TRAINING GUIDE
ON
CASES IN MICROFINANCE

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PREFACE

The Training Guide has been prepared as a supplement to the volume on ‘Cases in Microfinance’. The ‘Cases in Microfinance’ is an outcome of the multistage ‘Workshop on Developing Cases and Other Training Materials in Microfinance’ held at the Institute of Rural Management, Anand (IRMA) during 2002. The Workshop was sponsored by SIDBI Foundation for Microcredit (SFMC), Lucknow. The primary objective of the Workshop was to develop appropriate training materials needed for conducting quality short-term and long-term training programmes for microfinance professionals and for use in Training of Trainers. The Workshop aimed at developing quality cases, which are relatively shorter in length so as to ensure wider reading and applicability.

The Training Guide has been prepared with the purpose of helping the case instructors to make best use of the cases in the volume on ‘Cases in Microfinance.’ The Training Guide, besides highlighting the context and framework for understanding 16 cases categorized under different sections, provides specific inputs for using each case in the form of a training note. Each training note provides a brief abstract of the case, its learning objectives, target audience, duration for discussion, suggested pedagogy, approach and issues for case diagnosis and discussion. In preparation of the Training Guide, we have also made use of the insights gained during the testing of the cases carried out under the Workshop and the inputs provided by the case authors for the purpose.

Preparation of the volume and the Training Guide has been made possible by the generous support of SIDBI Foundation for Microcredit, Lucknow, who aim at mainstreaming microfinance as a major tool for poverty alleviation in the country. We would like to thank Mr. Brij Mohan ED, SFMC and his colleagues Mr. Anil Vidyarthi, Ms. K.C. Ranjani for their constant encouragement and support. We would like to wholeheartedly thank Prof Malcolm Harper, Consultant to SFMC on Training, who offered his valuable comments both on the cases and the Training Guide.

We would like to thank all the case writers for their contribution in developing the cases in the volume and for their inputs which helped in preparing the Training Guide.

We hope that the volume and Training Guide would serve as useful training materials in the field of Microfinance in particular and Development Management in general.

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INSTRUCTIONS TO INSTRUCTORS

Case method of teaching is both an art and a science. As an art it is an innate skill, which enables a trainer to use cases innovatively to make learning more effective. As a science, the skill of case teaching could be imbibed systematically in all the trainers to facilitate its wider use. An instructor using the Volume on Cases in Microfinance is expected to be reasonably well versed in case method of teaching. However, having prepared the Volume keeping the general trainers in view, we have prepared this Training Guide to help such trainers to make better and appropriate use of the cases developed.

The cases in the Volume are diverse in terms of the themes covered. The cases have been grouped under seven relevant sections indicating the possible area or theme of their application in microfinance. Each section contains an overview of the broad theme of the cases included under the section. The overview highlights the significance of the theme both at the conceptual and practical levels in order to arrive at a framework within which the cases in the section could be discussed. In addition for each case, a training note has been prepared. The training note provides a brief abstract of the case, its learning objectives, target audience, duration for discussion, suggested pedagogy, approach and issues for case discussion and diagnosis. The case abstract and the learning objectives help the instructor to easily identify the theme and the purpose for which the case can be applied. The target audience identified is specific to the learning objectives of the case identified by us. We are of the opinion that the cases in the volume are relevant for a wide audience hailing from non-government organizations (NGOs), microfinance institutions, banks and other agencies promoting microfinance besides students of post-graduate programmes pursuing courses on microfinance, in particular and development management, in general. The pedagogy mentioned for each case suggests the possible sequencing of the case in the course or the training programme. The pedagogy also identifies suitable method – general case discussion or role-
plays or focus group discussion, that may be adopted in the actual delivery of the case. In the general case discussion method, all the participants together take part in the case discussion to identify and analyse the problem in the case under the overall guidance of the instructor. In role-playing, selected participants would act according to the requirements of the case in order to bring out their arguments. In the focus group discussion, the participants are split into separate groups. Each group would focus and discuss on a particular theme or problem in the case. The groups may share the analysis and conclusions from their discussion in a plenary with all the participants.

The case discussion section in the training note highlights the major facts and issues to be brought out and the questions to be addressed by the participants for diagnosing and analysing the case. The possible solutions to the case problem and any other explanations wherever provided by the authors of the cases are included in the appendix to the respective training notes for use by the instructors, if warranted by the case discussion. A reading list of microfinance literature is also provided at the end of the Training Guide for the instructors to access them as per their need.

Though we have provided broad possible approaches and some specific inputs for using the cases, we would like to leave the actual approach and method of case teaching to be used to the ultimate judgment of the case instructors. Further, our main purpose in preparing the Training Guide is only to help explore various possible approaches rather than help in actual diagnosis of the cases. Only the case instructors are in a better position to assess the need and abilities of the trainees. We sincerely hope that the cases in the Volume are used as widely and innovatively as possible.
SECTION I

GETTING STARTED

As microfinance is becoming a more widely accepted intervention, its relevance and potential role in poverty alleviation continues to be debated. For a developmental agency such as a non-government organization (NGO), though microfinance may appeal as an easy way of intervention for poverty alleviation, particularly given many NGO success stories and also the policy support available, clear answers about its relevance are yet to emerge fully. Microfinance is also being now linked to other developmental goals like women’s empowerment, literacy etc. Most NGOs involved in microfinance have multiple objectives and follow diverse approaches. Usually, NGO interventions in microfinance have the following major objectives: (i) To bring about poverty alleviation and empowerment by enabling easy access to savings and credit; (ii) To eliminate exploitative moneylenders; (iii) To promote alternate financial system for the poor, and (iv) To supplement other activities taken up for agricultural and non-farm development.

There are many crucial issues to be considered for a meaningful intervention in microfinance.

Any agency, NGO or even a bank, attempting to implement microfinance programmes and achieve the above objectives, must have a clear understanding of the area or region in which it wants to operate. Microfinance is basically meant for the disadvantaged, marginalized groups particularly women. The agency needs to assess the functioning of various rural financial institutions, formal and informal, especially from the point of view of the poor. Based on such an assessment, it has to identify the potential for microfinance intervention and ways of targeting the poor. Lack of clear understanding of the
need and potential of the area may come in the way of evolving a suitable strategy and approach for intervention.

While there are many interventions for development like health and education, microfinance is one area where, of late, a strong emphasis is being placed on the issue of financial sustainability. The microfinance intervention is expected to generate resources to recover all its costs to sustain itself and in some cases even support other activities of the NGOs such as health and education. There are many examples of NGO interventions where such possibilities for sustainability are being explored. At the same time, the issue of sustainability has brought into fore the question whether such an approach is compatible with the basic objective of poverty alleviation and NGO philosophy.

There are two cases in the Section dealing with the above kind of challenges faced in undertaking microfinance intervention. While the first case is a debate about the relevance of microfinance intervention for an NGO; the second case is about understanding the conditions of the poor in order to decide about making microfinance intervention. The name of the organization is disguised in both the cases.
Case 1: To Diversify or Not Into Microfinance: The Case of A Multi-Activity NGO

Case Abstract: ‘Sakshar India’, is a multi-activity NGO operating in a drought-prone area of Madhya Pradesh, established in early 1980s with the primary objective to provide mass education for social development, community health services, management of natural resources and empowerment of women. Because of its reputation, the organisation never faced problems in funding its activities. The question as to whether the organisation ought to diversify into microfinance is currently being debated by its board. The arguments advanced by those who are not in favour of moving into the area of microfinance are basically as under: (a) The entry into microfinance would take the organisation away from its basic philosophy of human development; (b) Microfinance Institutions (MFIs) in their present form necessarily laid more stress on factors like return on investment as against investments in social capital like health and education; (c) There are a large number of institutions providing financial services but only a few working in social initiatives. The argument in favour of entering into microfinance is that once the rural poor are provided with financial support for pursuing gainful economic activities, they would have the necessary means and wherewithal to invest in social capital like education and health on their own besides improving their economic well being. Advocates of entry into microfinance activity also point out that funds would be easily available from various agencies for capacity building and infrastructure development of the organization.

A decision has to be taken by ‘Sakshar India’ in a meeting which is being held.

Learning Objectives: The case could be used both for discussing the role of microfinance as well as the role of NGOs in microfinance.

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1. Case prepared by Prof. J.N. Poddar with Aseem Hasnain, Indian Institute of Forest Management (IIFM), Bhopal.
i) To help obtain clarity on the issues concerning the relevance and potential role of microfinance, and

ii) To enable trainees to identify and appreciate reasons for intervening or not intervening in microfinance and their implications for an NGO and its goals.

**Target Audience:** Any trainees or students getting exposed to the role of microfinance for the first time or having only preliminary exposure to microfinance. The trainees can be senior NGO staff who need to take decision sometime about whether to go for microfinance intervention for alleviation of poverty.

**Duration:** 70-90 minutes depending on the level and duration of the programme

**Pedagogy:** Ideally the session on the case should be preceded by the trainees getting an exposure to the concept of microfinance and its current status. The case should be circulated in advance to the trainees for reading and preparation. The case could be discussed using either a general case discussion method or a role-play.

**Case Discussion:** At the beginning, the instructor provides an overview about the role of microfinance focusing on NGO involvement. The challenges facing the NGOs about seeking clarity for intervening and strengths and weaknesses of the approaches being adopted by NGOs are highlighted. The trainees then present all the case facts in terms of the profile of the organization, the characteristics and needs of the area and the emerging environment.

The trainees are asked to get into the shoes of the two opposing groups in the organization and to argue the case for or against intervention in microfinance. If a role-play method is adopted, two clear groups are formed to argue for and
against diversifying. The groups are asked to finalise the session by agreeing on a clear decision.

The instructor has to ensure that all the major issues or questions pertaining to the relevance of microfinance and implications for an NGO are clearly brought out in the discussion.

The instructor may sum up by highlighting the discussion points and share the current evidence and understanding about microfinance, its impact on poverty alleviation and how NGOs have tried to resolve the conflict about their participation in microfinance. The case insights could be carried forward to subsequent sessions dealing with similar themes in the course or programme.
Case 2: How to Get Started?\(^1\)

**Case Abstract:** The case is about “getting started” for a microfinance intervention in a village. Presented in the form of a conversation among staff of an NGO called Pragati Foundation in Theni district of Tamil Nadu and the residents of a village named Valayapatti, the case gives an idea about the potential of Valayapatti village to prepare for microfinance intervention. During the course of the conversation, several issues pertaining to the range of occupations that people are currently engaged in, informal sources of savings and credit as well as the formal banking system are raised. Further, the pros and cons of the formal and informal systems, gender issues, conflicts among people also form an integral part of the conversation. The discussion brings out the need for assessing the feasibility for microfinance in the village in terms of its reach, defining the target group and the form of intervention that would lead to the success of the intervention.

**Learning Objectives:**

(i) To help trainees understand the livelihood conditions of the rural poor which give raise to demand for savings and credit services.

(ii) To enable trainees identify various sources of savings and credit for different categories of households and understand their features with a bearing on their accessibility to the poor.

(iii) To help understand the relevance of microfinance in backward areas and work out an appropriate design for microfinance intervention or services to suit the prevailing conditions.

**Target Audience:** Any trainees or students getting exposed to the role of microfinance for the first time or having only preliminary exposure to microfinance. The trainees could be not only from NGOs but also middle and senior level staff in MFIs and banks.

\(^1\) Case prepared by Ms. B. Raghini, DHAN Foundation, Madurai.
Duration: 70-90 minutes depending on the level or duration of the programme. The case and its insights could be also used over a series of sessions.

Pedagogy: The discussion on the concept and significance of microfinance should precede the case discussion. The case should be circulated in advance for reading and preparation. The trainees are instructed to focus on the questions provided at the end of the case in their preparation. The instructor may follow the general case discussion method involving all the participants.

Case Discussion: The case is best discussed on the basis of the questions provided at the end of the case. The case has very useful insights about the village level development conditions and the functioning of formal and informal sources of savings and credit. Answers should be elicited from the participants to each of the questions. The entire discussion could be broadly divided into two parts. The first part (questions 1 to 4 and partly question 7) is about understanding the prevailing socio-economic conditions in the village. The second part of the discussion could be on identifying the need for microfinance in the village and possible ways of intervention for the same.

Further, the instructor should ensure that based on the insights gained regarding working of formal and informal sources of savings and credit and the difficulties faced by the poor in the village, the participants identify how microfinance becomes relevant. The relevance of insights gained on social practices such as tax collection, contribution for funeral expenses, maintaining discipline etc. is highlighted to facilitate the group based approach to microfinance.

The instructor may sum up the discussion by highlighting insights of the two major parts of the case discussion and how the village case represents a typical scenario for microfinance intervention.
SECTION II

CREATING LINKAGES AND INSTITUTIONS

The Self-Help Groups (SHGs) are becoming a major instrument in the delivery of microfinance in India. The Non-Government Organisations (NGOs), banks and government agencies are the key players involved in the promotion of the SHGs. In order to help the SHGs to get integrated with the financial system, the National Bank for Agricultural and Rural Development (NABARD) has been implementing the SHG-Bank Linkage Programme since 1992. There are three models of SHG-bank linkage in the country. In Model 1, the financial institutions both promote and finance SHGs; under Model 2, the NGOs act as SHG Promoting Institutions (SHPIs) and link them to banks; and under Model 3, NGOs promote and finance the SHGs using own or borrowed funds.

By March 2002, nearly 4.6 lakh SHGs had been linked to banks for financial support under the SHG-Bank Linkage Programme. Out of the total SHGs linked, Model 2 and 3 account for nearly 85 per cent of the SHGs. In other words, NGOs have become the dominant players in the formation and linkage of SHGs in the country. NABARD intends to link about one million SHGs to banks by 2008.

What are the strategies followed by the NGOs and the banks in forming and linking the SHGs? and how to sustain the SHG-Bank Linkage Programme? are the major questions in the SHG linkage. The rapid growth of SHGs which is noteworthy for increasing the outreach of the poor, is also a cause for concern in terms of ensuring the sound and stable growth of the SHGs. Various efforts are being made by NGOs to consolidate and strengthen the SHGs. Integration of SHGs through formation of federations at various levels is one such method being adopted by the NGOs. The federations are taking different forms like cooperatives and registered trusts or societies.
Federating the SHGs at various levels has many advantages. A federation could help pool the savings of all SHGs and leverage for obtaining higher funds. The SHGs being informal agencies, a formal entity like a federation may help in having clear linkages with external agencies like banks. A federation may also serve as a platform for the SHGs to come together for realizing various other developmental goals. Finally, formation of a federation could help the NGOs forming SHGs to withdraw from the scene and focus on other areas. There are also some disadvantages in forming a federation of the SHGs. Unless the need for a federation is really felt by the SHGs, the new entity may become a burden on them. The mobilizing resources needed to manage and run a federation may tax the SHGs and the NGOs. A federation being an autonomous agency with access to large resources may create space for vested interests.

The major issues of concern in the formation of a SHG federation are: How to make the new institution deliver the required services in an effective way? How to promote a institution which is sustainable and work on the principles of self-help, mutual benefit and autonomy? and; what kind of relationship the NGO should maintain with such a institution in order to help attain the primary goals of forming the institution.

Three cases are presented in this section dealing with establishing SHG-Bank linkage and creating a federation or an autonomous body of SHGs. The first case deals with the experience of an NGO called ANARDE Foundation in Gujarat with regard to the linkage programme. The second case is about the approach and experience of creation of a SHG federation by GRAM, an NGO based in Andhra Pradesh. The third case in the section deals with the problem of building a suitable relationship between an NGO called NR Foundation (name disguised) and a co-operative promoted by the NGO for SHGs.
Case 3: SHG-Bank Linkage: A Case of ANARDE Foundation

Case Abstract: The case is about the ANARDE Foundation’s adoption of the SHG-Bank Linkage Programme initiated by NABARD and its implementation in North Gujarat. The ANARDE Foundation has linked SHGs with several nationalised banks to facilitate borrowing by the SHGs. Within a period of five years (1995-2000), the ANARDE Foundation formed and linked 3,216 SHGs in 7 districts of North Gujarat. The NGO ensured that the SHG members had the necessary training and exposure for the purpose. The ANARDE Foundation also proactively liaisoned with the lead banks through orientation and training programmes for bank staff to enlist their participation. However, once NABARD support came to an end, the ANARDE Foundation stopped its interventions. There were no clear plans for withdrawal and to make the SHGs sustainable. All previous efforts came to a halt, and there was no documentation on the performance and impact of the linkage.

Learning Objectives:

i) To help identify critical issues related to the role of an NGO as SHPI.
ii) To understand and analyse the approach and strategies followed by NGOs in implementing the SHG-Bank Linkage Programme.
iii) To identify issues concerning the sustainability of the SHG-Bank Linkage Programme and the withdrawal strategy by NGOs.

Target Audience: Participants of microfinance training programmes meant for senior and middle level managers. The participants could be from NGOs, banks and MFIs.

Duration: 70 minutes.

**Pedagogy:** Discussion on the role of microfinance and the concept of SHG should precede the case discussion session. The case is circulated in advance for reading and preparation by the participants. The case could also be circulated for reading during the training session itself.

**Case Discussion:** The case discussion may focus on three aspects: i) the progress of the SHG-Bank Linkage Programme; ii) the strategy followed by the NGO in scaling up the programme, and iii) the withdrawal approach adopted by the NGO.

The instructor should encourage participants to identify how the various strategies adopted helped the NGO to scale-up the linkage programme. The possible implications of the scaling-up and withdrawal method adopted by the NGO for sustainability have to be identified. After the above discussion, the participants could be asked as to how exactly they would have handled the linkage and withdrawal. Since the case lacks information on what exactly has transpired between the NGO, the bank and the SHGs, especially with respect to its sudden withdrawal, the instructor needs to supplement the debate by bringing in evidence from other examples of NGO intervention for SHG-bank linkage.

Highlighting the major discussion points, the instructor may sum up by drawing attention to ideal ways of NGO intervention for SHG-bank Linkage.
Case 4: The Nandipet SHG Federation

Case Abstract: Gram Abhyudaya Mandali (GRAM) is a non-profit rural development organisation working since 1980 in Nizamabad and Adilabad districts of Andhra Pradesh for the welfare of the dalit community. Since 1990 GRAM has been forming SHGs to promote savings and credit. In Nandipet Mandal, a federation having the legal status of a Mutually Aided Co-operative Society (MACS) was formed in May 2000 with individual members of all SHGs as shareholders. The Nandipet Federation is envisaged as a sustainable community-based financial institution geared to provide financial services to its members and to promote livelihood development activities among them. The services rendered by the Nandipet Federation include providing loans for both production and consumption purposes, mobilising savings, disbursing relief under the Death Relief Assurance Scheme (DRAS) and imparting training to the leaders of the SHGs. The Federation also facilitates linking of SHGs to banks. To meet the additional credit requirement of its members, the Federation borrows funds from banks and other financial institutions. The Federation on-lends to the SHGs keeping a margin for itself. In case of default by a member of any SHG, it becomes the SHG’s responsibility to repay the dues. The biggest challenge faced by the Federation is that of attaining self-reliance and autonomy. It is able to cover from its income a little over 77 per cent of its operational cost, the rest being borne by GRAM. The Federation is making efforts to generate more income by pursuing other activities. Most of the SHGs consider the Federation to be a relatively more useful intermediary as compared to other agencies.

1. Case prepared by Ms. S. Rama Lakshmi, Mahila Abhivrudhi Society, Andhra Pradesh (APMAS), Hyderabad.
Learning Objectives:

i) To help identify possible ways of taking forward SHGs especially through formation of a federation.

ii) To understand issues concerning how and when to promote a SHG federation and how to make it become relevant for the SHGs.

iii) To identify ways of making a federation of SHGs viable and self-reliant.

Target Audience: Senior and middle level NGO and MFI personnel involved in promotion of SHGs and their federations. The case is also relevant for bankers dealing with SHGs / SHG federations and post-graduate students pursuing courses on Microfinance and NGOs.

Duration: 90-120 minutes depending upon the nature of the course.

Pedagogy: Discussion on the role of microfinance and the concept of SHGs should have preceded the case discussion. The case is circulated in advance for reading and preparation by the participants. The instructor may follow general case discussion method involving all the participants. The focus group discussion method could also be followed with different groups of participants undertaking separate learning objectives or themes for analysis and sharing.

Case Discussion: The case discussion can start with the instructor highlighting the major issues concerning the SHG intervention and the need for formation of the federation. Attention is also drawn to possible positive and negative implications of formation of a federation for the SHGs and NGOs as highlighted in the overview given above.

The participants can share the basic facts about the NGO and key features of the Federation (MACS). Further discussion can be on the lines of questions provided at the end of the case. Considerable time needs to be spent on
question number 3 regarding the performance of the Federation in terms of its ability to assist the SHGs to meet their savings, credit and other needs. Here, the participants should identify and analyse the actual and potential differences the Federation has made or not made for the SHGs. Based on the discussion of question number 3, participants could be asked to identify ways as to how they would go about promoting a federation which could deliver the needed services to the SHGs. Response could also be elicited about the ways and approaches of making the Federation viable and autonomous.

The instructor may also draw a parallel between the SHG-Bank Linkage Programme and the formation of federations for sustaining the SHG intervention. In a pure SHG-Bank Linkage Programme, there may not be any federations of SHGs. The SHGs deal directly with the banks. The participants could be asked to argue for and against the two approaches, with and without a federation, for taking forward the SHGs.

The case discussion is summed up by highlighting the key achievements of the Federation, the limitations of the approach followed by the NGO, and insights from other evidences about ideal ways of forming a federation.
Case 5: The ‘Bank’

Case Abstract: The NR Foundation (an NGO) promoted a women’s co-operative credit and savings society in 1999 to take over 24 SHGs which had been formed and supported under a tribal development programme. Besides making the Co-operative autonomous, the NR Foundation wanted it to grow and become like a ‘Bank’ to serve a large area. The members of the SHGs selected Ms. Savitaben and Ms. Kantaben, the two most articulate leaders among SHG members as the Chairperson and Secretary of the Co-operative, respectively. There is enthusiasm among the Co-operative leaders and the staff of the Foundation to take forward the Co-operative. All of a sudden the relationship gets soured between the Co-operative and the NR Foundation staff. Communication breaks down between the two. The NR Foundation is blaming the leaders for breaking the relationship coming under the influence of local elements; the leaders of the Co-operative are blaming the staff of the NR Foundation. The NR Foundation feels the ‘Bank’ is not doing well under these two leaders. The leaders claim the ‘Bank’ is progressing well.

Learning Objectives:

i) To help understand issues in creating self-reliant people’s institutions;

ii) To learn ways of building and sustaining relationship between an NGO as a promoter and a savings and credit co-operative as an autonomous microfinance institution;

Target Audience: Senior and middle level NGO personnel involved in promotion of SHGs and federations and senior level SHG federation personnel. The case is also useful for students of post-graduate courses on microfinance and NGOs.

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1. Case prepared by Dr. H.S. Shylendra, Institute of Rural Management, Anand (IRMA).
**Duration:** 70-90 minutes depending upon the nature and level of the training programme.

**Pedagogy:** The discussion session on the case should be preceded by sessions on the need for integrating SHGs and building institutions to make SHGs self-sustaining. The case is circulated in advance for reading and preparation. The case could also be circulated and read during the session itself. The instructor may follow the general case discussion method.

**Case Discussion:** The instructor gives an overview of the emerging NGO-MFI relationship in the country. In the emerging relationship, the experience of NGOs converting themselves into MFIs; NGOs promoting separate MFIs, and NGOs promoting SHGs for linkage with the banks may briefly be highlighted. The need and importance of maintaining appropriate relationship between NGO and MFI, irrespective of the model followed, is brought out clearly in the introduction by the instructor.

The discussion can be sequenced on the basis of the questions raised at the end of the case. The participants try to dissect the case by trying to identify what has transpired between the NGO and the MFI and why the separation has taken place. The participants also discuss the pros and cons of the separation both from the point of view of the NGO and the MFI. Then, the participants reflect on the ways of re-establishing the relationship between the two and on lessons for the NGO in promoting a new MFI.

The instructor sums up the discussion by emphasizing on different ways of maintaining a sound relationship between NGOs and MFIs and the steps adopted by the NGOs in creating MFIs without compromising their identity and autonomy.
SECTION III

MICROFINANCE PRODUCTS

Microfinance is an intervention aimed at meeting the diverse financial service needs of the poor. In order for microfinance to effectively play both the livelihood protection and promotional roles, it is necessary that microfinance institutions (MFIs) come out with appropriate savings, credit and insurance products. The livelihood protection role of the MFIs become prominent when their products and services help members to overcome and recoup from various risks and contingencies to attain stability in their livelihood. The MFIs play a promotional role when their products and services help members to take up activities which enhance their income and employment opportunities.

In attempting to innovate new products, the MFIs have to focus on various features that the poor or disadvantaged groups generally consider in a financial product. In savings, the poor not only look for returns and safety, they also value those savings products that suit their convenience and income flow. A loan product, to be successful, not only has to be accessible when needed but also has to be reasonable in terms of cost and should be less cumbersome for borrowing and repayment. An insurance product would succeed provided it is reasonably priced, it meets the purpose of tackling the specific risk, and its claim settlement process is less cumbersome. Only when the products and services of the MFIs satisfy the above kind of needs, will the poor value them. Thus, only through appropriate products or services, the MFIs would be able to achieve their larger goal of attaining poverty alleviation.

The MFIs face many constraints in launching suitable products or services. First of all, many MFIs lack the capacity such as financial and technical needed for launching new products. Given the small size of the products demanded by the poor, be it loan or savings, cost becomes an important consideration. At the
beginning, there could be some trade-off between the returns from the new products and the cost of delivering them. With the increase in the volume of turnover, the MFIs should be able to attain breakeven levels to cover the costs.

Many MFIs do not have the required legal form and status and are thus unable to offer savings and insurance services. In that case, the services provided by MFIs may become fragmented with MFIs providing only partial or limited services. Due to these constraints or limitations, MFIs have to be more innovative in launching or designing various products that are attractive to the clients.

There are three cases in the section pertaining to designing of microfinance products- two on loan products and one on insurance. The first case deals with a situation where an MFI (SHG Federation) called EMVS (name disguised) in Tamil Nadu is compelled by its members to solve their electricity problem through a combination of loan product for electricity and providing other needed services. In the second case, an MFI called CASHPOR Financial and Technical Services (CFTS) in Uttar Pradesh based on the demand from the members launched a loan product for marriage of the daughters. The MFI has to redesign the product to make it more appealing after the initial problems. In the third case, an MFI, again CFTS, having launched insurance schemes in collaboration with the insurance agencies is contemplating about the future course of action.
Case 6: MD’s Dilemma (A Case on Rural Electricity and Microfinance)¹

**Case Abstract:** An NGO called HAND Foundation, has since 1992 been organizing the poor women of Danmar District of Tamil Nadu into Self Help Groups (SHGs). The SHG members are encouraged to pool their savings and lend to the members within the groups. They also approach banks for borrowing funds. To sustain such initiatives, members of the SHGs have promoted with the support of HAND foundation a federation of SHGs in 1995, called Earth Mahalir Vattara Sangam (EMVS). EMVS has 176 SHGs covering 105 villages with a total membership of 3,153 women. It mobilizes savings from the women members who have stakes in the organization with ownership rights. EMVS also avails of funds from banks and financial institutions and on-lends to its members under ten different loan products.

Members belonging to four SHGs living in the outskirts of Malukan village have a serious problem in getting electricity connections to their houses. Having failed to resolve the problem on their own with the electricity board, the members approached the Managing Director (MD) of EMVS seeking his support. The SHGs lacked adequate funds required for the purpose. The MD found that there is a similar demand from a large number of members from other SHGs. The estimated cost per electricity connection worked out to Rs.4,000-5,000. The members insisted on quality work at a reduced cost. The MD of EMVS wanted to help the members but is unable to find a way to do it.

**Learning Objectives:**

i) To help understand how MFIs / SHG Federations can function in terms of taking care of the diverse credit needs of SHG members.

ii) To develop skills in designing loan products for purposes such as rural electrification.

¹ Case prepared by Ms. A. Umarani with Mr. Dharmaraj, DHAN Foundation, Madurai.
**Target Audience:** MFI practitioners involved in designing and launching loan products. Participants of training programmes on designing microfinance products and services. The case is also useful for students of post-graduate course on microfinance.

**Duration:** 70-90 minutes

**Pedagogy:** The discussion on the case is preceded by participants getting exposure to basic concepts of microfinance and microfinance services. An exposure to principles of designing and marketing of loan products is also helpful. The case is circulated in advance for reading and preparation by the trainees.

**Case discussion:** The instructor highlights at the beginning the need for MFIs to respond to the diverse needs of SHG members by designing and launching appropriate loan products. The participants discuss first, the key facts about the context leading to the MD of EMVS being asked to respond to the demand of the SHG members. The trainees are asked to come out with their solution by designing a suitable loan product. The solution may also include any complementary services that EMVS can provide to reduce the cost for the members. The participants have to clearly identify the pros and cons of their solution both to EMVS and the SHGs.

Further, if needed, the instructor may share the solution as tried out by EMVS. EMVS, after sorting out the problem with the electricity board, basically worked on developing a loan product to meet the cost of getting connection by the members. EMVS would make assessment of the cost and loan demand for electricity connections by the members. The SHGs could approach the banks or EMVS for loan funds. EMVS, if needed, would borrow from apex agencies for the purpose. The loans for electricity are disbursed and recovered by the SHGs on terms evolved by them. Since the number of borrowers was large, in order to
reduce the cost, EMVS decided to negotiate with the Electricity Board for bulk connections and explore the possibilities for bulk purchase of materials for the members.

The case discussion is summed up by highlighting the nature of needs that emerged for EMVS from the members and the importance of the response of EMVS to retain its identity as a MFI. The critical elements required to be considered in designing such products are also highlighted.
Case 7: Loan Product for Daughter’s Marriage

Case Abstract: CASHPOR Financial and Technical Services (CFTS) Limited is a microfinance institution (MFI) operating in Mirzapur district of eastern Uttar Pradesh since October 1997. The case is about development of a loan product by CFTS for meeting expenses incurred by its members on account of marriage of their daughters. Part 1 of the case indicates that the need for such a product engaged the attention of the management of CFTS for sometime. It was discussed with the women members and a decision was then taken to launch a special product for the purpose in October 1999. Part 2 of the case outlines the eligibility criteria, loan size, repayment schedule and loan approval and disbursement details of the new product. The off-take of the product was insignificant till March, 2001 but picked up then onwards after some redesigning by CFTS.

Learning Objectives:

i) To help identify and understand the diverse and emerging needs of the clients of MFIs.

ii) To develop skills in designing and launching loan products for non-production purpose like marriage.

Target Audience: MFI practitioners and bank personnel involved in designing and launching of loan products. Participants of training programmes on designing microfinance products and services. The case is also useful for students of post-graduate course on microfinance.

Duration: 70-90 minutes

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1. Case prepared by Dr. KC Sharma, Banker’s Institute of Rural Development, Lucknow.
Pedagogy: The discussion on the case is preceded by sessions exposing the participants to the concept of microfinance and microfinance services. The case is circulated in advance for reading and preparation by the trainees. The case could also be circulated for reading during the session itself.

The case could be discussed in two parts: (i) The trainees are first given Part 1 of the case and asked to address the questions given at the end of the part. (ii) Thereafter Part 2 is shared for comparing and analyzing the solution suggested by the trainees and design actually worked out by the MFI. Subsequently, the participants address the questions provided at the end of Part 2.

The second method that could be adopted is to give both the parts of the case together and focus on evaluating the CFTS’ strategy in designing the loan product.

Case Discussion: The instructor first highlights the pros and cons of loans for purposes like marriage to both the members and the MFI. Part 1 of the case is discussed in relation to market analysis for launch of loan product. Issues like size of market, demand for the loan product and competition from moneylenders are brought into discussion. Then the participants work out a design of the loan giving attention to four ‘Ps’ of marketing (product, price, place and promotion).

Then Part 2 of the case is shared with the participants after they have arrived at their design and marketing strategy. The participants compare and evaluate the strategy adopted by CFTS. The reasons for variations in the design are identified and discussed. In CFTS the product launch coincided with serious delinquency problems in October, 1999. Hence, CFTS decided not to market the product aggressively as it was basically a consumption loan. Only in the year 2001, the product got the needed attention. CFTS also redesigned the product
with some necessary changes. Then on, progress has been fast and repayment has been 100 percent.

In summing up, the instructor brings out the importance of microfinance products such as marriage loans. The elements of suitable design, proper timing for launching a loan and proper marketing efforts are highlighted.
Case 8: Microinsurance: Is It A Viable Solution?¹

Case Abstract: This case is about Cashpor Financial and Technical Services (CFTS) and is presented in two parts. Part 1 discusses CFTS’ interventions for savings and credit in Mirzapur district of eastern Uttar Pradesh. It presents the situation of a client who died after a prolonged illness and had an outstanding loan to CFTS. Her family had no way to repay the amount except by approaching the local moneylender for a loan. Part 1 raises the important issue of how insurance could become a relevant alternative to alleviate the situation of such clients.

Part 2 of the case deals with CFTS’ attempt at introducing life and livestock insurance services to its clients in collaboration with HDFC Standard Life Insurance, ICICI Life Insurance and LIC of India. There are variations in the major features of the schemes offered by the three companies. The total coverage of the schemes in the first year is about 3000 clients. A break-even analysis is presented for all three insurance schemes in order to help CFTS to choose the best option. CFTS has to take a decision on whether to continue with all the three companies or choose any one of them.

Learning Objectives:

i) To help understand the need and relevance of micro insurance and to identify the possible ways in which MFIs can provide micro insurance

ii) To identify the constraints faced by the MFIs in providing viable insurance schemes for their clients.

Target Audience: MFI practitioners and personnel of insurance agencies involved in designing and launching insurance products. Participants of training programmes on designing microfinance products and services. The case is also useful for students of post-graduate course on microfinance.

¹. Case prepared by Ms. Nidhi Ranjan, Friends of Women’s World Banking (FWWB), Ahmedabad.
**Duration:** 70 minutes

**Pedagogy:** The case is taken up for discussion after the students have been exposed to the basic concept of micro insurance including some theoretical dimensions of insurance focusing on information asymmetry problems. The case is circulated in advance for reading and preparation. General case discussion method is followed for analysis.

**Case Discussion:** The case instructor highlights the emerging significance of micro insurance and various approaches being adopted by the MFIs in delivering insurance. Part 1 of the case could be used for enabling trainees to identify how the need for insurance arises for poor households. Based on the insights of the case in Part 1, participants could be asked as to how they would respond to such a situation as an MFI.

Part 2 of the case could be used for discussing two aspects: (i) Features of various micro insurance schemes; and (ii) Issues relating to the viability of the schemes. About the features, the participants could be asked to highlight and compare the key characteristics of the different insurance schemes. Based on the features, the trainees could be asked to reflect on how effectively the different insurance schemes address the information asymmetry problems of adverse selection and moral hazard which must be tackled for providing viable insurance services. Further, the trainees are required to identify the advantages and disadvantages of different schemes for the clients and the MFI, keeping in view the partner-agent model being used by CFTS.

Based on the viability exercise carried out in the case, the participants are asked to respond to the questions provided at the end of the case including ways of attaining or improving the viability of the chosen scheme.
SECTION IV

DELINQUENCY MANAGEMENT

A delinquent loan is defined as one on which the repayments are past due. Though some level of delinquency is manageable, but when it becomes widespread and goes beyond a tolerable level, the MFI would face many difficulties. For an MFI, its loan portfolio is the main asset for earning. If the delinquency problem gets worse, the quality of loan portfolio starts deteriorating as loans start turning into non-performing assets. The MFI may not be able to recycle its funds which may adversely affect its liquidity and returns. Unless controlled at the initial stage itself, the delinquency problem may spread to other borrowers. Not only will the cost for the MFI go up due to higher loan loss provisions but even the expansion of the MFI may become impossible. Delinquency management hence becomes crucial for MFIs’ success.

The magnitude of delinquency is measured in two ways. One method is to arrive at the arrears rate which is the ratio of loan amount past due to the total loan outstanding. Here, the focus is on extent of loan amount which is actually past due. Recently, another method called Portfolio at Risk (PAR) is being advocated for measuring delinquency. PAR is defined as the ratio of unpaid principal of all loans with late payment to the total loan outstanding.

Unlike in the first method where only the actual loan amount past due is considered; for PAR, the entire outstanding loan amount of all past due loans comes under scrutiny. Though PAR broadens the scope of delinquency management by considering the entire loan amount as risky despite only a small portion being defaulted, it can put some pressure on the MFIs as they may have to tackle even the non-delinquent part of the loans about which there is some uncertainty.
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 or encourage regular repayment. The causes for non-payment may emanate both from the MFIs and their borrowers. Inappropriate methods of loan disbursement and administration are some of the internal reasons for default. Inability to repay due to failure of economic activities undertaken or lack of willingness to repay are some of the reasons from the side of the borrowers. The causes of default may vary widely across borrowers and MFIs.

One case is presented in this section dealing with how an MFI, CASHPOR Financial and Technical Services (CFTS) Ltd. tackled delinquency problem after being faced with a sudden rise in PAR.
Case 9: Containing Delinquency Virus

Case Abstract: This case is about the delinquency problem faced by CASHPOR Financial and Technical Services (CFTS) Ltd., in its microfinance operations in the Mirzapur district of eastern Uttar Pradesh. CFTS considers Portfolio at Risk (PAR) as a measure of delinquency. CFTS' field staff, designated as Customer Service Representatives (CSRs), play a key role in ensuring repayment. The CSRs alert the members of the groups and centres concerned as and when there is a default on the part of any member. There is also an arrangement for addressing delinquency in the form of a Collective Responsibility Fund (CRF) to which contributions have to be made at prescribed rates by all members of the group and the centre till the delinquency stops.

PAR had suddenly increased beyond 5 per cent from July 1999 and reached a level of 11.3 per cent in October 1999. This awakened the organization forcing the management to consider various measures for containing the problem of delinquency. The increasing trend of PAR was reversed and it gradually declined to 5 per cent by June 2000.

Learning Objectives:

i) To understand the concept of delinquency, its measurement and causes.
ii) To identify and discuss ways of tackling the delinquency problem focusing upon the efforts needed both at organizational and operational levels.

Target Audience: MFI and bank personnel involved in loan disbursement and recovery functions, and participants of training programmes on strategic and operational issues of MFIs. The case is also useful for students of post-graduate course on microfinance.

1. Case prepared by Dr. KC Sharma, Banker's Institute of Rural Development (BIRD), Lucknow.
**Duration:** 70-90 minutes

**Pedagogy:** The session on the case is preceded by discussion on the concept and measurement of delinquency. The case is circulated in advance for reading and preparation by the participants. The case could also be circulated for reading during the training session itself. For analysis, the general case discussion method is recommended.

**Case Discussion:** The instructor highlights at the beginning the significance of delinquency management for MFIs and possible approaches to tackle the problem. The participants take note of the method of measurement and the actual magnitude of delinquency of CFTS. The participants are then asked to identify the system developed by CFTS for loan recovery. The possible causes for the problem faced by CFTS are also identified. In identifying the causes, the participants are encouraged to look at both the internal and external factors causing delinquency. In particular, participants’ attention is drawn to how internal factors such as weekly repayment system, economic rate of interest, composition of loan portfolio and working of CSR and CRP systems could be influencing loan repayment. Then the participants are asked as to how they would tackle the problem faced by CFTS. Besides arriving at a solution, the participants have to relate it with possible causes of the problem identified earlier and how their solution is likely to work in the case of CFTS.

Further, if needed, the strategy actually followed by the CFTS (see Appendix 1) can be shared with the participants. After sharing the CFTS’ strategy, the participants could be asked to critically assess the strategy followed by the CFTS and identify its possible implications for the future management of delinquency.

The case discussion is summed up by highlighting the fact that while there are some general principles of loan recovery management, every MFI has to evolve its own strategy based on the needs and problems identified.
Appendix – 1

The strategy of the CFTS had the following components:

1. Insistence on the CRF being collected when due, and disciplinary action against CSRs when it was not collected. Only verbal and written warnings were issued to the CSRs. No suspensions of the CSRs were done.

2. Incentives were given to the CSRs and the branch managers to level off their PAR and then to reduce it. The idea was initially to check PAR from increasing, and then to reduce it below 10 percent. The system is still continuing and is applicable if recovery is greater than 90 percent. For 91 percent recovery, the incentive is 0.1 percent of the interest income. For 92 percent recovery, it is 0.1 percent + 0.2 percent i.e. 0.3%. Therefore, for 100 percent recovery it comes to 5.5 percent of the interest income.

3. An interest rebate of 10 percent on interest paid by clients is given for perfect quarterly repayment. For example, for a loan of Rs. 4,000, the weekly instalment is Rs. 80 for principal and Rs. 16 for interest. The interest paid in a quarter will be Rs. 192. Therefore, the interest rebate would be Rs. 19.2. This was found to be most effective with the clients. This was withdrawn once the problem of delinquency was contained.

4. Ensure weekly monitoring of PAR down to the individual CSR level.

The incentive payment to clients and the staff of CFTS reduced the effective rate of interest earning from 20 percent to about 18 percent for CFTS. Thus about 2 percent of interest income was spent on incentive payments to the staff and the clients to contain the delinquency problem.

1. Prepared by Dr. K.C. Sharma, as a supplement to the case on `Containing Delinquency Virus'.

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PAR figures in the CFTS during the period March 1999 to July 2002 are presented in the following table. It shows that the problem of delinquency has not resurfaced after June 2000. In fact, PAR has more or less remained below 2 percent since December 2000.

### PAR in CFTS (March 1998 to June 2002)

<table>
<thead>
<tr>
<th>Month</th>
<th>PAR (%)</th>
<th>Month</th>
<th>PAR (%)</th>
<th>Month</th>
<th>PAR (%)</th>
<th>Month</th>
<th>PAR (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 1998</td>
<td>0</td>
<td>Nov. 1999</td>
<td>11.3</td>
<td>July 2000</td>
<td>4.5</td>
<td>July 2001</td>
<td>1.4</td>
</tr>
<tr>
<td></td>
<td></td>
<td>April 2002</td>
<td>1.9</td>
<td>May 2001</td>
<td>1.2</td>
<td>May 2002</td>
<td>1.9</td>
</tr>
<tr>
<td></td>
<td></td>
<td>June 2001</td>
<td>1.2</td>
<td>June 2002</td>
<td>1.8</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
SECTION V

PERFORMANCE ANALYSIS

The overall performance of a Microfinance Institution (MFI) is measured at two levels: (i) at MFI clients or household level, and (ii) at MFI level. The performance measurement and analysis enable the management of a MFI both to monitor and evaluate its progress and arrive at new strategies to improve and enhance its performance.

At the client level, performance measurement is carried out to assess the satisfaction level of the clients with the services of the MFI and the impact of the MFI services on their socio-economic conditions. The MFI level performance measurement looks at how the MFI is performing as a financial intermediary particularly in terms of its outreach, the services provided and extent of viability or sustainability attained as a business entity. The overall performance analysis could also help to find out, given the argument that there is a trade-off between the outreach and viability of a MFI, how far the MFI is able to strike a balance between the two. While the outreach indicates the extent of coverage of the target clients by the MFI; the issue of sustainability of MFI relates to in what ways and to what extent the MFI has been able to meet its various expenses.

The tools for performance measurement of MFIs are still evolving. Various agencies like Consultative Group to Assist the Poorest (CGAP), Small Enterprise Education Promotion (SEEP) Network and Planet Finance have developed their own set of performance measurement indicators for the MFIs. The aim of some of these agencies is to standardize the performance measurement indicators for MFIs at a global level.

There is also a need to critically evaluate the various performance measurement systems being advocated for MFIs. Given the objectives of MFIs and
context in which they operate, the relevance of various performance measurement indicators need to be examined so as to come up with more meaningful indicators.

Three case are presented in this section relating to performance measurement of MFIs. The first case pertains to Friends of Women’s World Banking (FWWB), a sub-wholesale MFI which is trying to explore and adapt a suitable performance measurement system. As a sub-wholesaler, FWWB borrows from apex lenders such as NABARD and SIDBI and onlends to retail MFIs. The second case is about Rashtriya Gramin Vikas Nidhi (RGVN) trying to attain self-sufficiency through its microfinance operations. The third case is about a disguised MFI called MVS facing a dilemma due to the dichotomy in the performance measurement systems used by the MFI and its funding agency.
Case 10: Link Metrics To Your Mission: Performance Measurement System of FWWB

Case Abstract: The case is about the performance measurement system of Friends of Women’s World Banking (FWWB), which was established in 1982 as a non-profit organization with the purpose of facilitating women’s participation in economic development. FWWB’s main activities include providing loan funds to microfinance institutions, support in their capacity building and staff development and the creation of awareness on microfinance issues through research and publication. By 2002, FWWB was working with 81 partner organisations through its credit programme with an outreach of 46,753 women and a loan portfolio of Rs 169 million.

The performance measures of FWWB are related to its vision, mission, strategy and objectives. The actions and indicators are presented as a part of FWWB’s performance. The case raises a few pertinent questions relating to how effectively FWWB measures its performance in relation to all its objectives and stakeholders; how to bridge the gaps in the performance measurement system to make it useful for future planning and decision making, and how the sustainability of FWWB could be maintained.

Learning Objectives:

i) To help understand how to measure the performance of wholesale or sub-wholesale MFIs.

ii) To help assess the relevance of the performance measurement system adopted by a MFI like FWWB and identify ways of improving the performance measurement system.

1. Case prepared by Mr. Keyur Thaker, National Institute of Cooperative Management, Gandhinagar.
**Target Audience:** Senior MFI practitioners and personnel of apex MFIs handling monitoring and evaluation functions. Participants of training programmes on performance analysis of microfinance institutions. The case is also useful for students of post-graduate course on microfinance.

**Duration:** 70-90 minutes

**Pedagogy:** The case could be used to introduce the concept of performance measurement system for MFIs and to discuss the relevance of various indicators being used in performance measurement. If the case is to be used for assessing the performance measurement system adopted by a sub-wholesale MFI, then the case discussion is preceded by sessions exposing the trainees to various performance measurement indicators of MFIs. The trainees should have prior familiarity with performance measurement concept and indicators. The case is circulated in advance for reading and preparation by the participants. Focus group discussion may be adopted for analyzing the case.

**Case Discussion:** Depending upon the purpose, the instructor highlights the relevance of the performance measurement system for MFIs and the need for evolving a system suitable to MFIs’ context. The role and status of FWWB as a sub-wholesale MFI is made clear in comparison to an MFI engaged in retail activities. The questions given at the end of the case are taken up for discussion in the sequence they appear. The participants could be divided into two groups for a more focused discussion; one group could argue in favour of the system being used by FWWB and another could argue against the system adopted. The group arguing against could also be asked to propose alternative indicators.

In the discussion, the instructor ensures that the participants not only take into account FWWB’s status as a sub-wholesaler, but also constantly relate their arguments to the mission and objectives of FWWB. The other issues that could be highlighted are: identifying indicators which reflect the performance of
FWWB *per se* and that of its clients; the relevance of the way in which portfolio quality indicators are measured given the status of FWWB; the relevance of financial self-sufficiency ratios given the objectives and context of FWWB; and the ability of FWWB to monitor and generate adequate data to measure the selected indicators.

The summing up would depend upon the purpose for which the case has been used. If the purpose is to introduce the participants to performance measurement system of MFIs, the instructor would highlight the need for careful measurement and interpretation of the indicators. If the objective is to evaluate the measurement system adopted by MFIs like FWWB, the instructor highlights the role and context of FWWB and the need to evolve a set of indicators suitable for its purpose and mission.
Case 11: Attaining Self-Sufficiency: The Case of Credit and Savings Programme of RGVN

Case Abstract: The case is about Rashtriya Gramin Vikas Nidhi’s (RGVN) Credit and Savings Programme (CSP). The case provides an overview of group formation and functioning, savings and loan products, human resource management, accounting and management information system of CSP. By March 2001, CSP had made good progress in terms of its outreach and had promoted 2,109 groups in different parts of eastern and northeastern India. The RGVN is being funded by apex agencies such as SIDBI and NABARD. The programme is strong on organizational and financial management. The question however is can the organization attain self-sufficiency while making a positive impact in terms of poverty alleviation. Attaining operational self-sufficiency, according to the Director of CSP, is key to link CSP with the formal financial sector to receive commercial sources of finance. Does the answer lie in increasing the rates of interest on loan products or is there some other solution?

Learning Objectives:

i) To help understand the functioning, performance and challenges of a MFI.
ii) To familiarize and enable understanding of MFI performance measurement indicators.
iii) To demonstrate the complexity of attaining self-sufficiency by a MFI and help explore and identify alternate ways of attaining self-sufficiency by a MFI.

Target Audience: Senior MFI practitioners and personnel of apex MFIs handling monitoring and evaluation functions. Participants of training programmes on MFI

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1. Case prepared by Mr. Krishan Jindal, Bankers’ Institute of Rural Development, Lucknow.
performance measurement and analysis. The case is also useful for students of post-graduate course on microfinance.

**Duration:** 90-120 minutes depending upon the nature and level of the programme.

**Pedagogy:** The method of case discussion to be adopted would depend upon the learning objectives to be attained. If the focus of the learning objective is on (i) and (ii), the instructor could use the case to bring in relevant insights or data (on own or with the help of the trainees) for demonstrating the concepts. The case thus becomes a live example for the purpose.

If the purpose is to attain the third learning objective, the participants are expected to have some prior exposure to concepts and ratios used in performance measurement of MFIs. The case is circulated in advance for reading and preparation by the participants.

For discussing learning objective (iii), the participants could be divided into sub-groups for focus group discussion and sharing. The groups could analyse and discuss separately two possible ways and implications of attaining self-sufficiency by RGVN. There are two possible approaches to attaining self-sufficiency as given in Appendix 1 of this Note. The Appendix is shared with the participants in advance along with the case, in a situation where the participants have no prior exposure to the concept and ratios of MFI performance measurement.

**Case Discussion:** The instructor opens the discussion by highlighting the relevance of self-sufficiency for MFIs: What level of self-sufficiency do MFIs need to attain? What approaches may be adopted? The participants are then divided into sub-groups for discussion. The groups identify the causes for the current status of RGVN and advocate alternate approaches and strategies for
attaining self-sufficiency. The groups come back after allotted time (about an hour) and make presentations in a plenary. The instructor ensures that the participants bring out the implications of attaining different levels of self-sufficiency as suggested in Appendix 1 and the concern raised by the Director of RGVN about raising interest rate for attaining self-sufficiency.

The case discussion is summed up by the instructor by clearly highlighting the implications of adopting increasing returns over reducing cost strategy both for the MFI and for its clients. The desirability of adopting a cost reducing strategy is emphasised by identifying possibilities such as limiting loan losses, increasing loan volumes, increasing savings, rationalizing interest on savings, raising equity and quasi-equity funds, and through innovations.

Appendix-1

Technical Note on Challenges for Cost Recovery

What is Cost Recovery?

One of the major challenges facing Microfinance Institutions (MFIs) is that of cost recovery. The meaning of cost recovery is that an MFI should be able to recover its costs of operation from its operating income. The major sources of operating income for MFIs are interest and fees. The interest income from loans is the major source of income as fee and investment income of MFIs are usually insignificant. The cost of operation includes the financial cost of funds, operating expenses and loan loss provisions. Broadly, there are two levels of cost recovery as presented in the following table:

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1. Prepared by Mr. Krishan Jindal as a supplement to the case on ‘Attaining Self-Sufficiency: The Case of Credit and Savings Programme of RGVN’.
**Levels of Cost Recovery**

<table>
<thead>
<tr>
<th>Level 1: Operational Self-sufficiency (OSS)</th>
<th>Interest and fee income covers financial cost, operating expenses and loan loss provisions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level 2: Financial Self-sufficiency (FSS)</td>
<td>Interest and fee income covers all the above costs, including inflation and subsidy adjustments</td>
</tr>
</tbody>
</table>

An organisation is called operationally self-sufficient when its annual operating income is able to cover its annual cash and non-cash operating expenses. The non-cash expenses mainly include depreciation and loan loss provisions. This is the first level of cost recovery and from here MFIs may graduate to the next level where the operating income is sufficient not only to recover the operating costs but also to absorb an adjustment for inflation and a further adjustment for hidden subsidies, treating the cost of all liabilities as if they were borrowed at market rate. A financially self-sufficient programme is independent of donor funding and can expand its outreach by accessing commercial loans. OSS and FSS can be represented as:

(i) **Operational Self-Sufficiency**

\[
\text{Operational Self-Sufficiency} = \frac{\text{Financial Income}}{\text{Financial Cost} + \text{Operating Expenses} + \text{Provisions for Loan Losses}}
\]

(ii) **Financial Self-Sufficiency**

\[
\text{Financial Self-Sufficiency} = \frac{\text{Financial Income}}{\text{Financial Cost} + \text{Operating Expenses} + \text{Provisions for Loan Losses} + \text{Adjustments for Inflation and Subsidies}}
\]

**Planning for Cost Recovery**

The challenge before the majority of the MFIs is to attain operational self-sufficiency after which they can explore about financial self-sufficiency.
for OSS is a complex process, as it requires critical analysis of all assets, liabilities, sources of income and expenses. There could be many ways by which an organisation can attain OSS. Some of the broad strategies for attaining OSS are discussed in subsequent paragraphs. MFIs need to combine these strategies to attain OSS.

(i) Improve Return on Performing Assets

Return on Performing Assets = \( \frac{\text{Financial Income}}{\text{Average Performing Assets}} \)

The performing assets of a MFI consist mainly of loan portfolio and other investment assets. The return on performing assets can be increased by increasing interest on loans, better utilisation of funds, keeping non-performing assets low and getting better return on investments etc. For preparing an action plan for cost recovery, it may be better to analyse return on loans, investments and other performing assets separately.

(ii) Reduce Financial Cost Ratio

Financial Cost Ratio = \( \frac{\text{Financial Cost}}{\text{Average Performing Assets}} \)

The Financial Cost ratio shows the cost of funds mobilised by MFI. The main sources of funds are equity, net worth, savings, soft loans and commercial loans. For preparing an action plan for cost recovery, it may be better to analyse the cost of funds raised from different sources. The cost of funds can be reduced by accessing soft loans, improving savings, improving equity and net worth.

(iii) Reduce Operating Cost Ratio

Operating Cost Ratio = \( \frac{\text{Operating Expenses}}{\text{Average Performing Assets}} \)
This ratio can be improved by reducing operating expenses. Operating expenses include cash and non-cash expenses. Cash expenses are mainly of two types: i) salary and other staff expenses, and ii) administrative expenses. The reduction of cash expenses requires critical analysis of all the expenses in relation to their productivity for which operating efficiency ratios must be worked out. Non-cash expenses such as loan loss provisions can be reduced by maintaining a healthy portfolio.

The other alternative to improve this ratio is to increase the volume of average performing assets by keeping the operating cost in check. This may require innovative strategies for improving productivity of human and other resources.

References


Case 12: Do You Deserve More Funds? : The Case of MVS

Case Abstract: The case is about Manav Vikas Samity (MVS) a NGO in North Bengal which was established in 1971 by the Poverty World Federation (PWF) for socio-economic development of poor communities in the region. MVS has been providing credit facilities to the poor.

Part 1 of the case discusses the dilemma of a new staff member of MVS in meeting a stipulated target for new loans in one cluster of villages. The dilemma was caused due to the shortly upcoming internal audit. With advice from an older staff member, the new member of staff successfully prepared a list of target borrowers from different groups in the cluster. Certain discrepancies in the list were handled expertly by the staff, the rationale being that the management understands their commitment to the poor and needy. Therefore a loan which is used for different purpose other than for what it is provided is not a problem, so long as it is used for the fulfillment of a basic need.

Part 2 of the case discusses further funding of MVS through the Assist Poverty Worldwide (APW). The head of the microfinance programme of APW was positive about MVS’ performance and was in favour of providing more funding. Only this time, they wanted to give them a loan for expanding their portfolio and not a grant as the NGO had developed their capacities well enough. However, based on a thorough review of MVS’ performance by Micro Consultants, APW came to a decision to hold back further lending to MVS. Instead, it commissioned another study for restructuring the microfinance programme of MVS.

Learning Objectives:

i) To familiarize and develop skills relating to MFI performance measurement indicators.

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1. Case prepared by Mr. Swandip Sinha, EDA Rural Systems, Gurgaon.
ii) To identify the merits and demerits of different methods of performance measurement systems being used by or advocated for MFIs

iii) To develop skills in the use of performance measurement systems for policy analysis of MFIs.

**Target Audience** : Senior MFI or funding agency personnel who deal with the performance measurement of MFIs and for trainees of programmes on scaling-up and governance issues in microfinance. The participants must be familiar with the basic financial ratio analysis for MFIs. The case is also useful for students of post-graduate course on microfinance.

**Duration** : 90 to 120 minutes depending on the nature and level of the programme.

**Pedagogy** : The case discussion session would be preceded by sessions on basic MFI performance measurement and financial ratio analysis. The case is circulated in advance for reading and preparation. The participants could be divided into at least three sub-groups to discuss separately the three questions provided at the end of the case. If the case is going to be discussed in multiple sessions, the first two questions can be taken up for discussion in the first session while the third question on restructuring could be taken up in the subsequent session.

**Case Discussion** : The instructor highlights at the outset the status of performance measurement system in MFIs along with the need and implications of adopting alternative approaches. The current approaches of MFIs to various aspects about performance analysis are highlighted. The participants are divided into sub-groups to work on different questions. The participants come back and make presentations in a plenary. In discussing each of the three questions, the instructor, if warranted by any inadequacies in the analysis of the participants,
may supplement the discussion suitably with the clarifications or solutions provided by the author of the case in Appendix 1 of this note.

In discussing the first question, the attention of the participants is drawn to the implications of the new performance measurement system used by the Micro Consultants to measure MVS’ performance especially with regard to approaches adopted for treating income, grants and cost sharing.

With regard to restructuring of MVS, the groups focus on the problems faced by MVS as evident from Part 1 and Appendix 1 in the main case. The pros and cons of restructuring are also clearly discussed in relation to the objectives, mission and other activities of MVS.

The summing up would depend upon the approach followed in handling the case. The instructor emphasises the relevance of using appropriate performance measurement and internal systems which enable management to strike a clear balance between the development purpose of MFIs and their concern for sustainability.

**Appendix – 1**

**Some Explanations and Clarifications for Trainers**

Question 1: What did MVS’ portfolio and financial analysis reveal to APW which made them reverse their lending decision? Why were some of Micro Consultant’s figures different from the figures reported by MVS?

1. The organization was making a net operational loss and not an operational profit as reported by them. They showed profit because they did not allocate salaries clearly; booked assets used in microfinance to other programmes (and

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1. Prepared by Mr. Swandip Sinha, as a supplement to the case on ‘Do you Deserve More Funds?: The Case of MVS.”
hence without depreciation hitting the microfinance income statement) and; showed grants as part of operational income.

2. The Yield to APR ratio is only 47 percent. The Yield on Portfolio during the year for MVS is 12.4 percent. The APR is the maximum yield that the portfolio could have earned during the year. The MVS charges 15 percent flat for most loans which can yield an APR of 26.5 percent. But MVS earned only 47 percent of its potential. The remaining 53 percent is the yield gap. The possible causes for such a gap are: poor portfolio quality, borrowers default on the interest payment and large disbursements towards the close of the financial year.

3. The PAR at 66 percent indicates a very high likelihood of loan loss. Though the cumulative repayment rate is 89 percent (which is often the basis of assessment used by donors) the portfolio quality is very poor. The high repayment rate may also be because of the method of repayment calculation adopted by MVS which does not exclude prepayments.

Question 2: What do you think are the causes which have led to the present situation?

1. Work culture: Lack of focus and staff orientation at all levels on the issue of tackling loan delinquency. The work culture is based on social values and does not strike a balance with the commercial goals. The staff are used to the culture of providing handouts to beneficiaries.

2. Internal Audit (IA): MVS conducts checks of sample branches at six monthly intervals. However, this frequency of internal audit is inadequate and follow up on reports is lacking. The surprise element is missing from the internal audits. The branch staff get ample time to prepare and cover-up mistakes, if necessary. IA is not taken too seriously. The veteran staff feel they have seen it all. No adverse action is taken based on internal audit which has reduced its
importance. The management is also lenient because of the social nature of the programme. Further, the outcomes of the internal audits are not shared.

3. Grant Funded: MVS did not initially stress on delinquency and financial analysis. The donor targets though important, are not always realistic.

4. The Microfinance Programme is not segregated. It is combined with other social programmes of the organisation. The field staff are common for all programmes. Too much time is spent on social development programmes. The high work pressure in other programmes affects field staff’s attendance in group meetings.

5. Weak system: The borrower selection process was left entirely to the group leaders. The loan applications are also filled in by the group members which gives scope for errors and fraud. The collection sheet was filled by the group members incorrectly which led to problems. No utilisation checks are carried out. Hence hurried selection procedure is adopted.

6. Structure of the Organisation: The loan scrutiny is done by the deputy district manager who is common for all the activities of MVS. Hence he cannot devote full time.

7. Weak MIS: The basis of selecting borrowers is faulty. Only group records are emphasized. The applications were rejected when groups had a poor record. The danger in using only group records is that a delinquent member can still get a loan as long as the group performance is satisfactory. This increases the chances of delinquency in the future. The individual member records are not considered in MVS. The individual records are not computerized and not updated. This has resulted in many individuals who had past dues getting new loans.
8. Weak groups: The groups are of poor quality. There is no joint accountability. Hence there is ample scope for collusion.

Question 3: The APW has hired you as a consultant for restructuring MVS’ microfinance programme. What are your suggestions?

Some possible directions are: There is a need for creating a distinct identity and responsibility structure for microfinance operations. MVS has to allocate clear responsibility to staff at different levels. It has to establish a performance based incentive system and define minimum performance standards for all staff.

The staff in microfinance needs to be trained in ratio analysis, financial management and internal control systems.

MVS has to strengthen its monitoring and reporting procedures. For this, MIS has to be improved. It has to also strengthen the tracking system for overdues and ensure adequate field level follow-up on loan recoveries.

MVS has to design appropriate accounting system for its microfinance operations. It has to pursue regular monitoring of its financial performance. Further, MVS need to sharpen the internal audit system at least over the next two years. It has to further ensure greater focus on accountability in relation to the internal audit findings. Follow-up action should be verified and reported more clearly than at present. Any failure to take action should be reported directly to the Board.
SECTION VI

SCALING-UP

Scaling-up the operations of microfinance institutions (MFIs) is a strategic issue being currently debated for enhancing further the role, relevance and the impact of the microfinance. Having gone through the initial phase of intervention on a low scale and in an informal manner, many MFIs are planning to scale-up to widen the scope of their operations. At the same time, with bigger goals being visualized for microfinance interventions, both globally and nationally, it is becoming imperative for the MFIs involved at various levels also to scale-up their operations. Scaling-up for a MFI involves increasing its outreach both geographically and in terms of coverage of the target population. The services of a MFI hitherto available only to small area or target group, need to have a wider geographical coverage. There are only a few successful cases of MFI scaling-up in the Indian context. Many constraints come in the way of MFI scaling-up. For a typical MFI, run by a NGO, an effective scaling-up involves addressing many crucial issues.

The NGO-MFI has to take a clear decision that it would like to expand its operations in a major way. A clear goal is set to be realized within a well defined timeframe. Once the goal for scaling-up has been set, the MFI has to gear up fully towards attaining the goal. A clear strategy and approach in conformity with the mission and vision of the MFI has to be drawn up. The MFI has to explore whether it has the required legal form for expanding its business and coverage. Unless the MFI possesses the required legal form, it may face difficulties in mobilizing the required resources and in providing wide range of services. For this, the NGO-MFI may have to explore creating a new institution in the form of a non-banking financial company or a co-operative or a local area bank.
The MFI needs to work out a careful strategy for mobilizing the required resources, both financial and human, to meet the stated goal. Simultaneously, the MFI has to strike a balance between its outreach and viability. Given the argument that there is a trade-off between higher outreach and viability of the MFI, it has to be clear about its stand on the issue and how exactly it would address the conflict. The MFI has to decide whether it would strictly follow the target group criterion or would compromise on that aspect while scaling-up.

The development of various internal systems required for larger operations is another crucial issue. A clear Human Resource Management (HRM) system has to be put in place for addressing issues such as staff incentives for increased productivity and staff training for handling increased responsibilities. For monitoring the progress and operations, the MFI has to develop an appropriate Management Information System (MIS). Those MFIs which have scaled-up successfully have also addressed some of these issues quite successfully.

This section has two cases dealing with the issue of MFI scaling-up. The first case is on the MFI called BHASS (name disguised) in Kerala whose management is concerned about the emerging challenges and threats for its expansion. The second case is about the Village Welfare Society (VWS) in West Bengal which has apparently worked out a strategy for scaling up.
Case 13: BHASS Micro Credit Mission

Case Abstract: BHASS is a non-governmental organisation working in the state of Kerala, working towards upliftment of the poor women. BHASS has initiated its microfinance programme since 1996 mainly through forming SHGs. As of 2001, BHASS has formed 2,682 SHGs with a membership of 53,640. The objective of BHASS is to cover one million poor families by 2005. BHASS has an elaborate multi-tier structure for delivering microfinance. BHASS mobilizes funds mainly from apex microfinance institutions. Mr. Krishnakumar, the officer in charge of BHASS, feels that though the progress so far has been good, BHASS is facing certain problems, particularly from other agencies which are promoting SHGs on a large scale through aggressive strategies. At the same time, the poorest category of members are beginning to perceive that the intervention through credit may not really help them.

Learning Objectives:

(i) To help trainees understand the functioning of a MFI.
(ii) To help identify and assess the possibilities for scaling-up MFI operations.

Target Audience: MFI and NGO senior personnel concerned with scaling-up and other strategic issues. Participants of training programmes on scaling-up and NGO transformation. The case is also useful for students of post-graduate course on microfinance.

Duration: 70 minutes

Pedagogy: The case is circulated in advance for reading. It could also be circulated during the session itself for reading and discussion. If the purpose is to help trainees understand the functioning of MFIs (objective i), the case could

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1. Case prepared by Dr. N.V. Namboodiri, Indian Institute of Management, Ahmedabad (IIMA).
be used even without participants having any previous exposure to microfinance. If the purpose is to use it for discussing the issue of scaling-up, the case discussion has to be preceded by sessions on basic issues concerning the functioning of MFIs.

**Case Discussion:** The case instructor provides an overview about MFIs and their emerging forms and functions. Based on their understanding of the case, the participants identify and discuss the objectives of BHASS, the approach followed in forming SHGs, method of delivery of savings and credit, the actual functioning of SHGs, the organizational structure of BHASS, its sources of finance, and overall growth and the problems faced by BHASS. Such a discussion can give the participants a clear understanding of the functioning of a MFI. The instructor ensures that the students clearly understand the approach followed by BHASS including its limitations in delivering savings and credit. The instructor also highlights the fact that this is one of many approaches followed by MFIs.

For discussing the scaling-up issue, the instructor highlights the meaning and relevance of scaling-up of microfinance operations and the possible approaches and challenges faced in doing so. Based on the case reading, the participants are asked to identify the scaling-up objectives and approach of BHASS and the challenges or problems likely to be faced internally and externally by BHASS. Subsequently, the participants could be asked to reflect whether BHASS should really go in for scaling-up as proposed or it should set a more modest objective.

The summary on scaling-up should include lessons from successful examples and suggestions for how MFIs such as BHASS should approach the issue.
Case 14: Scaling Up of An MFI: The Case of Village Welfare Society

Case Abstract: This case is about Village Welfare Society (VWS), an NGO based in West Bengal, which started in 1982 as a charity-cum-welfare organisation, and graduated into a development organisation in 1990s with a focus on all such activities which are capable of being pursued by the poor on a sustainable basis. A few years later, when in the wake of financial sector reforms, the earlier enthusiasm of banks for weaker section financing was apparently declining, VWS launched its microcredit operations on a formal basis. VWS’ activity in this area went up significantly between 1995 and 2002 with manifold increases in the number of Self Help Groups (SHGs), size of membership and volume of credit disbursement.

VWS has launched an ambitious plan for scaling up its microfinance operations further. It contemplates to increase the number of SHGs and upscale the volume of credit disbursement manifold. VWS plans to achieve its ambitious targets by adopting a three-pronged strategy of increasing the number of its functional offices, raising the staff strength, and mobilising funds not only from apex institutions but also from commercial banks. The challenge for VWS in scaling-up is not so much to achieve sustainability on financial grounds but to retain its commitment to the mission of focusing only on the poor and the disadvantaged.

Learning Objectives:

i) To help understand critical issues concerning scaling-up of the operations of a MFI.

ii) To understand and evaluate the strategies to be adopted for scaling-up.

Target Audience: Senior NGO and MFI personnel involved in strategic level operations. For participants of training programmes on scaling-up and other strategic issues of MFIs and even other developmental organizations. The case is also useful for students of post-graduate course on microfinance.

Duration: 90-120 minutes

Pedagogy: The case discussion is preceded by sessions on understanding the functioning of MFIs. The case is circulated in advance for reading and preparation on the lines of the questions given at the end of the case. The participants could be divided into two sub-groups for analyzing the scaling-up strategy. One group could analyze and argue for the strategy proposed by VWS, and another group could analyze and oppose the strategy adopted by VWS.

Case Discussion: The case instructor first highlights the meaning and relevance of scaling-up of microfinance operation and the possible approaches and challenges of scaling-up. The participants discuss the background, functioning and performance of VWS. The participants could thereafter discuss each of the questions posed at the end of the case with the purpose of understanding and evaluating the past and future strategies adopted by VWS for scaling-up.

The participants could also be divided into sub-groups for focus group discussion as suggested above. This could be attempted only if the groups are of reasonable size for a meaningful group work. Sub-group 1 is required to discuss and argue in support of the strategy adopted by VWS. Sub-group 2 could discuss and argue against the strategy. Sub-group 2 could also be asked to suggest an alternate strategy.

The groups come back after the allotted time (about 45 minutes) and share their analysis in a plenary. In either of the discussion methods, the instructor should
Training Guide on ‘Cases in Microfinance’

ensure that participants give attention to the issues like targeting the poorest, the institutional form of VWS, the linkages it has established with other agencies, the internal systems and the viability of the VWS. The participants critically discuss how far these factors have a bearing on the meaningful scaling-up by VWS.

The case discussion should be summarized by highlighting the positive and negative dimensions of the scaling-up strategy of VWS. The case instructor could share lessons from successful experiences and their relevance for an MFI like VWS.
Two major reasons identified for the success of microfinance institutions (MFIs) in reaching out to the poor on a large scale are: the informal system of operations evolved endearing to the poor and the motivation and commitment of the staff and personnel of MFIs to work for the poor. In terms of informal systems, MFIs could successfully adopt collateral-less lending made possible through adapting social intermediation processes like peer pressure and joint liability. While adoption of social intermediation helped MFIs in overcoming the problem of information asymmetry for taking decisions with regard to credit delivery and recovery; the commitment and the absence of bias against the poor among the MFI personnel unlike that of conventional bankers has helped microfinance interventions to sustain their pro-poor image.

Faced with the challenge of scaling-up of their operations for achieving a larger impact, MFIs have to address the basic question of how to increase their outreach without compromising on the issue of targeting the poor by following newer systems and operations. For scaling up, the MFIs may have to adopt newer institutional forms and systems conducive for large scale operations. This may bring in professionalism, standardization for faster operations and other formalities needed for such scaling up. Professionalisation not only brings in well trained people into MFIs but may also require appropriate systems of remuneration and incentives to retain them. Appropriate norms for evaluating the performance of the staff may also have to be evolved.

For large scale operations, MFIs may also bring in standardisation and may formalize many of their procedures so that decision making is made easier. However, there is a need to develop systems to handle large scale operations in enabling MFIs to retain the informality or flexibility which can facilitate in
catering to the needs of the poor. What are the kinds of systems that are needed to be developed by MFIs so that they strike a clear balance between achieving goals of large scale operations and their basic philosophy of catering to the needs of the poor in an endearing way? These are some of the pressing questions that need to be addressed carefully.

Two cases are presented in this section dealing with developing appropriate systems and operations for MFIs. The first case is about an organization called Jeevan Foundation (name disguised) whose concern is to develop an incentive based remuneration system for its staff working in the microfinance programme. The second case deals with a MFI called BASIX, which is trying to develop various kinds of systems to emerge as a mainstream microfinance institution.
Case 15: Introducing Incentive Based Remuneration

Case Abstract: Jeevan Foundation (JF) is a non-government organisation working since 1986 in rural and slum areas of Kanpur. Since 1989, JF has been implementing its microfinance programme through SHGs. The programme has an outreach of over 14,349 members covering 530 SHGs. JF would like to streamline its microfinance programme by restructuring its organizational set up. Introducing an incentive based remuneration system is also a major issue for consideration in the restructuring. Mr. Rajneesh, in-charge of administration and finance, has been given the task of finding out the possibility of introducing such a system along with managing the transition to a new set up. Mr. Rajneesh discussed the issue of introducing the incentive based system with the programme staff at all levels. The response was mixed as some would like to switch over to a new system based on performance-based incentives, others are apprehensive about the implications of such a system for an organization like JF. Each group has its own reasons. The convener of the organization is now in a dilemma about whether or not to introduce the new system.

Learning Objectives:

i) To expose the trainees to the challenges involved in introducing incentive based remuneration system in MFIs.

ii) To help develop perspectives and skills for taking decisions on issues concerning human resource management (HRM) and incentive based systems in MFIs and development organisations.

Target Audience:

Senior personnel involved in HRM issues in MFIs and development organizations/NGOs. For trainees of programmes on strategic issues like

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1. Case prepared by Mr. Rahul Mittra, Entrepreneurship Development Institute of India, Lucknow.
scale-up and restructuring in MFIs and developmental organisations. The case is also useful for students of post-graduate course on microfinance and HRM.

**Duration**: 70-90 minutes

**Pedagogy**: The case follows, sessions on themes such as functioning of MFIs and adoption of newer systems needed for enlarged operations. The case is circulated in advance for reading and preparation; it could also be circulated for reading during the session itself. There are various methods through which the case could be discussed. The case could be discussed using a general case discussion method. Further, the participants could also be divided into two sub-groups for focus group discussion; one group arguing for introducing the new system and another against the new system. The case could also be discussed using the role-play model with various participants enacting the scenario of JF leading up to taking a clear decision on the issue.

**Case Discussion**: The instructor first highlights the role of professionals in delivering interventions like microfinance. The instructor highlights the factors that influence the performance of staff and brings in the issue of incentive based remuneration system. The challenge faced by MFIs as both development and business-oriented institutions is highlighted.

The participants first discuss the Jeevan Foundation’s context leading to the dilemma as mentioned in the abstract of the case. The participants then respond to the questions posed at the end of the case. The participants could argue for or against introducing the new system.

If focus group discussion method is adopted, the sub-groups after the instructor’s introduction should break for group discussion. The sub-groups analyse the case facts depending upon their focus and come back to make a presentation on their decision in a plenary.
If a role-play model is adopted, the participants are asked to take roles of various actors in the case and through the play argue for and against different views. After the arguments, all actors could assemble to take a collective decision.

The instructor highlights the advantages and disadvantages of introducing an incentive based remuneration system in a MFI. The lessons from other experiences could be highlighted. The instructor should also draw attention to the role of motivation and commitment of the staff in delivering microfinance.

The instructor sums up the discussion based on the collective decision taken by the participants. The instructor highlights the challenges of treading a balanced path by MFIs in such cases. The emphasis of this case is on the fact that organisations have to make their policy and systems very clear to their staff in order to send out the right signals.
Case 16: Systems and Processes of Credit Operations:  
The Case of BASIX

Case Abstract: The case presents the systems and processes of credit operations of BASIX, a microfinance institution, mainly based on the study of a unit office at Ramayampet in Andhra Pradesh. The author presents the case in the form of a conversation that he had with staff of the unit office. The discussion primarily revolves around the systems and processes developed to provide credit facilities to small borrowers by BASIX. The author poses several questions about the experience of BASIX. Starting from how to select and train the right kind of staff, how to select good borrowers, how to ensure productive use of loans, how to distinguish between willful and non-willful defaults to questions of risk management have been presented in a discussion mode. The organisational format at the unit level is also discussed in order to understand the approach of BASIX in providing microfinance. The rationale of the performance based pay and personal and professional learning review (PLR) which is assessed every six months and its use for future training needs is also put forth very strongly by the staff of the unit office. The most important query by the author is how repayments are ensured is elaborately discussed as BASIX prefers a negotiated settlement as opposed to legal action in cases of default. The emphasis given by BASIX at present is on the social process rather than traditional marketable collateral.

Learning Objectives:

i) To help trainees understand the functioning of a MFI having professional and commercial orientation;

ii) To help identify ways of developing systems and processes required for effective credit delivery and loan repayment system; and

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iii) To help understand systems to be developed by MFIs for human resource management (HRM) and development for enhanced performance.

**Target Audience:** Senior MFI practitioners and bank personnel. Participants of training programmes on microfinance delivery, loan recovery management and human resource management and development. The case is also useful for students of post-graduate course on microfinance and HRM.

**Duration:** 90-120 minutes depending upon the focus and level of the programme.

**Pedagogy:** The case discussion is preceded by trainees getting exposed to general concepts on MF and MFIs. The case is circulated in advance for reading and preparation by the participants. The case could be analysed either using the general case discussion or focus group method depending upon the focus of the session and learning objective. If the purpose is to use the case for understanding the functioning of a MFI, a general discussion method involving all participants could be adopted. If the objective is to discuss various systems separately or together, the instructor may go in for focus group discussion method. The case could also be used in multiple sessions depending upon the focus or objective.

**Case Discussion:** If the case is used for familiarising the participants about the functioning of MFIs, the instructor gives an overview about MFIs and their emerging forms and functions. Based on the reading of the case, the participants identify and discuss the organizational form of BASIX, its method of delivery of credit and other services, its sources of funds, methods of selecting and training staff, staff remuneration and incentives, and loan recovery methods. The instructor ensures that the students clearly understand the nature of BASIX as an organization and its approach including limitations in delivering savings
and credit. The instructor also highlights the fact that this is one of many approaches followed by MFIs.

For discussing development of various systems by MFIs, the participants could be divided into sub-groups with each sub-group taking a particular theme (system) for discussion. The case could be used for discussing at least three broad themes or systems; system for credit delivery, system for loan recovery and human resource management system. Each of the three themes could also be discussed separately in three different sessions.

For the themes on developing system for effective delivery of credit and loan recovery, the instructor at the beginning highlights the challenges faced by lenders in selecting suitable borrowers. The problem of information asymmetry leading to adverse selection and moral hazard problems are highlighted. The role and limitations of physical collateral in screening the borrowers is also presented. Problems relating to borrower selection is specially highlighted, as MFIs have to lend to the poor who normally cannot afford any physical collateral, a pre-condition placed by formal lenders. The role of screening process in selecting borrowers is the first step in ensuring smooth loan recovery. A lender may also undertake various other post-loan sanction measures to ensure recovery. This may include proper follow-up and also providing many incentives such as interest rebate to the borrowers for prompt repayment. Ideally, the participants are exposed to conceptual issues concerning screening and incentive system prior to discussing the case.

For the theme concerning the developing of HRM system, the instructor highlights at the outset the role of human resources especially professionals in delivering microfinance. The factors that influence the performance of the staff such as training and incentives are also clearly discussed.
The sub-groups then take up, separately, the three themes for discussion. In the discussion, the groups try to identify clearly the system and processes developed by BASIX relevant for their themes. The groups make an attempt to arrive at the implications of the systems for selection of MFI borrowers, cost of delivery and loan recovery. The groups come back after the allotted time (about 45 minutes) and share their analysis in a plenary.

The summing up of the case would depend upon the learning objective. If the learning objective is to familiarize participants to working of MFIs, the peculiarity of BASIX in terms of its organizational form and systems for delivering microfinance as compared to other MFIs is highlighted. If the learning objective is to understand and assess the systems developed by BASIX, the summing up would include efforts of BASIX in developing or innovating various systems and their implications for solving the basic problems of the lender.
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