MANAGERIAL AND OPERATIONAL PROBLEMS OF MICROFINANCE INSTITUTIONS (MFIs) IN INDIA

(Report of the Workshop Organised by MFMI Chair in Microfinance during 29-31 March, 2005 at IRMA, Anand)

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PREFACE

The Chair in Microfinance at IRMA set up with support of Microfinance Management Institution (MFMI), Washington organised a workshop on “Addressing the Managerial and Operational Challenges/ Problems of Microfinance Institutions” during 29-31 March 2005. The Workshop was organised as a part of the sectoral capacity building activities of the Chair. The major purpose of the workshop was to identify the various managerial challenges being faced by the MFIs in the country and to find out the possible ways of addressing the problems. The workshop brought together about sixteen MFIs representing diverse forms and regions in the country and a few experts in the field of microfinance to deliberate on the theme. The workshop, in a way first of its kind, succeeded to a great extent in achieving its stated objectives. In order to share the rich insights gained during the workshop with a wider MF community, it was decided to bring out a report summarising the workshop proceedings. The present report is the outcome of the attempt made in the above direction.

We are thankful to many institutions and individuals for their immense contributions in making the workshop a success. First of all, we would like to thank MFMI, Washington for the generous financial support provided to the Chair in conducting its various activities including the workshop. We would like to thank sincerely Ms. Jayashree Vyas, MD of SEWA Bank who readily agreed to our request to come and inaugurate the workshop. Ms. Vyas besides highlighting the emerging challenges of MFIs also shared the experience of SEWA Bank. The workshop was enriched by the first hand experience sharing about the managerial problems by the invited MFIs. We are grateful to all the MFI representatives for having taken the trouble of coming over to IRMA to participate in the workshop despite their busy year-end schedule. We express our sincere thanks to all the experts/resource persons – Ms. Vijayalaxmi Das, Mr. K. Jindal, Prof. M.S. Sriram, Mr. M. Kalyanasundaram, Mr. K. Arokiam, Mr. Sukumaran, Prof. Madhavi Mehta, Mr. Nitin Agarwal and Ms. Abanti Mittra who not only shared their ideas on the managerial problems of MFIs but also came up with invaluable suggestions to address the problems of the MFIs. Our thanks are also due to Dr Smita Mishra Panda and Prof. Prabal K. Sen for ably chairing some of the workshop sessions; and to Mr. Naveen Shetty of ISEC for acting as a rapporteur. We would like to thank Dr. (Miss.) Archana Burde for her editorial help and to Ms. Rani Jayapalan who helped in word processing of the report. Last but not the least, we express our sincere thanks to various people at IRMA who provided different logistic support (Programme office, Accounts, ETDC, Communication, TAU, and Transport) which helped in the smooth conduct of the workshop and also in bringing out this report. We hope the report would help, in its own way, towards building the much needed managerial capacities of MFIs.
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<th>Abbreviation</th>
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<tr>
<td>APMAS</td>
<td>Andhra Pradesh Mahila Abhivrudhdi Society</td>
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<td>CDF</td>
<td>Co-operative Development Foundation</td>
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<td>CYSD</td>
<td>Centre for Youth and Social Development</td>
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<td>FSS</td>
<td>Financial Self Sufficiency</td>
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<td>FWWB</td>
<td>Friends of Women's World Banking, India</td>
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<td>GMSS</td>
<td>Grameen Mahila Swayamsiddha Sangha</td>
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<td>HRM</td>
<td>Human Resource Management</td>
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<td>IFAD</td>
<td>International Fund for Agricultural Development</td>
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<td>Indian Institute of Forest Management</td>
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<td>INAFI</td>
<td>International Network for Alternative Financial Institutions</td>
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<td>IRMA</td>
<td>Institute of Rural Management Anand</td>
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<td>IT</td>
<td>Information Technology</td>
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<td>MACS</td>
<td>Mutually Aided Co-operative Society</td>
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<td>M-CRIL</td>
<td>Micro-Credit Ratings International Limited</td>
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<td>MFI</td>
<td>Micro Finance Institution</td>
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<td>MIS</td>
<td>Management Information System</td>
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<td>NABARD</td>
<td>National Bank For Agriculture and Rural Development</td>
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<td>NBFC</td>
<td>Non- Banking Finance Company</td>
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<td>NBJK</td>
<td>Nava Bharat Jagriti Kendra</td>
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<td>NGO</td>
<td>Non-Government Organisation</td>
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<td>NPA</td>
<td>Non- Performing Asset</td>
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<td>OSS</td>
<td>Operational Self Sufficiency</td>
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<td>RBI</td>
<td>Reserve Bank of India</td>
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<td>RMK</td>
<td>Rashtriya Mahila Kosh</td>
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<td>RRB</td>
<td>Regional Rural Bank</td>
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<td>SAG</td>
<td>Self-Help Affinity Group</td>
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<td>SB</td>
<td>Shramik Bharati</td>
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<td>SERP</td>
<td>Society For Elimination of Rural Poverty</td>
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<td>SEWA</td>
<td>Self Employed Women’s Association</td>
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<td>SFMC</td>
<td>SIDBI Foundation for Microcredit</td>
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<td>SGSY</td>
<td>Swarna Jayanti Gram Swarozgar Yojana</td>
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<td>SHG</td>
<td>Self- Help Group</td>
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<td>SIDBI</td>
<td>Small Industries Development Bank of India</td>
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<td>SMCS</td>
<td>Swayamshree Micro Credit Services</td>
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<td>SMS</td>
<td>Samyuk Mahila Samiti</td>
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<td>ST</td>
<td>Sampada Trust</td>
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<td>TNWDC</td>
<td>Tamil Nadu Women Development Corporation</td>
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<td>WOTR</td>
<td>Watershed Organisation Trust</td>
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<td>XIMB</td>
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MANAGERIAL AND OPERATIONAL PROBLEMS OF MICROFINANCE INSTITUTIONS (MFIs) IN INDIA

H.S. Shylendra, Kishore Bhirdikar and Samapti Guha¹

ABSTRACT

It is recognised that successful scaling up of MF intervention to make a larger impact on poverty requires promoting strong network of MFIs. However, the MF sector in India consists of a large number of unregulated institutions many of which are still in their nascent stage of development lacking in organisational and managerial capacity. The MFIs are beset with diverse managerial and operational problems. It is important that the MFIs address and overcome their managerial problems so that they are able to deliver MF in a sound way.

In order to get a clear understanding of the managerial and operational problems of MFIs, a three day workshop was held under the auspices of the MFMI Chair in Microfinance at IRMA, Anand during 29-31 March 2005. The Workshop had three-fold objectives: i) To provide a forum for MFIs to share the key managerial and operational problems plaguing them; ii) To identify with the help of the experts and practitioners possible solutions and approaches to address the problems, and iii) To document the diverse managerial problems and challenges faced by various MFIs which may help in identifying the training and capacity building needs of the MF sector.

The present report is a compilation and summary of the proceedings of the Workshop. The report has four sections. Section I highlights the rationale and approach of the Workshop. Section II provides an overview of broader managerial challenges confronting the MFIs and possible approaches to address them as shared by the invited experts and resource persons to the Workshop. Section III presents the role and experience of support institutions, namely FWWB, APMAS and Sa-Dhan in the capacity building of MFIs. Section IV presents, along with a brief profile, specific managerial and operational problems of MFIs invited for the Workshop. The problems presented in the Section are as identified by the MFIs themselves. MFI specific solutions to the problems adopted/suggested are also presented in the section. Section V provides a summary and synthesis of the proceedings including the major managerial problems of MFIs and the possible ways and directions to address them.

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SECTION - I

INTRODUCTION

1. BACKGROUND

Microfinance (MF) has emerged as a popular and a credible instrument of livelihood promotion and empowerment. At the core of microfinance is the idea of addressing the problem of poverty and deprivation by enabling the poor to access financial capital hitherto denied to them. The goal is sought to be achieved through creating innovative mechanisms or channels whereby poor could easily access savings, credit, insurance and other services for overcoming their vulnerability.

The MF intervention in India which started with a few local non-governmental organisation (NGO) initiatives in the mid 1980s has now spread quite significantly with the involvement of both formal and semi-formal agencies. While the formal sector consists of commercial banks, regional rural banks (RRBs) and co-operatives delivering microfinance mainly through the Self-Help Group (SHG)-Bank linkage Programme; the semi-formal sector consists of microfinance institutions (MFIs) in the form of NGOs and non-banking financial companies (NBFCs) using largely the onlending model. In the coming years, MF sector is expected to grow in a big way with a major emphasis placed on scaling up at the policy level (Shylendra 2004).

It is recognised that successful scaling up of MF intervention for a larger impact requires promoting strong network of institutions delivering microfinance with sound practices. However, the MF sector is faced with many problems and challenges. Excluding the formal financial institutions, the sector consists of a large number of unregulated institutions dealing with the poor and other small clients. Except for a few, most NGO-MFIs in the country are still in their nascent stage of development. Much of the MF intervention by the NGO sector is in the form of a project lacking the much needed organisational form and capacity (Shylendra and Harmeet 2004). Moreover, the NGO-MFIs are faced with many managerial and operational problems coming in the way of effective delivery and performance. These managerial and operational
problems are of diverse types and touch upon issues like management of groups, establishing linkages with the banks, creating MFIs with right form and adequate capital, designing products and services, delinquency management, developing management information system (MIS), and developing and managing human resources for effective delivery of microfinance.

2. MANAGERIAL PROBLEMS OF MFIs

MFIs in India operate using both Grameen and SHG group methodology. With regard to SHGs which constitute the dominant model in India, one can see a rapid and widespread growth of them in the country. However, there are many problems in terms of ensuring the sound and stable growth of the SHGs. A large number of SHGs are faced with inadequate training and monitoring resulting in deterioration of their organisational and operational quality. Despite promoting the SHG-Bank linkage programme, SHGs are facing a number of problems in getting adequate and proper loan and savings facilities (Shylendra 2004). There is constriction of lending due to bottlenecks created from the banks. For many older and mature SHGs, the problems also pertain to utilisation and investment of their accumulated savings and identifying livelihood opportunities. Ensuring the sound management of SHGs is crucial for the success of the MF. Various efforts are being made by NGOs to consolidate and strengthen the SHGs through training of SHG members, grading and auditing of SHGs, and formation of federations. Even in the formation of federations, the NGOs have been confronted with many problems like mobilising the SHGs members, identifying suitable legal form for federation and building the capacity of federations to become self-reliant and autonomous.

Many NGOs which have been there in microfinance for some time are keen to launch their own MFIs. Such NGOs are confronted with problems like lack of clarity in terms of identifying suitable legal forms and mobilising the necessary equity and other resources (Sen 2003). In terms of mobilising funds for onlending, while initially there were many problems with the apex financial agencies, the entry of commercial banks though has eased the situation but in a way has created confusion for MFIs in deciding about the right and economical source of borrowing.
Coming to the issue of microfinance products and services, while some MFIs have launched new and diverse products and services, many are faced with the constraints in designing suitable products or services. Not only these MFIs lack financial and technical capacity needed for launching new loan products demanded by the poor; many do not have the required legal form and status to offer savings and insurance services. Hence the functioning of MFIs in most cases has become fragmented with most providing only partial or limited services. The challenge for MFIs is to become innovative in designing suitable products and delivery mechanisms. Only through appropriate products and services, MFIs would be able to achieve their larger goal of attaining poverty alleviation (Vasimalai et al. 2001).

As regards managing loan recoveries though the overall recovery performance in MF sector has been quite impressive, but many MFIs are faced with delinquency problems of both chronic and transitory nature (Sharma 2003). As a result not only there is an increase in the non-performing assets of MFIs but many are unable to fully recycle their funds adversely affecting their liquidity, returns and expansion of the business. Delinquency management is one of the crucial factors which can ensure MFIs success. Delinquency management requires the MFIs to identify causes for non-repayment, strengthen their monitoring functions and also put in place appropriate systems to prevent delinquency.

Scaling-up is another issue where MFIs are facing many strategic as well as operational problems (Sen 2003). There are only a few successful cases of MFIs which have been able to scale-up in the Indian context. For scaling up, the MFIs need to explore newer institutional forms as well develop systems conducive for large scale operations. Many NGO-MFIs are unable to take a clear decision with regard to expansion confining their operations only to a limited project area. Apart from the issue of identifying suitable legal form, many are constrained with difficulties in mobilising the required equity and other resources. Large scale operations also requires a good monitoring system. Lack of good and standard data base is a problem of both the MFIs and the sector. The MFIs have to develop an appropriate management information system (MIS) for the purpose. Given their peculiarities, many MFIs are not able to adopt standard and suitable MIS systems for monitoring. Simultaneously, the
MFIs have to strike a balance between the goals outreach and viability. MFIs are expected to attain viability without compromising on the issue of targeting the poor. For this, a major challenge for MFIs is evolving mechanisms and innovations to reduce their costs. What are the kinds of systems that are needed to be developed by MFIs so that they strike a clear balance between the above two goals?

Building professional management is another important challenge faced by the MFIs. Professional management can go a long way in enabling the MFIs to address many of their managerial and operational problems and become sustainable. Professionalisation which can bring in well trained people into MFIs requires appropriate human resource management (HRM) policies for addressing issues such as staff incentives for increased productivity and staff training for handling increased responsibilities. Suitable norms for assessing the performance of the staff also may have to be evolved. Moreover, there is also the general constraint of getting well trained people to work with MFIs.

3. ABOUT THE WORKSHOP

It is important that the MFIs address and overcome the above problems suitably so that they are able to build sustainable mechanisms and systems capable of contributing towards the goal of poverty alleviation and empowerment. In this regard it becomes necessary to get a clear understanding of these managerial and operational problems of MFIs so that efforts could be made to address them.

Keeping the above need in mind, a three day workshop was held under the auspices of MFMI Chair in Microfinance at the Institute of Rural Management Anand during 29-31 March 2005. The workshop was planned in such a way that the selected MFIs were able to come and share their key managerial problems and get suggestions both from the experts and practitioners about the possible ways of overcoming the problems. More specifically, the Workshop had the following objectives:
i. To provide a forum for MFIs to share the key managerial and operational problems plaguing them.

ii. Identify with the help of the experts and practitioners possible solutions/mechanisms to address the problems.

iii. Document the diverse managerial problems/challenges faced by various MFIs which may help in identifying the training and capacity building needs of MF sector as well work out suitable policy strategies to address them.

We invited about 20 MFIs which have been functioning in different regions of the country. Sixteen MFIs accepted the invitation for the Workshop (see Section IV). The 16 MFIs not only had different forms (NGO, NBFC, Co-operative and Sec. 25 Company) but also had differing length of experience (1 to 30 years). In a way the invited MFIs were broadly representative of the diversity prevailing in the MF sector in the country. The invited MFIs were required to prepare a short write-up highlighting the major managerial problems faced by them. In the write-up the MFIs were asked to capture the nature of the problems, the possible reasons, and attempts made by them—successful or otherwise—to address the problems. The MFIs were required to send this note in advance so that it could be circulated among the identified experts. In the workshop, the MFIs made a presentation about their problems seeking the views of invited experts and practitioners. A panel of experts and resource persons consisting of practitioners and scholars in the MF field was invited to interact with the representatives from MFIs. The experts were expected both to share their views about the problems confronting MFIs in general as well to suggest possible ways of addressing some of the specific problems raised by the MFIs in the workshop.

4. THE REPORT

The present report is a compilation and summary of the proceedings of the workshop. The report has five sections including the present one on Introduction. Section II provides an overview of various managerial and operational challenges confronting the MFIs and possible approaches to address them as shared by the experts and resource persons in the workshop. Section III presents the role and experience of support institutions namely, FWWB, APMAS and Sa-Dhan in the
capacity building of MFI s. Section IV presents, along with a brief profile, specific managerial and operational problems of MFI s invited for the Workshop. The problems presented in the Section are as identified by the MFI s themselves. MFI specific solutions to the problems adopted/suggested are also presented in the section. Section V provides a summary and synthesis of the proceedings including the major managerial problems of MFI s and the possible ways and directions to address them.
SECTION - II

BROADER MANAGERIAL CHALLENGES OF MFIs

In this section an attempt is made to present the views of the experts and resource persons on the broader managerial challenges facing MFIs.

Ms. Jayashree Vyas of SEWA Bank who inaugurated the workshop highlighted that in India there are around 370 million workers in the unorganised sector and most of them are very poor. Meeting their financial needs is an important challenge. Over last three decades, several innovations have taken place in terms of financial products, mechanisms and organisational structures to facilitate microfinance for the poor. The development of microfinance in India is a combination of formal and informal sector initiatives. With respect to the delivery mechanism, MFIs in India follow different legal structures and models. It is interesting to note that formal and informal sectors are not working in total isolation. The SHG-Bank Linkage Programme which is the largest microfinance programme in the World is an example of the formal and informal sector linkage.

Ms. Vyas also identified certain prominent challenges faced by the microfinance sector in India. It is true that microfinance sector is growing fast. However, so far its reach is rather limited. It has been able to reach only five percent of our total poor. A challenge associated with this is that to extend the outreach of the microfinance sector there is a need to build a cadre of MF experts. At present this capacity is not adequate. The challenge is to build up this capacity so that a cadre of barefoot managers is developed. The other challenge is of integrating microfinance with livelihood promotion activities. This is important as microfinance alone cannot address a host of issues related to poverty alleviation. Reducing the rate of interest for the poor also becomes important in this regard.

Another important challenge associated with this sector is safeguarding it from being politically used. It is a challenge for MFIs as they do need to get the required support from the politicians for their smooth functioning. But at the same time there is the danger that the entire movement is
likely to be hijacked and used by the politicians for political gains. In this regard, there is also the challenge of devising an appropriate legal structure for the sector for its growth and smooth functioning.

The experts invited made presentations on the following themes relevant for the focus of the workshop.

1. Key Managerial Challenges of MFIs
2. Sustainability of MFIs
3. Professionalisation of MFIs
5. Cash Management Problems
6. Risk Management
7. MIS for MFIs

The major issues raised under each theme including brief summary of discussion are presented below:

1. KEY MANAGERIAL CHALLENGES OF MFIs (M. Kalyanasundaram)

Mr. Kalyanasundaram of International Network for Alternative Financial Institutions (INAFI) made a presentation focusing on identifying the different managerial challenges facing the MFIs in India. At the beginning, the bigger picture of microfinance sector was laid out. Microfinance sector in India is characterised by a huge market that has around 350 million potential clients. However, the present outreach is just around 20 millions (largely done through SHGs). The estimated credit demand is around 15 billions US dollars but the demand met so far is only to the tune of 700 millions US dollars. Within the MF sector in India, the commercial banks are the dominant suppliers of credit. Commercial banks have a wide outreach with 64,000 branches. Along with the commercial banks, cooperative credit system also has wide outreach with 90,000 retail outlets and regional rural banks (RRBs) have 14,500 retail outlets. However, in spite of this outreach, the sector faces many structural limitations and rigidity in actually reaching out to the
poor. Over the years, MFIs are emerging as supplementary delivery channels in India. There are various types of MFIs operating in India. For example, there are MFIs that are regulated by RBI and work for profit like urban cooperative banks, Non-Banking Finance Companies (NBFCs) and local area banks (LABs), There are non-regulated MFIs like the Societies, Trusts and Section 25 companies. The third category is the mutual benefit organisations like the mutually aided co-operative societies (MACS) and the multi state cooperative societies. Among these, the Section 25 company under companies act is a very enabling organisation for Indian MFIs. At present there are around 20 such organisations. This is especially very useful in retaining developmental focus and MF activity together effectively. It allows the transforming NGO to carry out microfinance and retain its developmental identity as a not-for-profit civil society organisation.

The MF sector is set for higher trajectory of growth. The mainstream financial institutions are trying to forge strong linkages with MFIs for supply of wholesale credit. MFIs are emerging as a powerful intermediaries of low end financial market. MFIs are becoming almost indispensable part of the financial system of the country. The current scenario of growth points out that there will be parallel streams of client or member owned MFIs and privately owned MFIs. Further, the sector is moving steadily towards highly competitive environment where clients would have a larger say in pricing of the services.

MFIs face wide range of challenges. The major managerial and operational challenges faced by MFIs in India broadly relate to five issues: (i) Client Outreach and Growth, (ii) Financial Management, (iii) Portfolio Management, (iv) Systems and Procedures in MFIs, and (v) Human Resources Management.

**Client Outreach and Growth:** One of the important challenges associated with the MFIs is the outreach and growth achieved with the clients. For MFIs their outreach is more important than their volumes. In this regard managing the geographical spread is a challenging task. Prior social mobilisation of the clients becomes essential as the ground becomes favourable for MF intervention. Adverse selection would be reduced as the MFIs attempt to know more about their clients. In increasing the outreach, an MFI has to deal with the issue of captive clients versus
bringing in newer clients. It has to set up foolproof processes for ensuring quality of client selection. Clear focus on the target clients becomes essential to avoid any mission drift. With the increasing competition with other MFIs, an MFI may find it difficult to retain its clients. Some co-ordination between MFIs may help in avoiding ills of competition like multiple financing of same clients as is the case in Bangladesh. Above all, the extent of outreach will have implications on costing and pricing of products by the MFI.

**Financial Management:** Under this an MFI has to tackle various challenges. It has to identify suitable sources of financial resources. It has to choose between equity capital, borrowings, and grant. Who are the right type of investors for the MFI among clients, donors, financial institutions and retail investors? An MFI has to carefully undertake financial costing along with considering operational and administrative costs. Right pricing is another issue to be sorted out by carefully looking at the spread, various service charges and above all by taking into account the affordability factor for the clients. Apart from this, financial management would require effective liquidity management by the MFIs including good re-cycling of funds. The MFI has to learn about matching the maturities of its borrowings and lending to clients and dealing with issues concerning investment of surplus funds. Finally, the challenge boils down to one of attaining operational self-sufficiency (OSS) and financial self-sufficiency (FSS).

**Portfolio Management:** The third important challenge MFIs face is related to their portfolio management. For MFIs, loan is their main credit portfolio. Hence they have to arrive at effective credit policies to help in loan appraisal and sanction by the managers. MFIs have to design suitable products taking risk profile into account based on the sectoral distribution of the demand. Normally MFIs adopt credit graduation method in deciding the size of loan. Differential pricing with regard to products and maintaining a fine balance of maturity mix also becomes important in portfolio management. Quality of portfolio is related to the cost of operations. Tracking overdues for proper delinquency management can help in maintaining the portfolio quality. Loan repayment needs to be properly scheduled or rephased to help in recovery. In attaining larger portfolio growth, an MFI also has to find a balance between group based lending and individual loans as individual lending is a costly method. Applying suitable
prudential norms like income recognition, asset classification, and provisioning is another aspect having bearing on the soundness of MFI operations.

**Systems and Procedures in MFIs:** MFIs need standardised lending procedures for larger operations. This would involve evolving simple forms and recording formats and development of operational manuals to help the staff. The accounting system has to be simple to help take care of all their transactions. MFIs have to build strong internal control systems and monitoring mechanisms. A strong internal audit system is necessary for fraud prevention. Creation of systems and procedures would involve computerisation and putting in place suitable management information system (MIS). Simultaneously, there is also need for developing a good reporting system, mechanism of vigilance against fictitious loans which seem to be on the raise and ensuring effective system of compliances. Putting in place cost and income audits is also important. Further, MFIs have to guard against ponzai credit culture of borrowers indulging in borrowings from different sources to repay the earlier loan balance.

**Human Resources Management (HRM):** MFIs have to develop and put in place a good recruitment policy. The human resource policies should ensure that there is charting of career growth within MFIs helped by support for capacity building. MFIs have to offer appropriate salary and incentives. They can develop a productivity based incentive structure based on accounts/clients load per credit officer and loan recoveries. A system of job rotation to enrich learning and defining job responsibilities with the help of job charts are other important requirements under HRM. Finally, an MFI has to adopt a regular and well defined performance appraisal system.

**2. PROFESSIONALISING MFIs: SOME CHALLENGES (H.S. Shylendra)**

Dr. H.S Shylendra of Institute of Rural Management Anand (IRMA) highlighted the issues concerning professionalising MFIs and the possible ways of overcoming the challenges. He attributed the prevailing problems and challenges of MFIs, highlighted in the introduction section of the present report, to two broad reasons: i) the absence of suitable legal and regulatory framework which has constrained NGO-MFIs in maturing into full-fledged institutions capable
of scaling up to impact on the members’ livelihood significantly (Sa-Dhan 2001), and ii) the prevailing inadequate capacity and professionalism required for handling specialised and large scale operations (Fisher and Sriram 2002, Mahajan 2001). While the first reason is external to MFIs and relates to policy area, the second one is more internal to their functioning. He elaborated on the aspect of professionalising the MFIs for their capacity building which could help address their managerial and other problems on the following lines.

Professional management has been defined as an act and process of performing various management and other functions by managers who have acquired specialised knowledge, skills and expertise in management through formal training or long work experience whose expertise is recognised as valuable to society at large (Singh 1996). Going by the above definition, professionalisation of MFIs would basically involve either enhancing the skills and abilities of the existing personnel or bring in trained professionals who can handle various specialised functions with ease so that MFIs can attain their goals through better performance.

It has been identified that most MFIs lack skilled and trained people to handle their managerial and other responsibilities and functions. The skill levels of the existing staff in MFIs are found to be very low. This lack of professionally trained personnel is identified as one of the major reasons for many of the problems faced by the MFIs. Professionalising MFIs is considered to be a solution for many of those problems. However, professionalising development organisations like MFIs is beset with many constraints and challenges (Shylendra 2003). The following constraints could be identified with regard to MFIs in professionalising them. Many MFIs being small both in terms of size and business may neither be able to appreciate the role of skilled professionals nor afford higher remuneration demanded by professionals. As a result, MFIs may not be able to attract professionals who could enhance their functional and managerial capabilities. On the other hand, it is argued that working with organisations like MFIs need different management or professional ethos which the conventional professionals lack in general. MFIs are mission driven organisations and work mainly with poor, women, illiterate and other disadvantaged sections in diverse and challenging areas. Working with such organisations would require that the professionals possess besides their skills, right kind of ethos, concern and
commitment. Lack of such values is considered to be one of the main reasons for qualified professionals not opting for career in such organisations.

Another argument being put forth in the context of capacity building of MFIs is about the limitations of the nature of professional solutions being offered. Most professional solutions being offered to MFIs are highly technical and financial in nature ignoring the complex nature of MFIs (Search Bulletin 1999, Fisher and Sriram 2002, Mayoux 2003). MFIs also aim at goals like poverty alleviation and empowerment. Professional and technical capacity building tends to ignore this reality of MFIs. Hence such approaches, it is argued, at best can offer only partial or distorted solutions to the complex developmental and managerial needs and problems of MFIs. Because of the above reasons, the argument that professionalising MFIs alone could help resolve their managerial and other challenges could be misplaced.

It is not difficult to see a lot of similarities between the dairy co-operatives and MFIs when it comes to the issue of professionalisation (Shylendra 2003). The dairy co-operatives which were launched in the country in 1970s and 1980s under Operation Flood Programme also had similar need for professionals for their capacity building and success. The lessons that have emerged in dealing with the dairy co-operatives suggest that professionalising developmental organisations is a complex task. Any unipronged and highly technical type of solutions may not bring in the desired solutions. Given such a scenario, a multi-pronged approach towards professionalising and capacity building of MFIs is suggested which takes into account carefully the need as well as the complexity of their purpose and functioning.

No doubt, professionalism is an essential condition for the success and sustainability of MFIs. However, given the challenges of professionalising developmental organisation, what is suggested is an approach which could be called Empathetic Professionalism. This would basically involve two aspects: (i) Addressing empowerment through professionalism, and (ii) Developing a committed cadre of professionals. The broad contours of the above two requirements are detailed below.
Empathetic Professionalism: The whole thrust of professionalising the MFIs should be to primarily empower the members of these MFIs. The capacity of a MFI is enhanced so that it in turn enables the members to realise their developmental potential. The professionals while building and managing the organisation would ensure that the members are able to exercise true control and ownership over the MFI (Fernandez 2001). In applying any technical solution, the professionals would ensure that the interest and needs of the members are not compromised or adversely affected. In other words, the professional solutions are geared or oriented towards addressing the developmental cause of poverty alleviation and empowerment. The MFIs are visualised to emerge like an Amul model co-operative wherein the farmer members are empowered through professional support (Kurien 1997). Thus, professionalism becomes only a means for attaining the larger goal of the MFIs.

Realising the above goal would require developing a cadre of committed professionals who empathise with the goal of empowerment and poverty alleviation. These are professionals who have the right ethos as well as skills and who look towards rewards more in terms of goal achievement than in pecuniary form. The approach is similar to the one adopted by the Institute of Rural Management Anand (IRMA) in training professionals for the development sector. While professionals need to be remunerated adequately and also given some incentives based on their performance; any such package could be given only when the institution has reached the minimum threshold in terms of its business and breakeven.

Based on IRMA’s experience, the following specific strategy for operationalising the approach is suggested. Developing a cadre of committed professionals for MFIs could be attempted through a combination of the following measures:

i) Training of in-service staff of MFIs: There is need for suitable training programmes to build the capacities of staff working with MFIs. The training programmes could be of short duration ranging from one week to few months. The themes or focus areas of the training have to be identified by training need assessments which could be carried out by the MFIs on their own or with the help of external facilitators. In-service training could be the right approach for building the professional skills and capacities of MFIs especially in the initial phase. Such trainings are
likely to attain higher level of targeting and impact on MFIs as much of such trainees would return back to MFIs with their enhanced skill and awareness levels (Shylendra 2003, Shukla and Sharma 2002).

ii) *Injecting Fresh Talent*: Professionalising MFIs would also require injecting fresh talents. This would be required especially for those MFIs keen to scale up and spread to newer areas. Such a step is also essential for MFIs to break their excessive local focus and lower scales of operation. Much of the challenges of professionalism identified above would emerge mainly in the context of inducting fresh graduates and other qualified people. Training fresh management graduates who could work with the MFIs would require specially designed programmes / courses which would develop in them both the right kind of understanding and ethos about MFIs as well as the specialised skills needed for managing a growing MFI. For this, there is a need to integrate microfinance as a subject in the curriculum of rural and development management institutions like IRMA, XIMB, XISS, Dhan Academy and IIFM which train professionals for the developmental organisations. Microfinance also could be introduced as a part of university education under streams like commerce, economics and social work. The microfinance sector as of now may not be in a position to absorb a large number of graduates specially qualified in microfinance. The current emphasis should be to integrate microfinance into the existing programmes so that the required basic understanding and awareness is created among the interested graduates. Specialised programmes in microfinance could be launched as the sector matures in the future. In making this possible, apex and support agencies like NABARD, SFMC, RMK, FWWB, Sa-Dhan and APMAS have to play a proactive role in supporting initiatives to launch training programmes for the above purpose as well as in mainstreaming microfinance in the curriculum of development management education in the country. Even commercial banks which are seeing business potential in microfinance need to support such training and educational initiatives which would help develop professionals for microfinance sector. The development management institutions should also take note of the emerging professional needs of microfinance sector and carry out training need assessments to design suitable curriculum and programmes. The support agencies as well as academic institutions need to work together in building the training infrastructure for the purpose.
To conclude, the microfinance sector is clearly emerging, calling for necessary attention and support from funders, regulators, and capacity building institutions (Dhan Foundation 2003). The sector stands at a crucial stage and needs a proactive support on various fronts to pitchfork itself into a mature stage capable of delivering the expected goals. The sector because of the fast growth and other prevailing constraints is confronted with many challenges and problems. Professionalising the sector is advocated as a solution for some of the challenges like scaling-up. Given the fact that professionalising development organisations like MFIs is a complex process, what is required is a multi-pronged strategy very much embedded in the developmental ethos and needs of the microfinance sector. What is advocated and needed is Empathetic Professionalism which can help bring the much needed skills and capacity for MFIs so that they can steadfastly work towards empowerment and poverty alleviation.

**Discussion:** The following issues came up in the discussion with regard to professionalising MFIs. It was emphasised that even the needs or concerns of members need to be kept in view when thinking about professionalising MFIs. Can the dairy co-operatives like Amul and MFIs be compared here for the purpose? MFIs are of diverse types. For MFIs which are smaller and not getting any subsidy for capacity building paying salaries of professionals may become difficult. There are regional variations in the environment for MFIs. In states like Bihar where law and order could be a problem, addressing the challenges of MFIs may need different approach. There is also the question about what is professionalism and what is a professional? It was felt that professionalism need not be taken as recruiting only MBAs. Professionalism is needed at all levels in an MFI. There is need to build professionalism and skills of people at all levels. At the top level there is need to build capacities with regard to governance and systems of MFIs. At the field level, there is need to build operational capacities. In a SHG bank linkage model, the challenge is illiteracy. When we talk about professionalism and empowerment, we should also concentrate on training women members of the SHGs.

There is a need to move away from the paradigm that professionals means those who have professional degrees. It is necessary to understand that professionalism goes with the organisational culture and as the organisation evolves, the level of professionalism also varies.
We need to understand and define what we mean by professionalism. It differs from organisation to organisation. However, as a good practice it is very important that all the staff in the organisation are aware of the mission of the organisation and the implementation processes.

Is more professionalism the solution for the problems of MFIs? Or is it better to develop self-sufficiency among MFIs? Dependency on trained professionals may not be good always as they may not remain with the sector for a longer period. Moreover, they are also costly as they need higher salaries. In that context, it was felt, it would be better to train and develop the skills of the local staff and members. Technology also should be brought in to help the poor.

It was emphasised that professionalism should also help in reducing the cost of intermediation for MFIs. Currently MFIs are charging higher interest rate. Professionals should help bring down the cost for MFIs and the poor. They also should help MFIs to address their other problems. Further, there is also the question of who can best train the professionals? Can academic institutions have the skill and ability to train professionals to obtain the right practical skill?

3. HUMAN RESOURCE MANAGEMENT (HRM) ISSUES IN MFIs (Madhavi Mehta)

Prof. Madhavi Mehta from IRMA made a presentation on HRM issues in MFIs. Usually, HRM in an organisation is invoked when the organisation faces a challenge with regard to human resources. The need for HRM arises when it is possible to point out human capital problems that limit the ability of the organisation to achieve important organisational priorities. A good HRM can provide solutions to those problems. MFIs basically are organisations characterised by legacy of the parent NGO culture and values. They face several cultural issues while scaling up and are also financially dependent as they largely follow on-lending approach.

The HRM issues can be seen from two perspectives. From a system and policies view, the main HR issues faced in the MFIs are lack of man power planning, employee turnover, lack of second line leadership, lower remuneration and other facilities to employees, lack of a system of rewards and recognition, and inadequate organisational system for capacity building.
The HR issues of MFIs also can be seen from a perspective of culture and competencies. The employees may lack competencies in terms of knowledge or skills in the areas of planning and goal setting, technical skills, decision making and problem solving, and communication. There are also conflicts of orientation and values and difficulties faced in combining professionalism with developmental orientation for ensuring dedication and commitment among staff.

The presentation adopted a life cycle approach in explaining the HR processes in an MFI. In a start up MFI, the focus is towards entrepreneurship development, creativity, informality combined with limited products. In the beginning the HRM needs are also not really perceived. It is restricted to identification of key competencies and exploring different sources for recruitment. The issues high on the agenda are basic compensation and setting up administration systems. Employee turnover could also be an HR issue affecting the organisation at this stage. With the growth, various HR issues start surfacing in MFIs. Growth also means more formalisation and standardisation in the organisation and decentralisation through increasing branch level autonomy. The HR issues at this stage of life cycle in the organisation are characterised by employee turnover, drive towards advanced recruiting capability, need for induction and socialisation of the staff and focus on training and management development.

In terms of adopting effective HR practices, at the systems level the HR policies need to focus on providing financial incentives for better performance; placing high emphasis on training and skill development; following rigorous selection in recruiting, adopting job rotation and enrichment; following compressed distribution of salaries across and within levels; and giving promotion to employees within the organisation. At the level of organisational culture, the effective HR policies should focus on developing organisational practices that motivate the employees and capture the benefits of know-how and skills; adopting extensive information sharing system; following decentralised decision making for empowerment, and attempt to eliminate status symbols.

In the case of some of the well established MFIs, the current HR policies are focused on building recruitment and selection systems and introducing suitable compensation and reward system
based on performance linked incentives. What needs to be seen now is the impact of these performance linked incentives on intrinsic motivations of the staff. The research evidence on the relationship between performance and incentives is still not clear. The need in this regard is to focus on job contents and context, and looking more at justice related factors. Microfinance being a sunrise sector, the way forward for MFIs would be to network and learn from each other rather than competing.

**Discussion:** The discussion brought out the variations in HRM across MFIs of different forms and age. The competitive environment is leading to both staff and members turnover for MFIs. Replicating blindly any model is dangerous as there are variations in MFI contexts. Even with growth it is difficult for an NGO-MFI to compromise with its values. HRM has the potential of building the capacity of MFIs. Developing a suitable HRM strategy is a challenge. MFIs need to use incentives suitably both for growth as well as to avoid staff turnover. The need for spotting new talent as well as training local staff was emphasised as is the case with some MFIs (Bandhan) which are using HRM strategically to train and promote own staff.

**4. SUSTAINABILITY OF MFIs (K. Jindal)**

Mr. K. Jindal of NABARD brought out some of the major issues concerning sustainability of MFIs. The presentation focused on sustainability of MFIs from following three aspects: Sustainability of Mission and Goals; Financial Sustainability; and Organisational Sustainability. These three aspects can be applied across all the models of microfinance. Another issue associated with sustainability is what constitutes long term sustainability as MFIs need to continue in the long term to succeed.

Regarding the first aspect, i.e., sustainability of mission and goals, most MFIs have developmental roots, as they have begun as NGOs. Post-transformation into an MFI from NGO, they face a major dichotomy of approach and purpose. There may also be tension between social function and financial intermediation function. Therefore it is very necessary to have clarity in the approach of MFI about its goals, what target group the MFI is reaching and the core values of
the organisation. The second aspect of sustainability pertains to financial sustainability. Three levels of financial sustainability can be visualised for MFIs as depicted below:

**Chart 1: Levels of Sustainability**

<table>
<thead>
<tr>
<th>Level</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level – I</td>
<td>Subsidy Dependence</td>
</tr>
<tr>
<td></td>
<td>Interest and fee income does not cover cash costs</td>
</tr>
<tr>
<td>Level – II</td>
<td>Operational Self Sufficiency (OSS)</td>
</tr>
<tr>
<td></td>
<td>Interest and fee income at least cover cash costs</td>
</tr>
<tr>
<td>Level – III</td>
<td>Financial Self– Sufficiency (FSS)</td>
</tr>
<tr>
<td></td>
<td>Interest and fee income covers all costs including inflation and subsidy adjustments</td>
</tr>
</tbody>
</table>

If most of the MFIs only reach Level-I, it may not be possible to address the huge supply gap in the MF sector. Some of the problems associated with sustainability arise because MFIs do not apply prudential norms (like NPA, provisioning, income recognition) and are not fully aware of their financial health. In fact, MFIs should introduce strict norms that will improve their financial health and accountability. Majority of the 800 MFIs in India are subsidy dependent as their incomes are not able to cover all their costs. MFIs should move gradually towards Level II and III in terms of sustainability. Attaining financial sustainability would require reducing cost, increasing volume of business, scientific pricing of the product, and increasing the range of financial services.

With increase in the volume of business, the cost comes down. Pricing is another issue MFIs need to pay due attention. If market is deciding the rate of interest, MFIs need to reduce their costs to remain financially viable. The cost reduction would involve, reducing costs of funds, operational costs and most importantly reduction in the cost of the bad debts. The last point especially becomes important when the volume of business grows. MFIs can increase their volumes by diversifying loan products and delivery channels, increasing loan size and expanding
geographical coverage. For diversifying financial services, MFIs need to provide short, medium and long term credit, encourage thrift and voluntary savings and provide life and other insurance services.

The organisational sustainability of MFIs gets determined by the legal form of MFIs, governance of MFIs and human resources in MFIs. In terms of legal forms, MFIs have broadly three forms: (i) The not-for-profit MFIs consisting of societies registered under Societies Registration Act (1860), public trusts registered under the Indian Trust Act, (1882), and non-profit companies under Section 25 of the Companies Act, 1956; (ii) The mutual benefit MFIs consisting of state credit co-operatives, national credit cooperatives, and mutually aided cooperatives (MACS); and (iii) For-profit MFIs consisting of NBFCs registered under the Companies Act, 1956.

The governance structure in an MFI is determined by the ownership of the MFI, the professionalisation of the board, and professionalised management of the MFI. The development of human resources depends upon the ability of MFIs to attract qualified staff, deploying them properly, and building right attitudes and skills.

Available evidence suggests that the following variables contributed to the sustainability of MFIs. The variables are: volume of business, organisation form, age, credit methodology, loan recovery rate, growth in credit portfolio, share of savings, professionalised management, and systems and procedures including MIS.

**Discussion:** The discussion brought out the following issues. The major challenge for MFIs is how to carry forward their mission along with addressing the increasing concern of sustainability. Subsidy has been a major aspect with regard to NGOs. It was identified that a right kind of organisational design may help addressing the dilemma. It was argued that the issue of financial sustainability is creating lot of tension for MFIs. The term may even needs to be changed. Ultimately, whose sustainability - that of members or organisation, becomes important? For members’ sustainability, an MFI need to go more in depth in terms of its mission rather than simply growing bigger. For reducing the cost, MFIs need to understand different
costs. MFIs need to bargain with banks to get funds at cheaper rates. There are instances where MFIs have obtained such cheaper funds (IVDP).

5. CASH MANAGEMENT IN MFIs (M.S. Sriram)

Prof. M.S. Sriram (IIMA) made a presentation on the problem of cash handling by MFIs which needs due attention. The focus of the presentation was on the specific problem of cash handling by MFIs. The main issues that have a bearing on MFI cash management were stated. Cash is a very peculiar stock in trade. For MFIs, the collections are in small denominations while disbursals are not. There are also security related issues in handling cash like transit safety, fidelity and destination safety. Besides, there are smaller problems relating to cut, mutilated and fake currency. Proper handling of cash is very necessary as liquidity management is an important aspect for MFI’s functioning. An MFI needs good information system that is cutting edge and ensures transparency. The information system should allow MFIs to route cash properly. Coordination with banks is equally important for MFIs in this regard. MFIs need to handle accounts and transactions with the banks suitably. They need to leverage on the bank branch network for cash handling. There is also the issue of giving incentives to banks to help MFIs. Recently, banks are also closing their rural branches, which poses difficulties for MFIs.

The presentation then explored some creative solutions for moving away from cash. Use of paper (notes) is always difficult and complex for the bankers. Use of paper would still mean recording transactions, storage and retrieval work. This would also mean storage and safe keeping of underlying documentation. One can possibly use vouchers instead of cash. However, it avoids use of cash only in disbursals but not in collection. To solve the problem, use of plastic seems to be inevitable in the long run. However, right now there are challenges as infrastructure is not available and technology is still expensive.

Discussion: The discussion on the issue of cash management stressed the seriousness of the problem. It was felt that MFIs including banks are struggling with cash. Cash management in a way is a cost centre for MFIs. In terms of solutions, it was felt that it would be worthwhile to pay service charges to banks and take care of cash handling in a safe way. A good MIS can be
helpful for cash management. If the cash collection is big and the MFI has a large network, then the MFI must have a hub for cash handling. MFIs can also make use of the bank network. It was felt that E–Cash concept is still not working well even though some of the MFIs (SRFS) have gone in for simputors and smart card. Need for using (a/c payee) cheques was suggested as is being done by some MFIs (Bandhan). MFIs located in states like Orissa (SMCS) still find it difficult to handle cheques. Cash handling problem may still continue for MFIs.

6. OPERATIONAL RISK MANAGEMENT IN MFIs (Abanti Mittra)

Ms. Abanti Mittra (M-CRIL, New Delhi) made the presentation on the theme based on her experience with rating of MFIs. The presentation focused on the risks in MFIs and how they can be managed. Risk goes with MFIs functioning. The risks of MFIs can be categorised into four main categories:

(i) Operational risks relating to credit, fraud and security. MFIs handle large number of clients and transactions. Safety of cash and staff becomes important.

(ii) Institutional risks relating to social mission vs. commercial mission and dependency.

(iii) Financial management risks which arise with regard to asset and liability management, inefficiency and system integrity, and External Risks which are related to regulatory constraints, competition, demographic constraints, nature of physical environment and macroeconomic policies.
The risks of MFIs are reflected at different levels such as group or branch or head office. For example, in a group that is assumed to be self reliant, how can one be sure that no fraud takes place in the group? At the branch level, the issues could be of fictitious clients. At the head office level, the problem could be due to wrong information supplied to the board. There could be discrepancy in the reports and the ground level situation.

All these risks need to be controlled and managed properly by MFIs. The controls that may be employed are of three types: (i) preventive controls, (ii) detective controls, and (iii) corrective controls. The preventive controls can be put in place by building role clarity among staff through HR policies, devising organisational chart and assigning clear responsibilities, having proper information systems and by identifying key risk areas. Specifically, there could be monitoring and even rotation of field staff so that the scope for any collusions are reduced. The detective controls could be exercised through internal audit that is rigorous, frequent and indepth along with strong external audit. The corrective controls for mitigating risks could be achieved through focusing on the outcomes of internal and external audit and strengthening the systems. Prioritising risks is also necessary in this regard.
**Discussion:** The discussion on the issue of risk management brought out the following issues. The MFIs (IVDP) do change field staff regularly to reduce any risk of collusion. Staff may also be removed (BASIX) based on audit report. It was felt that such frequent changes with staff may be risky for MFIs. The issue of cost of auditing was highlighted. It was felt that MFIs need to look at and balance cost of audit in relation to the cost of misappropriation.

There should be standards prescribed for auditors for doing a better job. They need to be trained for MF requirements as done by some MFIs (SRFS). MFIs need to strengthen their internal audit, if required even by outsourcing (FWWB). Some MFIs train their own staff for internal auditing (IVDP) as it is cheaper. Some MFIs (Bandhan) have prepared an internal audit manual for the purpose.

7. **MANAGEMENT INFORMATION SYSTEM IN MFIs** (Nitin Agarwal)

The presentation made by Mr. Nitin Agarwal (M-CRIL, New Delhi), focused on problems and challenges relating to management information systems (MIS) in MFIs. For creating MIS, an MFI has to identify the MIS problem, explore the solutions and then implement them. An MFI in a way can be seen as a cash handling machine. Some of the major problems concerning MFIs are taking care of fictitious loans, tracking the cash trail, building credit histories, matching of maturities of borrowings and lending, and enabling credit graduation of clients. Regarding building a MIS system, something what O’Brien said is applicable here: ‘A system can be visualised as a group of interrelated components working together towards a common goal by accepting inputs and producing outputs in an organised transformation process’. There are many challenges in creating such a system in a MFI. The transformation process involves a large number of small financial transactions. Further, with regard to governance, in most of the MFIs it all boils down to the role of CEO or managers. When a developmental NGO transforms itself into a MFI, there is a huge paradigm shift. In many of these MFIs it is observed that there is a lack of awareness of basic financial details. Many MFIs do not know the correct repayment rate and hence cannot make out their portfolio performance. Another question is, how many MFIs know how to make final accounts to assess the financial performance? MFIs need to be aware of
the fact that they are in the business of banking. They must be informed about details of cost, lending rate and repayment rate that will tell them how much to charge on a product. This can happen only if there is a good MIS.

What MIS basically does is that it captures the data, processes it and provides relevant information for control, analysis and decision making. MIS enables decision making both at the operational and strategic level in a cost efficient and timely manner. Failure of MFIs is also attributable to lack of proper MIS. The way forward should be to make a sound MIS operational in MFIs. MIS could be automated or manual. MIS does not necessarily have to be through automation. There are examples of manually run MIS that are functioning smoothly and able to get credible data to make informed decisions.

In the discussion, the need for using simple packages by MFIs was stressed. MIS is critical but should not unnecessarily overload an MFI with data. There was suggestion to MFIs for adopting ASA-Grameen MIS format.
DEVELOPING GOVERNANCE AND MANAGEMENT OF MFIs:

ROLE OF SUPPORT ORGANISATIONS

In this section, the role and experiences of some of the funding and capacity building organisations in developing governance and management systems of MFIs is presented.

1. ANDHRA PRADESH MAHILA ABHIVRUUDDHI SOCIETY (APMAS) (K. Arokiam)

APMAS is a public society that began its work in July 2001. It is a state level technical support institution for strengthening SHGs and their federations. The objective of APMAS is to enhance the ability of self managed MFIs to provide responsive services to their members on a sustainable basis. APMAS receives support from NGOs, community based organisations, financial institutions, MFIs and Government of Andhra Pradesh (AP). APMAS provides its services for a fee. The core areas of APMAS work are: Quality Enhancement, Quality Assessment, Research and Advocacy, Livelihoods and Partnership and Outreach. APMAS has a strong governing body. It has about 45 highly experienced staff in various fields. APMAS has four regional offices to support its district level and local initiatives.

SHG and MF Movement in AP and its Challenges: AP has around 30 major MFIs (like SHARE, BASIX, SKS, Spandana, Asmita, ASP, and YIP). The government supported Society for Elimination of Rural Poverty (SERP) implements poverty reduction project called Velugu in 865 mandals of the state through SHGs, Village Organisations (VO) and Mandal Samakhyas (MS). There are also a large number of NGOs working as MFIs. Along with this, commercial banks and regional rural banks have also promoted SHG bank linkage programme. Co-operative Development Foundation (CDF) is another agency promoting big thrift cooperatives in AP. There are many achievements of the SHG movement in AP. Under Velugu, SERP and other agencies together have promoted around 5,00,000 SHGs in AP achieving a wide coverage. There are around 30,000 federations and around 1,000 thrift and credit cooperatives. About 75 percent of the SHGs have been linked to the banks. The cumulative credit disbursed to SHGs comes to around Rs. 2,000 crores. The accumulated saving of the SHG members is at least to
the tune of Rs. 1,000 crores. The government has given a support of about Rs 1,000 crores for revolving loan fund and other support. MFIs alone have disbursed around Rs.1200 crores to poor and vulnerable. Around 2,00,000 personnel (HRs) have been created at different levels to support this movement.

With this level of growth and scale of microfinance sector in AP, numerous challenges and problems are also emerging. The scale has been reached with the help of the government. Out of the total SHGs in AP, only 50 percent are of good quality. The rest have many operational problems with regard to regular meetings, book keeping, need-based lending and loan recovery. Primary members lack organisational and institutional building skills for ensuring sustainability. Mobilising adequate capital for VOs and MS is a major challenge. Further, there are idle funds in SHGs. They are unable to utilise their funds due to lack of diversity in livelihoods. The SHG movement in AP is witnessing an increased number of SHGs defaulting to banks and federations. There is also a challenge of establishing standards and adherence to legal compliance by primary institutions.

With the growth of microfinance, mainstreaming social agenda within MFI is becoming difficult. There is the dilemma of ensuring empowerment of the community in relation to the growing control by the project staff. There is dearth of people centered assessment tools for SHGs and Federations. With regard to human resource management, there are challenges around staff management like assessing the performance of the staff, need of higher skills and checking of mis appropriations. The other major challenge is inadequate risk management in the lending products as the coverage of members is less than one percent under insurance. In AP, government has almost taken the role of a NGO in promoting SHGs. There are challenges in achieving convergence between different stakeholders like government, NGOs, bankers and MFIs. Further, NGOs need to ensure proper control, transparency, accountability in their working. Given the fast growth of MF in AP, there appears to be a need for establishing a state level microfinance development and regulatory authority.

**Efforts of APMAS in addressing the challenges:** APMAS has been making several efforts to address the challenges highlighted above. APMAS has carried out quality assessment of more
than 200 organisations consisting of MFI, MACS and NGOs with the objective of assessing their credit worthiness, self-management, financial viability and long-term sustainability. These quality assessments also help in identifying gaps for capacity building efforts, benchmarking best practices and creating awareness about self assessment. APMAS has developed quality assessment tools (GRADES and CoopRATE) focusing on social intermediation and self assessment.

In terms of capacity building, APMAS has taken a number of initiatives like organising training of trainers (TOT) in 14 districts, identifying individual/institutional affiliates for providing capacity building services, helping SERP establish a system of district resource persons, and organising vision and capacity building exercises for board of directors of SHG federations. Efforts have also been made by APMAS to develop the required training material and resources for capacity building purposes. APMAS has been collaborating with various agencies to achieve its objectives.

APMAS has been able to bring several changes in the operational functioning of NGOs-MFIs as a result of its efforts. There is an improvement in the book keeping in eight districts which has resulted in improved financial transparency. It has oriented 2000 persons on Critical Rating Index (CRI) for SHGs in 9 districts. Around 50 percent SHGs are quality assessed using CRI tool in the entire state. Banks and donors are using findings of APMAS to approve funds to primary federations. As a result, the overall capitalisation and profitability has increased. The coverage of poor is also found to be better. District level capacity building strategies have been worked out for about 13 districts. A large number of community resource persons have been trained. These resource persons have trained about 2250 VO members resulting in improved institutional building.

There are changes taking place at policy level also. The government has released an order to promote NGO-GO collaboration. SERP has issued a circular to work with MACS promoted by NGOs. About 100 senior professionals have been oriented in microfinance. APMAS is trying to disseminate its work and resources through website and regular workshops. APMAS is now being approached by various other states for similar services. Going by the success achieved,
APMAS would like to carry forward its activities focusing further on capacity building and quality enhancement of MFIs by creating demand for these services, creating models for MF replication, helping MFIs in product development, taking up action oriented research and strengthening NGO-GO collaboration.

2. FRIENDS OF WOMEN'S WORLD BANKING, INDIA (FWWB) (Vijayalaxmi Das)

Ms. Vijayalaxmi Das shared the experience of FWWB as a support and funding organisation for MFIs. FWWB is a non-profit organisation established as an affiliate of Women's World Banking (WWB) in 1982. It was created to extend as well as expand informal credit supports and networks within India. FWWB's mission is to assist in the formation and strengthening of women’s organisation, bringing them into the mainstream of the economy and thereby facilitating their participation in the process of nation building. FWWB is committed to building a society based on equity and social justice where women are the leaders of social change.

FWWB has built a network of nearly 80 NGOs and MFIs in different states across India who in turn have ensured that the funds reach the eventual beneficiaries. The ultimate members are mostly self-employed women, and 96 per cent of them are based in rural areas. FWWB helps them through NGOs and MFIs to set up businesses and explore new livelihood options through savings and credit groups and training programmes. Citibank joined hands with FWWB in 1999 contributing towards the corpus of FWWB for Revolving Loan Fund and towards disaster mitigation initiatives of FWWB in helping rebuild lives and homes across 7 villages in Bhuj district of Gujarat. FWWB's loans are given out through MFIs, cooperatives and NGOs.

FWWB provides loan guarantees or other securities to banks for advancing loans to women. It also provides technical assistance and counseling to NGOs. FWWB acts as an affiliate of WWB and promotes its programme in India. FWWB's programmes are formulated in favour of poor, skilled and unskilled rural women entrepreneurs like vendors, traders, home based producers, artisans as well as petty producers engaged in occupations associated with farm and non-farm sectors.
FWWB has been having an excellent board since inception. The board gave a road map to FWWB. Since FWWB realised that capacity building alone is not adequate, it designed a Revolving Loan Fund. Initially, FWWB depended upon soft funds. Now it also receives funds from financial institutions. The number of MFIs supported by FWWB had declined from over 200 to 88 now. It is difficult to find such institutions. FWWB started adding institutions of different forms with different needs. As such legal form of MFI has not been a major issue for FWWB. Committed leadership at MFI level is a major challenge. None of the MFIs had any strategy planning. FWWB attempted this for the first time with 15 MFIs. Out of these, 14 had autocratic leadership. FWWB also gave training to the staff of MFIs. Training the board members was a challenge as they find it difficult to absorb the training. Presently NGOs are transforming into MFIs. Previously, these NGOs worked as social intermediaries. Now their role has changed to financial intermediaries. It is necessary that these NGOs have a clear vision. They should chalk out a roadmap. In this period of transition, capacity building should be taken very seriously. At present there is lack of adequate leadership in MFIs. Literally, the CEOs carry the MFIs. Further, no uniform training is available to build the leadership. There is a pressure on NGOs-MFIs to increase the outreach especially through onlending. It would be easy for NGOs to act as an agent – mobilising and giving clients to banks. In that case they do not need any financial experts or professionals. Only full-fledged delivery models throw up managerial challenges.

Professionalism is leading to a paradigm shift. MFIs need committed professionals who can stay longer. There is still a dichotomy between core values of development and professional values. Many MFIs find it difficult to resolve this dichotomy. There appears to be more emphasis on lending *per se* than attaining development goals like poverty alleviation and empowerment. This is the flip side of professionalism. This was one of the reasons for FWWB to reduce the number of client organisations. The reduced focus on developmental goals also may be happening because of high emphasis being given on the issue of financial sustainability. FWWB also reduced the number of NGO-MFIs as capacity building was becoming difficult and costly. It was also not leading to significant impact on MFIs.
3. **SA-DHAN** (Sukumaran)

Mr. Sukumarn shared the experience of Sa-Dhan. Sa-Dhan was established in response to the need to have a representative body in the micro finance sector. It is a network of micro finance institutions (MFIs) in the country. The vision of Sa-Dhan is “to create an enabling environment where MFIs operate and serve the community better so that the sufferings of the poor are mitigated.” Towards this end, Sa-Dhan is designed and developed as a platform to share, understand and learn the different perspectives, competencies and experiences of MF sector.

Sa-Dhan’s mission is to build the field of community development finance in India to help its members and associate institutions to better serve low-income households, particularly women, both in rural and urban India, in their quest for establishing stable livelihoods and improving the quality of life. The major objectives of Sa-Dhan are: i) to build a strong financial system in the form of Community Based Development Finance Institutions with the help of NGOs and others; ii) to encourage new and existing Microfinance Institutions (MFIs) to enlarge and expand their service, and iii) to create opportunities for existing and new MFIs and FIs to enter microfinance by establishing a supportive legal and regulatory environment.

Realising the diversity of issues and challenges, Sa-Dhan works towards sustainable development of the micro finance sector through three thematic areas: Policy Advocacy, Capacity Building, and Standards.

**Policy Advocacy:** Sa-Dhan works towards establishment of an enabling policy environment for microfinance sector in India and interacts with different agencies contributing towards this. Sa-Dhan continuously interacts on policy level issues facing the MFIs in India with the regulatory agencies like central ministries, ministries of state governments and RBI. Because of the efforts of Sa-Dhan, the finance minister has given an assurance about creating a regulatory framework for MFIs in the next two or three years. Sa-Dhan also took up the issue of interest rate cap imposed on MFIs by the Tamil Nadu government.
**Capacity Building:** The thrust of the capacity building work has been on developing a common perspective and knowledge of microfinance practice amongst practitioners. This becomes imperative in terms of the enormous diversity existing in the sector in methodologies, mechanisms, approaches, roles, etc.

The major capacity building efforts of Sa-Dhan are:

- **Microfinance Education Programme (MEP):** The programme aims at perspective building in microfinance through exposure to good practice, sharing experiences, and deliberations on critical issues.
- **Regional Microfinance Education Programme (RMEP):** The programme is designed to suit the requirements of the MFIs in a particular region. Regional issues are discussed in these programmes for enabling the participants to enrich themselves in addressing some of their problems.
- **Livelihood Education Programme (LEP):** The objectives of the programme are to sensitise microfinance practitioners on the need and importance of livelihood promotion and provide them with a framework to analyse livelihood approaches.
- **Workshops on critical issues:** Sa-Dhan research team identifies critical themes relevant to the operations of MFIs and conducts short duration workshops. In the past, workshops were held on the themes like SHG Federations, Management Information Systems, and Performance Standards.
- **Training of Trainers (TOT):** Creating a pool of resource persons at various regions is part of the agenda before the Capacity Building Team of Sa-Dhan. Sa-Dhan conducts TOT programme at various centres where representatives of MFIs participate in the programme enabling them to conduct training programmes independently.
- **Exposure Visits:** Sa-Dhan conducts exposure visits to various MFIs to understand their operations and learn their methodologies in reaching the poor. The exercise also helps the member organisations to gain insights into some of the best practices.
- **Development of Resource Materials:** Studies are made on specific themes and these would be transmitted into resource materials. Member organisations and training establishments can make use of these as inputs in conducting training programmes.
**Standards:** This is the third thematic group of Sa-Dhan. The objectives of the group are to facilitate the adoption of practices that ensure good governance, management, reporting and transparency within the sector. Sa-Dhan has arrived at a minimum set of financial performance standards on various parameters. To strengthen and sustain the financial system, capital adequacy ratio is very important. Sa-Dhan insists that MFIs should consider it at the initial stage of their growth.

Through the three thematic areas stated above, Sa-Dhan is striving to strengthen the microfinance sector. It is liaising with the policy makers for a regulatory framework in the microfinance sector. A good number of MFIs look forward to Sa-Dhan for necessary support and guidance.
SECTION - IV

MFI SPECIFIC MANAGERIAL AND OPERATIONAL PROBLEMS

In this section, the specific managerial and operational problems of various MFIs invited for the workshop are presented.

1. BANDHAN (C.S. Ghosh)

Bandhan is an NGO set up by Mr. Chandra Shekhar Ghosh at Konnagar in Hooghly district of West Bengal in November 2000. Initially it was built as a capacity building institution. It was registered under the West Bengal Societies Act, 1961. During the course of time it was felt that there was a tremendous need for credit among the rural poor. Bandhan started its microfinance activities in 2001 and adopted the delivery model of ASA, Bangladesh. SIDBI provided the initial financial assistance to Bandhan. Bandhan has received technical assistance from ASA for implementing the model.

Bandhan has the vision of a society built on the basis of equality and justice, coupled with optimum realisation of human potential, free from all sorts of exploitation on the basis of caste, creed, ethnicity, sex and religion.” To fulfill its vision, Bandhan has the following objectives: i) to empower poor women socially and financially through community participation initiative; ii) skill development for livelihood promotion through employment generation; iii) to promote gender sensitivity and eliminate gender discrimination; iv) to establish a sustainable organisation which will continue to promote a healthy social development sector; v) to establish a community based organisation to cater to sectoral needs; vi) to develop network among MFIs to enable lobbying on issues relevant to the sector, and vii) to reduce exploitation through direct and indirect advocacy strategies.

Bandhan has recorded a tremendous growth within a short period. It covers a large number of poor families with need for microfinance in West Bengal. Its cost efficiency and financial performance sets it apart from other practitioners with regard to productivity and sustainability. Bandhan’s wish is to expand its outreach to the maximum areas in West Bengal and also in other states.
All MFIs whether big or small do face certain managerial and operational problems during their course of activity. Similarly, even Bandhan has faced certain problems during its short term of working in the field of MF. Some of those are discussed below.

**Cost of Funds:** Firstly, there is the problem of borrowing funds from financial institutions at high rate of interest. It is quite a difficult task to arrange for the funding at a considerably reasonable or low rate of interest. This is one of the major issues that needs to be taken care of. Presently, Bandhan is making efforts in its own way to handle this issue. After a lot of bargaining and discussion, Bandhan is able to arrive at 9-11 per cent interest rate, which is
considered quite high for a developing MFI. But in the recent past, Bandhan had many institutions and banks approaching with the offer of funding. So at this juncture, the organisation enjoys the privilege of choosing the institution offering them the least rate of interest.

**Problems with Banks:** Next come the bureaucratic and administration problems faced while dealing with the banks. This leads to delay of work. The organisation has faced lot of problems during the banking operations, viz., bank account opening for various branch offices, fund transfer from bank to bank or branch to branch etc. There is nothing much Bandhan can do to solve this problem, except trying to maintain good relations with these banks. The pace of this problem seems to be gradually decreasing now. Bandhan has started receiving a good amount of co-operation from the banks as well. It is hoped that in the coming future, account opening for a new branch would not be as cumbersome as it was for the first few branches.

**Lack of Awareness:** Another point that must be put to discussion here is the lack of awareness about the microcredit in the local civil society. Even today, there is a huge number in the population who do not know anything about MFIs or microcredit for that matter. Bandhan feels that it is high time that common people are informed about the MF activities going on in their country. Large scale awareness will be indirectly helpful to the MFIs.

Initially, many a times while commencing the programme in a new area, Bandhan has not received a very positive response. The rural population looks upon MFI with an eye of suspicion. They think an MFI to be some kind of a chit fund which will ultimately cheat them and run away with their money. But, the poor cannot be blamed for this suspicious attitude. They have faced this reality and have every right to question or doubt an MFI. The problem is being tackled by the field level staff. They sit and explain the programme to the target people which has helped to quite an extent here. Bandhan feels that there are no other means to tackle such a situation.

**Marketing of Borrowers’ Products:** Marketing of the various kinds of products that are produced by the borrowers or group members by availing the microcredit is also one of the problems that come in the way of the MFIs. Only providing credit support does not help. Bandhan would like to help them reach their products to the desired market or the target
customers. Only when marketing becomes possible, they can generate some income out of the activity. The organisation has been pondering over this issue for quite some time, but has not yet been able to drive out a proper solution to this problem. If some funds could be arranged for setting up a showroom to display the products prepared by the innovative borrowers, it may help remove the odds that come in the way of marketing. Bandhan has been planning on similar lines, but has not finalised anything as of now.

**Staff Turnover:** Another problem that Bandhan is facing is the staff turnover. The organisation takes so much of efforts to recruit people to carry on its activities. It is very difficult to attract qualified and skilled staff. At the end of which if it cannot manage to hold back its employees, all the efforts go in vain. At the growing stage, it becomes quite difficult to bring down the turnover rate. Bandhan is still in a fix to decide about the kind of incentives to be given to attract them. Of course, the organisation is not in a position to pay them very high salary, since the capacity is limited. What kind of help can be extended to organisations like Bandhan to tackle this situation? At the same time, there are committed and hardworking staff who are really significant to the organisation. Those apart, there are a few who drop out from time to time. Bandhan feels that gradually as the organisation earns both name and fame, it shall be able to attract more number of employees. Bandhan even faced difficulty in getting people for its board.

**Other Problems:** Apart from those mentioned above, there are a few more problems faced by Bandhan as well. At times, there is a contradiction with the government loan policy. Often, there is overlapping of activities with government institutions and other NGOs. There is lack of coordination between government and NGOs regarding MF. That apart, there are some people who believe that for the poor savings is better than providing microcredit which creates confusion in the operations. There is also the existence of moneylenders who charge exorbitant rate of interest. There are still a few disadvantaged people who knock at the doors of these moneylenders. Further, MFIs lack suitable laws to tackle the defaulters.

**Solutions:** The following solutions emerged during discussion. To decrease the staff turnover rate the institution should adopt a system of rewards and recognition to the employees. It should also train the staff in such a way that they can perceive the vision and mission of the
organisation. The MFI requires a combination of professionalism with development orientation, dedication and commitment in its employees. Regarding cost of funds, the general suggestion was to bargain with the financial institutions and banks for cheaper funds.

2. BASIX (C. Venkatesh)

BASIX is a holding company consisting of four organisations involved in livelihood generation through provision of microcredit, microinsurance, microsavings, agri-business development services (Ag-BDS) and institutional development services. The institutional development services by BASIX are provided to MFIs and cooperatives. Under the agri-business development services, BASIX provides support in product enhancement, non-financial risk mitigation, value addition to the product and formation of alternative market linkages. BASIX’s mission is to promote a large number of sustainable livelihoods including for the rural poor and women, through the provision of financial services and technical assistance in an integrated manner. BASIX strives to yield a competitive rate of return to its investors so as to be able to access mainstream capital and human resources on a continuous basis. The corporate structure of BASIX is presented below.

**Diagram 2: Structure of BASIX**

Bhartiya Samruddhi Investments and Consultancy Services Ltd (BASICS) 

Bhartiya Samruddhi Finance Ltd (BSFL) 

Indian Grameen Services (IGS) 

Sarvodaya Nano Finance Ltd (SNFL) 

Krishna Bhima Samruddhi Bank (KBS Bank)

Bhartiya Samruddhi Investments and Consulting Services Ltd (BASICS Ltd) is the holding company, through which equity and debt investments are made in the group companies. Bhartiya Samruddhi Finance Ltd (Samruddhi) is an RBI registered NBFC, owned by major
financial institutions and is engaged in microcredit, retailing insurance and providing technical assistance services to some of its borrowers. Krishna Bhima Samruddhi Local Area Bank Ltd. is an RBI licensed local area bank providing microcredit and savings services in three districts. Indian Grameen Services (IGS), is a section 25 not-for-profit company engaged in research and development and training related to livelihoods. Sarvodaya Nano Finance Ltd (Sarvodaya) is a RBI registered NBFC owned by women’s self-help groups and managed by BASICS Ltd.

BASIX area of operation is spread in 7 states (Andhra Pradesh, Karnataka, Tamil Nadu, Maharashtra, Madhya Pradesh, Orissa and Jharkhand). It is working in 9266 villages in these states. The number of customer (direct and indirect) comes to around two lakhs. It has 50 offices with more than 1200 staff. Table 2 give details of the performance and outreach of different services offered by BASIX.

Table-2: Credit, Insurance and Agri-BDS Business performance

<table>
<thead>
<tr>
<th>Particulars</th>
<th>April – December 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disbursements (Rs. in million)</td>
<td>842</td>
</tr>
<tr>
<td>Outstanding (Rs. in million)</td>
<td>795</td>
</tr>
<tr>
<td>On-time repayment rate</td>
<td>96.7%</td>
</tr>
<tr>
<td>Performing assets</td>
<td>96%</td>
</tr>
<tr>
<td>No of active borrowers (Cumulative)</td>
<td>138,389</td>
</tr>
<tr>
<td>Disbursements (Rs. in million) (Cumulative)</td>
<td>3,120</td>
</tr>
<tr>
<td>Total Insurance Policies Sold</td>
<td>84,170</td>
</tr>
<tr>
<td>Insurance Premium Collected (Rs. Lakh)</td>
<td>65.49</td>
</tr>
<tr>
<td>Total No. of Customers under Ag-BDS</td>
<td>7,703</td>
</tr>
<tr>
<td>Total Revenue under Ag-BDS (Rs.Lakh)</td>
<td>6.87</td>
</tr>
</tbody>
</table>

The major managerial and operational challenges of BASIX are highlighted below.

**Providing Integrated Services**: With the growth it is necessary to improve efficiency in delivering services to reduce cost of operations. For generating livelihoods, BASIX has to internalise a strategy of providing integrated services consisting of livelihood finance, institutional development services and agri-business development services (Ag-BDS). BASIX conducted an organisational review by IMRB which found increase in borrower income, asset ownership and social participation only in a small way. The customer satisfaction on services and terms was found to be high. Credit alone was found to be having limited impact on
livelihoods. One of the main issues highlighted was unmanaged risk, low productivity and low price realisation by the clients. Using the findings of this study, BASIX changed the strategy and decided to add risk mitigation services (like insurance and vaccination for animals) and agribusiness development services for productivity enhancement, value addition and market linkages. This process was carried out through pilot testing of integrated services in a few locations, conducting series of staff trainings on the concept of livelihood promotion at all levels and arranging exposure visits to successful interventions piloted within BASIX. It has also introduced performance based incentives to its staff to provide integrated services. The aim of BASIX is to strengthen the integrated service delivery model for livelihood promotion in an environment having reduced risk for the customers. The goal is to reach one million customers by 2010.

Prevention and Control of Frauds: In terms of operational challenges, BASIX is faced with the problem of frauds which have increased along with its growth. As a result, there were occasional breakdown of operational systems in some branches. The main challenge of frauds has emerged due to growth. They were ghost loans and cases of misappropriation of loan and repayment money. This resulted in both financial loss and reputation loss for the organisation. To address the challenge a thorough review of the operational systems and procedures was conducted by internal team and a consultant separately. Based on the gaps identified, a Risk Management Division was created to monitor and mitigate the risks. The division focused on three major areas namely cash handling, bank management and management of customer service agents (CSA). An internal audit programme was designed to focus on key risky areas identified. More focus was also paid on field audits and preparation of exceptional reports. Staff were required to file exceptional reports in 24 hours. MIS was developed to track branch wise and employee wise performance based on trend analysis. In all these, efforts were made to sensitise the staff about the importance of adherence to standard operating procedures and policies. BASIX has adopted a policy of zero tolerance to frauds.

In terms of monitoring the frauds, basically it is the responsibility of the field officers who look at all types of risks in lending. The officers of BASIX have been provided with mechanisms to detect and prevent frauds. There is rigorous audit and the data is immediately
There was a suggestion to strengthen the internal control system and to monitor cash handling by the CSAs. It was felt that in terms of managing the cash, the present technology has not reduced the high inflow and outflow of cash. The officers are now well versed in handling the cash. But replacing cash may take another 5-10 years. Till then there is need for strengthening IT for the purpose.

3. SANGHAMITHRA RURAL FINANCIAL SERVICES (SRFS) (S.M. Adiga)

Sanghamithra is a not-for-profit microfinance institution incorporated under section 25 of the Indian Companies’ Act, 1956. Incorporated in 1995, SRFS started its operations in 2000. Its main strategy is reaching clients who would otherwise have difficulty accessing credit (service provision); developing flexible and sustainable credit systems that can reach poor clients (innovation); prove that ‘poor are bankable’ - credit discipline wise, productivity wise and profitability wise (leadership); and, transferring new credit delivery practices to the Regional Rural Banks (demonstration).

Sanghamithra’s vision is to build “a society that supports a sustainable and vibrant financial and development environment where every self-help affinity group (SAG) of the poor has the ability to access credit at competitive terms as well as skills and linkages in order to maximise the livelihood opportunities of its members.”

SRFS targets the poor who are organised into self-help affinity groups (SAGs) and who have demonstrated their maturity and sustainability in managing microfinance. The main objective is to work with the poor reinforcing their efforts to rise above economic poverty and to prove to all concerned that the poor are bankable. SRFS gives general loans to SAGs whose members in turn utilise it for asset creation, income generation and consumption. The credit assessment is available at the head office for its monitoring. In this regard what is more important is motivating and sensitising the staff. BASIX also has filed few legal cases especially in those cases involving bigger amounts of money. BASIX normally terminates the services of staff even without any legal action.
normally done in a SAG meeting. SRFS delivers and collects back loans at the door-steps. SRFS follows very simplified procedures for credit delivery. SRFS fixes a uniform and a simple monthly repayment schedule to suit the income flow of SAGs. The SAGs have to make repayments in post-dated cheques. All fund transfers with SAGs are done through only banking channels. SRFS charges administrative charge of 12 per cent per annum besides a registration fee of Rs. 50 and a service charge of 2 per cent on the loan amount.

Currently, SRFS operates full scale in the revenue districts of Mysore, Mandya, Chamarajanagar, Chitradurga Davangere, Shimoga, Kolar and Bangalore Rural in the state of Karnataka and in the revenue districts of Dharmapuri, Erode and Krishnagiri in Tamil Nadu. Sanghamithra’s cumulative disbursement up to third quarter of 2004-05 was Rs.28.71 crores. The total outstanding up to third quarter of 2004-05 was Rs.13.30 crores with 3258 groups. Cumulatively, 5,823 groups have received loan assistance from SRFS so far.

The major managerial and operational problems of SRFS are described below:

**Bank Related:** All transactions of SRFS are conducted through banks only. As a result, SRFS and SAGs are facing a number of problems. Bankers are collecting exorbitant collection charges from SAGs for financial assistance and recovery cheques. There is no uniformity in the charges. SAGs face delay in realising credit cheques which are issued by Sanghamithra. As Sanghamithra makes use of banking channel for its operations, some of the RRBs and commercial banks are purposefully not co-operating with the SAGs in issuing chequebooks. In the initial stage, the RRBs provided at-par facility for two districts in Karnataka state. However, now they have withdrawn that facility. After Sanghamithra disburses loans to SAGs, the bankers are refusing to pay the cheques. They are luring SAGs to join them by offering bigger loans. In certain bank branches, there is willful delay in crediting outstation cheques sent for collection. There is lack of communication between SRFS and banks. It seems banks are taking SRFS as their competitor. There is lack of understanding of MF concept and methodology by bankers. Banks also lack interest in MF sector which is the route cause for their non-cooperation. They are only target oriented. Even bank statements are not issued in time to groups and to the company. Banks are using arm twisting methods to attract SAGs to take loan only from them. In
some bank branches, the service days to SAGs are being restricted and they are allowed to transact only twice or once in a week. With too many bank accounts, it has become difficult for SRFS to manage funds and transactions.

**NGO Related:** SRFS deals with NGOs which promote and link SAGs. SRFS pays some incentives to NGOs for this purpose. NGOs are paid Rs. 250 as incentive for linking a SAG. Similarly, SRFS pays 8 per cent of the administrative charges earned to NGOs on successful closure of a loan account.

SRFS is also facing some problems with the NGOs. Some of the NGOs are not co-operating with the staff of SRFS about collection of overdue. There is also the problem of lack of follow-up by some NGOs due to communication problem. Many NGOs do not understand the SRFS concept and methodology. SRFS provided training to NGO staff and groups for capacity building. NGOs complained in the beginning that SRFS is collecting service charges. They are now convinced that SRFS is collecting reasonable charges for services and are coming forward to link SAGs. Some of the NGOs are putting pressure on field staff to raise the loan size to SAGs leading to irregularities. Some are also complaining that incentives are not reaching in time. Head office is not able to get timely information about the closure of accounts.

**Field Staff Related:** Field staff face problems due to non-co-operation of banks. Recovery made in cash becomes risky. Some field staff are having very large area of operation and also have to handle transactions with more than one bank. Field staff have to put in manually lot of work. SRFS would like to provide various trainings to field staff for their personal and professional development. It intends to raise the quality of manpower at all levels. SRFS would like to cover untouched areas. SRFS wants to raise salary levels as well as introduce performance based incentives. All these would help SRFS to grow further in a stable way.

**Solutions:** SRFS feels there must be better communication and interaction between bank managers and its field staff. There can be tie up between bank and MFIs. MFIs need to negotiate for long term facilities from banks like at-par cheques. SRFS feels that SHGs should be given freedom to choose their banks. SRFS would like to take up bank related issues at state level so
that it helps SHGs and MFIs. SRFS would like to adopt loan recovery both through cheques and cash with suitable checks. SRFS will be introducing simputers for field staff to reduce paperwork. Area managers are to be given computers linked to head office. SRFS would like to arrange trainings to NGOs on SAGs credit management and book keeping.

One suggestion that was voiced was that it is necessary to monitor the use of money within SHGs. It would be important to track the internal delinquencies in SHGs for growth of healthy MFIs. SRFS also would like to adopt new strategy for delinquency management.

**4. SHRI MAHILA SEWA SAHAKARI BANK** (Jayashree Vyas)

Ms. Jayashree Vyas shared the experience of SEWA bank focusing on the managerial challenges. The establishment of SEWA bank was an outcome of the efforts of women who were working in the informal sector and depended on moneylenders to meet their financial needs. The women decided to set up their own bank. SEWA bank is an urban cooperative bank owned by women members. It has a board of directors consisting of 15 members. The bank is regulated by RBI as applicable to the cooperative banking structure in India. There are many factors that differentiate the functioning of SEWA bank from a commercial bank. SEWA bank’s main objective is to help the poor women to come out of their poverty. The saving products of the bank are based on the needs of the members and help them to manage expenses of marriage, old age security etc. The loan products are tuned to meet their needs like repayment of old loans, house construction etc. SEWA bank also provides insurance for accident, loss of assets, sickness and death. SEWA bank conducts training and counseling programmes for financial literacy of its members. Its main source of funding, around 85 percent, comes from members’ savings.

Ms. Vyas then highlighted some of the major challenges faced by SEWA bank in its operations.

The bank is regulated by RBI as well as the state cooperative department. So it is under dual regulation. The level of reporting the bank has to do to satisfy the two authorities is very high. The regulations sometimes are too rigid. The regulation and continuous audits affects the routine
activities. Further, door to door collection of savings is restricted for banks by RBI. This brings restriction on the activities of the SEWA bank.

There is also the challenge of maintaining a synergy between the field workers and technical workers. The bank needs to achieve growth. The bank has reached 2.5 lakh women which is not even 10 percent of women in Ahmedabad city. There is need for capacity building of the staff for increasing the outreach.

5. KHEDA JILLA SWASRAI MAHILA SEWA BHACHAT MANDAL
   (Manoramaben A. Thakkar)

The Kheda SHG federation has been promoted by the NGO Self-Employed Women’s Association (SEWA). SEWA started its work in Kheda district in 1984. The main objective of SEWA is to promote full employment among informal sector women so that their food security is ensured. SEWA also tries to provide social security to the members.

The initial work of SEWA in Kheda district focused on protection of tobacco workers’ wages. In Kheda district where 80 per cent of the tobacco is produced, the workers were not being paid the minimum wages. SEWA started working on this issue along with the government’s labour department. As a result of the effort, the level of wages paid has increased.

SEWA started SHGs to help the workers to get over the problems of indebtedness. Incidentally, the women had reservations to form SHGs. The emphasis of SEWA is on promoting savings first. Now the group leaders themselves go and form SHGs. The federation of SHG was formed in 1995. The federation is governed by a body of trustees elected from the general body of members. The federation has been able to mobilise savings of Rs. 77 lakhs. The savings are in the name of women. The federation has a membership of 14,000 women. It has lent out around Rs. 2 crores cumulatively and had a loan outstanding balance of Rs. 87 lakhs. The federation is linked to SEWA bank in Ahmedabad. The federation uses its own savings mobilised to meet the credit needs of the members at a lower cost. But in case of shortage of funds it approaches the SEWA bank for loan. To reduce the cost, SEWA bank has given a cash credit limit of Rs. 65 lakhs to the federation.
Some of the activities undertaken by the federation include: i) training of women to work as barefoot managers. Members are also given training in use of IT; ii) Federation makes efforts to get some assets transferred in women’s name; iii) Training for technical capacity building in well repair and water management; iv) Marketing through trade facilitation centre; v) Providing social protection through insurance and disaster mitigation through creation of a fund called Employment fund.

SEWA gives moral and legal support to the federation. Decisions are now taken by the members themselves. There is lot of self-reliance and empowerment taking place in women as a result.

Some of the managerial and operational problems of the Federation are highlighted below:

**Assessing Credit Demand:** Achieving unity and building consensus among women is sometimes difficult. There are problems in preparing credit plans of the members. Some women need higher loans. But an SHG can get up to Rs. 2 lakhs.

**MIS:** Putting in place a systematic MIS is another challenge. The federation wants to be connected online with SEWA bank to facilitate quick and smooth functioning.

**Staff Capacity:** There is the broader operational challenge due to illiteracy among women. The federation wants to build a cadre of barefoot managers among its staff. It also needs trained people to expand the outreach of the federation to one lakh members.

6. **GRAMEEN MAHILA SWAYAMSIDDHA SANGHA (GMSS)** (Sudha Kothari)

Dr. Kothari shared the experiences of Grameen Mahila Swayamsiddha Sangha (GMSS). GMSS is a federation of women’s SHGs promoted by Chaitanya, an NGO based in Rajgurunagar Taluka of Pune District. The process started in 1991 with promotion of 14 groups essentially for sharing of experiences, collective problem solving and effective utilisation of existing resources. Eventually, GMSS was conceptualised and it formally came to be established in 1993 at Rajgurunagar. It is registered under the Societies Registration Act, 1960 and Bombay Public
Trust Act, 1950. GMSS has been now in existence for more than a decade. The outreach of GMSS is spread over three blocks. For the sake of operational management the organisation’s area is grouped into different regions and clusters. Each cluster has around 5 to 30 SHGs. The representation at the cluster is through groups. Table 3 gives the blockwise outreach of GMSS (as of January, 2005).

<table>
<thead>
<tr>
<th>Block</th>
<th>No. of SHGs</th>
<th>No. of Members</th>
<th>No. of Clusters</th>
</tr>
</thead>
<tbody>
<tr>
<td>Khed</td>
<td>262</td>
<td>4424</td>
<td>25</td>
</tr>
<tr>
<td>Ambegaon</td>
<td>157</td>
<td>2362</td>
<td>11</td>
</tr>
<tr>
<td>Junner</td>
<td>363</td>
<td>5220</td>
<td>16</td>
</tr>
<tr>
<td>Total</td>
<td>782</td>
<td>12006</td>
<td>52</td>
</tr>
</tbody>
</table>

GMSS has a capital of Rs.4.68 lakhs and it employs 7 staff members. Apart from this, there are 6 resource persons. The total savings mobilised by GMSS is Rs.11.56 lakhs. Out of this fixed deposits are to the tune of Rs.3.41 and regular savings are of Rs.7.31 lakhs. The total cumulative loan disbursed so far is Rs.1.23 crores. The total outstanding loan balance was Rs.16.38 lakhs.

GMSS is confronted with the following managerial and operational problems:

**Communication and Planning:** The operation of GMSS is spread across different blocks and clusters. Maintaining proper communication is an important operational challenge. This is achieved through preparing minutes of cluster meetings and their presentation in the GMSS monthly meetings. However, the challenge is how can the minutes be made more effective and communication improved. There are efforts to systematise the preparation of cluster level plans and tapping alternate sources of income in clusters where financial sustainability is a big question.

**Role and Capacity of Leaders, Staff, and Members:** Managing roles and responsibilities and sharing of powers between the office bearers of GMSS and the local staff is an issue. This
sometimes creates tension between office bearer and local staff of GMSS. These issues are also applicable to old staff and new generation office bearers. Even promoting second line leadership is an issue. For the members, the challenge is to develop ability to differentiate between the role as a group member and as an office bearer of the GMSS. It is an issue of broadening the horizon of members. The other challenge is of time. Apart from meetings, time is required for tasks and responsibilities that go beyond meetings and it is difficult for women members to give this time. There is a need for continuous upgradation of the skills of new office bearers. Equipping new office bearers with historical evolution of the organisation also becomes important. Finally, keeping the spirit of self-help alive in the functioning of GMSS is a constant need and a challenge. To Chaitanya, empowerment is possible when the women manage their affairs totally.

Chaitanya is trying to build linkages of GMSS with state agencies. However, the state agencies like bank, agricultural department still do not accept GMSS as an agency of its own right and request for Chaitanya’s mediation.

GMSS and clusters feel that their services are to be extended only to SHGs that are part of its clusters and not to SHGs in the area who are non-members of the clusters even though they are promoted by Chaitanya. The clusters collect service charges from SHGs. Chaitanya is also promoting SHG bank linkage so that the SHGs have option with them.

**Problem of Professional Staff:** In terms of HR, there is the problem of high salary expectation of the professional staff combined with low level of performance of the staff. There is also the tendency of using the experience as a launching pad resulting in high staff turnover. There is an alternative idea being explored of inviting consultants for a short period as it works better than hiring a professional staff for a long term period.

GMSS representatives decide staff salary while appointing them. This increases staff’s accountability towards GMSS office bearers.
Solutions: In terms of empowerment it was felt that MFIs make effort that every employee is empowered to take decisions at their level so that they are able to address the needs of the members and in turn the needs of the institution. There is a need to build their capacities. Professionalism in MFIs need to go beyond educational qualification. There was a suggestion to pay sitting fee to the members to come for meetings as being followed in AP. Also to overcome the conflict between professionals and old staff, MFIs can recruit qualified professionals more to act as mentors on technical aspects.

7. SAMPADA TRUST (Rajesh Batala)

Sampada Trust (ST) is a microfinance organisation registered in the year 2002 to take over the microfinance activities of Watershed Organisation Trust (WOTR). WOTR is an NGO established in 1993 to take up developmental activities in rain fed areas of Maharasta. WOTR along with implementing watershed programme has been carrying out capacity building of various agencies for promoting participatory watershed development. WOTR experimented with microfinance with a credit disbursement of Rs 32,000 to women SHGs in 1998. This initiative has bloomed into a full-fledged legal entity in the form of ST. ST now continues as a sister organisation of WOTR. ST’s main activities are SHG promotion, promoting village level federations of SHGs called Samyukt Mahila Samiti (SMS), and facilitating microcredit through SMS. Sampada provides loans to NGOs and also directly to SHGs. ST basically caters to those credit needs of women that are related to agriculture, individual and group based income generation activities and small consumption needs. ST offers three kinds of loan products, seasonal loan, short term loan and medium term loan. The seasonal loans are meant for meeting agriculture and consumption related needs; while the short and medium term loans address credit needs for small and medium income generating activities. ST has disbursed cumulatively a loan amount of over Rs. 9.85 crores to 3190 SHGs with a client base of 37,403. ST also provides microinsurance services to the SHG members.

Sampada Trust is faced with the following managerial and operational problems:
**Problem as an MF Organisation:** The main purpose of forming ST was to disassociate WOTR’s grant-based activities from loan-based ones so that there is clarity to both the service deliverers as well as their target group. The staff of Sampada and WOTR share the same office premises. The WOTR staff has access to better facilities and higher salaries. This proves to be a de-motivational factor for the staff of Sampada. Further the staff of Sampada gets influenced by work practices of WOTR whose main aim is monitoring. This creates differentiation with Sampada staff who are expected to be active in the field implementing microfinance programme. Sampada staff thinks that they are also doing similar type of work. Also for Sampada, there are issues around suitable legal structure. Sampada being a trust is having difficulties in handling credit business. Being a trust Sampada refers to interest rate as service charges. The concern is: will this attract any tax?

**SHG Level problems:** As per the programme the SHGs are supposed to apply for loan through SMS. But many SHGs want to access loans routed directly from Sampada rather than through SMS. The quality of the SHGs is also deteriorating. The SGSY programme of the government is not conducive to the MFI operations as it has created rumours about subsidy which is affecting the SHG functioning. SHGs have a tendency to demand equal loan amount for their members. This practice is proving to be a problem for bigger loans. Till the loan size is small it is possible to meet the SHG’s demand. However, bigger size loans demanded in equal amount by all the members of a SHG proves to be problematic. There will be problem of proper utilisation and monitoring. Similar problem is faced when some entrepreneurial activity is started. Further, there are problems between women and men’s groups. The men’s groups due to ego related reasons are not very keen to approach SMS for loans as it is an all women’s body in the village.

**Problem of Local Economy:** The agriculture in the area is dependent on the rains and 80 per cent of the borrowing from ST is for agriculture. Failure of rains adversely affects ST’s recovery of loans as these loans are non-collateral based. Providing only credit services is not enough to generate sustainable income. Along with credit providing escort services is felt essential.
MIS: MIS is also a problem for ST. As result the data base and records are still weak. The experience of ST with local consultants has not been very happy. They were contracted for MIS but no concrete MIS was developed.

Solutions: There is need to think about ways of strengthening the quality and functioning of SHGs as they appear to be the basic structure in ST’s design. There is also a need to clearly separate out the two organisations, ST and WOTR, as the basic functioning and approach of these two organisations are different. The microfinance programme should be separated from the watershed development programme as in other cases (like that of IVDP). There is need to rework the interest rate strategy and peg it at the market rate to achieve financial viability. Sampada can also focus on the role of capacity building of NGOs as it is also lending to NGOs.

8. SWAYAMSHREE MICRO CREDIT SERVICES (SMCS) (Amiyabala Pattanaik)

The state of Orissa with a population of 3.17 crore Orissa is the poorest State in the country in terms of percentage of urban and rural poor to total population (44.11 and 57.64 per cent respectively). Scheduled caste and scheduled tribes constitute 16.20 per cent and 22.21 per cent respectively of the total population. Nearly 87 per cent of the population lives in villages. Literacy rate is 42.1 per cent leaving more than 50 per cent as illiterate.

The livelihood pattern of rural poor hovers around the activities like small agriculture, labour, small trade, rural artisan work, diary and other allied activities. The rural poor have usually small credit needs because of their low scale of operation; they have priority for their consumption needs above other things. They depend on the moneylenders, traders, relatives and sometimes on the banks. The banking norms are rigid and financing of small amount is not cost effective. The poor pay exorbitant interest to the moneylenders and become gradually assetless and even bonded to the traders for forced sale of products. The formal financing agencies are spatially and psychologically away from the small in the village as they are unable to understand the credit needs of the poor. The banks do not appreciate the socio-economic conditions of rural poor. They emphasise on largely development linked credit ignoring the consumption needs of
the rural poor. High transaction cost, poor recovery and shortage of manpower inhibit the banks from not catering to such type of credit needs. The MFIs are better placed than the banks as they work with the people and adopt different approach and methods.

Realising the need for microfinance services in the state, Centre for Youth and Social Development (CYSD), a leading NGO in the state has promoted Swayamshree Micro Credit Services (SMCS), which was incorporated in the year 2003 under Section 25 of the companies Act, 1956. SMCS started of microfinance activities in the year 2004. Having its head office at the state capital, Bhubaneswar, it is at present operating in 16 districts of the state. SMCS has a authorised share capital of Rs. 50 Lakhs. It has been prescribed a limit of Rs. 50,000 loans for individuals and Rs.1,25,000 loans for dwelling unit by RBI. It cannot accept public deposits. The liability of members is limited and the profits from the operations of this company will be used to promote its core objective of poverty alleviation.

The vision of SMCS is to create ‘a poverty-free inclusive society, where the poor have yet another chance for self-renewal and growth with opportunities to live fulfilling and meaningful lives by overcoming their vulnerabilities and realising their productive potential, thereby linking with mainstream through participation in the collective growth’. SMCS envisages a mission to bring visible change in the lives of the poor through the creation of a premier MFI in Orissa which is efficient, sustainable, works with care and commitment and wins acceptance from stakeholders through its financial and complementary services. The main objective of SMCS is to provide proximate, flexible, and sustainable services for the poor to have access to a range of financial as well as other complementary services and products appropriately designed to open up new opportunities for them to improve livelihoods, increase income, develop assets and capacities, create new space and identities, thereby promoting their economic and social well being and empowering them to take control over their lives.

The strategy of SMCS is to offer context specific and innovative mix of services and products, by targeting the poor, especially the women, for livelihood generation, economic expansion, and business development through group-based as well as individual enterprise programmes. SMCS targets the poor, organised into SHGs by NGOs, federations and other organisations, who have
demonstrated a certain degree of maturity and sustainability with respect to regularity in saving, internal lending and recovery, democratic leadership and decision making process, visible transparency and accountability through simple, appropriate book-keeping and documentation.

The main thrust areas of SMCS are development of the clients, achieve substantial expansion in the outreach, promote entrepreneurship development, scale up products and services in wider market, and development of technology for delivery. The main strategy of SMCS is building partnership with NGOs, providing financial services to SHGs promoted by CYSD and other NGOs, and take up direct lending to micro entrepreneurs. SMCS provides both financial and non-financial services. The financial services are loan products for short, medium and long-term and insurance product to be offered in tie up with available organisations in the market which are client friendly. The non-financial services include consultancy and training for capacity building in micro enterprise development, introducing systems for standardisation in SHGs and NGOs, and establishing linkages with wider market for SHG products.

Till date, SMCS has assisted 190 SHGs covering 2000 members with timely credit support. SMCS has extended about Rs. 50 lakhs of credit support to the poor and needy. Basically loans have been extended for business, asset building and other productive uses. The main sources of loan funds for SMCS are State Bank of India which has given a clean cash credit limit of Rs. 50 lakhs and ICICI bank which has provided a term loan of Rs. 2 crores on partnership model to CYSD.

Managerial and Operational Problems of SMCS: At the operational level many challenges are being faced by SMCS. Some of the challenges are highlighted below:

- The lack of initial equity capital restricts the access to commercial borrowing from the banks. The lack of credit history is seen as a weakness by the financing institutions for new MFIs. There is unfriendly and non-cooperative attitude of banks to help the new MFIs to transact business. There is no credit guarantee available to the MFIs. Moreover for an MFI like SMCS there is no opportunity for savings mobilisation from the members to augment its capital. As a result, the cost of capital is very high for SMCS. Further, prescribing an upper
limit on interest rates of the MFIs by the lender has created the problem of financial self-sufficiency. SMCS finds it difficult to cover its costs.

-Externally there is pressure from government to extend SGSY loans creating problems in maintaining credit discipline. There is also multiplication of agencies, government and non-government, working in the same area with subsidy elements creating challenges as they have different approaches towards microfinance. As a result the expectation of the clientele is to get grant support for development of SHGs / Federation along with loans.

-There is lack of book keeping knowledge in NGOs and SHGs. The non-maintenance of standardised bookkeeping and accounting at the SHG level is creating problems for appraising credit need. At a broader level the high level of illiteracy in Orissa creates problems for smooth functioning of microfinance institutions.

-In general, there is lack of availability of adequate and competent manpower for MFIs in Orissa. There are no training institutes for microfinance in the state.

**Solutions:** SMCS need to bargain with banks to get loans for on lending at a lower rate of interest. Further, SMCS need to raise the issue of fixing upper limit on interest by the lending institutions. As SMCS is new and do not have large funds, it may have to restrict itself to lending only smaller loans for short durations. Since SMCS is dependent on commercial banks for lending, it has to be careful in its lending policies for NGOs. It would be a good idea to prepare a business plan that takes into account issues raised earlier.

**9. INTEGRATED VILLAGE DEVELOPMENT PROJECT (IVDP) (K. Francis)**

IVDP is a not-for-profit organisation working since 1979 for the well being of people hailing from Krishnagiri and Dharmapuri districts of Tamil Nadu. Mr. Francis, the present president set up IVDP in a remote village of Natrampalayam. His focus was on adult literacy and environmental protection with the sole aim of creating opportunities for the tribal and very poor people to have a decent living. With the support of NCOS of Belgium, IVDP started a watershed programme and constructed many check dams for providing irrigation throughout the year to enable the population of this area to have a decent agricultural activity of their own. The vision of IVDP is to transform the lives of poor into blissful one by drastically reducing their
sufferings through watershed and SHG activities. The thrust areas of IVDP are: i) Watershed programme; ii) SHG credit and savings; iii) Income generation activities; iv) Health Promotion; v) Capacity Building; vi) Campaign and Advocacy; vii) Resource Agency for SHGs; and viii) Information, Education and Communication activities.

**SHG Programme:** IVDP observed that the help to the women was yielding better results in the upliftment of families. It initiated formation of women SHGs in the year 1985. On having successfully launched this service, IVDP joined IFAD in the year 1989 and could form around 250 women SHGs. IVDP further improved the tally of such group formations with the active involvement of Tamil Nadu Women Development Corporation (TTNWDC), which replaced IFAD in 1997. IVDP worked with full cooperation and sincerity with TNWDC from 1997 to 2001 and increased the number of groups nurtured to 1200. IVDP was happy to observe the laid down rules and regulations for formation of such groups. Since the help extended to women was showing desired results, IVDP launched this activity with full enthusiasm and zeal from 2002. Today IVDP has reached more than 75,000 families in remote rural and sub-urban areas through 3841 women SHGs. The programme extends over seven blocks of Dharmapuri and Krishnagiri districts.

The SHGs are nurtured with all discipline and good conduct through the year round service of field and part time staff many of whom are drawn from the groups. IVDP is very strict in selection, formation, monitoring and providing guidance for sound growth of the groups into a healthy institutions from inception. Values and ethics are given first priority in all group activities and functions. IVDP has spent huge amount of money in building the capacity of SHGs. IVDP supports SHGs for one year. It then hands them over to federation for further monitoring. Federations work on self-reliant basis collecting one time service charge of Rs. 100 from the SHGs.

**Credit Linkage of SHG with Bankers:** IVDP approached the banks for credit linkage of the groups in 2002 and faced many hurdles. The bankers were reluctant to extend finances to the SHGs. However, IVDP persuaded the bankers assuring transparency in the credit linkages and guaranteed support in recovery of the loans. IVDP could successfully link some of the
groups with banks credit in the initial days. These SHGs with IVDP’s strict monitoring had repaid the loans well before the scheduled time. The banks found it rewarding to serve the cause for which they have been opened.

From beginning till date IVDP is successful in maintaining full transparency in all the bank dealings of the groups. IVDP’s greatest achievement in this area of credit linkage is the total trust bankers have reposed in it. IVDP has been awarded with many certificates of excellence for successful, sincere and honest performance. The following may be the reasons for this success.

IVDP has so far succeeded in insisting on the presence of the respective branch managers during credit appraisal of SHGs eligible for loans with the IVDP staff in the respective villages. The groups are guided to have direct links with the bank branch with which they have their savings account for all their bank related activities. All the members in the group visit the bank branch and IVDP office in turn for various group requirements including getting first hand information. IVDP staff guide them only in record keeping work wherever required. But the entire cash transactions are done by the members of the group with their bankers. At no point of time the IVDP staff or any one else have a chance to deal with the money.

The loans are disbursed and collected by the bankers directly at the rate charged by them. IVDP has made all efforts with the bankers for getting cheaper loan (8.5 percent p.a. interest) for the members of SHGs. The track record of repayment by IVDP SHGs is exemplary. The bankers are very enthusiastic about lending to them at their door steps. The SHG members are also happy to have easy loans at lower bank rate without any additional burden. Along with easy loans, IVDP has helped the SHG members in purchasing essential domestic items, bicycles, mopeds and other useful requirements.

Further, about 708 SHGs which are 4-5 years old in four different blocks have declared a total dividend of Rs. 5.06 crores to their members from the income earned by them from loan interest, deposit interest, fines, donations and grants. On an average, dividend paid by these SHGs to per member ranges from Rs. 3000 to Rs.8000. The dividend paid is in direct
proportion to the members’ savings in the group. To declare dividend there should be a total income earning of not less than Rs. 50,000 by a SHG constituting more than 40 percent of the total funds. The individual savings in the SHG should be more than Rs. 5000 per member. These 708 groups have declared the dividend after setting apart Rs. 1.43 crores towards fixed deposit from the total savings amount of Rs. 11.09 crores.

IVDP has created a record in construction of several homes in remote rural areas for the SHG members under various government and non-government schemes. Homeless international U.K., AGB, and Bank of India have played a vital role in financing these homes. IVDP has launched a scheme on its own to provide hygienic toilets for members in rural areas. IVDP has got Rs. 1 crore sanctioned for 1000 such toilets by Bank of India, Alapatty Branch.

Members of IVDP SHGs have never looked for subsidy and do not cherish taking it. The groups are protected from any outside interferences. Hence their confidence level and discipline is of a high order. The groups themselves maintain a strict vigil. Neither indiscipline of any type within the group nor any outside interference is tolerated.

Through transparent and sincere services in the formation and guidance of groups including regular training at all levels IVDP has been able to bring in enormous flow of funds to rural areas for many development activities leading to improvement in the social status of the families. SHGs have begun to uplift the social and economic standard of the poor women.

Table 4 : Details of SHGs Promoted by IVDP as of January 2005

<table>
<thead>
<tr>
<th>No. of SHGs</th>
<th>3841</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of Members</td>
<td>73,349</td>
</tr>
<tr>
<td>Total Savings of Members</td>
<td>Rs. 38 Crores</td>
</tr>
<tr>
<td>Total Reserve Fund</td>
<td>Rs. 3.30 Crores</td>
</tr>
<tr>
<td>Total amount of SHG loan received by members</td>
<td>Rs.165 Crores</td>
</tr>
<tr>
<td>Total amount of IVDP loan received by members</td>
<td>Rs. 14.85 Crores</td>
</tr>
<tr>
<td>Total bank loan given to members</td>
<td>Rs.123 Crores</td>
</tr>
<tr>
<td>Total amount of dividend given by SHGs</td>
<td>Rs. 5.06 Crores</td>
</tr>
<tr>
<td>Total amount of insurance given</td>
<td>Rs. 5.10 Lakh</td>
</tr>
<tr>
<td>Total members receiving SHG and Bank Loan</td>
<td>4,30,696</td>
</tr>
<tr>
<td>Total loan received from SHG and Banks through IVDP</td>
<td>Rs. 304 Crores</td>
</tr>
</tbody>
</table>
Degeneration of SHG Movement: There is unhealthy competition between established NGO and SHGs with new ones which are disturbing the morale of the established ones. The new NGOs are trying to spread misleading information about genuine NGOs obstructing their developmental activities. They are handing out artificial and false promises which are creating a negative attitude among local people towards the microfinance activities. This is leading to fissures within the existing SHGs. As a result, there are delay and erratic repayment of loan among the members. It creates unrest among members in the SHGs. There is also the unwanted involvement of husbands and relatives of some members creating problems in group activities. The new NGOs are acting as middlemen between SHGs and bankers. One can see formation of fake SHGs which leads to retardation of genuine growth. There is lack of credibility and accountability on the part of new NGOs. They are even trying to have identical names with well-established NGOs. These NGOs are discrediting the original concept of SHGs. Several records of SHGs are created to overcome six month waiting norms for new SHGs. Even signatures of SHG members are taken at doorsteps without holding any meetings. Neither the SHGs are given any training nor are they able to follow any rules. In the process, illiterate members are being cheated. IVDP is concerned with the fake growth of NGOs and SHGs. The fear is that the SHG movement may become another target-oriented programme like the erstwhile IRDP.

Solutions: IVDP suggests that the problem could be tackled by coming together of like-minded NGOs, banks and government officials. Suitable monitoring committees need to be formed among three partners to avoid the pitfalls. The credibility and accountability of new NGOs needs to be strictly verified. They should be refused bank linkage if found unsatisfactory. The past profile of the office bearers also needs to be checked. The new NGOs must have at least three years of experience in community development along with well-trained staff in SHG concept. Their commitment and understanding of SHG concept has to be clearly tested. SHGs have to be strictly observed for first six months compulsorily. Even bankers have to be trained in SHG concept. Banks have to frame clear guidelines about endorsing NGOs and SHGs. The bank management also has to do rating of NGOs.
10. NAV BHARAT JAGRITI KENDRA (NBJK)  (Satish Girija)

Nav Bharat Jagriti Kendra (NBJK) is a voluntary organisation registered under Society Act 1860. The foundation stone of NBJK was laid in 1971 by four engineering graduates, who being highly sensitive to the causes of vast disparity, poverty and exploitation in the society deserted their comfortable life-style and turned towards exploring ways to establish a just and a developing society. Since its inception NBJK has been following the basic strategy of maximum involvement of people in all its activities, right from the stage of planning to the stage of self-actualisation. The strategy is one of attaining integrated rural development. NBJK has been focusing on a wide range of developmental programmes viz. advocacy and governance with the help of lok samitees, health and sanitation, education, NRM, livelihood development etc. The major thrust is on socio-economic empowerment of poor. Microcredit programme forms an integral part of this thrust. NBJK is working in 40 districts of Bihar and Jharkhand with the help of about 400 fulltime professionals, activists and volunteers, and gets support from more than 30 funding agencies.

In the recent years, microcredit has become the fastest growing poverty reduction development activity in the developing countries including India. Microfinance is one of the main activities of NBJK for livelihood development, specifically for rural women. The microcredit activity in a way started in 1980 with the formation of Gram Kosh. In 1991 NBJK started giving individual loans to male farmers. Since 1993 women’s Self Help Groups (SHGs) and men’s Joint Liability Groups (JLBs) are being formed to promote savings and credit. Since then it has been expanding in Jharkhand and Bihar and now it has become the most efficient “socio-commercial bank at your door-step” for the poor. NBJK works with three models.

In model one, NBJK directly lends to SHGs. In model two, NBJK deals with individuals using peer pressure of SHGs and JLGs. Under model three, NBJK supports SHGs for bank linkage. These models are operational both in rural and urban areas. NBJK first started to organise SHGs by lending money to groups without any savings. Based on the experience that savings practice should be a must for the groups, NBJK introduced savings for group members which has now become a necessary criterion to advance a loan. NBJK took consultancy from
ASA, Bangladesh to make the programme more systematic. ASA prepared a manual and norms for NBJK covering formation for groups, criteria of groups for giving loans, criteria of members, administrative structure, staffing pattern and reporting and monitoring formats at different levels.

In the case of SHGs, the first loan varies between Rs. 1000 to Rs. 3000 per year per member. It may increase in subsequent years up to Rs. 12,000. There is a membership fee of Rs 10 per member for each loan. Annual service charge of 12.5 percent flat to individual and 1.5 percent monthly (reducing) to SHG is levied. The loans are given for 1 year repayable in 45 equal weekly installments for individual. SHGs have to repay on monthly installment basis. There is also a loan security taken equivalent of 1 percent of the loan given. In case of the death of a borrower during loan term, the successor of the expired borrower would get the benefit of the security money and the loan would be exempted. In the case of JLGs, there are 5 individuals who form a group. The first loan varies between Rs 1,000 and Rs.10,000 per year per member. It may increase subsequently up to a ceiling of Rs. 25,000. The repayment is fixed on a monthly basis over a one year period.

As of 2004, there were 1245 SHGs and 217 JLGs with a total membership of 24,043 (see Table 5). Out of the total members, the active borrowers are 8612 in SHGs and 1085 in JLGs. NBJK has received approximately Rs. 2.49 crores of grants as revolving loan fund (RLF) from different funding agencies and about Rs. 56 lakh of loans from SIDBI and CAA. NBJK has linked 135 SHGs to various banks which have lent upto Rs. 29.19 lakhs to these SHGs.

NBJK’s microfinance operation is about 10 years old now and has become one of its major activities. It is the only programme in Jharkhand and Bihar being run on the lines of microfinance. It is now very systematic with operational sustainability and repayment rate of above 90 percent. NBJK is also a member of microfinance networks like Sa-Dhan and INAFI. NBJK has been rated twice by M-CRIL on the request of SIDBI and has been graded as B+.
There are many managerial and operational problems being faced by NBJK in its microfinance activity. The followings are some the main problems.

**Financial Sustainability of the Programme:** NBJK has reached operational sustainability but not the financial sustainability which includes many types of costs including imputed cost of capital and subsidy. Till now, the major source of RLF is the grant received at zero cost from different donors. Microcredit is not like a general financing scheme by banks or financial institutions. The banks do not give any other support for the groups. The member has to spare her time to come to the bank from her village to avail the services. NBJK’s microcredit is spread over more than 300 villages. NBJK provides door-step services. Staff have to give support in organising meetings of the groups, book keeping, account maintenance and solving any other problems. Thus, NBJK has to bear cost of manpower and their traveling. Banks do not pay any

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**Table 5: Microcredit Programme of NBJK at a glance (2003-04) (Rs. in Crores)**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blocks</td>
<td>29</td>
</tr>
<tr>
<td>SHGs</td>
<td>1082</td>
</tr>
<tr>
<td>SHG members</td>
<td>16274</td>
</tr>
<tr>
<td>Loanee SHGs</td>
<td>496</td>
</tr>
<tr>
<td>SHG loanee members</td>
<td>5737</td>
</tr>
<tr>
<td>JLGs</td>
<td>110</td>
</tr>
<tr>
<td>JLG members</td>
<td>550</td>
</tr>
<tr>
<td>Loanee JLGs</td>
<td>110</td>
</tr>
<tr>
<td>JLG loanee members</td>
<td>550</td>
</tr>
<tr>
<td>Savings generated in SHGs (Rs.)</td>
<td>1.59</td>
</tr>
<tr>
<td>Loan disbursed to SHGs(Rs.)</td>
<td>2.62</td>
</tr>
<tr>
<td>Total Loan disbursed (Rs.)</td>
<td>3.08</td>
</tr>
<tr>
<td>Loan repayment from SHGs (Rs.)</td>
<td>2.52</td>
</tr>
<tr>
<td>Total loan repayment (Rs)</td>
<td>2.70</td>
</tr>
<tr>
<td>Loan outstanding in SHGs (Rs)</td>
<td>1.66</td>
</tr>
<tr>
<td>Total loan outstanding (Rs.)</td>
<td>1.94</td>
</tr>
</tbody>
</table>
promotional fee or share in interest for NBJK’s services in promoting and supporting SHGs and motivating the groups for prompt repayment of banks loan.

The villagers are not able to pay very high interest. NBJK’s interest rate at present is 12.5 per cent flat which is still higher than the interest charged by the banks and other financial institutions. NBJK does not want to put more load on the poor borrower. Large funds for RLF is available only from banks which charge from 8.5 to 11 per annum. If one takes this capital cost and include other costs, then it is a great challenge for NBJK to achieve financial sustainability at the present rate of interest charged to members. NBJK does not want to increase the rate of interest to members. NBJK needs to source the revolving loan fund at a lower interest rate so that it can have enough margin to work by charging to its members an interest rate of 12.5 per cent flat annually. Under the existing regulatory framework, creating an appropriate microfinance institution for mobilising individual/group savings is difficult. Such savings can be the source of low cost RLF. To form an NBFC one needs Rs. 2 crore of equity capital. Further, the provisions with regard to taxes and labor laws are not favourable to voluntary organisations.

**Lack of Suitable MIS:** In India, the microcredit programme is not yet standardised. Different MFIs have adopted different systems/models of monitoring, accounting and reporting. NBJK also has developed these systems gradually based on the learning from the field experiences. However, so far MIS is all done manually and NBJK has not been able to computerise it. It is difficult to network different types of models followed by NBJK in different districts and states. NBJK did hire some consultancy services from BASIX. But there are certain problems due to which it is pending with them since long. It may be that BASIX might be feeling some problems which they are not able to solve. Staff friendly MIS which can be regularly updated and maintained is urgently needed.

**Problem with Accounting System:** There are also problems in keeping proper accounts of group level savings, individual savings, and on time internal repayment of loan by members. These are necessary to know whether a group is functioning properly or not. As result of poor maintenance of records, cash flow management and its regular audit at group level has suffered. If there is some standard accounting packages for MFIs (like Tally Package in general
accounting), it would have been much helpful. Small organisations could have used it with minimum investment.

**Human Resource Problem:** Human resource in any activity plays a vital role. NBJK’s microcredit programme is mainly based on the ASA (Bangladesh) model. It has come to be increasingly realised that in order to be successful both in outreach and sustainability, microfinance must be operated in a professional way. NBJK is facing problem in continuously getting right people having the required skills and honesty and who can help in attaining financial/operational sustainability. Due to lack of any standard HR policy in microfinance sector, NBJK is following practices based on its own experiences. Earlier salary was given to the field staff. Now the strategy is to give them commission. It is necessary for one field staff to deal with an outstanding balance of Rs. 10 lakh to attain operational sustainability. As the female staff find it difficulty to cover large number of groups and travel, NBJK has only male staff members. Incentives have been introduced for managers and supervisors. There is a need for giving regular on job training, skill upgradation and exposure to best practices in microfinance. Such training and exposure is a must for improving the staff’s capacity. However, NBJK is not able to give such training to the staff. Thus, there is need for a suitable HR policy to run microfinance with financial sustainability. The human resource policy must help to address issues like determining the number of active borrowers per field staff/loan office; the remuneration/salary or incentive/commission for the staff; performance assessment/evaluation indicators; traveling allowances, leave, PF, gratuity, insurance policy for field and managerial staff; and the selection procedures including maintaining gender balance in staff; staff training, capacity building, and promotion, etc.

**Other Challenges:** Following are some of the additional challenges the microfinance programme faces. It is very difficult to reach out to the poorest communities in remote rural/forest areas. They have neither access to good market nor the risk taking ability. Most of them face irregular flow of income due to seasonality of employment. Many NGOs work in the same villages with different models. There is also the government SGSY programme giving subsidies to groups. Further, there is the risk in the villages for the staff to move around with cash in hand. Banks are not available at proper distances in villages leading to higher
transaction and service cost. In slum areas, lack of community or group feeling, lack of availability of time to members for group meetings and discussion, absence of cultural and traditional ties and shifting of members from one slum to another or even to some unknown place without notice creates difficulties in promoting SHGs. In slums, there are also other difficulties like poor civic conditions, existence of many bad habits like drinking liquor, gambling, beating women, drugs, smoking, poor sanitation, and incidence of diseases.

11. SHRAMIK BHARATI (SB) (Rakesh K. Pandey)

Shramik Bharati is a not-for-profit organisation registered as society under the Society Registration Act, 1860. It has been working since 1986. SB works in 125 slums of Kanpur city and 500 villages in rural Kanpur district. The interventions are focused on three areas namely, microfinance and livelihood promotion, community health and grassroot democracy. SB started its microfinance operations called Boond Bachat Programme in 1989. At present it works with 1371 SHGs with 20,042 members. These SHGs have cumulatively mobilised savings of Rs.368 lakhs so far. The loans outstanding are Rs.473 lakhs. So far two federations of SHGs have been formed as Mutual Benefit Trusts.

With the growth of SHGs and the process of SHG formation and development becoming the fulcrum of many programmes, SB was faced with the issue of adopting a sustainable human development approach and ensuring quality and regulation in its microfinance programme. Addressing these issues required a physical and abstract changes in the organisational form of SB. This led to the formation of “Shramik Bharat Centre for microfinance” for social, financial and developmental interventions in the area of microfinance. The objectives of the Centre are: to foster and develop people’s institutions; strengthen the qualitative aspects of the groups in microfinance; facilitate existing and new village development organisation (VDOs); and function as a centre for learning, resource and reference.

Livelihood promotion to check the ever increasing vulnerability of small and marginal farmers, landless and youth has emerged as the key agenda for SB. The focus is thus on promoting strategically planned alternative sources of income for these stakeholders. In the initial stages
the focus is on women and introducing them to new economic activities that can be managed along with their daily routine and do not require high technical skills. Efforts are also being made to provide market facilities for products and services.

The Boond Bachat Programme is the flagship programme of Shramik Bharati and is in operation for the last 15 years. In the year 2003-04, Shramik Bharati took a strategic shift in the programme by facilitating formation of user owned federations, which are envisioned to be community based microfinance institutions. Accordingly, Shramik Bharati is shifting from direct lending and has been able to gradually reduce its portfolio size and transfer its financial operations to affiliated federations. Over the period of next three years, the plan is to establish five federations providing financial services to about 1000 SHGs. The loans so far are being used for childcare, education, health, house construction, income generation and consumption purposes.

**Managerial and Operational Problems:** The managerial and operational challenges faced by SB are highlighted below.

The foremost challenge is of managing the development programmes and microfinance programme together. Changing the mind-set of team towards functioning as an MFI is also a challenge. Efforts need to be made in capacity building of the team to take forward the microfinance programme. There is also non-availability of affordable professionals to carry out microfinance operations.

There is the challenge relating to introducing industry standards within microfinance operations. SB need to adopt a functional computerised management information system (MIS). With the increase in the MF activities SB is facing problems relating to cash handling resulting in frauds and other risks.

At the SHG level there is acute need for building the capacity of the members so that they are able to manage their SHGs well. Further, within older SHGs problems arise due to diverse credit absorption capacities of different members.
Overall, for the SB the challenge is also one of attaining self-sufficiency and sustainability. SB has attained 86 per cent financial self-sufficiency only.

12. DHRUVA (Jayanti Mori)

Dhruva, a development organisation promoted by BAIF Development Research Foundation, is implementing a comprehensive tribal development programme in Valsad and Dang districts in southern Gujarat. The programme with a holistic approach is spread over 172 villages covering over 12,000 tribal families. The programme aims at helping tribal families to develop themselves through livelihood activities such as horticulture, agriculture and water resource development and to improve the quality of life through community health, special programmes for women and children, and training and awareness raising activities. Microfinance forms an important component of the programme enabling the tribal families to attain a greater degree of self-sufficiency.

Dhruva has been implementing various activities in this area with the involvement of village level people’s organisations known as Gram Vikas Mandals (GVMs). One of the activities is microfinance which is called the Sahabhagi Vikas Yojana (SVY). Under this activity Dhruva has loaned around Rs.25 million for various on-farm and non-farm activities. Dhruva’s approach to microfinance emphasises on supervised community based credit delivery. In keeping with the approach, the Gram Vikas Mandals are endeavoring to build up a corpus through regular savings of their members, at the same time trying to meet their different credit needs which may be either for enhancing their income or to meet personal requirements.

Table 6: Loan Details of SVY Programme

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Loans Given (Rs. In ‘000)</th>
<th>Recovery (Rs. In ‘000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farm Implements</td>
<td>1,712</td>
<td>1,691</td>
</tr>
<tr>
<td>On-farm Activities</td>
<td>8,369</td>
<td>5,538</td>
</tr>
<tr>
<td>Non-farm Activities</td>
<td>7,638</td>
<td>5,721</td>
</tr>
<tr>
<td>Water Resources Development</td>
<td>7,114</td>
<td>5,431</td>
</tr>
<tr>
<td>Total</td>
<td>24,833</td>
<td>18,381</td>
</tr>
</tbody>
</table>
The SVY mainly focusing on livelihood promotion, is aiding the transition from dependence on grants for development to managing through own sources. SVY has been tailored to the needs of the people. The participants are members of the village level Gram Vikas Mandals, through which they access the various credit products of Dhruva. Hence they can access SVY services at their villages. Each GVM has a Hisabnis – local accountant who maintains the records of the GVM, which provides the required transparency and adds to the smooth functioning of SVY. Dhruva provides regular performance based capacity building training to the Hisabnis and the members of the planning committee (Ayojan Samiti) of the GVM who have an important role in the SVY programme.

Loans are also given in the form of livelihood inputs instead of cash. First of all, loan given in cash might be used for social or consumption needs. Further, given the remoteness of the area, the livelihood inputs are difficult to procure for each individual family. In addition to being expensive, they are also not of good quality. Hence as an additional service, credit is provided in the form of inputs along with technical support for proper utilisation of the loan. Insurance cover is also provided for certain assets. Various livelihood schemes are designed based on the needs identified by the people. They can be broadly divided into three major groups: water resource development, on-farm activities and non-farm activities.

Over the last seven years of implementation, SVY has developed into an important approach of development and the systems are in place to meet the needs of the community and to deal with the challenges that may arise after completion of the grant based project. The approach of Dhruva is grant plus credit and the credit is routed through peoples organisations. The following diagram describes the flow of credit in the Sahabhagi Vikas Yojana.
Dhruva has faced and continues to face many challenges of implementation over the years. Some of the challenges were due to the programme design adopted and some due to the area of operation.

**Credit in Kind:** Providing credit in kind is one of the main features of the programme and also the cause of many challenges faced by Dhruva from procurement, distribution to fund management.

1. **Material purchase:** Dhruva prescribes stringent purchase procedures which have to be followed for all purchases. This often results in delays in credit disbursement. To overcome this, the major products in demand are identified, quality manufacturers listed, rates are fixed and on
receiving applications the materials are supplied to Dhruva immediately. In addition, Dhruva’s loan committee regularly follows up with its purchase committee and ensures that there are no pending requisitions. A representative from the programme office is also nominated to the purchase committee to ensure there are no other bottlenecks. The quality of inputs is also an important issue as credit is involved and there should be no excuse for defaults. Hence only standard, certified products are supplied to members.

**ii. Material Distribution:** All transactions related to credit are handled from one programme office. Given the spread of the area of operation, distribution to each village is not possible as the transaction cost would be huge. Hence the material has to be collected from the programme office, which often results in delays in the material being received by the participant. For ease of access, once a week, material is delivered to the cooperative offices which are more accessible to the GVMs. The programme office is easily accessible only to some GVMs. For others, a godown is rented at a central location from where material could be collected on a specified day of the week.

**iii. Fund Management:** The requirement of a specific material might be around five units, but to make the transportation and other processing costs viable, say ten units are purchased. The extra material purchased might not have immediate demand, resulting in borrowed funds being blocked without earning any income.

**iv. Limitation in credit products:** Members’ demands are varied but they often cannot be met as there is no product in place. Again the demand has to be substantial otherwise the material procurement will be very expensive. The possibility of providing funds for these needs is being examined. For some inputs like livestock, it is best if the concerned farmer/GVM is directly involved in the purchase. Again for micro enterprises like small shops cheques are issued to a particular supplier from where the shop owner has to collect material. But often, material is collected from multiple locations, creating problems. Hence for some schemes, cheques are issued to the farmer/GVM. But these loans have to be very closely monitored.
**Underdeveloped Area:** Some of the challenges which Dhruva faced are due to the area of operation. The villages are spread over a large area. Travel in the area is difficult both due to a lack of transportation facilities and due to condition of the roads. Most of the villages do not have regular electricity nor are they linked to the telecommunications network. Hence planning for capacity building, record checking or any activity requires huge efforts in terms of taking the message to the concerned persons. All plans have to be made well in advance to ensure that information reaches in time and changes cannot be made easily.

**i. Transparency:** The low level of education makes it difficult for the participants to calculate interest, installments due etc. There are also many misconceptions among the people about credit. Some believe that credit is available only at very high rates and are worried that they will be exploited and are not confident of being able to repay the loan. This is based to some extent on their earlier experiences. The village level *Hisabnis* is very important in ensuring transparency in all dealings and in generating confidence among the GVM members. Tremendous effort has gone into building the capacities of the *Hisabnis*. The high turnover due to other activities being taken up by the *Hisabnis* means additional capacity building efforts for the new entrants.

**ii. Awareness:** To increase the awareness of SVY, leaflets giving details of the schemes have been prepared and distributed. Credit fairs have been held where the people from the nearby villages could see what is available under SVY and understand the simple procedures. Additionally a new cadre of field functionaries called *Yojana Sahayaks* have been developed. These *sahayaks* have been given the responsibility of promoting the SVY schemes in 4-5 villages, helping the farmer fill the application, follow up on repayments etc.

**iii. Government Subsidies:** The government has many grant based schemes for the tribal areas. Subsidies are provided by the government for many inputs which are available on credit from Dhruva. Though people have now recognised that the time involved due to the various procedures make the government scheme a costlier affair; but there is a tendency among people to ask for ‘Sahay’ (meaning subsidy help). Convincing them about the power of credit has been an uphill task.
iv. Staff Turnover: The remote and difficult area has resulted in turnover in the staff. Often once the staff gets the hang of the programme, they move out. A lot of time and energy has to be continually invested in building the capacities of new staff right from basics. Given the multi-disciplinary roles which the staff has to handle, this process takes time.

Programme Implementation Cost: The spread available to meet the overheads of the activity is just 3.5 per cent, which given the current volumes is not very substantial. In addition to salaries, travelling and other administration costs, capacity building and awareness generation are also quite major. Given the development approach of Dhruva, there is a reluctance to charge a rate higher than that charged by banks. There are plans to build the capacities of the apex people organisations to takeover the credit activity and link them with the mainstream banks. Dhruva will be an alternative only if the mainstream financial institutions are not responsive.

MIS: The reports during the initial period showed just the credit disbursed, repayments received and outstanding. The outstanding was analysed once in a quarter. It was difficult to judge the health of the programme or the performance of various credit products. Then information on repayment rate was generated. This had to be done manually, as the accounting software did not have a loan tracking system. As the programme grew, this was a time consuming job. Besides many other ratios were required to be generated for analysis. A software was developed with both loan tracking facility as well as accounting facilities. Though there are continual additions being requested in the software, the team can now generate at any point of time the cumulative/on time repayment rates, aging of the overdues both area wise and purpose wise. This has been a tremendous help both for improving design of credit products at the programme office level and for the field level staff to closely monitor delayed repayments.

Additional Financial Services: Given the laws of the land, Dhruva cannot collect savings or provide their own insurance products. Hence, the effort has been to encourage savings with the GVM or with the banks wherever possible. For insurance services, in addition to asset insurance, a combination of asset plus life insurance has also recently been introduced in collaboration with an insurance service provider.
Solutions: Dhruva should develop purchase plans in such a way that providing credit in kind to group members does not lead to funds getting locked up. At the time of recruitment, Dhruva should screen and recruit those who are dedicated and committed as well as skilled in this field to overcome turnover problem.

13. MAHITI RURAL DEVELOPMENT CENTRE  (Devuben Pandya)

Mahiti is a voluntary organisation working in Bhal, the most backward coastal area of Gujarat. It was registered as a non-profit organisation in 1994. It is working for socially exploited and disadvantaged communities. Right from inception it has prioritised women and gender issues in disaster prone Bhal area. Mahiti’s head office is located centrally at Dholera in Bhal region. Dholera was a busy trading place about 100 years ago. Now it is deserted but still controlled by a few landlords and moneylenders. Mahiti adopted long-term strategies to address the issue of water scarcity, lack of resources, poor livelihood opportunities, exploitation and disasters that besiege the communities. It is working in Ahmedabad and Bhavnagar districts of this region and has plans to work in other districts covering more than 20,000 families in near future. The objectives of Mahiti are: i) to abolish social discrimination created by unjust social structure of Bhal region and envisage improvement in living standards of exploited/marginalised sections while making them self-reliant, and ii) to empower the oppressed communities of Bhal region focusing on women by organising communities around issues related to natural resources, health, social justice and microfinance.

Mahiti has promoted in 2001 two cooperative societies; Bhal Mahila Bachat Dhiran Sahakari Mandali Limited in Ahmedabad and Bhal Jagruti Bachat Dhiran Sahakari Mandali Limited in Bhavnagar for providing financial support to the poor women. These societies were registered under Gujarat State Cooperative Societies Act. The major activities of the cooperatives are to encourage savings among rural women by forming groups and to extend credit to the members of savings groups / cooperative society for purchase of goods and items for daily requirement, seeds, healthcare, educational requirement and also to carry out income generation activities (Table 7). The ultimate goal is to work towards women’s empowerment through economic independence and economic security.
Table 7: Performance of Cooperatives Promoted by Mahiti

<table>
<thead>
<tr>
<th></th>
<th>Details</th>
<th>Ahmedabad Cooperative</th>
<th>Bhavnagar Cooperative</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Village Covered</td>
<td>49</td>
<td>21</td>
<td>70</td>
</tr>
<tr>
<td>2</td>
<td>No. of Women’s Groups</td>
<td>130</td>
<td>24</td>
<td>154</td>
</tr>
<tr>
<td>3</td>
<td>No. of Members</td>
<td>3638</td>
<td>1110</td>
<td>4748</td>
</tr>
<tr>
<td>4</td>
<td>Share Capital (Rs.)</td>
<td>3,00,310</td>
<td>35,160</td>
<td>3,35,470</td>
</tr>
<tr>
<td>5</td>
<td>Savings of the Members (Rs.)</td>
<td>16,63,909</td>
<td>3,68,705</td>
<td>20,33,470</td>
</tr>
<tr>
<td>6</td>
<td>Fixed Deposits with Cooperatives (Rs.)</td>
<td>86,000</td>
<td>86,000</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Total Credit Extended (Rs.)</td>
<td>21,38,120</td>
<td>1,86,802</td>
<td>23,24,922</td>
</tr>
<tr>
<td>8</td>
<td>No. Members Accessing Credit</td>
<td>2216</td>
<td>115</td>
<td>2331</td>
</tr>
<tr>
<td>9</td>
<td>Credit Outstanding (Rs.)</td>
<td>23,03,002</td>
<td>1,11,900</td>
<td>24,14,902</td>
</tr>
</tbody>
</table>

For the year 2005 these cooperative societies have set some goals. These are: to link 5000 women with the society; to increase the fund by Rs. 15 lakh in a year; to help backward women to get their mortgaged land back; to link every member of the society with Janashri Insurance Scheme; to start production and marketing of daily requirement items through credit; and, to market local agricultural products. Overall, for scaling up the idea is to cover more and more women in the existing villages rather than going to newer ones.

Some of the managerial and operational problems faced are:

**High Expectations of Members:** As the area has many unresolved issues, the members expect much from Mahiti and the cooperative societies. It creates misunderstanding among the members of the cooperative societies. During the sowing season members want credit for seeds and to get their mortgaged land back. This requires a large volume of credit, which the societies are unable to fulfill due to financial constraints. The members are not able to understand this
problem of the cooperative society. Societies have limited resources and cannot fulfill the expectations of members which result in their dissatisfaction.

**External Threats:** Members expect to have economic activities but the problem of marketing of their products disrupts it. The local economy is also not well developed. Agriculture and labour being the major source of income, there is limited ability of loan repayment. Sometimes natural disasters obstruct the smooth functioning of the cooperatives thereby affecting savings and recovery. Informal moneylenders are trying to break the organisation as it reduces the demand for the credit from the informal sources by providing microcredit. Even men’s participation in a group often leads to problems of loan recovery. The interference of the local political leaders also creates confusion among members. The benefits of the government schemes do not reach to the poor. The dissatisfied people express their frustration among one another. This adversely affects the organisation. Book keeping and accounting are also a major burden for the women.

**14. JANODAYA** (Santosh Vas)

Janodaya started as an NGO in 1994. The main focus of its activities was on women. The mission of Janodaya is “creation of a society with justice for all; economic and political freedom; gender equity; dignity and respect for women.” Janodaya took up socio-legal-educational improvement of women through its programmes. By 1998, Janodaya realised that socio-legal-personal empowerment could have its impact on women only when it is accompanied by economic self reliance and abilities to take decision. This would help women to access rights, justice, social space and opportunities. This was the time when the concept empowerment of women was articulated by Janodaya and defined as “change for equality and equity.” The concept of economic share / ownership of women was brought into development language by Janodaya. Since then microfinance was integrated as livelihood supportive activity into Janodaya’s activities on an experimental basis.

Janodaya was already involved in promoting SHG groups for savings and capacity building with the support of NABARD and foreign funding. Janodaya did not have proper infrastructure for undertaking microfinance operations. Since the chairperson of Janodaya, (Ms. Santosh Vas) was
on the board of Indian Credit Cooperative Society (ICCS), it was decided by management of Janodaya to work out a partnership with ICCS and link all the SHG groups promoted by Janodaya to ICCS for a period of 3 years. At ICCS, the SHGs could get 12 per cent interest on their savings, 15 per cent interest on fixed deposits and 18 per cent was charged on their borrowings. ICCS is a Multi State Credit Cooperative Society registered at Delhi and permitted for operating in four states of south India. For Janodaya, experience of working with ICCS helped in building basic knowledge and skills and led to the beginning of formalising its microfinance operations.

Janodaya invested its own resources (overdraft drawn with corpus fund as security) to the tune of Rs.15 lakhs in housing and income generation schemes of SHGs during the year 1999-00. During the same time, TBF-Opportunity Microfinance, an MFI, offered to lend to Janodaya’s SHG members. Janodaya worked for two years with this partnership. A total of around Rs.94 lakhs was borrowed by 950 women from 168 SHGs. A two per cent per month service charge was paid by TBF to Janodaya. SIDBI came in contact with Janodaya during an evaluation of the TBF project and identified Janodaya as the potential organisation for direct lending under microcredit. That is how Janodaya came to formalise its microfinance operations in 2003-04. Microfinance became a formal programme of Janodaya since December 2003. Thus, it has been independently operating for last one year and 3 months. It has an outstanding of around Rs.97 lakhs of which Rs.22 lakhs is the NGO contribution (parent body) for microfinance. So far 1262 SHG members have borrowed from Janodaya.

**Table 8: Performance of Janodaya**

<p>| | |</p>
<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Number of SHG members</td>
<td>1262</td>
</tr>
<tr>
<td>Outstanding Portfolio</td>
<td>Rs. 97.35 Lakhs</td>
</tr>
<tr>
<td>Total borrowings</td>
<td>Rs.36.54 Lakhs</td>
</tr>
<tr>
<td>Janodaya’s Contribution in Portfolio</td>
<td>Rs.22.00 Lakhs</td>
</tr>
</tbody>
</table>

The managerial and operational problems of Janodaya are highlighted below:

**NGO Capacity:** Janodaya has now integrated microfinance activity into its “economic empowerment” section. This was based on the positive feedback from SIDBI on the performance
and assessment of the groups and members. Janodaya has a vast grassroots network and potential market for microfinance services. However, to begin with Janodaya’s experience and operational skill at managerial level was almost non-existent. Lack of writing skills created problems in writing application request for borrowings. Since none of the members on board of Janodaya were with microfinance background, it created problems for convincing them to take forward the programme. There are not many resource persons available or accessible and willing to give consultancy, training, orientation and facilitation services. Further, even if the service provider is identified, the cost of accessing the service is quite high for any NGO to pay. Janodaya also feels that there is lack of goodwill among MFIs to share the knowledge, skills and information with each other. Janodaya’s experience with the mentors having CA and MBA background is also not very positive. They are not really capable, knowledgeable and experienced for capacity building of NGO management for microfinance. The ready training packages are not suitable to the specific needs of the programme, its target group and locations of business. Janodaya feels that a consultancy resource team needs to be developed for facilitating the packaging of microfinance programme, especially for NGO based microfinance practitioners. The operational expenses are quite high. Right now they are subsidised by the NGO section of Janodaya.

**Accessing Funds:** Accessing loan funds for on lending has its own problems. It takes a long time (almost 6-10 months period) to get the loan sanctioned. By this time the clients are drawn to private lending markets, resulting in high dependence on moneylenders. Lending agencies do not consider the urgency and seasonality of the businesses in their consideration of sanctions, inspite of its mention in the loan applications.

Janodaya as yet depends on SIDBI for its credit source, though it had borrowed from banks at the beginning of its microcredit programme. Fund raising from banks may not be a problem for Janodaya, as it has a substantial corpus fund and immovable property valued at Rs.3 crores in infrastructure to back up. Janodaya has vast coverage and client base for credit needs. But non-compromise on quality group formation is the reason for slow growth process till now.
Staff Capacity: The overall human resource quality and management is not up-to the mark of expectation. The entire decision making on policies is done by the trustees and the CEO through participatory consultation with the staff. The staff being technically unqualified and with limited experience in microfinance has proved to be a drawback in the planning, decision and operations of microfinance so far. Janodaya, has about 82 staff members for all its NGO operations spread in 7 districts of Karnataka. This staff was supposed to integrate microfinance programme into their operations. However, the staff lacked the skills and the acumen to carry out microfinance operations. Hence, the staff had to be re-recruited, identified and trained for microfinance operations with basic skills and understanding before graduating into advanced trainings. Last one year was spent on the above process.

In the operational set-up of Janodaya there is a lack of personnel who can independently work on research and development to identify and develop relevant products suitable to client groups on an ongoing basis. Availability of such staff will have effect on improving the growth process and fulfillment of emerging client needs. Non-availability of qualified people willing to work for NGOs is a major deficiency.

There was not much of funds available for capacity development of the staff within Janodaya for microfinance management. This resulted in poor performance of the portfolio and faulty product designs. The non-availability of trainers, mentors, experts along with lack of funds for meeting the training costs burdened management to work overboard. The available short-term trainings often were not suitable to the needs and sometimes beyond reach of Janodaya. With the trainers / mentors from other states, there was a language barrier. Further, the management of Janodaya failed in monitoring and supervising the operations properly thereby giving space for cheating and forgery by staff in the field.

Infrastructural Problems: Most of the NGOs do not have their own space, buildings and other facilities to carry out vast programme operations. Besides this, NGOs lack facilities to create good work environment. Such infrastructural deficiencies caused problems in successful implementation of microfinance operations. There are no systems (MIS) in use at NGO level, especially with NGOs whose main objectives are human development, livelihood, poverty
reduction and rural based interventions. When need is felt for economic development to be integrated with other programmes or demanded by the beneficiary groups, the management of the NGO is at a loss as there are no systems, modules, guidelines and backup support in place. The operational dependency factor is very high among NGOs. For implementing microfinance, an NGO needs especially in the initial years, project organisational potential, competency, capacity, skills and financial back up with assets and corpus. Often, NGOs fall short in these aspects and loose on microcredit support.

Accounting and MIS system, which is used by Janodaya, is an upgradation from the NGO system. It needs to be researched, restructured and developed as the microfinance programme expands and grows. Also, the tracking system for overdues and repayments needs to be upgraded and streamlined for transparency, control and collection of updated information. Financial planning and control systems are undeveloped and done manually. Computer based network linkage needs to be introduced for central point control systems of operations and linking with branches.

**Identification and Servicing the Clients:** There is a great risk in identification of client groups/members especially in urban areas; as private lending is in operation by moneylenders, chit groups and private financial companies. Some of these agencies have cheated people with their money and this has resulted in “no confidence syndrome” which is affecting even the NGOs. In such situations MFIs need to tackle three issues: i) Taking people into confidence or building up trust; ii) Checking on external loan components held by potential clients, and iii) Keeping client groups with MFIs for a long-term period through proper lending, monitoring and follow-up services for improving the livelihood.

**Problems at SHG level:** Quality of SHG depends on clarity of concept, operation and documentation. SHG members need minimum two years of ongoing training to achieve the quality group status with “A” or “B” grading. This qualifies SHG for borrowing. The operational problem with SHGs arises due to non-uniformity in documentation system. Further, records and information on savings utilisation by SHGs through internal lending, process and purpose of loan etc. are not compiled and consolidated by groups and the organisation. This is a drawback in the
smooth operationalisation of microfinance. The SHGs are unable to organise systems in the functioning of their groups like meetings, bank operations, trainings etc. This affects the quality of microfinance. Regular meetings (weekly) or attending trainings means losing on one day of income / livelihood for the family.

Whatever Janodaya today has achieved is primarily through its own making and learnings. In spite of the challenges, Janodaya has taken steps of investing its own resources of Rs.25 Lakhs in microfinance, linking members savings to ICCS for credit support, collaborating with TBF for lending to members and finally formalising microfinance programme since December 2003. Since 2004-05, about 17 staff are set apart totally for microfinance operations. A group of another 6 staff are supporting the field operations along with their involvement in other development service interventions. About 21 staff members are prepared to move totally into microfinance segment from the financial year 2005-06 as the loan portfolio would increase with a lending target of Rs. 2.8 to 3.00 crores to be achieved during the year. The other strategy of Janodaya is to bring in microfinance experienced personnel on its board and hire suitable consultants for mentoring the personnel.

15. COHESION FOUNDATION (Rajesh Kapoor)

Cohesion Foundation Trust was set up in 1996 by a multi-disciplinary team of professionals. The team equipped with the experience of different facets of development, started as a support body, providing professional services to other organisations. The support services were in the areas of community organisation, project finance and management including planning, monitoring and evaluation, designing and conducting impact assessment, developing management information systems, research, capacity building, democratisation of development process, empowerment, and advocacy. As a strategic move during 2000-01, Cohesion initiated its implementation unit with a view to enrich the exchange of learning through support activities. Thus, the organisation started in 1996 got formally registered under Bombay Public Trust Act, 1950. The vision of this organisation is to see itself as an organisation committed to striving for a world in which people and the natural environment are in harmony with each other, a world in which all have enough to meet their genuine emotional and physical needs, and a world in which the diversity of
humankind is celebrated. The mission of Cohesion is to contribute to holistic development in the areas of Natural Resource Management; Sustainable Livelihoods; Human Resource Management and Capacity Building, and Infrastructure development.

Women are central to Cohesion’s interventions, as the organisation is sensitive towards their social, economic, mental and psychological discriminatory status in the society. Cohesion has serious commitment towards women’s upliftment and their empowerment. Cohesion was chosen for implementation of the Disaster Mitigation Fund (DMF) project of CARE in the earthquake hit Kutch district of Gujarat. The project has been implemented in 16 villages of Rapar and Bachau talukas in Kutch district. This project has been in operation since 2002.

DMF is visualised as a microfinance based livelihood security and restoration project. The design aims at establishing a fund to be used both in normal and disaster times. The main aim during the normal time is disaster preparedness. By taking up various activities aimed at disaster preparedness the project aims at building secured livelihoods and resources and thereby improve the lives of the communities so that they are less vulnerable in case of a disaster and are better equipped to face it. In case an unfortunate disaster strikes, the project through loan funds reserved for disaster time aims to assist the communities to face the disaster effectively. Both during normal and disaster time, the DMF fund is visualised to be used mainly through loans. To channelise the proper use of the fund, the project aims to establish people’s institutions-SHGs and their federation, and build their capacities so that they are able to manage the fund in a sustainable manner after the project period. The institutions are to use microfinance instruments like credit, savings and insurance to sustain the efforts of disaster preparedness and disaster mitigation.

At the end of December 2004, there were 25 SHGs spread in 3 clusters of Rapar taluka. These SHGs have been able to cumulatively mobilise Rs.1,69,961 as savings and use Rs.1,06,535 for internal loans out of the total savings. Three clusters of SHGs have been promoted and a federation of SHGs has been registered with 11 board members. The status of SHGs facilitated by Cohesion is depicted in Table 9.
Table 9: Savings and Credit details of SHGs under DMF (Dec. 2004)

<table>
<thead>
<tr>
<th>Name of the Cluster</th>
<th>No. of SHGs</th>
<th>Total Members</th>
<th>Total Savings (Rs.)</th>
<th>Total Outstanding Internal Loans (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rapar</td>
<td>10</td>
<td>138</td>
<td>76,465</td>
<td>42,965</td>
</tr>
<tr>
<td>Ramvav</td>
<td>10</td>
<td>134</td>
<td>65,041</td>
<td>39,890</td>
</tr>
<tr>
<td>Vanoi</td>
<td>5</td>
<td>70</td>
<td>28,455</td>
<td>23,680</td>
</tr>
<tr>
<td>Total</td>
<td>25</td>
<td>242</td>
<td>1,69,961</td>
<td>1,06,535</td>
</tr>
</tbody>
</table>

Managerial and Operational Problems: The challenges faced by Cohesion in operationalising the DMF project are described here. To begin with, the high level of illiteracy among the community proved to be a bottleneck in achieving the expected growth of the SHGs. In Rapar taluka in which the DMF project is being implemented, the sources of income generation are limited. Communities migrate for three to four months in a year. Migration of SHG members is a challenge to maintain the regularity in savings and credit activities of the SHG. There is a caste conflict in the community. This brings a great challenge in forming SHGs with mixed composition of castes and make them sustainable. Due to lack of literate and experienced members in a group, the records are usually not maintained properly. Due to disaster proneness of the Kutch area, members do not solely depend on bank to deposit their money. Members thought that banks also would be damaged during the disaster. At the SHG level ensuring attendance of women in meetings is also a challenge and along with this in some SHGs there is lack of proper and strict adherence to rules made for smooth functioning of the SHGs. There are also other challenges of accessing bank branches as some branches are located far away from the villages. Amount of loanable funds available in the SHGs are still not adequate and in some SHGs scarcity of funds to meet the loan demand of all members creates friction within the SHG. Cohesion has assessed the nature of these challenges and has planned certain mitigation strategies accordingly. Cohesion is of the view that the best strategy for disaster is to build up disaster prevention and security measures rather than fighting disaster when it strikes.
Jan Chetna Sansthan (JCS) by name implies an organisation working for generating awareness among the people leading to their empowerment. It was formed in 1988 by a group of social activists and development professionals. JCS was registered under the Rajasthan Societies Registration Act, 1958 and under Foreign Contribution Regulation Act (FCRA), 1976. The mission of JCS is "to organise people, increase their level of awareness and capacity, so that people participate in decision making process and exercise control over their lives and natural resources through collective effort." The vision of JCS is "moving towards a society where every person is educated, aware about and exerts for their rights and live in justice, dignity and freedom and equal opportunities are available for realisation of full human potential."

JCS is working for the tribals including women who constitute the most marginalised, disadvantaged and exploited section of the society in tribal populated villages of Abu Road block in the Sirohi district of Rajasthan. For the last 15 years, JCS is working on different issues for overall development of tribals. For the last eight to nine years JCS has been working with SHG approach. Initially, JCS did not have any financial assistance, but presently NABARD is funding for formation and facilitating bank linkages of 100 SHGs. There is a slow but steady progress in this respect. JCS is dealing successfully with its 250 SHGs (see Table 10). Members of SHGs have started the disbursement of internal loans among themselves. JCS linked these SHGs with the commercial banks for further credit facilities. JCS has also promoted a federation called Tribal Saving and Credit Cooperative Society Limited for enhancing the managerial skills, capacity building and for meeting the financial requirements.

JCS strongly believes that livelihood promotion is a core objective for an MFI along with a strong support for right-based work. MFI emerges as a tool for income generation activities. JCS is facilitating the capacity building of the SHGs in accounting, providing financial assistance and other assistances, so that SHGs can sustainably manage their affairs. Only capable SHGs will enhance the activities of an MFI, which can later function as a mini local bank in the future.
Table 10: The Progress of Microfinance Activity of JCS

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>250</td>
<td>2,567</td>
<td>16.67</td>
<td>4.97</td>
<td>4.21</td>
<td>27.64</td>
<td>17.57</td>
</tr>
</tbody>
</table>

Managerial and Operational Problems: It is a big challenge for JCS to develop financial literacy among SHG members as maximum members are illiterate and very poor. They do not have much idea as to how to maintain records of the groups. Sometimes it is found that there are irregularities in maintaining records in SHGs due to lack of literate members in the group. With limited financial assets, SHGs promoted by JCS are not able to meet the credit needs of all the members who need credit. Often this creates confusion and conflict among the members. Presently, some commercial banks are non-cooperative in linking SHGs to their respective branches for loans. JCS is registered as NGO under Societies Act, therefore there is a restriction on JCS to mobilise the savings. JCS would like to continue as an NGO and transfer the microfinance activity to be carried out by an MFI.

It was suggested to JCS to strengthen the federation of the SHGs. Since the federation has the form of a co-operative it can expand its activities as an MFI in a full-fledged way offering both savings and credit.
SECTION - V
SYNTHESIS

In this concluding section, an attempt is made to synthesise the various issues discussed in the workshop about the managerial challenges and problems faced by MFIs. The synthesis is attempted by way of identifying the major managerial problems faced by MFIs and the possible directions or solutions for addressing those problems. The solutions mentioned include those either adopted by the MFIs which participated in the workshop or suggested by the experts and participants of the workshop.

There are wide variations in the managerial problems faced by the MFIs. These problems vary with the variations either in the institutional form or age or MF methodology adopted by the MFIs. Overall, the MFIs in India are confronted with the managerial and operational problems relating to the following areas:

1. Human Resource Management
2. Management Information System
3. Bank and Cash Related Problems
4. Managing Risk and Frauds
5. Cost of Funds and MFI Self-Sufficiency
6. SHG Related Problems
7. NGO Related Problems
8. Challenges of Providing Integrated Services
9. Challenges Due to Prevailing Socio-Economic Environment
10. Challenges Due to Government Credit Schemes

In this concluding section of the report we highlight the nature of each of the major problems and possible solutions as proposed in the workshop.
1. Human Resources Management (HRM)

HRM is one of the major challenges faced by the MFIs. The MFIs have realised the significance of hiring qualified professionals for scaling up MF operations, reducing costs and achieving sustainability. However, MFIs are faced with many problems and constraints in this regard. First of all, the existing staff have only a limited capacity. As a result MFIs (Janodaya) face problems regarding planning, decision making, and operations. Lack of competent staff also comes in the way of developing relevant products and services which can help meet the diverse needs of the clients. Acute need is felt to upgrade skills and abilities of the staff through training and exposure. But MFIs find it difficult to arrange for such training due to lack of suitable training facilities and programmes (SMCS). Even hiring suitable consultants who can help MFIs also becomes difficult. Second, getting or attracting professionals to augment the HR is another major challenge of the MFIs. Not only there is dearth of qualified professionals who can work for MFIs but hiring competent professionals is found to be unaffordable by most MFIs (SB) because of their limited capacity. Professionals expect high salaries. Even if the MFIs are able to attract some professionals or get the existing staff trained, there is also the problem of high turnover of staff. Many MFIs have found it frustrating to lose the professionals and trained staff especially after making serious efforts to recruit them (Bandhan, NBJK). Staff turnover has resulted in loss of capacity for some of the MFIs. Many of the professionals use MFIs as launching pad for furthering their career. At times even remoteness and backwardness of the area of operation of MFIs have resulted in staff turnover (Dhruva).

Many MFIs would like to introduce suitable incentive schemes for their staff both to retain them and to enhance their productivity. In this regard MFIs (NBJK) would like to know what kind of HRM policy and package would help them so that they can address the HRM challenge suitably.

Further, there are other kinds of HRM challenges faced by MFIs. Some MFIs (NBJK) have found it difficult to recruit female field staff due to difficulty faced in covering large number of groups and the need to travel long distances. Some MF federations (GMSS) have faced conflicts between elected office bearers and local staff. Such conflicts have been found due to lack of role
clarity and sharing of responsibilities. In some cases, there are conflicts between technical and field level staff. There are also conflicts when staff of the MFI and the promoting institutions work together or share same office premises (ST). Differences in the nature of work and the working conditions like facilities and salaries between the staff of an MFI and the promoting NGO could prove to be a de-motivational factor for the staff of MFI.

The challenge for MFIs is not only that of getting qualified staff but also ensuring that the professionals have the right commitment and values. Many MFIs (SB) have staff who are faced with the dilemma of pursing MF as a commercial activity as opposed to the developmental focus of NGOs. In some cases excessive emphasis on professionalism seems to have widened the above dichotomy as professionals have tendency to pursue MF more on business lines ignoring the developmental concerns of MF interventions.

Some MFIs have found it difficult to attract leaders for their board. Even developing second line leadership has been found to be a challenging task. Training board membership has been found to be difficult as many leaders find it difficult to absorb the training (FWWB). There is also lack of adequate leadership in MFIs.

**Possible Solutions and Directions:** The approaches and mechanisms that were identified as possible ways of addressing the HRM challenges of MFIs are highlighted below.

There is need for professionalising MFIs to address the various challenges they face. It is emphasised that professionalism need not be taken in a narrow sense of only recruiting highly qualified staff. Professionalisation is needed at all levels in an MFI. There is need to build capacities of leaders, managers, field workers and the member of the groups. Developing the skills and capacity of local staff is also a good strategy against high turnover of technically qualified staff.

At the policy level, the need is to develop the training facilities and programmes which would help address the capacity building needs of MFIs. Various development management institutions like IRMA, Dhan Academy and XIMB were called upon to take initiatives to
develop training programmes which would help both in upgrading the skills of the existing staff but also train fresh talents who could be inducted into the MFIs. The training programmes for MFIs should focus on developing both managerial skills and right developmental ethos among the trainees which would help address the dichotomy faced by the MFIs as development and business organisations. There is need for apex/support institutions and training institutions to co-ordinate and work towards developing appropriate training facilities and programmes for MFIs. The apex institutions need to invest resources in building such training facilities.

In terms of HRM, it was suggested to the MFIs to develop and put in place good and effective HR policies including adopting rigorous recruitment, focus on developing career growth within MFIs and capacity building through training. MFIs which are keen on scaling up and sustainability need to offer appropriate salary and incentives. Performance based incentive structure could be developed. However, MFIs have to be careful in using the incentives for attracting and retaining the qualified staff. In terms of career growth, MFIs need to adopt suitable job rotation and enrichment, define job responsibilities and offer promotions along with adopting regular and well defined performance appraisal system.

The HR policies also should focus on developing organisational practices that motivate the employees, develop awareness about mission, adopt information sharing and decentralised decision making and eliminate status symbols. The MFIs were suggested to network for sharing good practices and avoid blindly replicating any models given the wide variations in their context.

Some of the more specific ways suggested or adopted by MFIs to address the HR problems are:

- Hire consultants for short period rather than looking for elusive professionals who can work for longer period.
- Giving commission to field staff rather than salary.
- Provide regular on job training, skill upgradation and exposure to best practices. Staff should be trained to perceive the vision and mission of the organisation.
To overcome the conflict of professional and other staff, MFIs can recruit qualified staff more to act as mentors on technical aspects.

To ensure accountability of the paid staff to elected office bearers, the latter can fix the salary of the former.

MFIs can also focus on recruiting local talents and upgrading their skills to overcome the problem of turnover of external qualified professionals.

2. Management Information System (MIS)

MIS is another major challenge area for the MFIs. MFIs are found either totally lacking in MIS or having incomplete systems resulting in many problems in terms of communication and decision making (NBJK, Janodya). Identifying and putting in place a systematic MIS itself has been a major challenge. Some MFI/Federation not only want to develop MIS for streamlining internal functioning but also would like to establish online connections with outside branches or organisations working at different layers / tiers (Kheda Federation, GMSS).

Lack of MIS is resulting in weak database and records. Many MFIs are maintaining MIS manually as they are unable to computerise the process. Even financial planning and control systems are handled manually (NBJK). MFIs have found it difficult to develop good MIS using local consultants. Even hiring external MFIs having good expertise as consultants has not helped. Lack of good MIS has created problem in keeping proper records of group level savings, lending and repayment. Poor maintenance of records has created problems for cash flow management and for conducting regular audit. Even proper co-ordination among different sections within an MFI has suffered due to lack of MIS. Some MFIs are using accounting and MIS systems which are adopted from the previous NGO system which needs suitable restructuring and development. Hence most MFIs are looking for simple, standardised and cost effective MIS system/ package for adoption.

Possible Solutions and Directions: MFIs need to first appreciate the significance of a good MIS given the fact that they are in the field of banking. A good MIS could help provide relevant information for control, analysis and decision making.
MFIs need to work towards putting in place a workable or functional MIS. It can be a combination of both manual and automated system.

In terms of using IT based MIS, the stress should be on using simple packages which will not unnecessarily overload an MFI with data. In this regard, it was suggested that MFIs could adopt the ASA-Grameen MIS format for their use.

Some of the MFIs have developed software based on their own experiences (Dhruva) for loan tracking and accounting. Though such software needs continuous upgradation, they can help in loan tracking and monitoring. Mature MFIs (BASIXS) have developed MIS to monitor branchwise and employeewise performance which is helping them address the problem of frauds. Simputers also could be made use of at the field level to reduce manual work (SRFS).

3. Bank and Cash Related Problems

MFIs and SHGs depend upon banks for transacting funds. Many problems seem to have cropped up for MFIs in this regard. In some cases literally the banking network is absent or weak making it difficult for MFIs and SHGs to access and make use of banking facilities. In case of those dealing with the banks (Bandhan, SRFS), banks pose many bureaucratic problems. This creates delay in operations like opening bank account for branch offices and funds transfer from branch to branch. The problem is severe in case of those MFIs (SRFS) which conduct transactions only through banks. Bankers charge exorbitant rates on SHGs for the transactions. There are also wide variations in the charges. Banks have refused to issue cheque books and at-par facility. Some of the banks want SHGs to join the banks rather than continue with the MFI. Some bank branches have even restricted the service days to SHGs. In the case of SHG Federations, banks prefer to deal with the promoting NGO rather than with federation. In some cases, banks are non-co-operative in linking SHGs under the SHG-Bank Linkage Programme for saving and credit facilities.

Somewhat linked to the bank transaction issue is also the problem of cash management by MFIs. MFIs collect cash in small denominations but disburse in lump sums. Such cash handling poses
problem of safety and fidelity. Cash handling also creates problem of managing cut, mutilated and fake currency. Proper handling of cash is crucial for good liquidity management.

**Possible Solutions and Directions:** MFIs need to co-ordinate with banks properly for the purpose. They have to maintain good relations with the banks to facilitate various transactions. There must be better communication and interaction between banks and MFI staff. There can be a tie-up between bank and MFI for the purpose. MFIs can take up the issue with state level agencies so that SHGs and MFIs are helped in this regard. MFIs can use multiple instruments like account payee cheques, cash and vouchers with suitable safeguards.

Regarding cash management, MFIs need to integrate it as a part of risk management. They can use the available technology and MIS to reduce cash handling. Since cash management is also a cost centre, it would be worthwhile to pay service charges to banks to take care of cash handling. If MFIs need to handle big cash with large network, they can have their own hub for cash handling including making use of the bank network.

4. **Managing Risk and Frauds**

MFIs as financial intermediaries are subject to risk of losing funds due to two main reasons. MFIs may experience loss of funds either due to loan loss because of default or due to fraud or misappropriation in cash handling. Some of the MFIs which participated in the workshop have reported loss of funds due to increasing frauds (BASIX, SB, Janodaya). There is increasing case of frauds and misappropriation along with the growth of business for these MFIs. Forgery, cash embezzlement, ghost or fictitious loans, and misappropriation of loan and repayment money are some of the forms of fraud experienced by these MFIs. The consequences are financial loss, occasional break-down of operations and loss of reputation for the organisations. The causes identified by these MFIs include lack of effective monitoring and control, weak auditing, faulty staff posting and inadequate bank support for cash handling.

**Possible Solutions and Directions:** The solutions offered include adopting preventive, detective and corrective measures to tackle the risk. Preventive measures include developing information
system, identifying key risk areas for monitoring, rotation of field staff for reducing risk of collusion, adopting bank and cheque based transactions and monitoring cash handling. Among the detective controls, a strong emphasis was given on developing rigorous internal and external audit system. The corrective measures suggested are strengthening systems and taking follow-up measures on audit outcomes like legal action and removal of staff.

To prevent and control frauds, BASIX has created a Risk Management Division based on a review of operational systems and procedures. A policy of zero tolerance to frauds is adopted. There was sensitisation of staff about the need for adhering to standard procedures and policies. Internal audit was strengthened with a focus on field audits and preparation of exceptional reports. MIS was developed to monitor the trends in the performance. Officers were also provided with mechanisms to detect and prevent frauds. Filing of few legal cases and termination of staff were also resorted to.

5. Cost of Funds and MFI Self-Sufficiency

Another major concern and challenge of MFIs identified is regarding obtaining funds at a lower cost so that they can attain self-sufficiency without putting too much of a burden on the members (Bandhan, NBJK). MFIs borrow from banks and financial institutions for their on lending. Obtaining funds at lower rate of interest is a difficult task. While some of the MFIs have managed to achieve operational self-sufficiency, they at the same time feel the need to achieve even financial self-sufficiency (NBJK, SB). Some of MFIs have benefited from the donor grants which are a source of zero cost fund for them.

Apart from the operational costs MFIs also incur significant expenditure on promotion, management and capacity building of SHGs. The low available margin makes it difficult for MFIs to invest in SHG management and development. At the same time, banks despite benefiting from SHGs are not coming forward to meet the SHG promotional cost.

Given the current regulatory situation, MFIs are also finding it difficult to mobilise savings from members. This restriction is coming in the way of MFIs accessing cheaper funds by way of
savings (NBJK, JCS). In some cases, when MFIs borrow from banks for on-lending, there is ceiling being prescribed by banks on the rate of interest MFIs can charge to their borrowers (SMCS). Moreover, many of the MFIs do not want to put more burden on the borrowers by charging higher rate of interest to attain financial self-sufficiency.

In addition to cost of funds, many MFIs are also finding it difficult to adequately meet the credit needs of all their members due to fund constraints (Mahiti, JCS). In some cases the SHGs promoted by the MFIs are not able to get adequate financial support from the banks to lend to all members. The NGO-MFIs, as mentioned above are faced with financial constraints mainly due to their inability to mobilise savings from the members (Dhruva, NBJK, JCS). This constraint emanates from their lack of suitable form for mobilising savings. Under the current regulatory framework, these NGO-MFIs are not allowed to mobilise savings. As a result, they are compelled to depend upon banks and financial institutions to mobilise large funds for on-lending. The MFIs are also constrained further by lack of equity and lack of credit guarantee to access commercial funds from banks (SMCS). At times, there have been even delays in obtaining funds from the financial institutions (Janodaya).

**Possible Solutions and Directions:** Suggestions with regard to attaining self-sufficiency by MFIs came up at different levels.

First of all, MFIs need to clarify their position with regard to attaining financial self-sufficiency. To much emphasis on financial self-sufficiency may dilute the developmental goals of MFIs. Hence an MFI has to assess how far it can go in terms of attaining financial self-sufficiency especially looking at the implications of its efforts on the sustainability and affordability of the members. In terms of attaining financial self-sufficiency, MFIs have to mainly work towards reducing their cost and increasing their volume of business. Professional management and suitable institutional form also may help MFIs in attaining the goal in a meaningful way. Cost reduction would involve reducing cost of funds, operational costs and cost of bad debt. An MFI has to choose a combination of various sources of funds like borrowing, equity and grants based on a systematic financial costing. For this, an MFI has to look at its operational and administrative costs carefully. MFIs can bargain with the banks for cheaper funds given in the
current competitive conditions. The MFIs also have to arrive at right pricing based on their costs and the affordability factor for the clients.

In terms of increasing the volume of business, MFIs need to diversify loan products and delivery channels, increase loan size, and expand their geographical coverage.

6. SHG Related Problems

Groups are the key links in the MF delivery. With the massive growth of SHGs, the MFIs are faced with problems in managing the groups. Ensuring the quality and soundness of groups is a major challenge. In many cases, SHGs are unable to conduct regular meetings and maintain books of accounts (NBJK). SHGs have been formed mostly by poor women. Poor women being illiterate find it difficult to maintain various books and accounts (JCS, Cohesion). Poor maintenance of records has resulted in unsound cash management and irregular auditing. At times there is variation in documentation. In many cases SHGs are finding it difficult to implement rules and conduct bank operations. Many SHG women find it difficult to attend regular meetings as they lose income/employment for a day. Even NGOs promoting SHGs lack knowledge about book keeping by SHGs. Absence of standardised book keeping and accounting is creating problems for appraising credit.

SHGs are also facing problems in achieving unity and consensus which poses difficulty in preparing credit plans. The varied credit absorption capacity among the members also creates difficulties in credit planning.

In many cases, SHGs have a tendency to demand equal loan amount for all their members. This proves to be difficult especially when bigger loans are demanded. Because of these problems, a major need is felt for capacity building of SHGs so that quality could be ensured in their functioning.

Possible Solutions and Directions: There is a need to address the issue of capacity building of SHGs and institutions promoting SHGs. Quality assessment and training become important in
the capacity building process. The efforts of APMAS in this direction become important. It is worth looking at quality assessment tools developed by APMAS for assessing the creditworthiness, self-management and financial performance of the SHGs, NGOs and SHG Federations. Large number of individuals/ institutions needs to be trained at various levels to take up quality assessment of SHGs and SHG federations. Concerted efforts in this direction have resulted in improving self-management capacities of SHGs leading to improved book keeping and financial transparency.

Some of the other measures suggested in this regard are:

- Need to monitor fund utilisation and loan delinquency at SHG level.
- Provide sitting fee to leaders of SHGs may help address the problem of holding regular meetings.

7. NGO Related Problems

NGOs are playing a key role in various capacities in the delivery of microfinance. The workshop threw up few issues and challenges concerning NGO role which are summarised below.

The transformation of NGOs into microfinance institution is a major challenging area. The transformation process creates many conflicts and tensions. The NGOs face difficulties in striking a balance between their developmental goals and the requirements of microfinance intervention (SB). The conflict percolates down to the staff level who end up in dilemma in effectively performing their role.

Another challenge for NGOs entering microfinance is the lack of experience and capacity required to implement microfinance (Janodaya). In some cases, there is almost total absence of managerial and operational skills. Even board members and the leaders lack clear understanding of microfinance. Coupled with the problem of lack of availability of trained professionals, NGOs have faced difficulties even for simple MF operations like applying for loans or SHG formation.
This leads to a situation where NGOs becomes CEO dependent for all their operations. Many NGOs also lack even basic infrastructure required for MF operations. NGOs have also faced difficulties in making entry into microfinance especially in those areas where people have been cheated previously by fake NGOs or individuals. Breaking the ‘no confidence syndrome’ becomes a challenging task for an entry level NGO (Bandhan).

MFIs which have used NGOs for linking SHGs have also encountered few problems. Some of these NGOs lack understanding of MF concept and methodology. MFIs have to invest resources in training these NGOs. After linking SHGs, many NGOs do not help the MFIs in the follow up and recovery. On the other hand, NGOs bring unnecessary pressure on field staff to raise the loan limit for SHGs leading to irregularities (SRFS).

In some places, the increasing participation of NGOs is leading to many undesirable practices (IVDP). With many new NGOs promoting microfinance, there is unhealthy competition also developing between new and existing NGOs. There are instances where new NGOs are trying to spread misleading information about existing NGOs and make false promises to SHG members creating fissures within the existing SHGs. The new NGOs are also creating fake SHGs with utter disregard to the credibility of SHG concept. There are attempts to violate the well established norms of SHGs. Such practices are not only causing problems in the smooth functioning of SHGs but have resulted in the members getting cheated in the process.

**Possible Solutions and Directions:** It is felt that the challenges relating to NGOs probably need to be addressed at different levels. There is need to ensure proper control, transparency and accountability in the working of NGOs. This would require suitable regulation of NGOs.

Regular quality assessment of NGOs involved in MF could be taken up on the lines of APMAS to identify gaps in their capacity as well as to improve the credibility. The role of NGOs needs to be recognised and formal agencies should collaborate with them to further strengthen their role and capacity.
Given the changing role of NGOs from social intermediation to financial intermediation, NGOs need to chalk out clearly their vision and road map towards capacity building. In order to build the capacity of NGOs and awareness about microfinance, training is advocated as a major instrument. NGOs helping in SHG promotion and linkage may be provided suitable incentives. The incentive also may be linked to NGOs role in monitoring the performance of SHGs.

To tackle the problem of fake NGOs and unhealthy competition, the need for coordination between banks, government officials and NGOs has been suggested. Monitoring Committees may be formed to verify and ensure credibility and accountability of NGOs. Suitable norms have to be framed for assessing the credibility of NGOs and their SHGs. Guidelines have to be prepared for bankers along with training to endorse NGOs and SHGs. Banks may go in for rating of NGOs for the purpose.

8. Challenges in Providing Integrated Services

Besides providing credit, many MFIs are interested in enhancing the livelihood opportunities of the borrower members. The objective is not only to help improve livelihood conditions of the members but also in the process that create risk free or positive conditions for better loan recovery by the MFI. It has been realised by these MFIs that credit alone is not sufficient for improving livelihood. There is need for providing credit plus or integrated services which can improve the productivity of loans provided by the MFIs. Some of the credit plus services identified by these MFIs include supply of quality inputs/assets for taking up income generating activities (Dhruva), arranging for marketing the products of the loanees (Bandhan) and provision of risk mitigation and agri-business development services (BASIX).

The MFIs have found providing integrated services on a bigger scale a challenging task. Apart from providing or arranging for quality services, the major challenge is also one of scaling up the operations to cover large number of needy members. Identifying target customers, establishing suitable marketing mechanisms, procuring quality inputs/assets at cheaper rates and their timely distribution, and arranging for funds and training for integrated services are some of the specific operational challenges faced by these MFIs.
Possible Solutions and Directions:

- Appointment of purchase committee to buy quality inputs / assets at cheaper rates. The committee needs to do prior planning and demand estimation of different inputs/assets, identify cheaper sources of supply and arrange for economical and convenient distribution among the members. In certain cases like livestock it is better to involve borrowers also in the purchase of assets.

- Establish show rooms to market some of the products of the loanees.

- Conduct pilot test of supplying integrated services in few locations before scaling-up. Conduct training and exposure to staff about the importance and better ways of providing integrated services.

- Include asset insurance to mitigate risk due to loss of assets.

9. Challenges Due to Prevailing Socio-Economic Environment

Apart from the internal managerial problems, MFIs also are confronted with many operational challenges which arise due to prevailing socio-economic factors. Since these problems are related to local socio-economic conditions, there are variations in the nature of problems faced by MFIs.

Lack of awareness about microcredit among the local community is one of the problems MFIs face in some regions (Bandhan, Janodaya). At the entry time, the target groups look at the MFI with suspicion and are hesitant to deal with the MFIs for fear of being cheated. In some cases, such suspicion could have come due to some previous bad experience where local people might have been cheated by some unscrupulous elements. MFIs have to put in extra efforts to convince people about their credibility. Similar problem has been encountered even by MFIs while operating in urban areas.

Widespread prevalence of moneylenders is another challenge for MFIs face. The target group depends on these money lenders who charge exorbitant rate of interest (Bandhan). These
Moneylenders often make attempts to break the groups as microfinance intervention is a threat to their business (Mahiti).

Since MFIs, target disadvantaged sections, it becomes difficult to reach out to the poorest living in remote rural and forest areas. Lack of transportation and communication facilities further hamper smooth monitoring and follow up (Dhruva). Even in urban slums there are many challenges. Lack of group feeling, lack of time for attending group meetings and frequent shifting of slums creates problems in group formation. Other conditions in slums like poor civic conditions, alcoholism and gambling are also not conducive for the functioning of the groups (NBJK). Low level of education and illiteracy among target group becomes a problem. Member from these groups find it difficult to manage their SHGs. This becomes a bottleneck in achieving expected growth of SHGs. Poor are also reluctant to deal with MFIs and bank because of many pre-conceived notions (Cohesion). In areas with caste differentiation, it becomes difficult to bring together different communities under SHGs. Existing gender relations also come in the way of smooth functioning of SHGs. Quite often the men using their influence try to interfere in the working of women SHGs creating problems for the SHGs (Mahiti). In cases where MFIs have promoted SHGs for both men and women (Sampada Trust), men SHGs are reluctant to deal with the women SHGs and their federations. The men SHGs would like to interact directly with the MFI ignoring the intermediary women structures.

The nature of local economy also comes in the way of smooth functioning of the MFIs. In cases where the economy is dependent primarily on agriculture and labour and prone to natural disasters like drought, MFIs face difficulties in regular savings mobilisation and loan recovery (Mahiti). This is especially so when bulk of the borrowings are used for agriculture. In those circumstances, providing credit alone may not be enough to generate adequate income. The problem of irregular savings and loan recovery also gets further compounded when the local community migrates to other places for employment for longer duration (Cohesion).

While the above socio-economic challenges of MFIs were identified in workshop; no specific ways of addressing these challenges were suggested. Focus on addressing the managerial
problems and time constraint came in the way of identifying measures to tackle these problems arising due to external socio-economic conditions.

10. Challenges Due to Government Credit Schemes

At the operational level, MFIs have to confront the challenges of confusion and even undesirable attitude created among borrowers due to plethora of government sponsored schemes. There are many subsidy based microfinance schemes like SGSY being implemented by government agencies all over the country. There are overlaps in the area and target groups of MFIs with the government schemes. The government schemes like SGSY carry explicit subsidy / grant along with credit. The government schemes are implemented aggressively in order to meet the targets. These schemes are also popularised by politicians in their areas. Despite the common goals between MFIs and the government schemes, MFIs are facing many problems as a result of implementation of these schemes. There is no co-ordination between government agencies and NGOs in targeting the members. At times there is confusion among the borrowers due to programme duplication. Moreover, the subsidy element further compounds the challenges for the MFIs. The attitude and tendency of target group is to obtain subsidy or grant. They demand similar subsidy from the MFIs. Neither the MFIs are able to provide subsidy similar to government schemes nor are they able to convince the target group about their programmes running without subsidy. The result is frustration and indiscipline among the target group. Many MFIs have found this to be a challenge in smoothly carrying out their operations.

Possible Solutions and Directions: A solution suggested for the MFIs was to coordinate with the government agencies to reduce conflicts and overlaps. MFIs were also suggested to work with their target groups to convince them about the difference between government schemes and MFI functioning so that wrong expectations by the loanees are avoided to the extent possible.

CONCLUSION

Having identified the major managerial challenges of MFIs and possible ways of addressing them, the participants of the workshop made the following suggestions to carry forward the ideas generated during the workshop.
• Since capacity building and professionalisation of MFIs has been identified as a major requirement, the need for developing suitable training programmes and courses on MF was stressed. There was suggestion for IRMA to take the initiative in this regard. Further, given the fact that most MFIs cannot afford to hire full-fledged professionals at the initial stages, the need is to develop training programmes which would help build the capacities of the in-service staff of MFIs. For this, it is essential to develop resource persons who can communicate in local languages. Simultaneously, there is also need for documenting best practices in MFIs for dissemination. Further, in terms of wider capacity building training programmes have to focus also on orienting professionals like chartered accountants and auditor to the needs and requirements of MFIs. MF should be demystified by developing simple tools and resources for use even by the community.

• There were also suggestions on the regulation and governance issues. The need for putting in place a suitable regulatory framework to help MFIs overcome many of their current challenges was emphasised. A good regulatory system should help in developing the microfinance sector. The problem of regional imbalance in the spread of microfinance also should be addressed. MFIs have to adopt even self-regulation to ensure accountability and transparency in their working. Moreover, there is need to improve governance systems in MFIs. MFIs should aim at developing their financial management systems at a very early stage itself. Standards have to be developed for MFIs while focusing simultaneously on issues like livelihood improvement, poverty alleviation and institutional development.

• In terms of holding any further workshop on the theme of managerial problems of MFIs, the suggestion was to classify MFIs based on some common characteristics and analyse their problems in a more focused way. Since MFIs differ widely in terms of age, form and methodology, identifying and discussing problems specific to different types of MFIs could be much more meaningful.
References


### ANNEXURE 1: WORKSHOP SCHEDULE

**Addressing the Managerial and Operational Challenges/ Problems of Microfinance Institutions, 29-31 March 2005**

#### 29-03-05 (Tuesday)

<table>
<thead>
<tr>
<th>Date/Time</th>
<th>Sessions</th>
<th>Chair</th>
<th>Rapporteur</th>
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<tbody>
<tr>
<td>1000-1100</td>
<td>Inauguration: Ms. Jayashree Vyas, MD SEWA Bank</td>
<td>Prof. KP. Reddy, (Director, IRMA) Dr. H S Shylendra (IRMA)</td>
<td>Dr. Samapti Guha</td>
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<td></td>
<td><strong>1100-1130 Photo Session and Tea</strong></td>
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<tr>
<td>1130-1300</td>
<td>Empathetic Professionalism: H S Shylendra</td>
<td>Dr. Sudha Kothari</td>
<td>Mr. Kishore Bhardikar</td>
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<td></td>
<td>Sustainability of MFIs: K. Jindal (NABARD)</td>
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<td></td>
<td><strong>1300-1400 Lunch</strong></td>
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<td>1400-1530</td>
<td>FWWB’s Experience: Ms. Vijayalaxmi Das</td>
<td>Mr. K Jindal</td>
<td>Mr. Nitin Agarwal</td>
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<td>BANDHAN: Mr. C.S. Ghosh</td>
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<td>Mahiti: Ms. Devuben Pandya</td>
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<td><strong>15.30-16.00 Tea</strong></td>
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<td>1600-1730</td>
<td>GMSS: Dr. Sudha Kothari</td>
<td>Dr. Smita Mishra Panda</td>
<td>Ms. Abanti Mittra</td>
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<td>SEWA Federation: Ms. Manoramaben</td>
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#### 30-03-05 (Wednesday)

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<tbody>
<tr>
<td>0930-1100</td>
<td>Cash Management : Prof. M S Sriram, IIMA)</td>
<td>Mr.S.M. Adiga</td>
<td>Mr.Naveen Shetty</td>
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<tr>
<td></td>
<td>Key Managerial Problems of MFIs: M. Kalyanasundaram, INAIFI.</td>
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<td></td>
<td>Risk Management by MFIs: Ms. Abanti Mittra, M- CRIL.</td>
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<td></td>
<td><strong>1100-1130 Tea</strong></td>
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<td>1130-1300</td>
<td>IVDP: Mr. K. Francis</td>
<td>Prof. M S Sriram</td>
<td>Ms. Abanti Mittra</td>
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<td>Date/Time</td>
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<td></td>
<td>JANODAYA : Ms. Santosh Vas</td>
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<td>DHRUVA: Mr. Jayanti Mori</td>
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<td>Shramik Bharti: Mr. Rakesh K. Pandey</td>
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<td>Dr. Samapti Guha</td>
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<tr>
<td>1300-1400 Lunch</td>
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<tr>
<td>1400-1530</td>
<td>Role of APMAS: Mr. K. Arokiam</td>
<td>Prof. K. Prabal Sen</td>
<td>Mr. Kishore Bhirdikar</td>
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<td>HRM Issues in MFIs: Prof. Madhavi Mehta, IRMA.</td>
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<td>MIS for MFIs: Mr. Nitin Agarwal, M-CRIL</td>
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<tr>
<td>1530-1600 Tea</td>
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<td>1600-1730</td>
<td>SANGHAMITHRA Rural Financial Services: Mr. SM Adiga.</td>
<td>Mr. K. Arokiam</td>
<td>Mr. Nitin Agarwal</td>
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<td>NBJK : Mr. Satish Girija</td>
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<td>SAMPADA Trust: Mr. Rajesh Batala</td>
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<td>BASIX: C. Venkatesh</td>
<td>Mr. M. Kalyanasundaram</td>
<td>Mr. Naveen Shetty</td>
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<td>SMCS: Ms. Amiyabala Pattnaik</td>
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<td>31-03-05 (Thursday)</td>
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<td>Rapporteur</td>
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<tr>
<td>0930-1100</td>
<td>Sa-Dhan, New Delhi: Mr. Sukumaran</td>
<td>Mr. M. Kalyanasundaram</td>
<td>Mr. Naveen Shetty</td>
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<td></td>
<td>Cohesion: Mr. Rajesh Kapoor</td>
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<td>Janachetana: Mr. A. Banerjee</td>
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<td>Baruka Trust: Mr. Ashok Yadav</td>
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<tr>
<td>1130-1300</td>
<td>Conclusion: Summary and Feedback</td>
<td>Dr. HS. Shylendra</td>
<td>Mr. Kishore Bhirdikar</td>
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ANNEXURE 2 : LIST OF WORKSHOP PARTICIPANTS, RESOURCE PERSONS AND EXPERTS

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