefit.

Cost-effectiveness analysis can also be applied, say, to the grounding and maintenance of a delivery structure involving associations or federations to facilitate sustained access to formal finance to members of the community. It could help make a selection from different federation structures representing different technologies of promotion. Thus, a comparison of the **discounted present worth of costs incurred** over the years in the development of an SHG federation financial intermediation structure under different models would help determine the least-cost or efficient technology[2].

For a comparative analysis, it is necessary that SHG federations formed under different approaches are relatively homogeneous and expected to perform similar functions and result in similar outcomes; (b) where exercises are based upon past data historical costs need to be converted into present values and future costs appropriately discounted; and (c) failure rates be taken into account. While the exercise at (b) can be attempted[3], regarding (c) it would perhaps be best to assume that failure rates are the same or similar across agencies.

The homogeneity of federations is limited both by the diversity in the types of models created[4] as well as the varied regulatory environment in which such federations have been formed. Nevertheless, we can attempt an estimation of the

2 This discussion partly follows Tankha (2002).

3 As also undertaken in this study.

4 For example, federation structures could have two, three or large number of tiers of intermediation that could have a bearing on costs - or alternatively be designed to cover microfinance plus activities as well. While the study covers both primary and secondary federations, all federations covered under the present study have some microfinance plus activities and can better be described as multipurpose rather than financial federations.

direct and indirect costs of promotion incurred per member, or alternatively, per SHG, the lowest intermediation or implementing unit, in establishing a sustainable federation structure for each of the models/cases.

Some programmes may transfer costs incurred at SHG level e.g., costs related to account books and record keeping and other meeting expenses to the SHG members at an early stage, and others may continue to provide these services. While the former may be seen as good practice in bringing about autonomy and coherence in the SHG functions, the apparent reduction in costs would be as a result of transferring them to the participants in the programme.

Hence estimates of development costs reported by the study organizations need to be viewed with caution before passing judgment about the merits and comparative cost-effectiveness of different approaches. However, they provide a rough order of magnitude of expenses that need to be incurred based upon the experiences of some of the successful promoters. This exercise presents and analyses the range of initiatives and costs of SHG federations engaged in financial intermediation as observed for various models and environments.

Methodology and Limitations of Cost Estimation

The cost of development of an SHG federation is being estimated in terms of the average total cost of promotion per member SHG. The costs incurred at NGO/project level for promoting and sustaining a federation of SHGs engaged in financial intermediation until its independent functioning are being estimated under this exercise. These costs generally have been incurred or are planned over a period of about five years.

The present study covers 10 federations of different vintages. The oldest federation has been functioning for over ten years while two have had less than two years of operations. It is expected that a cross-section of this kind will provide a better understanding of costs and issues as they have crystallized over the years. Five federations are either stand-alone federations or representative of other similar primary federations formed by the promoter at the block or mandal level (the second or third tier SHG association). These federations are intended as the main financial intermediation tier serving the constituent SHGs. Such federations cover anything between 150 to 900 SHGs. Of these three are registered as trusts, one as a society and another is unregistered. The remaining five federations are registered as cooperatives. One, ASSSL, is a primary cooperative, while the remaining four

are secondary cooperatives. Three of these IIMF, Pragathi, and Sanginee operate in larger geographical areas and through primary cooperatives at village or cluster level[5]. IKP Dharmasagar is the typical mandal samakhya MACS, a secondary cooperative operating through village organizations and SHGs but operating at the block level.

Data for the exercise was obtained on a predesigned format covering cost heads at different stages of SHG and federation and stabilization. This was followed up with personal interviews and telephonic follow-up with NGO promoters and federation staff. Since the data for this exercise was not likely to be readily available in an appropriate form NGOs provided from their experience a "best estimate" on an annual basis, of costs per SHG incurred for establishing and supporting the operations of the above federation. Using conventional accounting heads these costs cover three phases of federation formation and support, viz., (a) initial phase of SHG formation and development of village organizations/clusters; (b) initiation and establishment of the financial federation; and (c) maintenance support for federation operations.

The method of computation of cost for these phases was different for different organizations. For some of the mature federations, such as BMASS JP, IIMF and PALMA the historical costs were extracted from records of expenses incurred under different heads over the active period of SHG formation and federation and averaged on an annual basis over the complement of SHGs supported. In the case of others, e.g., Pragathi MACS and ASSSL, these costs were 'modelled' for a five-year period of SHG promotion and federation formation with standardized human resource and other inputs which were costed with the help of historical budgets and prices. For Dharmasagar MS, CGMST, Boond Bachat Sangh, Sanginee, and Savera cost estimates were developed using current and projected cost data for SHG and federation development into the future. In the case of Savera the estimates pertained to similar new federations that had been formed more recently.

The estimates related to a period of support usually of five years but going up to six years in two cases and seven years in one case. For the purpose of comparison over time, historical costs were adjusted by the Wholesale Price Index (1993–94 series) to reflect 2009–10 prices. For ease of calculation, price indices used were of the mid-point of the period of support. Thus for a five-year programme of federation promotion undertaken during 2002–3 to 2007–8 costs were treated as having been incurred in 2005. Consequently, 2009–10 prices effectively pertain to, say, a five-year period of promotion of 2007–8 to 2011–2.

5 However, as indicated earlier, the intermediation role of Sanginee's primary cooperatives has since been withdrawn and they function like 'branches' of the apex cooperative.

The data for the exercises has been voluntarily supplied and the estimates have been made out by government and NGO staff themselves, though with some guidance from the study team in order to conform to the objectives of the study. Therefore they also reflect the understanding of the respective NGOs of costs incurred by them in establishing the federations.

There are of course limitations to the applicability of comparisons of such estimates across regions and contexts. There is the question of reliability of recall data and estimates based upon assumptions about inputs or projections of various types. Cost comparisons do not take into account variations in the physical infrastructure and socio-economic environment prevailing in the different areas covered which could affect costs. Besides, local pricing and availability can be very variable, especially for the human resource factor, which is the major input.

4.3 PROCESS OF SHG DEVELOPMENT AND FEDERATION: PHASES AND COST COMPONENTS

We can make the distinction between three distinct phases of federation promotion towards demarcating and analysing the processes and inputs and the concomitant costs. Thus three discrete (or even overlapping) phases can be identified as:

(a) Formation of SHGs and development of village- cluster-level organizations
(b) Initiation and establishment of federation
(c) Stabilization of federation operations

These processes, from available evidence, are generally planned for and take about five years or until the objective of independent functioning of the federation is reached. While considering development costs, costs incurred in phase a) represent the preliminary investment in SHG promotion and development of village organizations/ clusters while costs incurred in phases b) and c) can be taken together to represent the support for the financial federation structure. For the purpose of analysis in the current study costs incurred under the second and third phase are presented in consolidated form - though disaggregated data to facilitate further analysis are also presented.

The process of SHG promotion in mobilizing the women members is generally well known. This includes initial visits by a team, organization of village level meetings, identification of potential group members, formation of groups, and the initiation of thrift activity. This is followed by rotation of savings within the groups, training

of SHG leaders, and members in various subject areas, monitoring, and periodic assessment as part of screening for bank linkage. The majority of the inputs for this would be provided over a period of one to two years.

As the SHG movement has grown, these processes too have undergone some changes. This has also had a bearing on the development cost of SHGs, perhaps making for a reduction in costs as compared to those incurred by an earlier generation of promoters. Initial meetings to mobilize members have been rendered unnecessary as women come forward to join on their own after seeing the positive experiences of neighbouring groups. At the same time NGO functions related to SHG promotion, training and capacity building have been taken over by federations and group leaders themselves. Some of the more ambitious attempts of promotion that involved substantial capacity building inputs aimed at financial literacy and transference of bookkeeping skills among SHG members have given way to the pragmatic use of paid bookkeepers either from among the NGO or federation staff or otherwise locally recruited persons. The period of SHG operations prior to evolution of federations too has been varied. While some SHGs are federated more than a decade after formation and support, others have been able to join within a period of two years or so.

NGOs implementing microfinance plus and empowerment models through multipurpose federations normally contribute more to the development of capabilities of members and add to the range or sustainability of their activities by including related initiatives such as microenterprise training and social inputs. The longer period of NGO facilitation towards forming financial federations of SHGs by creating additional microfinance intermediaries, necessitates higher foundation costs. Thus, the resulting variations in duration and intensity of social facilitation by promoting agencies have a bearing on development costs as well.

As far as federation promotion and development is concerned it too has its own set of processes. These processes are generally driven by the NGO promoters though inevitably through consultation with and the buy-in of the community. It is observed that the path usually taken is to first facilitate the formation of cluster or village/panchayat level associations of SHGs to encourage experience sharing, problem solving as also participate in collective campaigns for social causes. These clusters in turn start to intermediate funds themselves or more generally become the intermediaries for the larger project, block

or mandal *financial* federation with democratically elected bodies for its functioning[6]. Extended consultations and conferences, exposure visits, familiarization, and training workshops are part of this process which culminates in the registration of the federation and the initiation of its financial activities. An elaborate process mapping of the many steps involved in federation formation in the case of the CGMST is given in Annexure 3.2 to Chapter 3. Each step in the process and corresponding inputs and activities carry with them a financial cost which can become extremely difficult to estimate. An attempt at an activity-based costing of a development inputs provided by CECOEDECON during the period 2003 to 2007–8 for the study federation ASSSL is, however, given in Annexure 4.1, Table 4.1A.

At the NGO level, apart from providing the office and staff for operations, a similar process of orientation and internalization of the relationships becomes necessary as staff are prepared for a new form of partnership with community members and some may also be seconded to serve in the upcoming community federation—a major role transformation.

In the final phase as the federation starts functioning, NGO inputs are vital as physical and financial support is provided until the volume of operations of the federation is large enough for it to bear its own costs from its revenues. This phase often lasts longer than planned both because of the known issues with achieving scale, particularly in respect of access to bulk funds for onlending, as well as the practical need for continued NGO moral and material support.

4.4 DEVELOPMENT COSTS UNDER DIFFERENT MODELS OF FEDERATION: ANALYSIS OF FINDINGS

For the ensuing analysis we distinguish between government and NGO-promoted federations and will focus somewhat more on the latter. The government initiatives are a study in contrast, one being part of the mega state-wide World Bank-aided Indira Kranthi Patham (IKP) programme and the other a small project of the district administration of Ganjam district in Orissa. The NGO initiatives represented generally seek to exploit economic linkages with credit and savings in support of the livelihoods of the poor members. Within the NGO-promoted federations we further distinguish between cooperatives and other federation models[7]. We discuss below the evidence on cost of SHG promotion under these different models.

6 In some models both the cluster/panchayat level association and the block/higher level federation act as financial intermediaries.

7 The Dharmasagar MS is also a MACS.

Overall Findings

Annexure 4.1, Table 4.2A gives estimates of the costs of development of a financial federation based upon SHGs as estimated for 10 leading government and NGOs programmes. These are based upon interviews with programme managers and calculated from internal data. It represents possibly the first time that such a comprehensive exercise has been undertaken towards estimating the level of costs incurred by different development agents in supporting financial federations.

The table also provides the period of support for each federation and the number of SHGs covered by the federation the terminal year of the period of active promotion covered by the study exercise. If we consider all the study federations the unadjusted estimates vary from Rs 3505 to Rs 40,837 per SHG for the different types of SHG-based initiatives and the differing time periods during which the development costs were incurred. **The average total historical development cost of the study federations has been estimated at Rs 19,676 per SHG. When adjusted for price differences in the estimates and normalized for support for a five year period the average total cost for the 10 study federations works out to Rs 20,521.**

A fuller discussion and review of the findings follows.

Development Costs Under Government Initiatives

The two government initiatives are contrasting in their approach and coverage. The IKP clearly converges on a whole range of non-financial and social activities in addition to financial services. The BMASS initiative has been undertaken only in Ganjam district. Further, even within the district it is one of only three BMASSes that benefited from capacity building and technical support under the CASHE project. The costs of promotion for BMASS are low because the SHGs were promoted by the ICDS which accounts for the low cost of promotion[8]. The direct contributions made by the project to the BMASS have been included in the annual estimates prepared for this exercise. (However, not included are the substantial overhead costs of the CASHE project in facilitating 25 such microfinance institutions in three States).

8 The figure of Rs 3505 per SHG reported for BMASS JP does not include costs of SHG formation since originally SHGs were those formed by ICDS functionaries as part of their routine duties – an externally managed process. In later years this process has come to be managed by the SHGs and their leaders, with the support of federation staff, at negligible cost.

Among all the federations covered it is perhaps the most focused on financial services delivery. Its low cost delivery system is enabled by selective support from the district administration and the comparatively lower human resource costs as compared to mainstream NGOs. Thus, even if we were to make adjustments for some of these inputs it would emerge as one of the lowest cost initiatives.

The case of the Dharmasagar mandal samakhya, representative of the block level federations promoted as financial intermediaries under the IKP (formerly the Velugu programme), is more complex. This programme has been viewed by many as a high cost exercise undertaken with multilateral support. Nevertheless, its domination and substantial impact in the rural areas of Andhra Pradesh cannot be denied. The estimates of promotion cost provided by the Society for the Elimination of Rural Poverty (SERP), the government organization that manages the programme, are an eye-opener and run contrary to earlier estimates and perceptions. Thus, we find that development cost of the federation under IKP was Rs 12,984 at 2009–10 prices. It is instructive to revisit comparable estimates of development costs under Velugu provided to one of the authors during the course of a CGAP study undertaken in 2003[9].

Table 4.4.1 Velugu/IKP Programme: Estimates of support costs to Mandal Samakhya (per SHG) (Rs)

	*2003 estimates**	*2010 estimates#*
Average Cost of Social Mobilization	3,722	1,583
Average Support cost (including RLF)	1495	1,161
RLF and other grants	15,000	8,333
Project Overheads	873	46
Total	21,090	11,123

* For 300 SHGs per mandal for 3 years;
# For 900 SHGs per mandal for 3 years

As seen from Table 4.4.1, costs reported for the IKP are Rs 11, 123 for three years as against Rs 21, 090 for Velugu in 2003[10]. If SHG level grants and the RLF provided to the Village Organizations were to be excluded, already in 2003 the Velugu cost of SHG promotion was considerably less than that of leading NGO promoters. 2010

9 See estimates for Pannagal Mahila Mandal Samakhya, Mahbubnagar as reported in CGAP (2007).

10 In our estimates we have taken period of support to be five years.

IKP estimates are about half of 2003 Velugu levels and much lower than the other costs incurred by NGOs for the corresponding social mobilization activity. One of the features of the 2010 estimates is that the overhead costs of the IKP infrastructure, contrary to the expectations of many, are only Rs. 46 per SHG for the average 900 SHGs per mandal. It has to be noted that in both years, the Velugu and IKP estimates include substantial grants—of Rs 15,000 per SHG in the 2003 estimates and Rs 8,333 per SHG in the 2010 estimates.

The cost of social mobilization and SHGs formation is a contested issue in Andhra Pradesh. It can be argued that saturation levels have been reached and with the exception of a few tribal pockets poor rural families have had the opportunity to join SHGs at some time or the other. Indeed, the issues regarding SHGs for the past many years have related to reaching the poorest of the poor, the revival of moribund groups, the overlap with and subsumption of NGO groups rather than large scale promotion of new SHGs. Consequently, costs related to SHG formation lose much meaning at least in this State. Similarly, the with the comprehensive and even overlapping coverage of the mandal samakhyas, well-established NGO promoted MACS, and the many microfinance institutions leave little room for further development of financial federations in the state. Rather, several of the NGO initiatives around MACS federation have begun to flounder. While IKP has attracted attention as a model worth replicating and certain states like Orissa and Bihar are setting up similar structures, the component of financial intermediation through SHG federations does not appear to be developing in these states as yet.

Development Costs of SHG Federations Promoted by NGOs

If we focus on the eight NGOs that have promoted the study federations we find all have a strong background of professionalism as development practitioners and have been at the forefront of SHG promotion. They have been guided by the interests of the community and have worked within the confines of the physical, financial, and legal environment prevailing in different States. They have been substantially aided in their mission by a large number of foreign and Indian donors and have tapped the funding sources available under various large projects as well from NABARD, SIDBI, RMK, and microfinance wholesalers such as FWWB and RGVN. Their access to funding and scale of operations may be difficult to replicate for smaller NGOs. Their experience, expertise, and access to networks enable them to support federations of

SHGs in a cost-effective manner. However, not all of them have been able to create vibrant federations at the present stage. Several of them are large complex organizations playing a role in several developmental sectors. This could be a contributory factor to the relatively higher development cost estimates observed for NGOs as compared to the government initiatives.

Revisiting the aggregate cost estimates at 2009–10 prices and starting with the lower end of the development costs spectrum we find that the two comparatively small federations report costs of less that Rs 20,000 per SHG. Neither of the federations has borrowed externally, and both have a comparatively small cohort of SHG membership. While Boond Bachat Sangh has been in operation for eight years it has still not graduated to external borrowing and remains dependent on the parent organization for staff and systems support with a relatively stagnant SHG strength. Estimates for costs of promotion of SHGs are low on account their being based upon rates for promotion by federation rather than the parent NGO. CGMST is a new federation, still unregistered, in its first year of operations.. In the case of CGMST, the NGO promoted a parent federation which in turn promoted federations such as CGMST. It is likely that this has been a factor in the low cost of promotion observed. This is confirmed by the process mapping (Chapter 3 Annexure 3.2) which indicates that from the second year onwards community resource persons (jankars) promote SHGs with a high proportion of local and federation inputs making the process of SHG promotion cost-effective. Sanginee is the other federation to report costs lower than Rs 20,000 per SHG. It has since divested itself of the primary cooperative structure and is directly engaged in service delivery. Sanginee works in the harsh environment of Kalahandi district with over 50 per cent Scheduled Tribe membership. However, the period covered is not one of SHG promotion but of conversion to JLGs and initial social mobilization costs for SHG development are not reflected in their estimates.

If we consider the two MACS functioning as secondary federations, IIMF and Pragathi MACS, they have a large membership and massive loan portfolios and substantial bulk borrowing. To reach this level required major[11] investments even as the federations stabilized and became self-sufficient. Besides, the role of the MACS federation extends to supervising the mandal-level MACS, and building their capacity to enable them to function independently. This can be expected to be a more resource

11 Pragathi Sewa Samithi received substantial support under CASHE project.

intensive model much dependent on professional inputs, well designed decision-making structures, financial management, and strong MIS. It would not be surprising if costs reported by them were comparatively high. In fact they are in the middle of the spectrum – especially if we take in account the fact that IIMF support cost covers seven years of support instead of five years as for other federations. Limited to a five-year span IIMF's support cost declines to Rs 20,227.

The two federations of Rajasthan report among the highest costs of federation development—admittedly within a relatively narrow band—of over Rs 24,000 per SHG. Notwithstanding the similar cost of development estimates, they represent contrasting experiences. ASSL as a liberal cooperative appears to have much greater flexibility and potential and is already accessing external loans, apart from its mainstay of member's savings. The scattered *dhanis* of Rajasthan make for high costs of reaching the target population for development projects[12].

The case of the PALMA federation is somewhat special. As an old established NGO, PWDS has had many initiatives both in financial services and other development projects. Its PALMA federation was promoted after several years of social campaigns and strengthening of the cluster level tier. Its high development cost is partly attributed to the fact that it has deployed regular and long-serving staff drawing substantial salaries in its development work[13]. Further, it is the only NGO that has been able to provide a large revolving fund to kick start the federation which has added substantially to development costs.

To sum up, with the one exception above, overall estimated costs of promotion per SHG are within a reasonably well-defined and acceptable range considering the variety of initiatives covered.

Social Mobilization Versus Federation Support: Cost Factors

Table 4.2A in Annexure 4.1 also gives the breakdown of total cost into social mobilization and federation support cost. It is observed that variations in reported social mobilization cost across NGOs are rather high ranging from Rs 2,772 to Rs 13,139 per SHG. However, for the phase of federation support, the range of reported

12 It is understood that scale of support for SHG formation under the World Bank -aided District Poverty Initiatives Programme (DPIP) project in districts such as Jaisalmer, Tonk and Dhausa is Rs 22,000 per SHG. (Mr. Ram Kumar Mishra, CECOEDECON, personal communication).

13 18 per cent of the cost estimates for PALMA federation (Rs 40, 837 per SHG) are accounted for by a revolving fund grant which if excluded brings down the cost of promotion to Rs 33,570.

costs, with one exception, is smaller and as many as five federation report costs of between Rs 10,000 to Rs 15,000.

Table 4.3A in Annexure 4.1 gives detailed estimated costs for social mobilization and federation support under different heads which clearly distinguish between the phase of SHG and cluster development one the one hand and the substantive progression to federation formation and support on the other.

There is also great variation in the distribution of costs reported under different heads for the NGOs across these two phases and the overheads expenditure incurred. Partly this has arisen because of the problem of allocation of costs to predetermined heads of expenses from historical records. NGO staff costs, overheads and training expenses could find their way into different heads without affecting the overall costs[14]. As a result the break-up of costs under different heads though complete is subject to greater variations than the overall costs.

Some broad generations can be attempted. It is clear from all the federations studied that engagement with the SHG has to be on a continuous basis in the federation model to ensure active SHG involvement and loan supervision. This requires an intensive deployment of human resources. Thus SHG meetings are attended by NGO staff, and later by federation staff on a regular basis even though meetings may be held on a weekly basis as in PALMA or Sanginee. Other aspects of social mobilization related to trainings, books, and materials follow a predictable pattern. Where primary level clusters have an active role the training costs incurred at this level would be higher.

It is observed that the two Andhra Pradesh MACS and the Rajasthan federation have high costs in respect of staff salaries and training—possibly because of the more intensive operations of the former and the difficult areas of operations of the latter. In all these cases social mobilization costs when taken along with NGO support costs for this phase are in excess of 50 per cent of total costs while in the case of the other four NGO federations they are restricted to about 30 per cent or less of total costs.

As far as support costs for the federation are concerned there are again considerable variations, with NGO support in meeting costs of federation staff being high in Sanginee, PALMA, and Boond Bachat Sangh and extremely low for Pragathi MACS. To a great extent the level of NGO support to federation towards staff costs reflects the degree of handholding being undertaken till the federation is able to generate enough

14 Thus, in the case of IIMF and Pragathi MACS, with a three-tier financial intermediation model, the comparatively high social mobilization costs, would include therein the costs related to the village-level MACS financial intermediaries.

revenue for viable operations. In Boond Bachat Sangh such support has exceeded a period of five years. In others, Savera and ASSSL, the federation/cooperative has begun to bear almost all the costs after the initial period of support.

One of the methods used to enable federations to undertake operations is through the provision of a revolving loan fund (RLF). This has been a feature of the Velugu/IKP support for mandal samakhyas and even panchayat level federations promoted in Tamil Nadu. The CASHE project too made selective use of the RLF while supporting its partners. From among the study federations, only PALMA has received a substantial RLF by PWDS from funds provided by donor agency. Of the rest, ASSSL received a small initial RLF grant amounting to Rs 1,000 per SHG.

Overall, the findings suggest that while the social mobilization costs continue to be substantial and an important part of the costs for promoting a federation, the larger proportion of costs relate to support for operations of the federation. Thus, about 60 per cent of overall costs are accounted for by cost of establishing and supporting the federation structure.

Out of the components of federation support costs, while other costs such as those for meeting expenses and training and office premises are important, staff costs are the main item of expense for all federations and constitute over 60 per cent of the development expenses necessary in support of financial federations. To this may be added the indirect staff costs at the NGO/project level. Indeed, a true test of the successful independent functioning of a federation is how soon it is able to bear the staff costs for its operations.

Development Costs, Federation Structure, and Scale of Operations

A distinction was made earlier between cooperatives and other forms of federation. Further the scale of operations of the NGO federation was quite different. The question arises whether smaller federations require higher development support than larger federations. In effect, are there economies of scale in operation?

Apart from the two government initiatives, our sample includes three NGO federations serving 900–1000 SHGs[15] or more. In fact, the other federations in this category are the two secondary MACS federations of Andhra Pradesh and Sanginee Secondary Cooperative limited which covered 910 SHGs in 2008 before converting to the JLG model. It will be seen that the adjusted cost of promotion of these three is somewhat lower than the average for all the study organizations at around Rs 19,100.

15 In this list we include Sanginee which covered 910 SHGs in 2008 before gradually adopting the JLG model.

Table 4.4.2 presents the average development cost of the 10 federations at 2009–10 prices. It has already been observed that development costs were the lowest for two of the smaller federations. The higher cost federations were from Rajasthan and Tamil Nadu. It would appear that the determinant of costs could be geographical rather than related to size of the SHG development programme. Thus there does not appear to be any association of development cost with the scale of the programme.

Table 4.4.2 Scale of operations and development cost (Rs per SHG)

Name of the federation/Year of Start of Operations	*Number of SHGs as on March 31st 2010 (Rs)*	*Average development cost per SHG (Rs) @*	*Loan outstanding as on 31st March 2010 (Rs)*	*Loan Outstanding per SHG as on 31st March 2010 (Rs)*	*Loan outstanding per SHG (Rs)/Average development cost per SHG (Rs) @*
BMASS, Jagannathprasad (1999)	1065	4,142	6,68,98,288	62,815	15.2
Dharmasagar Mandal Samakhya (2003)	1342	12,984	1,18,52,624	8,832	0.68
Pragathi MACS (2004)	3907	20,397	24,49,33,000	62,691	3.07
IIMF(2004)	2180	20,227	19,93,64,575	91,452	4.5
Sanginee (2005)	*1683	17,100	3,47,42,768	20,643	1.2
ASSSL (2004)	254	24,060	3,23,96,215	#127,544	5.3
Savera (2006)	131	26,577	23,14,971	17,672	0.7
PALMA (2008)	435	45,986	2,02,37,710	46,523	1.0
Boondh Bachat Sangh (2002)	166	18,306	21,48,902	11,742	0.6
CGMST (2009)	183	15,434	16,22,087	8,864	0.6
Average Total Cost for 10 federations (Rs) @		20521			

@ at 2009–10 prices (adjusted to five years of support); * JLGs; # Includes loans to individuals not members of SHGs

Another proxy for scale is the size of the loan programme. It may then be possible to pursue a different line of enquiry, i.e., whether lending operations are being conducted on a sufficient scale to justify the development costs. For this we can examine the loan outstanding per SHG in relation to the adjusted cost of development. Two study federations, viz., PALMA and CGMST, have been functioning for less than two years and can be excluded from the analysis. The other federations have been functioning for at least four years or more. It is observed that only in Pragathi, IIMF, and ASSSL has the loan programme taken off whereas in the others loan outstanding is not even as high as the adjusted development investment per SHG. ASSSL has shown the ability to function as a cooperative with diversified funding sources and a diversified portfolio. However, other smaller federations such as Savera and Boond Bachat Sangh have not shown the ability to access and intermediate large funds.[16]

Can we then conclude that the federation model must aim for a minimum scale of operations in the interests of viability? Possibly not, in view of the success of ASSSL and the potential of CGSMT. However, the smaller study federations appear to represent the minimum feasible size for SHG federation. Nevertheless, if smaller federations are contemplated, the cooperative structure would be the preferred legal format in order that additional financial services can be provided and an economical source of funds for lending operations is simultaneously ensured in the form of member savings.

4.5 BENCHMARKING DEVELOPMENT COSTS OF SHG FEDERATIONS

In conclusion, an attempt is made to provide some norms based on the foregoing discussion. It had been reported that the five-year average total cost for federation development at current (2009–10) prices was estimated to be Rs 20, 521 for the ten federations covered in the study. However, we exclude the two government programmes and consider only the development costs of NGO-promoted federations towards benchmarking. Table 4.5.1 below gives certain adjusted costs of federation development based upon the data of the current study.

16 It may be argued about these and other federations that financial services delivery is not their main objective. However, viable financial services delivery is undoubtedly also necessary for the smooth functioning of other non-financial interventions.

Table 4.5.1 Adjusted estimates of development costs of NGO-promoted financial federations

Alternative Estimates of Federation Development Costs	*Average development cost per SHG (Rs) @*
Average Total Cost for 10 study federations	20,521
Average Total Cost for 8 NGO federations	23,511
Average Total Cost for 7 NGO federations (excluding PALMA)	20,300

@ at 2009–10 prices (adjusted to five years of support)

When we consider only the data for the eight NGO federations, the average total cost rises to Rs 23,511. However, included in our results is the outlier value of Rs 45,986 for PALMA federation. If we drop this value, the average total cost for the remaining federations works out to Rs 20,300. The range of costs for the remaining seven federations lies between Rs 15,434 and Rs 26,577 per SHG.

Though inputs and contexts differ across the country, the available data suggests a degree of convergence of development support cost in the range of Rs 15,000 to Rs 25,000 per SHG with a mean value of Rs 20,300 per SHG as the support necessary for a promotion programme of SHGs to be brought together in a federation for financial intermediation and other economic and social activities.

By way of validation, it may be useful to add the findings from a similar exercise conducted by the IDPMS in respect of the Manini Vividdodesh Souharda Sahakari Niyamita, comprising two cooperatives formed out of members of the 1,400 SHGs in Gadag District and Bellary District, and registered under the Karnataka Sahakari Souharda Act 2000, which have been functioning since 2007. Five-year data development cost data for 2006 to 2010 prepared as part of case material for this study but received too late for inclusion reports development cost as Rs 19,299 per SHG for the two federations, a close approximation to our study averages.

Some benchmarks that can be suggested on the basis of the data and observed practices of development of SHG federations are:

- Period of support: 5 years
- Development cost – Rs 20,000 to 25,000; (a) Social mobilization: Rs 8,000 to Rs 10,000 (b) Federation support: Rs 12,000 to Rs 15,000
- Minimum scale of intervention for federation—about 200 groups or 2,500–3,000 members in a geographically compact area, the equivalent of a development block or mandal.

In revisiting the development costs of SHGs and federations after nearly a decade, it is remarkable how little the issues and levels of costs have changed, if at all. As noted at the outset, way back in 2002 a range of Rs 15,000 to Rs 25,000 per SHG was considered to be the norm for support for SHG development involving facilitation to the federation stage. The available evidence does not suggest any different even now in 2010.

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Annexure 4.1

Table 4.1A Apni Sehkari Sewa Samiti Ltd.: Activity-based costs of development and support for SHGs and federation (Rs per SHG)

Particulars of Activity/Cost Item	*2002-03*	*2003-04*	*2004-05*	*2005-06*	*2006-07*	*2007-08*	*Total*	*Remarks*
Social mobilization, SHG formation and support								
1. Stationery	250	250					500	Costs met by SHGs from 2004-05 onwards
2. Formation Visit	3000						3000	Formation visits (first meeting – choupal with three staff + 3 visits – one staff + 12 visits to monthly meeting (two meetings covered per day) – Rs. 250x6 person days, i.e, Rs. 1500 *plus* 250x6 person days for meetings, i.e., Rs. 1500, total Rs. 3000 @ Rs. 250 per day with travel and extras
3. Leadership training at village for all SHG members	400						400	Two day training; (2 staff plus travel + food and other meeting expenses) – per village average 3 SHGs, Rs. 1200 i.e., Rs. 400 per SHG.

(Contd.)

Particulars of Activity/Cost Item	*2002-03*	*2003-04*	*2004-05*	*2005-06*	*2006-07*	*2007-08*	*Total*	*Remarks*
4. Block level training for all SHG leaders – residential	600						600	3 staff facilitators –cost salary, travel, food, stay Rs. 6,000 for 10 SHGs, i.e., Rs. 600 per SHG
5. EDP training group leaders – at block level		900					900	Year 2 (2003-04) EDP training group leaders – at block level - inc. resource persons @ Rs. 1000 per day, total expenses Rs. 9,000 for 10 SHGs i.e., Rs 900 per SHG
6. Attending meetings/book keeping		1500	1500	1500	1500	1500	7500	Attending meetings/bookkeeping – 12 visits per SHG – 2 SHGs per day – 12 day @Rs. 250 , i.e., Rs. 1,500 per SHG per year (also 3rd year and onwards)
7. Exposure visit for federation leaders		300					300	Exposure Visit for federation leaders – to leading NGO, other SHGs by bus, e.g., Myrada (Rs. 1,00,000) for 2 federations (350 SHGs) – Rs. 300 per SHG.
8. Exposure visit to mature SHG leaders to SEWA, PEDO etc.		225					225	Exposure visit for mature SHG leaders – SEWA, Ahmedabad, PEDO, etc – 50 persons – Rs. 75,000, i.e. Rs. 225 per SHG
9. Workshop for discussion on mode of federation		150					150	Two two-day workshops for discussion on mode of federation 30 participants – Rs. 25,000 each, Rs. 50,000 or Rs.150 per SHG

(Contd.)

Particulars of Activity/Cost Item	*2002-03*	*2003-04*	*2004-05*	*2005-06*	*2006-07*	*2007-08*	*Total*	*Remarks*
10 Study on federation mode		150					150	Study on federation mode – Rs. 50,000 – Rs. 150 per SHG
11. Registration fee		0					0	Registration fee – nil for cooperatives
12. Intensive one year of meetings at block level			1100				1100	Year-3 and onwards: Intensive one year of meetings at block level – on credit linkage and federation formation – one SHG leader per group – 12 meetings – Rs. 40,000 – Rs. 1,100 per SHG.
13. Executive committee meetings of federation – monthly			300	300			600	Executive committee meetings of federation – monthly -- travel and meeting expenses – Rs. 100,000 per 350 SHGs – Total Rs. 300 per SHG over two years
14. Orientation and inputs of NGO staff			500	500	500	500	2000	Orientation and inputs of NGO staff – including training outside at BIRD, Lucknow and abroad – approx. Rs. 150,000 to Rs. 200,000 per year – Rs. 500 per year per SHG (covers all annual NGO technical support and overheads)
15. Federation office rent			100	100	100	100	400	Federation Office Rent – Rs. 12,000 per federation – Rs. 100 per SHG – 4 years

(Contd.)

Particulars of Activity/Cost Item	*2002-03*	*2003-04*	*2004-05*	*2005-06*	*2006-07*	*2007-08*	*Total*	*Remarks*
16. Federation office utilities			100	100	100	100	400	Federation Office Utilities – Rs. 12,000 per federation – Rs. 100 per SHG – 4 years
17. Human resources			1800			1800	3600	Human Resource – 1 Accountant and 1 Office Attendant per federation – year 2004-05 and 2007-08 (on account of expansion) Rs. 180,000, i.e. Rs. 1,800 per SHG (at time of grant availability from RMK and SIDBI)
18. Furniture and fittings			100			100	200	Furniture and fittings/ Computer – Rs. 100,000 per federation – twice; Rs. 100 per SHG in 2004-05 and Rs. 100 per SHG in 2007-08
19. Revolving loan fund			1000				1000	
Average Total Cost per SHG per year	4250	3475	6500	2500	2200	4100		
Average Total Development Cost per SHG							**23025**	

Table 4.2A Average Total Development Cost of SHG-based Financial Federations (Rs. per SHG)

Name of the federation/ promoter	*Legal Form*	*No. of SHGs promoted (final year)*	*Years of promotion/ support*	*Period*	*Average total social mobilization costs (including overheads) (Rs)*	*Average total five year social mobilization costs at 2009-10 prices (Rs)*	*Average Total Support Cost for Block/ mandal federation- (including overheads) (Rs)*	*Average Total Support Cost for Block/ mandal federation costs at 2009-10 prices (Rs)*	*Average Total development support cost per SHG (Rs.)*	*Average total Five-year Development Cost at 2009-10 prices (Rs.)*
					A	*A1*	*B*	*B1*	*A+B*	*A1+B1*
BMASS, Jagannathprasad	Society	778	6	2001-2006	401	475	3104	3667	**3505**	**4142**
Dharmasagar Mandal Samakhya	MACS	1326	5	2007-2012	2701	2701	10284	10284	**12984**	**12984**
Pragathi MACS	MACS	3907	5	2005-2010	8173	9204	9940	11193	18113	**20397**
IIMF	MACS	3324	7	2000-2007	16644	15618	4912	4609	**21556**	**20227**
Sanginee	Cooperative	910	5	2008-2012	3523	3523	13577	13577	**17100**	**17100**
ASSSL	Cooperative	100	6	2002-2008	12900	13480	10125	10580	**23025**	**24060**
Savera	Trust	454	5	2007-2012	19160	19160	7417	7417	**26577**	**26577**
PALMA	Trust	670	5	2004-2009	12374	13934	28463	32052	**40837**	**45986**

(Contd.)

Name of the federation/ promoter	*Legal Form*	*No. of SHGs promoted (final year)*	*Years of promotion/ support*	*Period*	*Average total social mobilization costs (including overheads) (Rs)*	*Average total five year social mobilization costs at 2009-10 prices (Rs)*	*Average Total Support Cost for Block/ mandal federation- (including overheads) (Rs)*	*Average Total Support Cost for Block/ mandal federation costs at 2009-10 prices (Rs)*	*Average Total development support cost per SHG (Rs.)*	*Average total Five-year Development Cost at 2009-10 prices (Rs.)*
					A	*A1*	*B*	*B1*	*A+B*	*A1+B1*
Boondh Bachat Sangh	Trust	166	5	2007-2011	3237	3361	14391	14944	**17627**	**18306**
CGMST	Unregistered	183	5	2007-2012	2772	2772	12661	12661	**15434**	**15434**
Average for 10 study federations					8189	8423	11487	12098	**19676**	**20521**

Table 4.3A Details of Development Cost of SHG-based Financial Federations (AverageTotal Cost per SHG (Rs))

Name of the Federation	*BMASS, Jagannath Prasad*	*Dharmasagar Mandal Samakhya*	*PMSS*	*IIMF*	*Sanginee*	*ASSSL*	*Savera*	*PALMA*	*Boondh Bachat Sangh*	*CGMST*	*Average Total Cost (unadjusted) (all federations)*	*Average Total Cost for NGO federations (unadjusted) (i.e. except BMASS and Dharmasagar)*
Cost of Social Mobilization and SHG Development												
1. Salaries and Honoraria	0	1405	3651	8830	2335	10685	12575	1473	1144	698	4280	5174
2. Cost of Books and Materials	0	233	982	79	116	463	303	663	906	166	391	460
3. Training Costs	401	1000	2639	4230	145	1751	1454	1621	1187	1263	1569	1786
4. Capital for entry point activities of SHGs and VOs/clusters	0	0	0	0	0	0	0	0	0	645	65	81
A. Average Social Mobilization Cost per SHG	401 **(11)**	2638 **(21)**	7272 **(42)**	13139 **(56)**	2596 **(14)**	12900 **(61)**	14332 **(46)**	3757 **(8)**	3237 **(19)**	2772 **(19)**	6305 **(32)**	7501 **(33)**

(Contd.)

Name of the Federation	*BMASS, Jagannath Prasad*	*Dharmasagar Mandal Samakhya*	*PMSS*	*IIMF*	*Sanginee*	*ASSSL*	*Savera*	*PALMA*	*Boondh Bachat Sangh*	*CGMST*	*Average Total Cost (unadjusted) (all federations)*	*Average Total Cost for NGO federations (unadjusted) (i.e. except BMASS and Dharmasagar)*
Support Costs for Project/Block/ Mandal level Federation												
1. Initial dialogues on federation formation and other events	443	2	4834	0	0	917	236	1332	188	79	803	948
2. Federation staff costs	1794	1133	184	3420	12903	3379	4002	15573	8865	387	5164	6089
3. Office rent and other costs	337	0	74	484	178	1370	346	1298	1522	3412	902	1085
4. Honoraria and Meeting Expenses	294	778	3225	411	397	784	176	779	611	5175	1263	1445
5. Training of EC members	237	22	1167	0	56	799	116	91	233	61	278	315
6. Provision of RLF/Endow-ment Fund	0	8333	0	0	0	726	0	7267	0	0	1633	999
B. Average Support cost for block/mandal federation per SHG	3105 **(89)**	10268 **(79)**	9484 **(49)**	4315 **(26)**	13533 **(81)**	7975 **(28)**	4876 **(27)**	26340 **(64)**	11419 **(65)**	9114 **(60)**	10042 **(51)**	10882 **(48)**

(Contd.)

Name of the Federation	*BMASS, Jagannath Prasad*	*Dharmasagar Mandal Samakhya*	*PMSS*	*IIMF*	*Sanginee*	*ASSSL*	*Savera*	*PALMA*	*Boondh Bachat Sangh*	*CGMST*	*Average Total Cost (unadjusted) (all federations)*	*Average Total Cost for NGO federations (unadjusted) (i.e. except BMASS and Dharmasagar)*
Overheads - Project management at NGO/district federation/PMU level												
(i) Social Mobilization SHGS/VOs	0	62	898	3371	926	0	3765	8617	0	0	1764	2197
(ii) Support to Federation for operations	0	15	458	729	45	2150	3604	2124	2971	3548	1564	1954
C. Average NGO/ Project/ PMU Level Overheads per SHG	0 **(0)**	77 **(1.5)**	1356 **(9)**	4100 **(18)**	971 **(6)**	2150 **(11)**	7369 **(29)**	10741 **(27)**	2971 **(16)**	3548 **(21)**	3328 **(17)**	4151 **(18)**

(Contd.)

Name of the Federation	*BMASS, Jagannath Prasad*	*Dharmasagar Mandal Samakhya*	*PMSS*	*IIMF*	*Sanginee*	*ASSSL*	*Savera*	*PALMA*	*Boondh Bachat Sangh*	*CGMST*	*Average Total Cost (unadjusted) (all federations)*	*Average Total Cost for NGO federations (unadjusted) (i.e. except BMASS and Dharmasagar)*
A. Average Social Mobilization Cost per SHG	401 **(11)**	2638 **(21)**	7272 **(42)**	13139 **(56)**	2596 **(14)**	12900 **(61)**	14332 **(46)**	3757 **(8)**	3237 **(19)**	2772 **(19)**	6305 **(32)**	7501 **(33)**
B. Average Support cost for block/mandal federation per SHG	3105 **(89)**	10268 **(79)**	9484 **(49)**	4315 **(26)**	13533 **(81)**	7975 **(28)**	4876 **(27)**	26340 **(64)**	11419 **(65)**	9114 **(60)**	10042 **(51)**	10882 **(48)**
C. Average NGO/ Project/ PMU Level Overheads per SHG	0 **(0)**	77 **(1.5)**	1356 **(9)**	4100 **(18)**	971 **(6)**	2150 **(11)**	7369 **(29)**	10741 **(27)**	2971 **(16)**	3548 **(21)**	3328 **(17)**	4151 **(18)**
D. Average Total Development Cost per SHG (A+B+C)	3505 **(100)**	12984 **(100)**	18113 **(100)**	21556 **(100)**	17100 **(100)**	23025 **(100)**	26577 **(100)**	40837 **(100)**	17627 **(100)**	15434 **(100)**	19676 **(100)**	22533 **(100)**

Note: Values in brackets are percentages of Average Costs per SHG to Average Total Costs per SHG for each federation
@ Not adjusted for years of support

5 SHG-based Financial Federations

Financial and Organizational Sustainability

5.1 SUSTAINABILITY: CONCEPTS AND ISSUES

In microfinance, sustainability can be considered at several levels—institutional, group, and individual—and can relate to organizational, and financial aspects (Sa-Dhan: 2004). However, the issue of financial sustainability of microfinance institutions has attracted more attention than group and individual client in mainstream analysis.

An institution should be deemed sustainable if it fulfills its functions over the long-term to the satisfaction of all its stakeholders. A financial federation is likely to be sustainable if it were able to secure necessary inputs and provide, efficiently and effectively, a continuing stream of services that are valued by its members/clients. Thus, sustainability is the continued existence and functioning of the financial federation providing unfettered access to financial services for their members facilitating access to higher level financial institutions with low costs and high recovery rates.

At the SHG level sustainability means the ability to maintain integrity of the group without breaking up as it climbs through to higher order financial services. At

the member level there are two aspects to the sustainability; one is the affordability of interest costs to the members of the groups and the second, adequate and timely access to services (Srinivasan: 2008).

This paper analyses the sustainability of the financial federation which depends on the following key factors;

(a) The first is the *strength of the SHGs* which are the building blocks of the federations. Well-trained groups that are clear about their role, rules, and functions, are able to sustain themselves over time and provide stability to their federation. Well-functioning groups can hold federations accountable. Such groups can also ensure that competent group leaders are elected to govern the federation. Only well-managed groups can ensure that repayment rates of financial federations are high.

(b) The second is the ability of the promoter to ensure that *governance, staffing, and organizational processes*, *and systems* (MIS, internal controls, financial management, HR management) etc., are in place. The system to assess owner/ client needs and provide responsive services is critical to ensure sustainability. This essentially translates to capability of the promoter to access adequate funds for promotion and good quality technical assistance to build the capacities in the federation.

(c) Another factor which contributes to the sustainability of financial federations is the *policy environment* supporting and incentivizing the microfinance effort of financial federations. Suitable legal framework to carry out financial services legitimately contributes to the sustainability. The government and the Reserve Bank/ -NABARD have a key role to play in setting the policy and directing the flow of finance. Availability of large-scale finance, availability of quality manpower in banks, and willingness of banks to take a significant exposure to financial federations is key to sustainability of financial federations.

(d) The fourth factor which contributes to sustainability of the federation is *viability of operations*. Ability and willingness of SHGs to pay for the services of the federation is a critical determinant of viability. Federation's capacity to offer other fee-based services to members (and even to non-members) to enhance livelihoods can diversify the income generating sources and ensure viability.

5.2 FINANCIAL VIABILITY OF STUDY FEDERATIONS

This study's primary aim has been to assess the cost of promoting financial federation; several studies have already established that the financial federations are usually financially sustainable but their organizational sustainability is in doubt. The study team has carried out financial analysis of the available data to understand some of the challenges faced by the federations which can affect their future financial sustainability.

Though the study federations are financial intermediaries, they are in fact carrying out other non-financial functions as well. Instead of carrying out an elaborate exercise in accounting for costs and benefits out of financial intermediation function, and making adjustments to reflect the total costs this study analyses select indicators for the financial operations of the federations.

The study team had to contend with some limitations in financial data since they are largely self- reported. The accuracy of portfolio quality data could not be established; the lack of standardization leading to different ways of presenting the data has been a constraint. Moreover, the *promoter's investment and expenditure on behalf of the federation has also been difficult to account for in a few federations*.

Viability of Operations

Sources for revenue for a federation include joining and annual membership fees, interest spreads, service charges, and fee-based incomes from services such as insurance. The financial expenses are relating to interest and other fees for the borrowings and savings mobilized. The operational expenses are for paying salaries to staff and honoraria of resource persons, travel, and other administrative expenditure conduction of training programmes, etc. The financial federations also incur expenses for actual and likely losses of loans. The total revenue of the federations should cover the total costs incurred year-to-year in order for the federation to be sustainable.

Financial viability is largely measured by two degrees of self-sufficiency for MFIs;

- *Operational self-sufficiency*[1] requires MFIs to meet all administrative costs and loan losses from operating income. It is suggested, based on international experience, that successful MFIs should be able to achieve operational self-sufficiency within three to seven years.

1 Operational Self Sufficiency = (operating revenue including income from other sources)/financial expense + loan loss provision + operating expense).

- MFIs achieve *financial self-sufficiency* when they are able to cover all administrative costs, loan losses, and financing costs from operating income, after adjusting for inflation and subsidies and treating all funding as if it had a commercial cost. Successful MFIs are expected to achieve financial self-sufficiency within five to ten years.

Operational self sufficiency is used more often when considering the viability of institutions operating within a country, since inflation affects all the institutions in a similar manner. Operational self-sufficiency is affected by the cost of funds, administrative costs, and recovery performance of the MFIs. While the operational self-sufficiency ratio can indicate the level of viability of MFI, to understand the drivers of viability, it is necessary to study the trend of these drivers over a period of time. Thus, the following indicators were studied to assess the viability of operations.

Outreach and business increase/ decrease	*Trends in the outreach and business of the federations*
• Structure of liabilities	• Proportion of different sources of funds to analyse how the business of MFI is supported
• Comparison of yield from lending to total costs	• Profitability of lending operations
• Cost of funds ratio	• Cost of raising resources for lending
• Operating cost ratio	• Cost of salaries, administration, and overheads
• Portfolio at risk	• Asset quality
• Loan loss provision ratio	• Risk cost
• Capital adequacy ratio	• Capital adequacy of the federation
• Operational self-sufficiency	• Viability of the federation
• Debt to equity ratio	• Leveraging of equity to raise debt

Outreach

There are essentially two kinds of growth: extensive growth (growth of clients, portfolio size, and geographical expansion) and growth that comes from diversification of financial products (loan types, kinds of savings, insurance etc.) and also non-financial services.

The federations studied differ in their age and experience with microfinance operations. BMASS is the oldest with more than 10 years of operations. Five federations have been undertaking microfinance services for more than 5 years. Three federations have less than 5 years of experience.

The growth rates in area of operation, number of SHGs, and members as well as growth in financial services both at SHG and federation level have been analysed over the three year period 2007–8 to 2009–10. Table 5.1 in Annexure 5.1 shows the growth rates on the following parameters.

Growth in Area of Operation

Out of the 10 federations, only Sanginee and GMST which are new federations have substantially increased their area of operation; IIMF has shown negative growth due to closure of SHGs in a few villages. Savera trust has shown very modest growth. This is largely due to stability of operations in the limited geographical area in which these federations operate.

Growth in Number of SHGs and Members

Sanginee, GMST, PALMA, and ASSSL have registered double digit growth rates in number of SHGs and number of members. ASSSL has created clusters to service the increased outreach. Others have grown modestly and IIMF has shown negative growth. Moreover, forming new SHGs and nurturing them is cost intensive which the federations may be able to fund on their own only to a limited extent. The two federations (PMSS and IIMF) face severe competition from IKP, the government programme and MFIs in their area of operations. The three federations in Orissa face moderate competition from MFIs in some of the pockets of their area of operation. The others largely do not have much competition. This is a contributing factor for their growth.

Trend in Financial Services of SHGs

BMASS, GMST, IIMF, and ASSSL largely do not actively encourage SHGs to external bank linkages. The SHGs of these federations rotate their own savings apart from borrowing from the federations. In other federations the SHGs have an additional source of loan funds from the banks. The growth rate of savings in SHGs has been very good in all except two federations. The year 2009 has been a difficult year

for the SHGs in accessing loans especially for those which were dependent on the federation for their external loans. In the year 2010, there has been a good growth in loan disbursement.

Trend in Financial Services of Federations

Eight federations mobilize savings from the SHGs/clusters and the savings has grown in double digit. The savings growth has slowed down in 2010 as compared to 2009. Only PMSS has a negative growth rate; this has been due to conversion of savings to share capital in order to leverage larger loans from banks. All the federations except Boond Bachat Sangh and PMSS have registered positive growth in loan outstanding at federation. BMASS JP, Sanginee, Savera, PALMA and ASSSL have grown more than 25 per cent on a consolidated basis during 2008–10.

Coverage by Federations

For seven federations, the data on active borrowers of the federation is available. Four federations have a high rate of borrowing members and borrowing SHGs. GMST and PALMA which are relatively recent entrants into microfinance have low coverage ratio.

Capital Structure, Source and Cost of Funds

A detailed analysis of the balance sheet reveals the sources of funding and the funding structure (equity/debt-ratio), thus exposing other potentially influential stakeholders outside the institution. The type of funding has an impact on the governance structure and the owners' autonomy.

The federations that are studied access funds for their operations from a variety of sources. (Please refer to Table 5.2 in Annexure 5.1 for the sources of funds). The sources of funds and the costs at which these funds are accessed have an impact on operational self-sufficiency and viability. Sanginee, IIMF, PMSS, and BMASS, JP depend largely on bank loans for their lending operations which are also the costlier source of funds. This also reflects their higher cost of funds as compared to others. Savera accesses only low cost loans from the promoter organization, the growth in loan portfolio has slowed down in 2010 reflecting the fact that such funds are limited and to grow, the federation needs to access market.

Share capital and retained earnings from less than 15 per cent of loan funds for most of the federations. The federations registered under Trust/Societies Act are not able to mobilize share capital and have to depend on retained earnings for enhancing the equity. PALMA collects life membership fee from each SHG which is a form of equity. BMASS and Boond Bachat Sangh largely depend on retained earnings for shoring up the equity.

Four federations have received grants for revolving funds from donors/government. IKP, Dharamasagar largely depends on grants and revolving funds for lending to voluntary organization-VOs/SHGs and thus has the lowest cost of fund.

Mobilizing savings—both compulsory and voluntary from SHGs/their members enables federations to access low cost funds. All the federations except IIMF and PALMA mobilized savings. Overall, four federations—BMASS, Savera, Boondh Bachat Sangh, and ASSSL have significant (more than 25 per cent of the liabilities) savings mobilization which indicates greater member involvement. The legal form did not come in the way of mobilizing savings for BMASS, Boond Bachat Sangh, and GMST which have mobilized substantial savings.

Overall, the cost of funds is relatively high for PMSS (13 per cent) and Sanginee (14 per cent) due to their higher dependence on bank loans for lending. Boond Bachat Sangh and ASSSL which have substantial savings of members have very low cost of fund. The cost of funds of the federation is reflected in Table 5.3. in the Annexure 5.1.

Operating Expense Ratio

Out of the federations studied, eight federations had operating cost ratio of less than 10 per cent and four of the eight had a very low ratio of less than 5 per cent. (Please refer to Table 5.4 in Annexure 5.1 for operating expense ratio.) GMST had a very high operating cost ratio since it has commenced lending operations recently and thus has low level of loan outstanding. According to Savera, it provides bridge finance to the groups and thus has low loan volumes and a higher operating cost ratio. The operating expense ratio of the federations is low as compared to mainstream MFIs; this has been possible due to limited geographical area of operation resulting in flat organizational structure and very few administrative layers resulting in low cost operations. Moreover, the community leaders provide unpaid voluntary services usually on an honorarium basis which reduce the costs.

Collecting information on borrowers, borrower selection, loan recovery, and deposits and withdrawals—usually all happen at the local level, minimizing travel and opportunity costs for clients, as well.

Portfolio Quality

All the federations that have reported on portfolio quality have excellent portfolio quality as is reflected in Table 5.5 in Annexure 5.1. The portfolio at risk is minimal as reported by them. The portfolio at risk of the federations compares favourably with many mainstream MFIs. The loan loss provision as compared to loans outstanding has also been minimal ranging from 0 per cent to 2 per cent. PALMA, ASSSL, and Savera do not provide for any loan loss reserve, which is a bad practice for institutions undertaking financial intermediation. (Please refer to Table 5.6 in Annexure 5.1.) These federations have to finalize accounting policy relating to income recognition, asset classification, and provisioning for loan losses.

Moreover, none of the federations, with the solitary exception of Boond Bachat Sangh which maintains SHGs accounts and prepares consolidated statements of SHGs captures the portfolio quality at SHGs in a systematic manner. Sanginee has virtually withdrawn its association with SHGs preferring to work with Joint liability groups JLGs formed out of former SHGs instead. Even ASSSL, a primary cooperative while mobilizing SHG deposits does not track SHG level operations. There are significant portfolio quality risks in the primaries as several recent studies indicate. Since the book maintenance and verification/auditing services provided by all these federations to the SHGs and monitoring of SHGs is a stated objective of the federations, the federations need to invest in data collection and reporting on SHGs.

Yield on Loan Portfolio

Out of the nine federations for which data is available, it is seen that Sanginee has a high yield of 20 per cent. (Please refer to Table 5.7 in Annexure 5.1 on comparison of yields and costs). IIMF and PMSS lend to cluster level organizations where as others lend directly to SHGs; however, the interest rate charged by these two federations is higher than some of the federations which are directly lending to SHGs. It is seen that there is substantial difference in stated interest rate and yield for Sanginee and PMSS which indicate that there is scope for improving the yield through better fund management practices. IIMF, Sanginee, and Savera have a lower yield as compared to the total costs ratio but they are operationally self-sufficient since they have other sources of income.

Operational Self-Sufficiency

The operational self-sufficiency (OSS) of the studied federations is given in Table 5.8 in Annexure 5.1. All the federations except GMST have reported operational self-sufficiency. These are self-reported figures without adjustment for loan losses, subsidies, etc. In several smaller and newer federations they also do not report and take into account contributions of staff, office space, MIS services, and capacity building inputs costs of which are borne directly by the parent NGO. Creating loan loss reserve can plunge PALMA and ASSSL to be operationally not self-sufficient. If the cost of funds of Savera is adjusted for market rate of interest, it is likely that the federation will not be operationally self-sufficient. Both Sanginee and PMSS report lower operational self- sufficiency than others; the high cost of funds erodes their profitability. ASSSL is registering a decrease in OSS in 2010 as compared to 2008 and 2009, since it is incurring higher operational cost on staff due to withdrawal of support from the parent organization.

Capital Adequacy and Leveraging for Loans

All the federations except Boond Bachat Sangh borrow from banks, SIDBI, FWWB and other sources for fulfilling client demand for loans. Leveraging the equity up to six times to borrow is acceptable to banks. As of March 2010, BMASS JP and Sanginee have a higher debt equity ratio. GMST being a nascent organization has a very high leverage ratio of 28. The others are well within the leveraging norms as seen in Table 5.9 in Annexure 5.1.

Reserve Bank of India has stipulated a Capital to Risk-weighted Assets Ratio (CRAR) of 15 per cent for the MFIs regulated by the Reserve bank. It is prudent for the financial federations also to have a Capital Adequacy Ratio (CAR) of 15 per cent. Except for PALMA (which has capitalized the lifetime fee collected from members) none of the federations have a CRAR of 15 per cent as seen in Table 5.10 in Annexure 5.1. Mobilizing equity from the members is a viable option for four of the federations which are cooperatives. The other federations do not have a suitable form to mobilize equity. If these federations wish to deepen their services to existing clients, which will be a necessity to satisfy member needs and to combat likely competition, they will need to change to a form where equity ownership is feasible. Continuing with the present form can only be a hindrance for their future sustainability.

5.3 COMPARATIVE ANALYSIS OF VIABILITY, SCALE, AND STRUCTURE OF FINANCIAL FEDERATIONS

As noted above, the five cooperative organizations are advantageous in relation to the other forms in view of their ability to build equity for external funds as well as mobilize savings as an inexpensive source of debt capital for operations. Notwithstanding the OSS data for the remaining federations, invariably shored up with contribution from the promoter, there does not appear to be a viable framework for sustainable operations.

Thus, a small block federation prevented from mobilizing regular savings through appropriate products, and operating perhaps on a 6 per cent spread between funds mobilized at 12 per cent per annum and more and on lending at no more than say 18 per cent per annum to the SHGs, would need to have revenues in the range of Rs 10 to 20 million to be able to conduct even a modest operation under which cost recovery would be possible.

Given a clientele of say 200 groups it would have to lend Rs 50,000–100,000 per SHG.

Further, higher levels of operation, managerial constraints would inevitably takeover, especially given the limited capabilities of the typical federation managers. In sum, there is a threshold level beyond which much investment in systems and personnel would be required.

In this context it is instructive to note, as pointed out by Jaipal Singh, Director, Centre for Microfinance, Jaipur, that financial federations, particularly in Rajasthan, emerged because of high pressure of demand from SHGs upon being denied access to banks and not because the NGOs actively promoted them. It is unrealistic to look for viability of federations in view of their limited credit absorption which even with five years of support could not be expected to achieve the threshold level of Rs 10–20 million. From among the study federations not adopting the cooperative models, while BMASS has broken out with specific, sustained, and substantial inputs from government and CASHE project and PALMA could achieve scale with the help of a long-established promoter agency, large SHG clientele and a strong support network, the other federations will be hard pressed to achieve scale and viability in their present form. In fact, it is not clear whether it is even their objective to go in for expansion in their financial intermediation activity by seeking external loans. This highlights the need for adequate thinking and clarity on the design of federation, i.e., appropriate legal form for mobilizing savings and equity and assessment of potential for break-even volume of business.

5.4 OWNERSHIP, GOVERNANCE AND MANAGEMENT FACTORS, AND CONSTRAINTS

Ownership of the federation determines the governance structure. The governance should be in a position to set direction for management to carry out operations to fulfill the mission of the federation.

Ownership

Owners of the federation have a vested interest in financial and social outcome of the activities of the federation. They have a right to supervise, guide, and direct the affairs arising from a clear financial stake. The performance of the institution should make a personal difference to the owners. Individuals with a greater financial investment in the institution have a greater stake in ensuring sound financial management and governance. Owners of the federation determine the governance structure. The depth of ownership depends on initial mobilization, creating a suitable form, capital structuring, and governance structure and management.

Initial Mobilization

Though federating the SHGs is largely the promoter's idea, the SHGs who form the federation should be clear of why they are federating. This requires several rounds of discussions with SHGs, consensus building on the purpose and activities of the federation. In a three or four tier structure it is usually the next tier who is familiar with the higher/lower tier and SHGs who are at the bottom usually do not comprehend the need or utility for creating the higher structures. The promoters largely stagger formation of each tier to ensure that the idea of the higher structure is well-imbibed. GRAM has been forming SHGs for more than 15 years. The Mandal MACS, the second tier emerged during 2000–2; though the idea of District level MACS was mooted in 2003, the IIMF began full-fledged operations only in 2005. The intervening period helped to develop consensus among Mandal MACS on the roles and responsibilities of the IIMF. Sufficient time needs to be given for building the ownership of the SHGs of the federations. Working with manageable number of institutions provides the promoters an opportunity to ensure that the necessary processes are followed to build ownership.

It is also seen that the purpose agreed upon among SHGs at the initial stage in federating often changes; some of the federations studied had largely been set up as financial federations. Some had taken on the financial intermediation role for a variety of reasons including to cover their costs. However, critical questions arise, such as what is the purpose of financial intermediation? Will it be viable? By becoming a member of the financial federation what are the costs and benefits to the members? While such facilitation is largely done with the leaders, how far the members are buying in is not clear. Since federation is functional, the members are forced to borrow at higher rate from the federations; in a few cases the member SHGs have foregone their banking relationship which is seen as a curbing of choice by the member SHGs. This has the potential to undermine the ownership and the sustainability of the federation.

Mobilization under project mode brings in pressure on meeting the targets and process orientation in initial mobilization is given a go by. For example, in Andhra Pradesh under District Poverty Initiative Project (DPIP) project strong SHG federations were built because of the process oriented approach which was followed. Sufficient time was given for building the ownership of the federations. However, under IKP in the scaling up phase there has been a pressure on meeting the targets; moreover the numbers of the institutions that have come up are also far large for adopting a process oriented approach. This among other factors has contributed to lack of a strong ownership especially in the MS.

Creating a Suitable form

The legal status of financial federation largely determines financial ownership and decision-making structure and thus the institution's governance. There should be a financial stake of the SHG members in the financial federation. Unless the SHGs contribute to the share capital and also deposit savings with the federation, the ownership of these federations will always remain nebulous. An enabling legal framework is very critical for the legitimacy of the operations of the federation and ensuring financial ownership.

The federations which are registered as societies or trusts are unable to mobilize share capital legitimately and have found innovative mechanisms to build financial stake. PALMA mobilizes lifetime membership fee; Boond Bachat Sangh mobilizes savings bringing in members' financial stake in the institution. However, even in

states which have the enabling legal framework, it is very much up to the promoters to ensure that the ownership is built through financial stakes; for example, members of MS of IKP which is a cooperative do not have substantial financial stake in the MS.

Governance and Management Structure

All the federations studied have clear governance structures. The boards of the federations studied are largely composed of grassroots leaders from the SHGs. The multiple tiers facilitate greater participation of people in the governance of the institution and develop leadership competencies necessary for continued improvement. On account of the regular meetings and periodic elections to the management committees of the local institutions the members were continuously engaged with their federations.

There are four specific roles that are part of basic responsibilities of the board;

Fiduciary

In safeguarding the interest of all the stakeholders, Federation Boards must ensure that the financial solvency of the institution is maintained. This responsibility requires oversight of resources available to the institution, their use to achieve the institution's mission, and their proper management over time. This capacity is primarily a function of: a) their thoughtfulness and basic business sense which allows board members to identify warning signs of trouble and b) their willingness to pose difficult questions and face other board members and/or management with the problems they identify.

The grassroots leaders on the boards of the federations studied are not fully aware of some of the fiduciary responsibilities. Where they are trained they do pose difficult questions to the management. Their perception, understanding, and grip of member needs, and ground level operations are exemplary. However, they depend on the staff to provide them adequate technical information on financial performance.

This lack of technical expertise of grassroots leaders is seen as a major weakness by banks. Some of the promoters have strengthened the boards through different mechanisms—appointing representatives of promoters to the boards, appointing advisory committee of experts, and in some federations like BMASS and Sanginee professionals provide policy oversight and control.

Strategic

Participating in the design of long-term strategy by considering the opportunities and also principal risks to which the federation is exposed is a function of the board. Federation Boards must work closely with management in carrying out this role to ensure congruence between the institution's strategic thinking and its operations. In the federations studied the grassroot leaders bring in their experience from the field and also their assessment of needs of clients in strategy setting. Development of need-based financial services, setting credit policies, and determining interest rates are carried out by the boards of grassroots leaders.

The promoters are often consulted in fine-tuning the long-term strategy of federations especially which involves major decisions. How far the promoters influence and thrust certain activities on the federations or whether they are accepted by the federations though discussions and consensus is a matter of separate investigation. As Bhaskara Rao of APMAS points out 'In designing new strategy or activity will involve a key question-are these federations competent? how to build their capacity to deliver the new services? When strategies are drawn which are beyond the managing capacity it destabilizes the federations and often leads to shift in control to others who manage the activities'.

Supervisory

Federation Boards need to delegate the authority for operations to the management and evaluate their performance. The federation boards studied have ensured management accountability by hiring competent professionals as executives and establishing clear goals for their performance. The promoters have been playing a key role in recruitment of top management staff. In a few federations the promoter holds the position of CEO. The Board with the support of CEO has been successful in recruiting, training, and supervising the performance of subordinate staffs.

In federations studied, initially the staffs were employed by the promoter. Over a period of time, the staffs were subordinated to the federation. One practice which can improve governance and the level of ownership is the payment of staff cost by the federation. Where the staff members are paid by the promoters, neither the staff nor the federation leaders feel a sense of responsibility or ownership towards the federation, thus resulting in lack of accountability.

APMAS based on several studies concludes that 'Irrespective of whether the NGO is the promoter or the government, the ownership and control of the federations by the Board in true sense is largely an issue. The promoter staff is always seen differently as compared to the staff of the community. So the staff recruitment and placement affect the governance and ownership'.

Access to reliable and up-to-date information is an important condition for good governance of financial federation. Among other things, a sound MIS contributes to monitoring efforts by making sure decisions are implemented and ensuring there is an accurate view of the current situation of the institution. In some of the federations studied, computerization has been able to achieve surprising levels of integration. Management is largely able to identify the problem areas and take corrective action. However, the internal controls are still found to be weak as per banks and rating agencies.

Legal Responsibility

This responsibility requires that the board ensure the federation complies with its by-laws, procedures, and other legal requirements. The federations studied largely complied with the legal requirements under the law under which they were registered. However, the understanding and compliance of the statute governing the functioning of federation is largely left of the professional staff. Some of the grassroots leaders on the boards require frequent training/recalling on the different legal aspects to be complied.

However, not all boards of other federations are complying with legal provisions as per Rama Prabhakar, Basix 'Andhra Pradesh has the maximum number of federations in the country. Qualifications of board members, the election process, the roles and responsibilities of Board, the conduct of AGM, the audit procedures etc., is well set out under the MACs Act. However, the boards of directors of most of the federations are not aware of these aspects and their roles and responsibilities in compliance with these provisions'.

Additionally, the board must ensure that the institution understands and abides by the regulatory requirements that frame its activities. Mobilizing savings is a grey area for societies and trusts and can attract punitive action from the authorities. Thus, some of the studied federations face regulatory risks.

Balancing Board and Management

The main actors in a member-based financial federation are the elected representative owners of the institution, employees who are in charge of operations and promoters. These actors work together, but their interests and motivations are not the same: elected representatives/beneficiaries want to optimize the services provided by the institutions while limiting their cost, whereas employees seek decent work conditions and want to limit operational risks. Conflicts of interests and power struggles are important aspects of governance as has been experienced by some of the federations studied. Management capture of the board is a serious threat to board dominated by grassroots leaders. Borrower board can have a short-term outlook and often advocate low interest rates and liberal policies which can undermine the profitability and sustainability of the federations. The promoters need to strike the right balance between the two sets of actors.

Is it possible that a financial federation has a 'mature' governance structure, capable of making strategic decisions, managing day-to-day operations, foreseeing and overcoming crises without turning to the external stakeholders including the promoter that helped set up the institution? One would answer in the affirmative with a qualification that continued investment needs to be made in the board development and leadership development in SHGs and clusters. The governing boards of the lower-tier institutions need to spawn new leaders with necessary experience who are willing to take up higher responsibilities at the apex level.

The promoters had a significant role to play in developing leadership initially. They had mentored, guided, and advised the emerging leadership in their initial days so as to develop their competence and technical capacity. This investment is not being made after the initial formation phase. There should be a continuous capacity-building strategy and funds allocated for implementing this strategy. For example, according to MACS Act, one-third of the members retire every year. The new members require capacity building to provide adequate strategic direction. Educating the members for selecting good leaders is another area of capacity building.

Autonomy does not necessarily mean contacts with stakeholders outside the institution must be relinquished. What is important is that the financial federation should be part of a larger dynamic that enables it to progress independently, yet without being entirely alone when it comes to facing challenges.

5.5 THE ROLE OF GOVERNMENT/DONOR INTEREST AND CAPITAL SUBSIDIES

A number of donors and government programmes have supported the formation and capacity building of the federations. They have also in select cases provided substantial funds for revolving fund which are usually a non-returnable grant and at zero cost. These grants usually are treated as donated equity and help the federation in the initial stages to augment the loan funds when member contributions in terms of equity and savings are not adequate to meet member demands. The fund also enables the federation to build their initial skills in lending and later to leverage bank loans. Being zero cost funds the grants help lower the cost of funds and thus enable boosting the profits. However, the grants should not crowd out member stake in terms of equity and savings.

Out of the federations studied, all the federations have sourced donor and government financing support for initial mobilization and capacity building. Three of them (BMASS JP, PMSS, and Sanginee) were CARE and CASHE partners who received excellent technical assistance through the project and also some revolving fund assistance. Some of the promoters— CECODECON and IBDATA have sourced low/zero cost revolving funds which are lent to federations at low interest rates. Dutch and German donors have supported the federation building and usually they have followed good practices in federation promotion and grants for revolving funds.

The government promoted federations have accessed grants for on-lending from SGSY and IKP. BMASS, Orissa has received grants under SGSY which provided the initial funds for on- lending for the federations. However, these revolving funds in relation to over-all liabilities of the federation are minimal. IKP has made a very useful innovation in utilization of community investment funds.[2] The CIF is intended to support the micro plans of SHGs which are consolidated at VO and funded with the contribution of 10 per cent from VO, 50 per cent from CIF and 40 per cent from

2 As per the original design of World Bank the village organizations were to be provided grant support which were to be given as individual loans at 0 per cent interest for the poor members of SHGs. The project changed this methodology and demonstrated that subsidized loan is not a sustainable mechanism and evolved the CIF mechanism, positioned the fund at Mandal Samakhya level and rotated as normal loans to the SHG members.

banks.[3] However, at the field level, such synchronization for creation of assets rarely happens and the CIF has been implemented as a stand-alone credit fund for a variety of purposes including social purposes.

The main criticism against the CIF is that it has crowded out the member ownership through their financial contribution. Neither VOs nor Mandal Samakhyas mobilize member equity or savings. While from a prudential point of view this may be considered appropriate, the project should have ensured some of the stronger MS like that of Dharmasagar are built as people's institutions with more of financial stake of the SHG members. CIF should have been designed differently and provided on a matching basis to accompany equity investments by the members in MS. Creating financial assets of the members should have been the focus rather than pushing more credit. Today the CIF is administered and largely managed by project staff given the size of the funds—on an average Rs 75 lakh per Mandal Samakhya. Such revolving loan funds have not been managed equally well among the MS and the corpus has shrunk due to poor repayments. Given the past not so positive experience of such revolving funds of several donor projects it has to be seen how CIF is managed when the federations are truly autonomous.

Not all MS will have adequate skills and management capacity to carry out full-fledged financial intermediation and thus have an opportunity to cover their costs. These MS will need to depend on VOs and SHGs for payment for the services of MS. The other subsidies of the government of Andhra Pradesh are likely to affect the willingness and ability of the SHGs to pay for the services and affect the sustainability of MS. Larger loans are being disbursed to SHGs under the advocacy of SERP and the savings to credit ratio is not insisted upon; the banks do not have risk mitigation measures such as early warning system, regular monitoring the groups, etc.. So, the banks are taking a lien of the savings of the groups and thus the groups are not able to earn income through lending.[4] Several groups regularly distribute their savings. With pavala vaddi scheme (a back-ended interest subsidy scheme) the groups do not get to retain any margin. Thus, the retained earnings of the groups are minimal and their ability to pay for the services of VO and MS are diminishing. Their willingness has not been tested so far. Past experience shows that bringing in the culture for payment of services in the groups which are used to subsidies is an uphill task.

3 NABARD (2010).

4 Discussions with APMAS.

5.6 PROMOTERS' ROLE IN ENSURING ORGANIZATIONAL AND FINANCIAL SUSTAINABILITY

The promoters have definite roles in ensuring organizational and financial sustainability of the federations. The promoters usually moot the proposal for federating. They arrange for initial discussions with SHGs, arranging for training and exposure visits to well-working federations, develop the bye laws of operation and ensure that the federation is registered under suitable law. Most of the promoters are not hard core financial experts; they ensure that professionals are hired for managing the financial operations of the federations; they also ensure that technical expertise is hired for business development and systems especially MIS. Promoters play a critical role in balancing the board and management in the formative years. Till the federation achieves financial viability, the promoter finds the resources to support the operational costs.

Sudha Kothari points out 'The development effort in grassroots institutions building should be replicable and scalable; in order to achieve replicability, scalability, and sustainability, the promoter should have a very clear blueprint on the way forward. This requires investment in systems development, fine tuning the processes, systematic costing exercise and a clear vision for the organizational and the financial sustainability of the federations. It is the promoter's responsibility to balance governance and management and to demonstrate to the federation leaders the techniques for the oversight of the staff'.

In different phases of growth of the federation, the nature and intensity of the support from the promoter change. The case of GRAM and IIMF showcase this change. GRAM promoted Mandal MACs for providing financial services to SHGs; however, when the necessary lending support was not forthcoming from banks to these MACs and there was a need felt for brining all the Mandal MACs under an umbrella in order to have better regulation, IIMF federation of MACs was promoted. In the initial four years, there was very close guidance from the promoter to the board of directors and the management. GRAM enabled the federation to develop linkages with donor, banks, and thereafter GRAM withdrew from providing active support to the federation. The federation leaders do have the comfort of approaching GRAM when they face issues. When the governance standards were falling, IIMF entered into an agreement with GRAM to train grassroot leaders for better governance. GRAM and IIMF joined hands in 2008 to promote livelihoods; dairy was the chosen activity and it is a business partnership between GRAM and IIMF.

A comparison of the federations promoted by NGO and government indicate some differences in nature of engagement, design for making federations autonomous, and influence and control of activities is indicated in Table 5.6.1 below.

Table 5.6.1 Present involvement of promoters with the federations

Federation	*Years of MF*	*Governance*	*Funding for operational costs*	*Funding for loans*	*Professional support for managing operations*	*Goal setting and review*
BMASS-Government	11	yes	No	no	yes	yes
Sanginee-NGO	5	yes	No	no	no	no
IIMF-NGO	6	no	No	no	no	no
Savera-NGO	4	no	No	yes	no	no
Boondh Bachat-NGO	8	yes	No	no	no	yes
PMSS-NGO	6	yes	No	no	yes	no
GMST-NGO	1	yes	Yes	yes	yes	yes
PALMA-NGO	2	yes	Yes	yes	yes	yes
ASSSL-NGO	6	yes	Yes	yes	yes	yes
IKP, Dharmasagar-Government	7	yes	Yes	no	yes	yes

Largely NGO promoted federations have undergone the necessary processes to ensure sustainability. There has been greater demonstration of the intent that federations should be self-reliant. Even where the promoter is currently engaged with the federation, they involve the board closely in the decision-making process which is chiefly by consensus. The design of the interventions and the nature of funding support to NGOs push the federations to financial viability. The NGO promoters do not withdraw from the federations completely, since they continue to undertake development programmes for the benefit of federation members. Depending on the intent of the leader of the NGO, the federations are autonomous in many areas of their functioning.

On the other hand, the government promoted federations largely work under the direction of the implementing department even after the initial period of nurturing. Federations deliver government programmes and enable convergence at grassroot

level. The tendency of government to use the federations for delivery of programmes hinders their autonomy and sustainability. Deep Joshi, while reviewing APMAS's work with IKP, has observed 'Implementation of various development and welfare schemes seems to overwhelm the agenda of the people's institutions structure. Though fashioned as a "community driven programme", on the ground it comes out more as a community administered (with IKP stimulation and support) government programme'. This view has been shared by Al Fernandez[5] 'Federations should not be viewed as part of the delivery chain of Government or of any other promoting agency. They are not the last link in the delivery system. They need to develop their own mission and functions'.

IKP is a unique project with a longer term implementation; financial intermediation is one of the many functions of the federation. As a project implemented through government department with large donor funding, the design enabled the project to adequately staff, fund, and handhold the Mandala Samakhya for a longer period. Dharmasagar MS is one of the best institutions promoted by IKP which has been operational for seven years but still has project staff and receives funding support. The distribution of several schemes and programmes bring in need for reporting which is beyond the management capacity of the MS and has created the necessity for project staff which is now creating a dependency syndrome. Moreover, disbursement of large funds under CIF brings compulsions to ensure proper fund utilization for which project staff is deployed. IKP is presently working on the sustainability of Mandal Samakhyas[6] by withdrawing financial support gradually and encouraging the MS to engage their own staff. IKP is also considering a credit dispensation role for the stronger MS in order to ensure total funding of a family's needs; however, in a state where over-indebtedness is an issue one can question the need for one more institution to provide credit.

The promoters have to instil the values and principles of payment for services from the formation stage of federations. Providing subsidized services creates a culture of dependency.

5 Al Fernandez (2008).

6 As the CEO, SERP mentions 'the sustainability of Mandal samakhya has not been a question. The project's capacity to deliver capacity to Mandal samakhya is in question; the project has to build the capacity of Mandal samakhya'.

There are varied expectations from different stakeholders from the federations; largely the expectations are that they should be independent and completely managing their own affairs and promoters should completely withdraw from the federations. The fact is that promoters have not withdrawn from any of the federations; only their nature of engagement is undergoing change. One should have realistic expectations from the federations. There should be acceptance of the fact that there is need for some external agency to provide strategic support to the federations. Village women feel constrained in dealing and networking with the external world entirely on their own. They miss the benefits of the latest developments, innovations, and technologies. They need counseling when confronted with issues. Women leaders have often expressed the need for periodic external support and are ready to pay for the cost of the service. This support is usually identified and arranged for by the promoters in whom the federation leaders have faith.

The promoters also need to balance the financial and social functions of the federations. Sudha Kothari summarizes the dilemmas a promoter faces 'In the pursuit of achieving financial sustainability and competing with the other institutions for matching the efficiency and profitability indicators, it is very easy to lose focus on the social parameters on which the SHG and the Federation movement started. Several choices have to be made in delivery of financial services; there are several temptations to fall into the groove; the promoter has to ensure that appropriate choices which are pro women, pro poor are taken though they are more difficult choices'.

5.7 CONTINUED FOCUS ON ASSESSING AND ADDRESSING MEMBER NEEDS—PRODUCTS, SERVICES, INNOVATIONS

The range of products and services offered by the federations as given in Table 5.7.1 below, indicate that these federations address the felt needs of the clients. Unlike the typical MFIs, all these institutions offered a variety of loan products suiting the cash flows of the activity/household.

Table 5.7.1 Number of Financial Products

Name of federation	*Savings products*	*Loan products*	*Insurance products*
BMASS, Jprasad	1	2	2
BMASS, Chatrapur	1	2	2
Sanginee	2	2	1
IIMF	Nil	9	2
Savera	1	4	1
Boondh Bachat Sangh	2	1	1
PMSS	2	6	3
GMST	3	3	1
PALMA	Nil	1	1
ASSSL	4	5	1
IKP Dharmasagar	Nil	4	3

Both IIMF and PMSS have larger number of loan products of medium term of 2 to 3 years. ASSSL being a cooperative has a range of products to suit SHG members as well as individuals. The insurance products cover a range of risks which the members face and are not merely credit insurance products to cover the risk of default to the federation in case of death/accident of the member.

Since the grassroots leaders govern the institutions they bring in the client perspectives and needs to the management's consideration. They have helped in fine-tuning the product development, communicating with members on new products and providing critical feedback on what works and what doesn't and the changes needed.

A mature institution can sometimes fall into a routine as has been seen in some of the federation studied. Practices and procedures stay the same while the socioeconomic context changes and new needs appear. Falling into a routine can lead to the board and management to become too attached to their power, or, on the contrary, result in a certain lassitude. Rules and procedures may be gradually relinquished; correcting problems may become difficult because grassroots leaders and staff have become too friendly; often an outsider's perspective and ongoing training can help stimulate an institution to innovation. Some of the federations have ongoing Technical Assistance support to ensure such stimulus.

Certain products and innovations have come about to enable the federation to face competition.

The NGO promoted federations in Andhra Pradesh face competition from IKP. PMSS enables its members to access the benefits of IKP. John, CEO of PMSS mentions that 'IKP has brought in several benefits to the members. The NGO's role in capacity building, book-keeping, and promoting bank linkages is reduced. Hence, the role of the federation is to identify the gaps and fulfil them. At present though large scale loans are flowing to the SHGs through bank linkage and members accessing loans from several MFIs, one does not see much of asset creation at the member household. Pragathi MACs will work towards asset creation by campaigning for savings. Education and housing loans will be introduced. PMSS will also undertake the marketing the produce of the members to ensure better margins for agricultural households'.

Similarly IIMF has embarked on the dairy initiative partnering with GRAM, the promoter NGO which has improved the loan off-take from IIMF, built the visibility of IIMF, and unified producer women at grassroots instead of breaking them to IKP, MFI, and NGO groups. Though the initiative covers only a few thousands of women, GRAM plans to launch more producer collectives to improve the impact of microfinance.

However, not all federations have been able to combat such competition through innovations and focused services. Several federations in Andhra Pradesh, some of which were supported by CARE CASHE project are reportedly on the verge of collapse since they are not able to compete with the IKP or raise loans from banking system to satisfy the demands of the members. A separate study may be mounted on the reasons for collapse of some of the erstwhile stalwart federations.

5.8 ROLE OF BANKS IN FINANCING FEDERATIONS AND ISSUES FACED

Loans from external financial institutions like banks, SIDBI, RMK, FWWB have been accessed by all the federations except two which depend largely on loans from the parent organization. Private sector banks have been the major source of funder for IIMF and PMSS. Sanginee has been supported by other local MFIs. BMASS, GMSST, and PALMA have raised loans from local public sector banks.

The federations which mobilized bank loans on partnership model and expanded their portfolio faced severe credit crunch when the partnership model was abandoned by some of the private sector banks. Inadequate capital base prevented them from borrowing on their books; this led to delay in disbursement of repeat loans. Clients sensed the issue and delayed repayments leading to drop in portfolio quality. Rapid expansion of loan portfolio on leveraged funds coupled with non-availability of fresh funds from banking sector and repayment commitments of the existing liabilities have contributed to liquidity crunch. While the federations are overcoming the issue through mobilization of fresh equity, these cases bring forth the need for federations to mobilize adequate capital from members.

Andhra Pradesh has the maximum number of financial federations. NABARD, Andhra Pradesh has issued policy guidelines to the banks for financing federations as early as in 2004–5. However, in spite of the strong advocacy of SERP, except a few village organizations, the government promoted federations have not been able to access credit from the local banks. NGO promoted federations have also not been very successful in mobilizing credit from public sector banks.

A banker mentioned the drawbacks that federations face 'Federations have limited outreach because of their size and structure. The laws governing the constitution and promotion make it a very localized organization. Internal accrual is the only process of forming equity in many of these organizations. However, the scalability of operations at cooperative is an issue and cooperatives are not able to mobilise loans and hence are not able to provide repeat loans to the members. The dropout ratio is high especially in Andhra Pradesh and because of severe competition they are not able to increase the membership. We need to weigh the risks while lending to federations'.

Banks prefer to lend to larger institutions with widespread operations. Many of the federations are shifting to corporate status to increase the level of business and expand operations since lenders prefer corporate status. Thus, there is a trend in federations in becoming NBFCs. However, such shift is usually the drive of promoter or CEO of the federation for expansion and is not member led. Moreover the problems in transformation process are many as the promoters of the federations are finding out. Equity mobilization is found to be a difficult process to comply with the capital adequacy norms. Filing returns to the authorities is found to be a cumbersome process and moreover the operational profits of NBFCs are taxable. Some of the federations that have been studied have weighed the options of transformation and have dropped the idea.

However, there are lenders who appreciate the role the federations play. Vijayalakshmi Das, Ananya Finance for Inclusive Growth mentions 'The cooperatives have certain advantages because they are able to mobilize thrift which NBFCs are not able to do. The cooperatives being member owned institutions are usually responsive to the member needs. Many of the cooperatives have monthly repayment which makes it easier for the members to repay. There is space for small MFIs like cooperatives. The ownership and commitment of the leaders and the staff can enable these organizations to function sustainably. However, they need to extend loans at competitive rates. Federations have to have a strong operational strategy and they have to remain relevant for the members'.

Overall the bankers are more comfortable in lending to SHGs than to federations. Several bankers consider that federations do not have adequate capacity to manage large-scale lending. Moreover, there is no assurance for bankers to get repayment. The third issue is the duplication of lending since the bankers are already lending to SHGs and if the federations also carry out a similar role, this can lead to over-indebtedness and inability to repay on time.

Accessing loan funds has been articulated as a major hurdle by four federations. Though the nationalized banks are showing interest to lend to cooperatives, the efforts needed to pursue these banks to lend, is both time and resource intensive. A connected issue has been the rating norms. As per the CEO of three federations, the normal rating procedures are more suited for NBFCs. Cooperatives are given lower grade and it is very difficult to get as good a rating as NBFCs even though the parameters of efficiency, profitability, and portfolio quality are similar. For the rating agency, the educational qualifications of the board of directors appear to be a major concern. The board consisting of illiterate, semi-literate women is not considered appropriate. It requires five to six years of excellent functioning for a cooperative to get a higher rating to attract larger funding. The rating affects the loan mobilization possibilities of cooperatives. The demand for credit is increasing among SHG members and some of these federations face high level of competition from the MFIs. Unless the federations provide timely and adequate amount of credit, the clients can be dissatisfied and drop out.

However, there are a few promoters who are hopeful. They find that convincing banking system initially to lend to federations is an uphill task. However, for bankers it is increasingly difficult to service SHGs when per branch numbers increase; the local branches once they are convinced of the quality of the federation are willing

to lend to them. For example, GMST, Khed was financed by the local branch of Bank of Maharashtra since the branch manager noticed the level of transactions in the federations account and was impressed by the grassroots leaders who transacted business at the branch. It would be a good strategy to work with local branches to finance federations instead of trying to change national policy. While over-all there will be support from the local bankers, some geographical areas such as tribal areas will still find it difficult to mobilize loan funds locally. The federations on a growth path will need to diversify sources of loan funds. Bankers' support is very critical to ensure sustainability of the federations.

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Annexure 5.1

SHG-OWNED FINANCIAL FEDERATIONS: FINANCIAL AND ORGANIZATIONAL SUSTAINABILITY

Table 5.1 Growth Year-on-Year

Name of federation / legal form	*BMASS-society*		*Pragathi-MACS*		*IIMF-MACS*		*Sanginee-Cooperative*		*ASSSL-cooperative*		*Savera-Trust*		*PALMA-Trust*		*Boondh Bachat Sangh-Trust*		*CGMST-Unregistered*	
Physical outreach	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
% increase in number of members	8	9	1	7	-3	-12	22	24	90	36	20	1	38	10	8	0	NA	68
% increase in number of SHGs	8	10	2	5	-3	-38	44	28	60	59	24	0	38	10	6	-2	NA	89
SHG financial services																		

(Contd.)

Name of federation / legal form	*BMASS-society*		*Pragathi-MACS*		*IIMF-MACS*		*Sanginee-Cooperative*		*ASSSL-cooperative*		*Savera-Trust*		*PALMA-Trust*		*Boondh Bachat Sangh-Trust*		*CGMST-Unregistered*	
% of increase in amount of savings	28	23	n.a	n.a	25	6	NA	NA	n.a	n.a	13	28	3	7	21	21	NA	NA
% of increase in amount of loans outstanding	NA	NA*	n.a	n.a	4	-13	18	50	48	35	18	14	6	78	31	24	NA	NA
% of increase in amount of loans disbursed	39	180	n.a	n.a	-30	3	n.a	n.a	24	27	60	17	7	0	27	5	NA	NA
Apex federation financial services																		
% of increase in amount of savings deposits	28	25	-7	-71	NA	NA	NA	1896	70	47	NA	NA	NA	NA	21	21	NA	234

(Contd.)

Name of federation / legal form	*BMASS-society*		*Pragathi-MACS*		*IIMF-MACS*		*Sanginee-Cooperative*		*ASSSL-cooperative*		*Savera-Trust*		*PALMA-Trust*		*Boondh Bachat Sangh-Trust*		*CGMST-Unregistered*	
% of increase in amount of loans outstanding	44	33	-8	28	3	24	18	50	48	35	88	24	NA	97	28	12	NA	NA
% of increase in amount of loans disbursed	48	30	-40	76	27	10	42	56	24	27	127	11	Na	2980	12	-6	NA	NA
% of increase in loans outstanding to external institutions	45	37	13	18	12	20	24	49	-12	26	107	8	NA	45	42	-6	NA	NA

Table 5.2 Sources of Funds as of 31 March 2010

Federation			*As % of total liabilities*			
	Legal form	*Year of MF operation*	*Equity (share capital and reserves)*	*Savings (compulsory and voluntary)*	*Grants / revolving funds*	*Bank loan*
BMASS, Jprasad	Society	1999	4.21	7.25	4.67	82.64
PMSS	APMACS	2004	18.51	2.88	0	77.51
IIMF	APMACs	2002	8.84	0	3.14	80.15
Sanginee	Orissa Self Help Cooperative	2005	11.59	1.44	0	81.68
ASSSL	Cooperative society	2004	26.0	49.3	0.0	24.7
Savera	Trust	2006	11.39	22.81	0	62.62
PALMA	Trust	2008	42.56	0	37.43	19.53
Boondh Bachat Sangh	Trust	2002	2.08	97.07	0	0
CGMST	Unregistered	2009	2.78	18.79	0	78.43

Table 5.3 Cost of Funds to Funding Liabilities Ratio

Federation	*2008*	*2009*	*2010*
BMASS, Jprasad	9.33	5.37	7.84
PMSS	12.87	10.46	12.64
IIMF	11.07	11.33	9.02
Sanginee	10.75	15.76	13.58
ASSSL	n.a	8.1	6.8
Savera	0	1.9	4.03
PALMA	NA	1.79	18.79
Boondh Bachat Sangh	5.89	5.19	5.39
CGMST	NA	NA	4.88

Table 5.4 Operating Expense Ratio

Federation	*2008*	*2009*	*2010*
BMASS, Jprasad	2.03	1.58	1.45
PMSS	2.55	4.01	5.01
IIMF	5.62	6.36	6.91
Sanginee	7.08	8.22	8.22
ASSSL	5.6	6.4	6.9
Savera	38.14	22.95	19.54
PALMA	NA	3.1	9.19
Boondh Bachat Sangh	19.4	15.6	18.7
CGMST	NA	NA	79.0

Table 5.5 Portfolio at Risk

Federation	*2008*	*2009*	*2010*
BMASS, Jprasad	4.1	4.3	4.3
PMSS	0.42	0.62	0.48
IIMF	0.42	0.62	0.48
Sanginee	<1%	<1%	<1%
ASSSL	n.a	n.a	n.a
Savera (>90days)	n.a	17	n.a
PALMA	n.a	0	0.04
Boondh Bachat Sangh	n.a	n.a	n.a
CGMST	NA	NA	0

Table 5.6 Loan Loss Provision Ratio

Federation	*2008*	*2009*	*2010*
BMASS, Jprasad	2.14	3.68	1.69
PMSS	0.24	0.42	0.42
IIMF	0.07	0.03	0.22
Sanginee	0	0	1.2
ASSSL	0	0	0

(Contd.)

Federation	*2008*	*2009*	*2010*
Savera	0	0	0
PALMA	NA	0	0
Boondh Bachat Sangh	1.4	0.59	6.05
CGMST	NA	NA	1.99

Table 5.7 Comparison of Yield and Costs

Federation	*Yield on Gross loan portfolio*	*Cost of funds ratio**	*Loan loss provision ratio*	*Operating expense ratio*
BMASS, Jprasad	11.95	7.22	1.69	1.45
PMSS	18.5	13.06	0.42	5.01
IIMF	14.83	10.21	0.22	6.91
Sanginee	20.01	14.32	1.2	8.22
ASSSL	12.84	5.6	0	6.74
Savera	10.24	4.48	0	19.54
PALMA	14.5	4.34	0	9.19
Boondh Bachat Sangh	17.75	6.2	0	5.98
CGMST	10.63	6.62	1.99	79.02

Note: *interest and fee expenses on funding liabilities/average gross loan portfolio.

Table 5.8 Operational Self-sufficiency

Federation	*Years of operation*	*2008*	*2009*	*2010*
BMASS, Jprasad	11	125.61	141.89	131.64
PMSS	6	108.55	102.26	104.19
IIMF	8	117.98	113.69	116.82
Sanginee	5	102.57	105.69	106.61
ASSSL	6	209.25	158.47	128.28
Savera	4	116.98	113.21	126.33
PALMA	2	118.3	95.47	112.72
Boondh Bachat Sangh	8	110.95	143.52	122.87
CGMST	1	NA	NA	16.56

NA – not applicable.
n.a. – not available

Table 5.9 Debt Equity Ratio

Amount of debt borrowing from banks and others/ equity

Federation	*2008*	*2009*	*2010*
BMASS, J. Prasad	6.19	6.43	9.31
PMSS	7.2	6.93	4.19
IIMF	6.21	6.46	6.69
Sanginee	86.8	8.29	7.04
ASSSL	3.67	0.98	0.95
Savera	7.74	8.04	5.5
PALMA	NA	0.37	0.24
Boondh Bachat Sangh	0	0	0
CGMST	NA	NA	28.23

Table 5.10 Capital Adequacy Ratio

Equity and reserves/(total assets minus cash at hand and at bank)

Federation	*Legal form*	*Years of MF operation*	*2008*	*2009*	*2010*
BMASS, Jprasad	Society	1999	12.94	12.77	9
PMSS	APMACS	2004	10.65	13.26	19.74
IIMF	APMACs	2002	13.63	13.28	12.43
Sanginee	Orissa Self Help Cooperative	2005	1.01	10.13	11.72
ASSSL	Cooperative society	2006	12.79	27.92	26.66
Savera	Trust	2004	10.94	11.37	11.67
PALMA	Trust	2008	NA	71.03	42.14
Boondh Bachat Sangh	Trust	2002	2.4	2.3	2.2
CGMST	Unregistered	2009	NA	NA	3.74

6 Role of SHG Federations in Microfinance
Future Directions

The federations that have been studied have been performing well in terms of institutional parameters and reasonable growth in business, though with some support from the parent organizations. Interactions with several key stakeholders show that while some of the federations are performing well, others find it difficult to sustain their operations.

6.1 SHOULD FEDERATIONS ASSUME A FINANCIAL INTERMEDIATION ROLE?

While federations appear to be a critical institutional mechanism to ensure sustainability of SHGs, their entry into financial intermediation is an option which has to be carefully assessed. In areas where the access points of financial services are limited, the potential for federations to be financial intermediaries is high. In geographical areas where adequate access points are already available, it would be prudent to carefully weigh the option of financial intermediation. The federations would be well advised not to take up financial intermediation on the assumption that revenue can be used to meet the costs of other non-financial operations and activities.

Promoters should ensure that the legal form should enable mobilization of equity and savings to bring in the financial stake of the members. Going by the past experience of federations that have undertaken financial intermediation, it appears that only very few of the federations promoted would be able to continue to play a key role in providing sustainable financial services to their constituents.

6.2 CHALLENGES ARE MANY

The federations usually are not self reliant institutions which only mobilize the member equity and savings and use these funds for lending. In order to meet the loan demand they leverage loans from banks and thus are largely dependent on external funds for business. Since the SHGs also undertake savings and lending, with direct access to bank loans, the federations have limited scope in mobilizing equity and savings from the members/SHGs. The legal form, and the ability and willingness of SHGs to contribute a larger portion of their resources are significant factors which determine internal mobilization of funds. With limited equity mobilization and high demand for funds from constituents, federations face high gearing ratios. Banks are not comfortable in lending large sums to these institutions citing borrower-led governance structure of the federations and the absence of professional management of financial operations. Thus resource mobilization limits the growth of loan business.

The growth in loan portfolio of federations has been limited as compared to the growth rates registered by mainstream MFIs. Limited growth and ability to meet the needs of members needs leads to member dissatisfaction especially in areas where a large number of MFIs/government programmes are operational and wider choices are available. Thus, inability of the federations to offer larger volumes of loans and a wider range of products can make them the less preferred choice in a competitive market.

The federations have been finding their margins squeezed and profitability under pressure. The expenditure on staff salaries have been increasing with recruitment of specialized staff for MIS, internal controls, etc. Some federations have had to raise the salary of staff in order to retain talent. Federations have to invest in systems improvement for managing growth. Meanwhile the borrowing costs are heading northwards whereas there is pressure from members to keep interest rates low. Some of the states have been providing interest subvention to banks for their lending to SHGs. This encourages the members to demand cheaper credit from federations as well, thus squeezing the margins of the federations.

Member rootedness in terms of processes, products and governance leads to the sustainability of the federations in the longer run. It is necessary for the federations to invest in understanding the member needs and address them. While loans for a variety of purposes are needed to reduce vulnerability and enhance income, the federations have a competitive advantage in designing and offering a range of savings services to the members. Voluntary savings and insurance products can be the unique selling proposition of the federations. Technical guidance is needed by the federations to improve processes, products and governance on an ongoing basis for a longer term. The promoter's role is very critical and one should not expect withdrawal of the promoters from the federations within short periods. Promoters might need to continue to be engaged with the federations for a long time, with their roles gradually changing over time from direct involvement to indirect guidance.

6.3 CAN FEDERATIONS EVOLVE WITH TIME?

The idea that federations be created as long-term higher tier institutions is valid, but they need to be alive to the changing environment and requirements of the constituents; they might find it necessary to change their form in order to be able to continue to serve the interests of the constituent SHGs. Experience shows that there are different evolutionary paths for the federations[1]. One trend has been for federations to transform to a company, especially a NBFC. A few federations, however, have promoted a not for profit company. This transformation has been usually for enabling growth both in terms of geographical expansion and growth of loan portfolio. The public sector banks have not been lending to the federations as much as the private sector banks. However, private sector banks have not found comfort in the legal and governance framework of the federations and hence their support the business plans of the federations has been highly selective.

1 In this context, the situation of seven NGOs supported to promote federations under the CASHE project - which ended in 2006 - is instructive. Two organizations have transformed into NBFCs, though one is not doing well. One NGO discontinued support to federations and started MFIs operations itself as a Section 25 company but could not attract equity investment. Of four others functioning with the federation model, one is performing poorly with reduced access to finance while another does not have business-like approach and is not accessing external funds; only two out of its four federations are active. The federations of the remaining two NGOs are functioning well with high operational self-sufficiency though even they have difficulty obtaining external funds. (Based upon discussions with P.Madhavi, Maanaveeya Holdings, formerly Manager, CASHE Project).

It is also interesting to see the role of the federations after such transformation. In very few cases the federations have remained as financial intermediaries (Sarvodaya Nano Finance Limited, BISWA). Largely their financial intermediation role has been weaned out and they have been playing other roles addressing the social and livelihood needs (Swayam Shikshan Prayog, SHEPHERD, Hand in Hand). This change of roles has largely happened since the federations had not been very strong in financial intermediation. The other reason is that the promoter had envisioned only a temporary role for the financial intermediation by the federations and when the company was formed the financial role was wound down.

While transformation to company has been one of the evolutionary paths of the federations, the other has been changes in basic structure from SHG to JLG. This has been an outcome of transformation to company or even otherwise as in the case of Sanginee. IIMF is also adopting this lending methodology along with SHGs. JLG is perceived to be a very efficient model, ensuring better discipline in repayments though it is not a member- led model. Comparatively, disciplined SHG performance has been difficult to achieve, since: (a) declining regularity of meetings and attendance of members, (b) the poor internal loan recovery rate, and (c) the lack of good leadership. However, the grassroots leaders view the SHGs as the building blocks of the higher level institutions and there is reluctance to dispense with the SHG methodology.

Some federations follow a different evolutionary path, i.e., promoting a multi state co-operative to spread operations in different locations. This diversifies the risk, but also makes control over operations and quality monitoring difficult.

6.4 HOW FAR DO POLICIES SUPPORT FINANCIAL FEDERATIONS?

The financial architecture of the country is largely determined by Reserve Bank of India. The financial federations are largely clubbed with other MFIs as far as lending policy is concerned. In spite of the successful role played by some of the federations in offering inclusive financial services, recognition of the role of federations in financial inclusion has been limited even as the study shows the federations seem to reach out to vulnerable communities such as SC/ST and minorities.

NABARD has recognized the role of federations only in 2007 and offered funding support on a model neutral basis. In its view the overall objective of these federations

should be that of building up leadership qualities among its members and making the SHGs self-reliant[2]. NABARD does not view the financial intermediation role of federations favourably and is willing to accept the same only as an unavoidable necessity where it could be done with profitability and sustainability. While one can appreciate the caution of the policy maker in promoting financial intermediaries, well functioning financial federations should be provided loan funds. Grant support for technical assistance, quasi equity funding are some of the promotional measures that can strengthen the well functioning federations.

Role of State Governments

A major thrust for financial federations was given by the Andhra Pradesh government in its multi-tier system involving SHGs, village organizations and mandal samakhyas. Despite the injection of corpus funds for financial operations, the scale of loans from these higher tier organizations to SHGs was very limited. Only a handful of mandal samakhyas have been able to attract funds from public sector banks or wholesalers like the Rashtriya Mahila Kosh (RMK). A reason for this is the inability of these federations to introduce good systems of governance and sound MIS. Indeed, financial performance data for this study was difficult to come by. Nevertheless, in a renewed thrust to revive their financial intermediation function, the SERP and IKP authorities are identifying well-functioning VOs and mandal samakhayas for bulk borrowing with a view to persuade RMK and banks to lend to them.

Another state where the SHG federation idea has taken root is Orissa. SHGs are to be federated under the Mission Shakti programme at the panchayat level and at the block level, though there is lack of clarity whether the provision of financial services will be undertaken by the federations. Similarly, in the state of Bihar whether the IKP structure has been largely adopted under the Bihar Rural Livelihoods Programme, a financial role for federations has not emerged.

The only state, apart from AP that is encouraging a role for the financial federation is Tamil Nadu where panchayat level federations (PLFs) are being supported to play this role by the Mahalir Thittam (MT) Project. Under the project the cluster level federations that had been formed under the earlier IFAD project gave way to federations with the area of the panchayat as the jurisdiction. These PLFs have been provided with seed money and an incentive grant is given to the PLFs achieving

2 In this capacity federations can access NABARD funds for formation of new SHGs—which they are well equipped to do—and training of SHG leaders but not for financial operations.

MT's rating parameters. Banks are starting to lend to these federations which are registered as societies. While the programme is implemented through NGOs the PLFs are viewed as the new community organisations to channel government programmes and assistance. Though intended as a counter to the high interest rates of MFIs - by lending at 15% per annum - the financial intermediation function assigned to the PLFs is not entirely convincing since they may not be able to handle large funds for which systems, skills, and professionalism is required. 12,000 such federations are to function as financial intermediaries. Finding competent staff that understands the basics of financial management to run business in the PLFs is a tall task. PLFs, however, have the potential and ability to act as business correspondents of banks. It may be possible for banks to operate with PLFs as 'outsource agents'. With capacity building support the PLFs can develop the capability to implement this model.

Role of Banks

After some initial reservations, the bank linkage programme has been largely welcomed by banks as a means of lowering their transaction costs and risks of serving rural clientele through the medium of SHGs. SHGs that are federated already have access to the bank linkage programme from their local bank branches, which are also in a position to provide them with savings and a range of other financial services generally not provided by federations. Besides, some SHGs access loans through other programmes, notably the SGSY. Apart from these sources, loans from MFI sources are now available in most rural areas of the country.

Is the federation then intended to supplement, and compete with, these sources, or to facilitate the flow of credit with an appropriate role and positioning in the supply chain of finance? There seems to be no clear answer to this question particularly among the public sector banks that have also been implementing bank linkage and other government support programmes with a credit component. Following the cue of NABARD most bankers do not see the block level federation as a financial intermediary, with weak governance cited as the main reason. At the same time, in Andhra Pradesh and Tamil Nadu banks are coming forth in a small way to support federations promoted under government programmes. In Orissa too, BMASS have been able to attract funding from banks despite their inappropriate legal form. However, in such cases it is important that funding to federations is not at the expense of the direct bank linkage facility.

There is some interest on the part of banks to use federations as business correspondents (BCs) and business facilitators (BFs) though very few initiatives have emerged thus far. Again it is only with the government support that in A.P. initiatives are underway to involve federations as BCs in the payment system. However, banks could also consider federations as BCs to extend loans or otherwise engage with rural clients at lower transaction costs.

Some years ago a few private sector banks had started lending to federations as part of a form of big push through 'partnerships'. The first Andhra crisis put an end to this phenomenon. Thereafter, the economic slowdown drastically cut funds available to smaller MFIs and federations. Funding for smaller MFIs and federations have not recovered from these setbacks and are likely to be further affected by the fresh, bigger, crises of 2010 in microfinance.

It would appear that financial federations are consigned to the category of MFIs and are required to establish their credentials as such in order to access bank finance. The screening devices such as ratings and capacity assessments used for this purpose put them at a disadvantage given their background, limited experience and lack of capital and professional support. As a consequence the funding for their operations comes from SIDBI and other wholesalers rather than from public sector banks which supported the SHGs. It is therefore not unsurprising that well established federations like Pragathi MACS, despite their sound performance, are not able to attract sufficient bank funds.

Thus, it is FWWB and RGVN that have been a familiar presence in supporting the federations. SIDBI has also been a source of support to federations that function (despite the varying legal forms of cooperative, trust, society, etc) effectively in their capacity as MFIs. However, the direction in which successful federations are being pushed is that of the NBFC with transformation loans and other support being made available by SIDBI for the transition. Even so, this would place them in a position no better than the smaller MFIs, with all problems of attracting funding in a highly unequal microfinance sector.

Thus, policy support is needed for developing financial federations as viable entities. They can be engaged by banks in deepening financial services. What space can federations occupy has to be decided by RBI in consultation with the sector experts. It is hoped that the recently formed sub-committee on the microfinance sector will also spell out more clearly the status and policy support for various categories of financial intermediaries, including federations, in the microfinance sector.

6.5 CONCLUDING OBSERVATIONS

The space available for federations to form and function has been much smaller than originally assumed. The state is the most active player in forming federations of SHGs in their quest for expanding the footprint of their development effort, but under a mechanism that could be labeled as a community based model. The few federations outside the government domain that are successful have been remarkable in their battle for survival and growth.

As the federations head into the future they need to be conscious of the changing environment and be prepared to change their form. They cannot remain wedded to the initial form of organization; they should be prepared to change into a company, cooperative society or other form that ensures continued support from external stakeholders such as banks, governments and donors. During the course of this transformation, retaining community participation in ownership and governance is a critical concern that should be addressed.

While financial intermediation is seen as a panacea for sustainability related issues, federations would do well to embed financial intermediation in livelihood development programmes over time. Supporting livelihoods of constituents is a key function that federations should undertake and financial intermediation should increasingly be part of a larger developmental thrust incidental to the livelihoods programme. The objective is to ensure that members gain viable incomes through sustainable livelihoods strategies.

Federations cannot rely on financial intermediation to generate resources for their non-financial interventions. Appropriate sources of long term funds must be accessed. Donors should be prepared to invest for the long term in federations. While in the initial stages the promoters will play a significant role in formation, operations and monitoring, gradually overtime, their role will shrink, but will remain. Premature exit of promoters will jeopardize the sustainability of the federations.

The federations need much stronger policy support. Despite being community based institutions, they find themselves discriminated against in terms of bank loans, for involvement as service organizations to government programmes and even in institutional ratings. NABARD and the government should come out with clear criteria on how federations would be supported and the benchmarks they must achieve to qualify for support. Federations should have the autonomy to decide whether they want to change form and if so to what and when.

The captive federation format adopted in some states has converted the structure in dedicated distribution channels of governments' social and welfare programmes. This has made federations into contact service organizations without a mission of their own concerning their constituents. The future approach to government's partnership with federations should ensure that they are equal partners and not pushed into accepting all or any of the governments' interventions.

Federations as a concept have a lot to offer. Banks should be able to find comfort in well run federations functioning as financial intermediaries as they can lower costs of providing numerous loans by channelling it through a federation. The government could also rely on federations to reach a large number of grass root customers at low effective costs. The members of the federations benefit from having an institution of their own that has the size and competence to negotiate on their behalf and function in their interest. But all these are possible only when federations find their space through appropriate policies, bank support and member loyalty.

Appendix A

LIST OF PEOPLE MET

Name	*Designation*	*Organization*
Dr.G. Bhaskara Rao	Associate Vice President	APMAS
S. Ramalakshmi	Associate Vice President	APMAS
M.B.S. Reddy	Associate Vice President	APMAS
B.Umamaheswara Rao	CEO	IIMF
Mr. Samson	Director	GRAM
J. Neeliah	CEO	Ankuram Sangamam Poram
Rema Kandarpa	Vice President	Basix
G. John	CEO	Pragathi SEWA Samithi
G. Maheshwar Kumar	Manager	Pragathi SEWA Samithi
A.Satyanandam	Manager	Pragathi SEWA Samithi
Raghunandan Rao	Additional CEO	SERP
Usha Rani	Head -Institutional Building	SERP
Dr. Srinivas	DPM-IB – Warangal	SERP
Mr. Prabhakar	DPM-IB – Khammam	SERP
G.V.S.Reddy	Consultant	
Sudha Kothari	Director	Chaitanya
Kalpana Pant	CEO	Chaitanya
Vijayalakshmi Das	Managing Director	Ananya Finance for Inclusive Growth
Mr. Ramachandran	General Manager	SIDBI
D. Hari	Deputy General Ganager	NABARD
Mr. K.Suresh Kumar	Deputy General Manager	NABARD
K. Uma Maheswara Rao	Chief Manager	Andhra Bank

Name	*Designation*	*Organization*
R. Jeyakumar	Deputy Director	PWDS
I. Jacob Abraham	Coordinator – Finance & systems	PWDS
Mr. Chellam	Manager	PALMA
G. Manoharan	Deputy General Manger	Indian Bank
P. Anbukamaraj	Senior Manager, Microsate Branch	Indian Bank
Dr. Kalpana Sankar	Chief Executive Officer	Hand in Hand Tamil Nadu
Dr. N. Jeyaseelan	Director- Transformation	Hand in Hand Tamil Nadu
Dr. K. Govindaraju	Executive Director	SEVAI
Ms. Vanitha	Programme Coordinator	SEVAI
Ms. Sudha	Accounts Officer	SEVAI
Xian Stephen	Deputy Manager	SEVAI
S. Sadananda	Director	IDPMS
Venkatesh Tagat	Chief General Manager	NABARD
M. K. Mudgal	General Manager	NABARD
B. M Patnaik	Deputy General Manager	NABARD
Karthik Narayan Subramaniam	Regional Head Microloans	ICICI Bank Ltd
Kirpal Singh	General Manager	SIDBI
Shreekantha Das	Assistant General Manager	SIDBI
Dasarathi Tripathy	Project officer	B'Mass Jagannathprasad
Dr. Godfred Victor Singh	Executive Director	Outreach
Mr. Devadas	Internal Auditor	Outreach
Mr. Guruswamy	Incharge, NRM	Outreach
T. Muralidharan	Programme Consultant	HIVOS
Rajesh Singhi	Director	Ibtada
Ganga Ram	Assistant Manager	Savera
Mr. Pavan	Manager	Sangharsh
Jaipal Singh	Executive Director	Centre for Microfinance
Sharda Patel	Vice-President & CEO	Sanginee
Sunil Kumar Patel	Secretary	Parivartan

Name	*Designation*	*Organization*
Pramod K. Paliwal	Managing Director & CEO	Arth Finance
Ashok Bhargava	General Manager	SIDBI
Peter Palaniswami	Secretary General	Shepherd
R. Narayan	Chief General Manager	NABARD
Ramesh Tenkil	General Manager	NABARD
Dr. Bidu Prava Rath	CDPO	B'Mass Chhatarpur
Indira Mohapatra	Mission Shakti Coordinator & CEO	B'Mass Chhatarpur
Rakesh Pandey	Senior Manager, Programmes	Shramik Bharati
Ashish Shukla	Manager, Finance	Shramik Bharati
P. Madhavi	Manager	Maanaveeya Holdings

Appendix B

FINANCIAL STATEMENTS

1. BMASS-Jagannatha Prasad

(a) Income Expenditure Statement

#	*Operating Income*	*2008 (Rs)*	*2009 (Rs)*	*2010 (Rs)*
1	Interest & Fee Income From Loans	44,95,073	54,12,303	69,79,465
2	Income From Other Finance -Related Services	535860	678770	903690
3	Income From Investment	3,040	14,457	21,696
4	Income From Other Sources	28,376	17,600	57,124
5	Total Operating Income	50,62,349	61,23,130	79,61,975
6				
7	Operating Expenses			
8	Interest & Fee Expenses	27,14,853	20,90,822	42,15,167
9	Loan Loss Provision Expenses	6,75,007	15,57,246	9,86,981
10	Loan Written Off			
11	Administrative Expenses- Personnel	3,31,841	4,07,760	5,67,600
12	Other Administrative Expenses	3,08,587	2,59,468	2,78,630
13	Total Operating Expenses	40,30,288	43,15,296	60,48,378
14	Net Operating Profit/ (Loss)	10,32,061	18,07,834	19,13,597

(b) Balance Sheet

Assets	*Details*	*2008* (Rs)	*2009* (Rs)	*2010* (Rs)
15	Cash And Due From Banks	17,16,323	21,97,261	9,56,162
16	Reserves In Central Bank			
17	Short Term Investment In Market Instruments			
18	Total Loan Portfolio	34654407	49933249	66898288
19	(Loan Loss Reserve)	-225027	-823614	-1221691
20	Other Short Term Assets	3,81,171	2,81,746	6,44,427
21	Long Term Investments			
22	Net Fixed Assets	3,36,392	3,81,680	6,77,697
23	Total Assets	3,68,63,266	5,19,70,322	6,79,54,883
Liabilities				
24	Savings Accounts : Forced	30,76,517	39,46,957	49,29,517
25	Savings Accounts : Voluntary			
26	Grant Received In Advance			
27	Differed Income			
28	Loans: Central Bank	2,81,42,785	4,08,60,014	5,61,60,538
29	Loans: Subsidized			
30	Other Short Term Liabilities			
31	Other Long Term Liabilities	10,94,675	8,06,224	8,33,405
32	Total Liabilities	3,23,13,977	4,56,13,195	6,19,23,460
Equity				
33	Paid In Equity From Shareholders			
34	Donated Equity -Prior Year Cumulative			
35	Donated Equity -Current Year			
36	Prior Years Retained Earnings With Donation / Losses	35,17,233	45,49,293	39,52,826
37	Current Years Retained Earnings/ Losses	10,32,061	18,07,834	20,78,597
38	Other Capital Accounts			
39	Total Equity	45,49,294	63,57,127	60,31,423
40	Total Liabilities And Equity	3,68,63,271	5,19,70,322	6,79,54,883

(c) Financial Ratios

Sustainability/Profitability Ratios	*Formula*	*2008*	*2009*	*2010*
Return On Assets	Net Operating Income/Average Assets	3.1	4.1	3.2
Operational Self Sufficiency	Operating Revenue/ (Financial Expense+ Loan-Loss Provision Expense + Operating Expense)	125.6	141.9	131.6
Profit Margin	Net Operating Income/ Operating Revenue	20.4	29.5	24.0
Asset Liability Ratios				
Yield On Gross Loan Portfolio	Cash Financial Revenue From Loan Portfolio/ Average Gross Loan Portfolio	14.2	12.8	11.9
Cost Of Funds Ratio	Interest And Fee Expenses On Funding Liabilities/ Average Funding Liabilities	9.3	5.4	7.8
Portfolio Quality				
PAR	Portfolio At Risk (30 Days)/Gross Loan Portfolio	4.1	4.3	4.3
Write Off Ratio	Value Of Loans Written Off/Average Gross Loan Portfolio	0	0	0
Efficiency/Productivity Ratios				
Personnel Productivity	No Of Active Borrowers (Shgs)/No Of Personnel	66.3	76.8	85.2
Operating Expense Ratio	Operating Expense/ Average Gross Loan Portfolio	2.0	1.6	1.4
Cost Per Borrower (SHG)	Operating Expense/ Average Number Of Active Borrowers	N.A	6701	8297

2. Dharmasagar Mandal Samakhya

(a) Income Expenditure Statement

#	*Operating Income*	*2008*	*2009*	*2010*
		Rs	*Rs*	*Rs*
1	Interest & Fee Income From Loans	4,35,121	4,56,562	6,07,577
2	Income From Other Finance -Related Services	1,800	200	800
3	Income From Investment	22,856	55,241	40,045
4	Income From Other Sources	11,43,590	18,90,480	5,72,755
5	Total Operating Income	16,03,367	24,02,483	12,21,177
6		0	0	0
7	Operating Expenses	0	0	0
8	Interest & Fee Expenses	4,099	200	36,000
9	Loan Loss Provision Expenses	0	0	0
10	Loan Written Off	0	0	0
11	Administrative Expenses- Personnel	9,01,315	8,44,635	44,000
12	Other Administrative Expenses	61,919	2,24,040	4,65,847
13	Total Operating Expenses	9,67,333	10,68,875	5,45,847
		0	0	0
14	Net Operating Profit/ (Loss)	6,36,034	13,33,608	6,75,330

(b) Balance Sheet

Balance Sheet		*2008*	*2009*	*2010*
Assets		*Rs*	*Rs*	*Rs*
15	Cash And Due From Banks	2059997	2015385	2817406
16	Reserves In Central Bank	0	0	0
17	Short Term Investment In Market Instruments	0	0	0
18	Total Loan Portfolio	8135989	10139259	11694579
19	(Loan Loss Reserve)	0	0	0
20	Other Short Term Assets	0	262027	283995
21	Long Term Investments	91415	5000	6000
22	Net Fixed Assets	0	0	0
23	Total Assets	10287401	12421671	14801980

Balance Sheet		*2008*	*2009*	*2010*
Assets		*Rs*	*Rs*	*Rs*
Liabilities				
24	Savings Accounts :Forced	500000	0	0
25	Savings Accounts :Voluntary	0	0	0
26	Grant Received In Advance	0	0	0
27	Differed Income	0	0	0
28	Loans: Central Bank	0	0	0
29	Loans: Subsidized	0	0	0
30	Other Short Term Liabilities	19000	0	1348914
31	Other Long Term Liabilities	0	0	0
32	Total Liabilities	519000	0	1348914
Equity		*0*	*0*	*0*
33	Paid In Equity From Shareholders	33600	34400	37600
34	Donated Equity -Prior Year Cumulative	0	0	0
35	Donated Equity -Current Year	8121564	9440426	9785426
36	Prior Years Retained Earnings With Donation / Losses	0	0	0
37	Current Years Retained Earnings/ Losses	1613237	2946845	3630040
38	Other Capital Accounts	0	0	0
39	Total Equity	9768401	12421671	13453066
40	Total Liabilities And Equity	10287401	12421671	14801980

3. Pragathi MACS

(a) Income-Expenditure Statement

#	*Operating Income*	*2008* (Rs)	*2009* (Rs)	*2010* (Rs)
1	Interest & Fee Income From Loans	31834000	30374000	40288000
2	Income From Other Finance -Related Services	260000	524000	868000
3	Income From Investment	302000	400000	811000
4	Income From Other Sources			
5	Total Operating Income	32396000	31298000	41967000

#	*Operating Income*	*2008 (Rs)*	*2009 (Rs)*	*2010 (Rs)*
6				
7	Operating Expenses			
8	Interest & Fee Expenses	24525000	21761000	28453000
9	Loan Loss Provision Expenses	451000	846000	907000
10	Loan Written Off	0	0	0
11	Administrative Expenses- Personnel	3486000	4908000	6911000
12	Other Administrative Expenses	1381000	3090000	4010000
13	Total Operating Expenses	29843000	30605000	40281000
14	Net Operating Profit/ (Loss)	2553000	693000	1686000

(b) Balance Sheet

Assets	*Details*	*2008 (Rs)*	*2009 (Rs)*	*2010 (Rs)*
15	Cash And Due From Banks	5213000	39582000	17752000
16	Reserves In Central Bank	0	0	0
17	Short Term Investment In Market Instruments	0	0	0
18	Total Loan Portfolio	208324000	190663000	244933000
19	(Loan Loss Reserve)	-795000	-1641000	-2548000
20	Other Short Term Assets	2638000	852000	1954000
21	Long Term Investments	1500000	8864000	15580000
22	Net Fixed Assets	5301000	5571000	8591000
23	Total Assets	222181000	243891000	286262000
Liabilities				
24	Savings Accounts :Forced	30405000	28410000	8253000
25	Savings Accounts :Voluntary			
26	Grant Received In Advance			
27	Differed Income			
28	Loans: Central Bank	166389000	187744000	221880000

Assets	*Details*	*2008 (Rs)*	*2009 (Rs)*	*2010 (Rs)*
29	Loans: Subsidized			
30	Other Short Term Liabilities	2284000	651000	3135000
31	Other Long Term Liabilities			
32	Total Liabilities	199078000	216805000	233268000
Equity				
33	Paid In Equity From Shareholders	20000000	25000000	50000000
34	Donated Equity -Prior Year Cumulative			
35	Donated Equity -Current Year			
36	Prior Years Retained Earnings With Donation / Losses	3103000	2086000	2994000
37	Current Years Retained Earnings/ Losses			
38	Other Capital Accounts			
39	Total Equity	23103000	27086000	52994000
40	Total Liabilities And Equity	222181000	243891000	286262000

(c) Financial Ratios

Sustainability/Profitability Ratios	*Formula*	*2008*	*2009*	*2010*
Return On Assets	Net Operating Income/Average Assets	1.3	0.3	0.6
Operational Self Sufficiency	Operating Revenue/ (Financial Expense+ Loan-Loss Provision Expense + Operating Expense)	108.6	102	104
Profit Margin	Net Operating Income/ Operating Revenue	7.9	2.2	4.0
Asset Liability Ratios				
Yield On Gross Loan Portfolio	Cash Financial Revenue From Loan Portfolio/ Average Gross Loan Portfolio	16.7	15.2	18.5
Cost Of Funds Ratio	Interest And Fee Expenses On Funding Liabilities/ Average Funding Liabilities	12.9	10.5	12.6
Portfolio Quality				

Sustainability/Profitability Ratios	*Formula*	*2008*	*2009*	*2010*
PAR	Portfolio At Risk (30 Days)/Gross Loan Portfolio	0.4	0.6	0.5
Write Off Ratio	Value Of Loans Written Off/Average Gross Loan Portfolio			
Effeciency/Productivity Ratios				
Personnel Productivity	No Of Active Borrowers (Shgs)/No Of Personnel	N.A	N.A	N.A
Operating Expense Ratio	Operating Expense/ Average Gross Loanportfolio	2.5	4.0	5.0
Cost Per Borrower (SHG)	Operating Expense/ Average Number Of Active Borrowers	N.A	N.A	N.A

4. IIMF

(a) Income-Expenditure Statement

#	*Operating Income*	*2008 (Rs)*	*2009 (Rs)*	*2010 (Rs)*
1	Interest & Fee Income From Loans	2,50,10,799	2,67,25,522	2,67,03,296
2	Income From Other Finance -Related Services	32,917	48,702	67,164
3	Income From Investment	3,09,639	13,90,260	8,23,812
4	Income From Other Sources	44,34,314	53,46,316	88,81,433
5	Total Operating Income	2,97,87,669	3,35,10,800	3,64,75,705
6		0	0	0
7	Operating Expenses	0	0	0
8	Interest & Fee Expenses	1,67,00,152	1,93,62,582	1,83,86,120
9	Loan Loss Provision Expenses	1,06,000	54,185	3,91,694
10	Loan Written Off	0	0	0
11	Administrative Expenses- Personnel	69,39,736	23,60,020	95,74,874
12	Other Administrative Expenses	15,01,807	76,98,296	28,71,542
13	Total Operating Expenses	2,52,47,695	2,94,75,083	3,12,24,230
		0	0	0
14	Net Operating Profit/ (Loss)	45,39,974	40,35,717	52,51,475

(b) Balance Sheet

Assets	*Details*	*2008* (Rs)	*2009* (Rs)	*2010* (Rs)
15	Cash And Due From Banks	3519968	11591190	9296782
16	Reserves In Central Bank			
17	Short Term Investment In Market Instruments			
18	Total Loan Portfolio	155411547	160830657	199364575
19	(Loan Loss Reserve)	-1554121	-1608306	-2000000
20	Other Short Term Assets	4950454	16883234	12579940
21	Long Term Investments	19368000	19368000	33455000
22	Net Fixed Assets	1376944	2473465	2319590
23	Total Assets	18,30,72,792	20,95,38,240	25,50,15,887
Liabilities				
24	Savings Accounts :Forced			
25	Savings Accounts :Voluntary			
26	Grant Received In Advance			
27	Differed Income			
28	Loans: Central Bank	151945631	169672728	204398153
29	Loans: Subsidized			
30	Other Short Term Liabilities	6657054	13581755	20085977
31	Other Long Term Liabilities			
32	Total Liabilities	15,86,02,685	18,32,54,483	22,44,84,130
Equity				
33	Paid In Equity From Shareholders	24470107	26283757	30531757
34	Donated Equity -Prior Year Cumulative			
35	Donated Equity -Current Year			
36	Prior Years Retained Earnings With Donation / Losses			
37	Current Years Retained Earnings/ Losses			
38	Other Capital Accounts			
39	Total Equity	2,44,70,107	2,62,83,757	3,05,31,757
40	Total Liabilities And Equity	18,30,72,792	20,95,38,240	25,50,15,887

(c) Financial Ratios

Sustainability/Profitability Ratios	*Formula*	*2008*	*2009*	*2010*
Return On Assets	Net Operating Income/Average Assets	2.69	2.1	2.26
Operational Self Sufficiency	Operating Revenue/ (Financial Expense+ Loan-Loss Provision Expense + Operating Expense)	118	113.7	116.8
Profit Margin	Net Operating Income/ Operating Revenue	15.2	12.0	14.4
Asset Liability Ratios				
Yield On Gross Loan Portfolio	Cash Financial Revenue From Loan Portfolio/ Average Gross Loan Portfolio	16.7	16.9	14.8
Cost Of Funds Ratio	Interest And Fee Expenses On Funding Liabilities/ Average Funding Liabilities	11.1	11.3	9.0
Portfolio Quality				
PAR	Portfolio At Risk (30 Days)/Gross Loan Portfolio	0.42	0.62	0.48
Write Off Ratio	Value Of Loans Written Off/ Average Gross Loan Portfolio	0	0	0
Efficiency/Productivity Ratios				
Personnel Productivity	No Of Active Borrowers (Shgs)/ No Of Personnel	0.167	0.169	0.172
Operating Expense Ratio	Operating Expense/ Average Gross Loan Portfolio	5.6	6.4	6.9
Cost Per Borrower (MACS)	Operating Expense/ Average Number Of Active Borrowers		1473754	1561212

5. Sanginee

(a) Income –Expenditure Statement

#	*Operating Income*	*2008 (Rs)*	*2009 (Rs)*	*2010 (Rs)*
1	Interest & Fee Income From Loans	2,402,816	4,813,661	5,793,482
2	Income From Other Finance -Related Services	450,420	852,155	1,495,876
3	Income From Investment	7,521	11,998	5,708
	Income From Other Sources			74,944
4	Total Operating Income	2,860,757	5,677,814	7,370,010
	Operating Expenses			
5	Interest & Fee Expenses	1,718,253	3,611,316	4,145,391
6	Loan Loss Provision Expenses			347,829
7	Loan Written Off			40,116
8	Administrative Expenses- Personnel	489,300	1,010,679	1,309,219
9	Other Administrative Expenses	581,486	749,919	1,070,224
10	Total Operating Expenses	2,789,039	5,371,914	6,912,779
11	Net Operating Profit	71,718	305,900	457,231

(b) Balance Sheet

Assets	*Details*	*2008 (Rs)*	*2009 (Rs)*	*2010 (Rs)*
12	Cash And Due From Banks	805,556	301,409	435,838
13	Reserves In Central Bank			
14	Short Term Investment In Market Instruments			
15	Total Loan Portfolio	19,673,392	23,168,120	34,742,768
16	(Loan Loss Reserve)			-307,713
17	Other Short Term Assets			450,000
18	Long Term Investments			
19	Net Fixed Assets	1,035,145	3,788,449	5,975,795
20	Total Assets	21,514,093	27,257,978	41,296,688

Assets	*Details*	*2008 (Rs)*	*2009 (Rs)*	*2010 (Rs)*
Liabilities				
21	Savings Accounts :Forced	2,886,500	1,859,087	592,675
22	Savings Accounts :Voluntary			
23	Grant Received In Advance			
24	Differed Income			
25	Loans: Central Bank	18,189,378	22,624,105	33,729,074
26	Loans: Subsidized			
27	Other Short Term Liabilities	228,659	44,952	2,186,658
28	Other Long Term Liabilities			
29	Total Liabilities	21,304,537	24,528,144	36,508,407
Equity				
30	Paid In Equity From Shareholders	6300	2,006,300	3,567,400
31	Donated Equity -Prior Year Cumulative			
32	Donated Equity -Current Year			
33	Prior Years Retained Earnings With Donation / Losses	-42,237	203,256	723,534
34	Current Years Retained Earnings/ Losses	245,493	520,278	497,346
35	Other Capital Accounts			
36	Total Equity	209,556	2,729,834	4,788,281
37	Total Liabilities And Equity	21,514,093	27,257,978	41,296,688

(c) Financial Ratios

Sustainability/Profitability Ratios	*Formula*	*2008*	*2009*	*2010*
Return On Assets	Net Operating Income/Average Assets	0.43	1.25	1.33
Operational Self Sufficiency	Operating Revenue/ (Financial Expense+ Loan-Loss Provision Expense + Operating Expense)	103	106	107
Profit Margin	Net Operating Income/ Operating Revenue	3	5	6

Sustainability/Profitability Ratios	*Formula*	*2008*	*2009*	*2010*
Asset Liability Ratios				
Yield On Gross Loan Portfolio	Cash Financial Revenue From Loan Portfolio/ Average Gross Loan Portfolio	16	22	20.0
Cost Of Funds Ratio	Interest And Fee Expenses On Funding Liabilities/ Average Funding Liabilities	11	16	14
Portfolio Quality				
PAR	Portfolio At Risk (30 Days)/Gross Loan Portfolio	<1%	<1%	<1%
Write Off Ratio	Value Of Loans Written Off/Average Gross Loan Portfolio	0	0	0.14
Efficiency/Productivity Ratios				
Personnel Productivity	No Of Active Borrowers (Shgs)/No Of Personnel	20.9	20.0	23.3
Operating Expense Ratio	Operating Expense/ Average Gross Loan Portfolio	7.1	8.2	8.2
Cost Per Borrower (SHG)	Operating Expense/ Average Number Of Active Borrowers	N.A	6940	6979

6. ASSSL, CECOEDECON

(a) Income- Expenditure Statement

#	*Operating Income*	*2008 (Rs)*	*2009 (Rs)*	*2010 (Rs)*
1	Interest & Fee Income From Loans	20,45,701	36,43,143	36,21,197
2	Income From Other Finance -Related Services	1,57,128	1,94,692	6,76,314
3	Income From Investment	511	1,623	1,44,660
4	Income From Other Sources	1,56,261	1,63,187	23,529
5	Total Operating Income	23,59,601	40,02,645	44,65,700
6				
7	Operating Expenses			
8	Interest & Fee Expenses	5,33,750	14,00,910	15,79,949
9	Loan Loss Provision Expenses			

#	*Operating Income*	*2008 (Rs)*	*2009 (Rs)*	*2010 (Rs)*
10	Loan Written Off			
11	Administrative Expenses- Personnel	3,64,290	7,25,653	14,21,464
12	Other Administrative Expenses	2,29,603	3,99,166	4,79,811
13	Total Operating Expenses	11,27,643	25,25,729	34,81,224
		0	0	0
14	Net Operating Profit/ (Loss)	12,31,958	14,76,916	9,84,476

(b) Balance Sheet

Assets	*Details*	*2008 (Rs)*	*2009 (Rs)*	*2010 (Rs)*
15	Cash And Due From Banks	1,78,724	5,79,387	9,10,521
16	Reserves In Central Bank			
17	Short Term Investment In Market Instruments			
18	Total Loan Portfolio	1,62,30,359	2,40,09,785	3,23,96,215
19	(Loan Loss Reserve)	-1,23,195	-41,194	-6,04,124
20	Other Short Term Assets		5,00,000	10,000
21	Long Term Investments	10,00,000		21,96,511
22	Net Fixed Assets	1,21,544	14,29,152	14,46,699
23	Total Assets	17407432	26477129.7	36355822
Liabilities				
24	Savings Accounts :Forced	50,60,982	50,64,922	86,98,657
25	Savings Accounts :Voluntary	20,54,905	70,77,387	92,40,875
26	Grant Received In Advance			
27	Differed Income			
28	Loans: Central Bank	69,00,999	49,35,643	66,04,941
29	Loans: Subsidized	11,87,830	21,68,620	23,60,856
30	Other Short Term Liabilities			
31	Other Long Term Liabilities			
32	Total Liabilities	15204716	19246572	26905329

Assets *Equity*	*Details*	*2008 (Rs)*	*2009 (Rs)*	*2010 (Rs)*
33	Paid In Equity From Shareholders	8,83,239	9,10,851	12,91,413
34	Donated Equity -Prior Year Cumulative			
35	Donated Equity -Current Year			
36	Prior Years Retained Earnings With Donation / Losses	11,79,799	63,13,948	81,59,080
37	Current Years Retained Earnings/ Losses	1,39,678	5,758	
38	Other Capital Accounts			
39	Total Equity	2202716	7230557	9450493
40	Total Liabilities And Equity	17407432	26477129	36355822
	Support Of Promoter To Federation			
	Salary And Other Expenditure Of Project/Parent Organisation Staff (2 Staff +Accommodation +Utilities)	204000	192000	0
	Training And Capacity Building (Coop Staff, EC, Beneficiaries)	250000	100000	25000
	NGO Staff Overheads	100000	50000	50000

(c) Financial Ratios

Sustainability/Profitability Ratios	*Formula*	*2008*	*2009*	*2010*
Return On Assets	Net Operating Income/Average Assets	N.A	5	3
Operational Self Sufficiency	Operating Revenue/ (Financial Expense+ Loan-Loss Provision Expense + Operating Expense)	209	158	128
Profit Margin	Net Operating Income/ Operating Revenue	52.2	36.9	22.0
Asset Liability Ratios				
Yield On Gross Loan Portfolio	Cash Financial Revenue From Loan Portfolio/ Average Gross Loan Portfolio	N.A	15.0	12.8

Sustainability/Profitability Ratios	*Formula*	*2008*	*2009*	*2010*
Cost Of Funds Ratio	Interest And Fee Expenses On Funding Liabilities/ Average Funding Liabilities	N.A	5.8	5.6
Portfolio Quality		N.A	7.6	6.8
PAR	Portfolio At Risk (30 Days)/Gross Loan Portfolio	N.A	5.8	5.6
Write Off Ratio	Value Of Loans Written Off/Average Gross Loan Portfolio			
Efficiency/Productivity Ratios		N.A	N.A	N.A
Personnel Productivity	No Of Active Borrowers (Shgs)/No Of Personnel	0	0	0
Operating Expense Ratio	Operating Expense/ Average Gross Loan Portfolio			
Cost Per Borrower (SHG)	Operating Expense/ Average Number Of Active Borrowers	N.A	N.A	N.A

7. Savera

(a) Income-Expenditure Statement

Income Expenditure Statement		*Savera -IBTADA*		
#	*Operating Income*	*2008 (Rs)*	*2009 (Rs)*	*2010 (Rs)*
1	Interest & Fee Income From Loans	72589	145117	214162
2	Income From Other Finance -Related Services		80168	103287
3	Income From Investment			
4	Income From Other Sources	151452	176353	316860
5	Total Operating Income	2,24,041	4,01,638	6,34,309
6				
7	Operating Expenses			
8	Interest & Fee Expenses		27000	93609
9	Loan Loss Provision Expenses			
10	Loan Written Off			

Income Expenditure Statement		*Savera -IBTADA*		
#	*Operating Income*	*2008*	*2009*	*2010*
		(Rs)	*(Rs)*	*(Rs)*
11	Administrative Expenses- Personnel	159521	260958	288370
12	Other Administrative Expenses	32002	66826	120128
13	Total Operating Expenses	1,91,523	3,54,784	5,02,107
14	Net Operating Profit/ (Loss)	32,518	46,854	1,32,202

(b) Balance Sheet

Assets	*Details*	*2008*	*2009*	*2010*
		(Rs)	*(Rs)*	*(Rs)*
15	Cash And Due From Banks	9879	202353	73857
16	Reserves In Central Bank			
17	Short Term Investment In Market Instruments			
18	Total Loan Portfolio	990282	1866010	2314971
19	(Loan Loss Reserve)			
20	Other Short Term Assets	28259	85321	660893
21	Long Term Investments			
22	Net Fixed Assets			14985
23	Total Assets	10,28,420	21,53,684	30,64,706
Liabilities				
24	Savings Accounts :Forced			
25	Savings Accounts :Voluntary			699101
26	Grant Received In Advance			
27	Differed Income			
28	Loans: Central Bank	861732	1784424	1919182
29	Loans: Subsidized			
30	Other Short Term Liabilities	55307	147432	97414
31	Other Long Term Liabilities			
32	Total Liabilities	9,17,039	19,31,856	27,15,697

Assets	*Details*	*2008*	*2009*	*2010*
		(Rs)	*(Rs)*	*(Rs)*
Equity				
33	Paid In Equity From Shareholders			
34	Donated Equity -Prior Year Cumulative			
35	Donated Equity -Current Year			
36	Prior Years Retained Earnings With Donation / Losses	54726	111381	221828
37	Current Years Retained Earnings/ Losses	56,655	1,10,447	112196
38	Other Capital Accounts			14985
39	Total Equity	1,11,381	2,21,828	3,49,009
40	Total Liabilities And Equity	10,28,420	21,53,684	30,64,706

(c) Financial Ratios

Sustainability/Profitability Ratios	*Formula*	*2008*	*2009*	*2010*
Return On Assets	Net Operating Income/Average Assets	6	3	5
Operational Self Sufficiency	Operating Revenue/ (Financial Expense+ Loan-Loss Provision Expense + Operating Expense)	117	113	126
Profit Margin	Net Operating Income/ Operating Revenue	15	12	21
Asset Liability Ratios				
Yield On Gross Loan Portfolio	Cash Financial Revenue From Loan Portfolio/ Average Gross Loan Portfolio	14.5	10.2	10.2
Cost Of Funds Ratio	Interest And Fee Expenses On Funding Liabilities/ Average Funding Liabilities	0.0	2	4.0
Portfolio Quality				
PAR	Portfolio At Risk (30 Days)/ Gross Loan Portfolio	N.A	17	N.A

Sustainability/Profitability Ratios	*Formula*	*2008*	*2009*	*2010*
Write Off Ratio	Value Of Loans Written Off/ Average Gross Loan Portfolio	0	0	0
Efficiency/Productivity Ratios				
Personnel Productivity	No Of Active Borrowers (Shgs)/ No Of Personnel	6	11	12
Operating Expense Ratio	Operating Expense/ Average Gross Loan Portfolio	38.1	23.0	19.5
Cost Per Borrower (SHG)	Operating Expense/ Average Number Of Active Borrowers	N.A	7713	7384

(8) PALMA

(a) Income Expenditure Statement

#	*Operating Income*	*2008 (Rs)*	*2009 (Rs)*	*2010 (Rs)*
1	Interest & Fee Income From Loans	0	72,520	22,11,570
2	Income From Other Finance -Related Services	0	24,387	37,213
3	Income From Investment			
4	Income From Other Sources	1,11,579	81,062	75,528
5	Total Operating Income	1,11,579	1,77,969	23,24,311
6				
7	Operating Expenses			
8	Interest & Fee Expenses	0	27,185	6,61,302
9	Loan Loss Provision Expenses			
10	Loan Written Off			
11	Administrative Expenses- Personnel		0	12,63,449
12	Other Administrative Expenses	94,316	1,59,233	1,37,184
13	Total Operating Expenses	94,316	1,86,418	20,61,935
14	Net Operating Profit/ (Loss)	17,263	-8,449	2,62,376

(b) Balance Sheet

Assets	*Details*	*2008 (Rs)*	*2009 (Rs)*	*2010 (Rs)*
15	Cash And Due From Banks	24948.65	57051.65	-200224.35
16	Reserves In Central Bank			
17	Short Term Investment In Market Instruments			
18	Total Loan Portfolio	0	10259500	20237710
19	(Loan Loss Reserve)			
20	Other Short Term Assets		0	1500
21	Long Term Investments			
22	Net Fixed Assets			
23	Total Assets	24,949	1,03,16,552	2,00,38,986
Liabilities				
24	Savings Accounts :Forced			
25	Savings Accounts :Voluntary			
26	Grant Received In Advance			
27	Differed Income			
28	Loans: Central Bank		2700000	3912621
29	Loans: Subsidized			
30	Other Short Term Liabilities	4000	329052	98360
31	Other Long Term Liabilities			
32	Total Liabilities	4,000	30,29,052	40,10,981
Equity				
33	Paid In Equity From Shareholders		7275000	8270000
34	Donated Equity -Prior Year Cumulative			
35	Donated Equity -Current Year			7500000
36	Prior Years Retained Earnings With Donation / Losses	3685.65	20948.65	-4371.35
37	Current Years Retained Earnings/ Losses	17,263	-8,449	2,62,376
38	Other Capital Accounts			
39	Total Equity	20,949	72,87,500	1,60,28,005
40	Total Liabilities And Equity	24,949	1,03,16,552	2,00,38,986

(c) Financial Ratios

Sustainability/Profitability Ratios	*Formula*	*2008*	*2009*	*2010*
Return On Assets	Net Operating Income/Average Assets	NA	-0.16	1.73
Operational Self Sufficiency	Operating Revenue/ (Financial Expense+ Loan-Loss Provision Expense + Operating Expense)	118	95	113
Profit Margin	Net Operating Income/ Operating Revenue	15.5	-4.7	11.3
Asset Liability Ratios				
Yield On Gross Loan Portfolio	Cash Financial Revenue From Loan Portfolio/ Average Gross Loan Portfolio	NA	1.4	14.5
Cost Of Funds Ratio	Interest And Fee Expenses On Funding Liabilities/ Average Funding Liabilities	NA	1.8	18.8
Portfolio Quality				
PAR	Portfolio At Risk (30 Days)/Gross Loan Portfolio	NA	0	0.04
Write Off Ratio	Value Of Loans Written Off/Average Gross Loan Portfolio	NA	0	0
Efficiency/Productivity Ratios				
Personnel Productivity	No Of Active Borrowers (Shgs)/No Of Personnel	NA	1.47	2.33
Operating Expense Ratio	Operating Expense/ Average Gross Loan Portfolio	NA	3.1	9.2
Cost Per Borrower (SHG)	Operating Expense/ Average Number Of Active Borrowers	NA	NA	49094

9. Boondh Bachat Sangh

(a) Income Expenditure Statement

#	*Operating Income*	*2008 (Rs)*	*2009 (Rs)*	*2010 (Rs)*
1	Interest & Fee Income From Loans	153573	191216	255306
2	Income From Other Finance -Related Services	285830	403164	519365

#	*Operating Income*	*2008 (Rs)*	*2009 (Rs)*	*2010 (Rs)*
3	Income From Investment	606	42	7212
4	Income From Other Sources	-	-	62543
5	Total Operating Income	440009	594422	844426
6				
7	Operating Expenses			
8	Interest & Fee Expenses	98589	99278	137707
9	Loan Loss Provision Expenses	20034	11595	134277
10	Loan Written Off			
11	Administrative Expenses- Personnel	229881	213716	236224
12	Other Administrative Expenses	48068	89577	179044
13	Total Operating Expenses	3,96,572	4,14,166	6,87,252
		0	0	0
14	Net Operating Profit/ (Loss)	43,437	1,80,256	1,57,174

(b) Balance Sheet

Assets	*Details*	*2008 (Rs)*	*2009 (Rs)*	*2010 (Rs)*
15	Cash And Due From Banks	114234	84854	126095
16	Reserves In Central Bank			
17	Short Term Investment In Market Instruments			
18	Total Loan Portfolio	1608806	2290743	2148902
19	(Loan Loss Reserve)	(1,12,445)	(1,24,040)	(2,58,317)
20	Other Short Term Assets	17994	28859	8638
21	Long Term Investments	-	-	907212
22	Net Fixed Assets			5185
23	Total Assets	1628589	2280416	2937715
Liabilities				
24	Savings Accounts :Forced	741581	826502	956602
25	Savings Accounts :Voluntary	821525	1371310	1895043

Assets	*Details*	*2008 (Rs)*	*2009 (Rs)*	*2010 (Rs)*
26	Grant Received In Advance			
27	Differed Income			
28	Loans: Central Bank			
29	Loans: Subsidized			
30	Other Short Term Liabilities	29591	32997	24835
31	Other Long Term Liabilities			
32	Total Liabilities	15,92,697	22,30,809	28,76,480
Equity				
33	Paid In Equity From Shareholders			
34	Donated Equity -Prior Year Cumulative			
35	Donated Equity -Current Year			
36	Prior Years Retained Earnings With Donation / Losses			
37	Current Years Retained Earnings/ Losses			
38	Other Capital Accounts	35892	49607	61235
39	Total Equity	35,892	49,607	61,235
40	Total Liabilities And Equity	16,28,589	22,80,416	29,37,715
	Support From Promoter To Federation For Operations			
	(A) Staff	48,000	38,400	30,720
	(B) Office	5,000	5,754	5,595
	(C) Other	16,500	68,150	19,965

(c) Financial Ratios

Sustainability/Profitability Ratios	*Formula*	*2008*	*2009*	*2010*
Return On Assets	Net Operating Income/Average Assets	2.543	9.223	6.024
Operational Self Sufficiency	Operating Revenue/ (Financial Expense+ Loan-Loss Provision Expense + Operating Expense)	111	144	123

Sustainability/Profitability Ratios	*Formula*	*2008*	*2009*	*2010*
Profit Margin	Net Operating Income/ Operating Revenue	10	30	19
Asset Liability Ratios				
Yield On Gross Loan Portfolio	Cash Financial Revenue From Loan Portfolio/ Average Gross Loan Portfolio	11	10	12
Cost Of Funds Ratio	Interest And Fee Expenses On Funding Liabilities/ Average Funding Liabilities	5.89	5.19	5.39
Portfolio Quality				
PAR	Portfolio At Risk (30 Days)/Gross Loan Portfolio	N.A	N.A	N.A
Write Off Ratio	Value Of Loans Written Off/Average Gross Loan Portfolio	0	0	0
Efficiency/Productivity Ratios				
Personnel Productivity	No Of Active Borrowers (Jlgs)/No Of Personnel	17	11	12
Operating Expense Ratio	Operating Expense/ Average Gross Loan Portfolio	19.4	15.6	18.7
Cost Per Borrower (JLG)	Operating Expense/ Average Number Of Active Borrowers	N.A	4788.0	7552.2

10. CGMST (Chaitanya Gramin Mahila Swayamsiddha Trust)

(a) Income-Expenditure Statement

#	*Operating Income*	*2009 (Rs)*	*2010 (Rs)*
1	Interest & Fee Income From Loans	0	86,186
2	Income From Other Finance -Related Services	0	32,188
3	Income From Investment	0	1,996
4	Income From Other Sources	0	0
5	Total Operating Income	0	120370
6		0	0
7	Operating Expenses	0	0

#	*Operating Income*	*2009 (Rs)*	*2010 (Rs)*
8	Interest & Fee Expenses	0	53,701
9	Loan Loss Provision Expenses	0	32,441
10	Loan Written Off	0	0
11	Administrative Expenses- Personnel	3,47,582	4,03,640
12	Other Administrative Expenses	3,01,554	2,37,267
13	Total Operating Expenses	6,49,136	7,27,049
14	Net Operating Profit/ (Loss)	-649136	-606679

(b) Balance Sheet

Assets	*Details*	*2009 (Rs)*	*2010 (Rs)*
15	Cash And Due From Banks	92,500	5,58,491
16	Reserves In Central Bank	0	0
17	Short Term Investment In Market Instruments	0	0
18	Total Loan Portfolio	0	16,22,087
19	(Loan Loss Reserve)	0	-10,148
20	Other Short Term Assets	0	0
21	Long Term Investments	0	0
22	Net Fixed Assets	0	0
23	Total Assets	92500	2170430
Liabilities			
24	Savings Accounts :Forced	92,500	3,09,000
25	Savings Accounts :Voluntary	0	98,750
26	Grant Received In Advance	0	0
27	Differed Income	0	0
28	Loans: Central Bank	0	17,02,367
29	Loans: Subsidized	0	
30	Other Short Term Liabilities	0	0
31	Other Long Term Liabilities	0	0
32	Total Liabilities	92,500	21,10,117

Assets	*Details*	*2009 (Rs)*	*2010 (Rs)*
Equity			
33	Paid In Equity From Shareholders	0	0
34	Donated Equity -Prior Year Cumulative	0	0
35	Donated Equity -Current Year	0	0
36	Prior Years Retained Earnings With Donation / Losses	0	20,272
37	Current Years Retained Earnings/ Losses	0	40,041
38	Other Capital Accounts	0	0
39	Total Equity	0	60,313
40	Total Liabilities And Equity	92,500	21,70,430

(c) Financial Ratios

Sustainability/Profitability Ratios	*Formula*	*2009*	*2010*
Return On Assets	Net Operating Income/Average Assets	NA	-27.95
Operational Self Sufficiency	Operating Revenue/ (Financial Expense+ Loan-Loss Provision Expense + Operating Expense)	NA	16.6
Profit Margin	Net Operating Income/ Operating Revenue	NA	-504.0
Asset Liability Ratios		*NA*	
Yield On Gross Loan Portfolio	Cash Financial Revenue From Loan Portfolio/ Average Gross Loan Portfolio	NA	5.3
Cost Of Funds Ratio	Interest And Fee Expenses On Funding Liabilities/ Average Funding Liabilities	NA	4.9
Portfolio Quality			
PAR	Portfolio At Risk (30 Days)/Gross Loan Portfolio	NA	0
Write Off Ratio	Value Of Loans Written Off/Average Gross Loan Portfolio	NA	0

Sustainability/Profitability Ratios	*Formula*	*2009*	*2010*
Effeciency/Productivity Ratios		*NA*	
Personnel Productivity	No Of Active Borrowers (Shgs)/No Of Personnel	NA	4.6
Operating Expense Ratio	Operating Expense/ Average Gross Loanportfolio	NA	79.0
Cost Per Borrower (SHG)	Operating Expense/ Average Number Of Active Borrowers	NA	NA