Enabling Models of Microfinance

and

Building Social Capital

Final Report
Submitted to INAFI-India

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May 2012
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When the microfinance sector in general is faced with a crisis of credibility, what is called for is a dispassionate assessment of the reality to guide the future course of action. The present study on ‘Enabling Models of Microfinance and Building Social Capital’ is a humble attempt in the above direction of guiding microfinance in a meaningful way. We are thankful to INAFI-India for assigning us the responsibility to carry out this timely research. Our sincere thanks to Mr. M.P Vasimalai and Mr. Kalyansundram of INAFI-India for their initiative and the unstinted support which made this study possible.

We are grateful to several individuals in various partner organisations of INFAI-INDIA for providing us all the necessary help and cooperation while preparing the case studies. In particular, we are thankful to the following individuals in these organisations: Mr. Satish Girija, Mr. Girija Satish, Mr Rakesh, Mr Dilshad, Mr Sudhir, Mr Asutosh, and Mr. Vijay at NBJK; Mr. Jacob Thundyil, Mr. Valerian D'lima, Ms. Sanjukta, Mr. LP Patnaik, Mr. Sudhir Kanta Lima, and Mr Prithviraj at PREM; Mr Karthikeyan at DHAN; Dr V. Hegade, Dr. LH. Manjunath, and Mr. Shriram at SKDRDP; Mr. John Gaddala, Mr. Mahesh, Mr. Satyananda, and Mr. Kaviraj at PSS; Mr. and Mrs. Devilal Vyas, and Mr Sharma at PEDO; Mr. Rakesh Pandey, Mr. Khushilal Prasad, Mr. Pramendra Singh, Mr. Umesh M. Vajpayee, and Mr. Ram Narayan at SB; and Sri Girish Sohni, Ms. Veena Halwe, Mr. Deshpande, Mr. Prasad, Mr. Yogesh, Mr. Shetkar, Mr. Sudir and Mr. Uday at BAIF/MITTRA.

We are ever grateful to the innumerable members of the various SHGs and Federations and their office bearers including the field staff of the organisations across eight states for ungrudgingly giving us their valuable time in sharing their wisdom about microfinance and the role of the community.

The study has benefitted greatly from the comments and feedback of the participants of the Policy Conference on Microfinance and Social Capital held at Delhi on 28th February, 2012 to share the preliminary findings. We are grateful to all the participants of the conference for this.

Last but not the least, At IRMA we are thankful to Ms. Rani Jayapalan, Ms. Lissy Verghese, Mr. Dilip Parikh and Ms. Nisha Kumari for their various contributions in preparing the cases and the report.

We hope that the study would throw up some relevant lessons for all the concerned.

HS. Shylendra
Mukul Kumar
Girish Agrawal
# Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>APDM</td>
<td>Adivasi Development Programme, Maharashtra</td>
</tr>
<tr>
<td>APL</td>
<td>Above Poverty Line</td>
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<tr>
<td>APSACS</td>
<td>Andhra Pradesh State AIDS Control Society</td>
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<tr>
<td>ASA</td>
<td>Association for Social Advancement, Bangladesh</td>
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<tr>
<td>BAIF</td>
<td>Bharatiya Agro-Industries Foundation</td>
</tr>
<tr>
<td>BC</td>
<td>Business Correspondent</td>
</tr>
<tr>
<td>BGKS</td>
<td>Bapuji Gramya Kalyan Samaja</td>
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<tr>
<td>BPL</td>
<td>Below Poverty Line</td>
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<tr>
<td>CBOs</td>
<td>Community Based Organisations</td>
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<tr>
<td>CC</td>
<td>Cash Credit</td>
</tr>
<tr>
<td>CDAs</td>
<td>Cluster Development Associations</td>
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<tr>
<td>CDP</td>
<td>Community Development Programme</td>
</tr>
<tr>
<td>DHAN</td>
<td>Development of Humane Action Foundation</td>
</tr>
<tr>
<td>EC</td>
<td>Executive Committee</td>
</tr>
<tr>
<td>FSS</td>
<td>Financial Self Sufficiency</td>
</tr>
<tr>
<td>GoI</td>
<td>Government of India</td>
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<tr>
<td>IGA</td>
<td>Income Generating Activity</td>
</tr>
<tr>
<td>IKP</td>
<td>Indira Kranti Patham</td>
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<tr>
<td>INAFI</td>
<td>International Network of Alternative Financial Institutions</td>
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<tr>
<td>INFOS</td>
<td>Indian National Federation of Self Help Groups</td>
</tr>
<tr>
<td>JLGs</td>
<td>Joint Liability Groups</td>
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<tr>
<td>JVK</td>
<td>Jnanavikasa Kendra</td>
</tr>
<tr>
<td>LIC</td>
<td>Life Insurance Corporation</td>
</tr>
<tr>
<td>MACS</td>
<td>Mutually Aided Credit Cooperative Societies</td>
</tr>
<tr>
<td>MDM</td>
<td>Mid-day Meal</td>
</tr>
<tr>
<td>MFIs</td>
<td>Micro Finance Institutions</td>
</tr>
<tr>
<td>MIS</td>
<td>Management Information System</td>
</tr>
<tr>
<td>NABARD</td>
<td>National Bank for Agriculture and Rural Development</td>
</tr>
<tr>
<td>NADIP</td>
<td>National Advocacy Council for Development of Indigenous People</td>
</tr>
<tr>
<td>NBFC</td>
<td>Non-Banking Financial Company</td>
</tr>
<tr>
<td>NBJK</td>
<td>Nav Bharat Jagriti Kendra</td>
</tr>
<tr>
<td>NGOs</td>
<td>Non-governmental Organisations</td>
</tr>
<tr>
<td>NRLM</td>
<td>National Rural Livelihood Mission</td>
</tr>
<tr>
<td>ORMAS</td>
<td>Orissa Rural Development and Marketing Society</td>
</tr>
<tr>
<td>OSS</td>
<td>Operational Self Sufficiency</td>
</tr>
<tr>
<td>PBGs</td>
<td><em>Pragathibandhu</em> Groups</td>
</tr>
<tr>
<td>PDS</td>
<td>Public Distribution System</td>
</tr>
<tr>
<td>PEDO</td>
<td>People’s Education and Development Organization</td>
</tr>
<tr>
<td>PESA</td>
<td>Panchayati Raj Extension Act to Scheduled Areas</td>
</tr>
<tr>
<td>PMS</td>
<td>Pragathi Mahila Samakhya</td>
</tr>
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<td>PO</td>
<td>Project Office</td>
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</tbody>
</table>
PREM  People’s Rural Education Movement
PSS   Pragathi Seva Samithi
RBI   Reserve Bank of India
RMK   Rashtriya Mahila Kosh
RSBY  Rastriya Swasta Bhima Yojana
SB    Shramik Bharti
SBLP  SHG-Bank Linkage Programme
SC    Scheduled Caste
SCF   Save the Children Fund
SHGs  Self Help Groups
SIDBI Small Industries Development Bank of India
SKDRDP Shri Kshethra Dharmasthala Rural Development Project
ST    Scheduled Tribe
SWRC  Social Work and Research Center
UMSB  Utkal Mahila Sanchay Bikas of Samaj Mangal Sangathan
UPLDC Uttar Pradesh Land Development Corporation
UPNRM Umbrella Programme on Natural Resource Management
VLWs  Village Level Workers
WEDP  Women Entrepreneurship Development Programme
WTs   Wadi Tukadis
Executive Summary

The Study and Its Objectives: Microfinance which has emerged as a widespread phenomenon has come to be dominated by the approach of a particular school advocating undue financial and commercial orientation. The microfinance interventions following such an approach, however, have come under severe scrutiny due to series of crisis encountered by them. The microfinance interventions have been criticised for ignoring the concerns of the poor giving raise to arguments like ‘bring development back into microfinance.’

The present study, commissioned by INAFI-India, is an attempt in the direction of guiding the debate over microfinance in a more a meaningful way by capturing the experiences of interventions based on alternative approaches especially focusing on community based enabling models. More specifically, the study aimed at examining how far the alternative models have attempted to build the ‘social capital’ based on collectives and networks of the communities for delivering microfinance, and help harness larger developmental links and resources for the advantage of the poor. The exploratory research was based on the case study of eight partners of INAFI-India representing diverse models and working in different regions of the country.

The Enabling Models: The study brings out certain interesting and unique insights about the functioning of the enabling models. Three broad models are being followed by the organizations studied: the on-lending model, the linkage model, and the enabling model. However, most of the study organizations have tried to promote primarily enabling models combining also the linkage model. The enabling models have been attempted mainly by way of creating collectives where members can exercise control and ownership over these structures which can help resolve the dilemmas of microfinance in a more participatory way. The cases studies clearly highlight that microfinance under the enabling models has emerged more as a means to address the felt needs of the community. It has been sustained both to supplement and complement the multi-pronged developmental strategy.

A common approach discernable is the adoption of informal groups for building solidarity and mutual guarantee. SHGs are the prominent types of groups that are being promoted. The organizations have largely followed certain commonly advocated principles/practices in forming SHGs to build the bonding ‘social capital.’ There is an attempt to adapt and innovate with the group mechanism including integrating them at different levels to reap the benefits of collective action. The higher level CBOs being created are emerging as autonomous agencies to take up financial intermediation and other roles.

The Achievements and Outcomes: The organizations display several unique features about the nature and extent of coverage of the target population and provision of microfinance services. While all of them have focused prominently in targeting the needy in rural areas, some have identified the need to work in urban areas also. All of them have tried to focus on the poor and the disadvantaged groups specific to their regions and developmental programmes like the tribals, dalits, small and marginal farmers, laborers, and fishermen, especially the women among these communities. A highly mixed picture emerges with regard to the scale of microfinance outreach of these organizations. Due to multi-activity nature of these organisations, the extent of outreach has been determined to a significant extent by the outreach of their primary programmes.
About microfinance services, a common service that is promoted by all organizations is group level savings as per the capacity of the local members. The members are encouraged to save regularly to develop thrift habits and help accumulate individually and collectively reasonable amount of savings. Credit is the prominent service being offered or facilitated by the organizations. Across all the cases, groups are resorting to internal lending to meet short-term small and emergency needs of the members. The members of the groups are considering this as an important achievement of their collective action. Coming to the other loan facilities, wide variations could be seen in terms of loan amount and rate of interest charged. Diverse and bigger loans are being delivered by those organizations which have enabled or obtained access to financial institutions for mobilizing larger resources. Further, those combining multiple models - enabling and linkage, have helped the groups to tap multiple sources of loans. Coming to the issues like adequacy, even though there are efforts by many to provide loans up to Rs 50,000, the average loan size across is generally low indicating to the constraints faced in meeting loan needs adequately. About rate of interest though the organizations have tried to give their best, the effective rates are relatively higher as compared to the formal rates. In general, given the constraints on the interest rate the attempt is to compensate the members with relatively easier and reliable access to loan funds. A common positive feature noticeable in all the cases is the absence of coercion or pressure both in lending and recovery. The concern for client-protection has come more naturally to these models.

Generally, microfinance interventions are minimalist in nature relying on largely credit for making an impact on poverty. The cases indicate to a scenario wherein varied efforts are being made to establish linkages between microfinance and other interventions. The linkages attempted are both the result of the multi-activity nature of these organizations as well due to deliberate effort made to overcome the limitations of isolated approach. The promotion of community based organizations has also facilitated further strengthening of developmental links. The CBOs besides delivery of microfinance are serving as platforms to take up some relevant developmental initiatives in the field of health and livelihood. A few have even tried to set up specialized institutions for credit, insurance, and health to create sustainable links.

Overall, these microfinance interventions combined with developmental thrust have apparently made many positive differences to the social and economic conditions of the members. The access to capital has enabled members to augment and diversify their livelihood sources leading to improvements in income, asset-base and quality of life. Some of these positive changes are reflected in behavior like good loan repayment performance, increased savings mobilization, and sustained relationship of members with the groups. Certain other qualitative transformations with potential for empowerment include perceived changes in the social conditions of women, development of leadership abilities, ownership over CBOs, and increased awareness and changed behavior about social issues like health and education.

The Constraints: Despite some of the achievements, the enabling models of microfinance have faced several challenges in realising their full developmental potential. A major challenge observed has been the prevailing legal and regulatory framework in the country. The legal form of CBOs in most cases has not been fully suitable for ensuring proper ownership and control by the members besides for delivery of effective microfinance services. The organizations following the on-lending delivery model have also faced few constraints. The eternal dilemma of providing credit by a charitable institution apart, the compulsion to depend on commercial sources of funds for on-lending has posed serious
pressure on self-sustainability and affordability of services. About the bank-linkage model the major concern has been the varied response of the banks creating uncertainty for sustainable links. The much needed support for social intermediation—forming and nurturing of SHGs and CBOs, has not been forthcoming uniformly resulting in varied quality and performance. Further, some of the common practices being adopted in groups like homogeneity of membership, varied application of joint liability, and lack of leadership rotation are found having implications for building effective ‘social capital’ leading to consequences like exclusion of the poor and limited access to capital.

Except for some, the scale of outreach of most of the organizations has been at best modest. Similarly, the links established between microfinance and other developmental interventions have been of varying nature and scale. Thus, the enabling models studied still have a long way to go tap fully the potential of the ‘social capital’ generated in microfinance for development.

**Policy Implications:** Given the diverse scenario in the country, no single model may hold all the solutions for the problem of financial exclusion. The study indicates that enabling models based on community owned structures provide several advantages. By bringing community issues to the fore they help resolve to a great extent many of the contradictions that go with microfinance. There is also the continued relevance of NGOs both for financial and social intermediation. Given the reality, there is a need to clarify their regulatory position more clearly. The state governments also must help create a suitable legal framework for creating more empowering CBOs on the lines of self-reliant cooperative societies. The process of social intermediation to strengthen the groups and their CBOs needs considerable resources. The state, financial institutions and other public agencies must invest considerably in this direction. The other crucial support needed is that the state should guarantee availability of adequate cheaper funds towards meeting the loan fund needs of the microfinance sector. The state must devote a significant sum of money which can be used on a revolving basis to provide cheaper refinance facility to NGOs, CBOs and MFIs. Lastly, the linkages between microfinance and other developmental interventions need to be strengthened. The new National Rural Livelihood Mission (NRLM) needs to be leveraged suitably for this. These measures possibly can enable microfinance models become more social and wholistic.

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Introduction and Overview
Enabling Models of Microfinance and Building Social Capital

I

Introduction

Microfinance which has emerged in the recent decades as a widespread phenomenon has evoked strong responses in the development discourse which are in equal measure supportive and derisive of its role and the manner of delivery. About its role, those supportive identify it as a powerful tool with a potential to end poverty (Daley-Harris 2002). Easy access to credit which microfinance interventions ensure is believed to help the poor tap economic opportunities widely available in the unorganized sector. Some also consider microfinance to be empowering for women who have become, by design or default, its major participants (Mayoux 2003). The economic access provided through credit and savings is considered to be an enabler for the women to gain better status in the family and community. On the other hand, those critical of microfinance have argued that the claims about microfinance are almost evangelical bereft of clear understanding about ways of ending poverty and inequality. Mere credit can never help address poverty which arises due to many structural reasons. To them, microcredit can at best be a palliative in the attempt to eliminate poverty (Hulme 2000; Bateman 2010).

Equally contested are the arguments over the manner of delivery of microfinance. The arguments here indicate a major schism that exists over the issue of balancing the apparently contradictory objectives of outreach and sustainability in microfinance (Morduch 1999). In this regard, there are some who are keen to integrate microfinance with the mainstream financial system and want the microfinance interventions to assume proper legal form different from civil society origins so as to attain the much needed efficiency to scale-up and be sustainable (Robinson 2001). The microfinance interventions are suggested to shun subsidies and be on their own through cost recovery, even if it means charging higher rates of interest, excluding the very poor, and be minimalist in the delivery of financial services (ibid). The contrary view is that microfinance cannot be fully diverged from its civil society moorings and that poor have to be reached out proactively through appropriate subsidies and by following a more integrated approach to delivery. Non-Governmental Organisations (NGOs) and community based organizations (CBOs) are advocated to play a prominent role in social intermediation of mobilizing the poor and providing various services (credit-plus) essential for overcoming poverty (Fernandez 2001; Fisher and Sriram 2002).

Despite the diverse nature of these arguments and a mixed evidence about the role of microfinance and the efficacy of different delivery methods, the prevailing scenario, however, depicts the dominance of a particular approach over others. The approach of the school advocating financial and commercial orientation in microfinance (Robinson 2001; Ledgerwood and White 2006) is more prominent both in theory and praxis than other approaches. The dominance of the said approach has been attributed to the role being played
by more influential agencies which are keen about microfinance taking a particular trajectory in its spread and growth (Shylendra 2011b). The dominance would have been complete and uncontested but for a series of failures encountered especially by microfinance institutions (MFIs) following such an approach in India and elsewhere (Shylendra 2006). MFIs following commercial approach have come under serious scrutiny of policy makers, regulatory authorities and vigilante groups over their practices of charging high interest rates, rigid and coercive repayment norms, and excessive profit orientation resulting in increased debt burden for the poor (RBI 2011). These microfinance interventions besides being termed as usurious have been even criticised for ignoring the primary developmental concerns for which microfinance originated. The excessive practices of these MFIs are being ascribed to their highly commercial approach being followed under the influence of certain agencies including the investors keen to extract high returns from the fast growth of the sector to the detriment of the poor and women who are supposed to be the primary stakeholders.

Simultaneously, even others forms of microfinance practiced by civil society and state agencies have come under certain scrutiny. For example, the SHG-bank linkage programme (SBLP), a unique model of microfinance to India, despite its impressive growth has been criticized for its paradoxical skewed spread in favour of the developed regions deepening further the problem of financial exclusion. That apart, SBLP is seen by many as a target based programme lacking in due internalization by the participating banks for a more meaningful and decentralized implementation (Shylendra, Veershekharappa and S Guha 2010).

These failures or limitations of microfinance have given raise to serious thoughts on ways of reforming it. A few even argue that microfinance can never succeed in its goal of inclusion and poverty alleviation given its inherent contradictions especially under liberal economic policies, and should be replaced by a different approach (Ramachandran and Swaminathan, 2005, Bateman 2010). Others would like microfinance to regain the lost ground both in terms of its purpose and approach through certain reforms. They are arguing for reforms which emphasize on issues like ‘bring development back to microfinance,’ ‘promote social over financial cause’ and ‘replace private resources by public resources.’ Some of these arguments are even being put forth as possible alternatives to the dominant financial and commercial view of microfinance.

These alternatives again have varied strategies for reforming microfinance. Some of the major ones include: (a) giving due role to civil society and community based organizations (CBOs) to reinforce altruism and collective action, and ensure local control over resources. Such an approach especially involving formation of member owned organizations is considered to be more empowering and enabling for the community (Fernandez 2001). The strategy is also seen as way of creating and harnessing ‘social capital’ embedded in collective action for the benefit of the poor (GOI 2008; Mladovsky and Mossialos 2008); (b) combine delivery of microfinance with other necessary developmental inputs or assistance (what is called credit-plus approach) for a more holistic impact on poverty (Fisher and
Sriram 2002); (c) bring or divert more and more public resources to meet the loan fund and other needs of microfinance in place of private and commercial funds (INAFI 2006); (d) bring in social equity and social entrepreneurs to promote and manage microfinance interventions (Yunus 2010); (e) ensure a more effective role by the mainstream institutions like commercial banks in microfinance to have a significant impact on financial inclusion.

How far and in what way these alternative methods can be incorporated in microfinance policy and practice is still a moot question given their diverse nature and inadequacy of evidence over such practices. The present study is an attempt in the direction of guiding the debate in a more a meaningful way by capturing objectively the experiences of interventions based on some of the above alternative methods especially focusing on community oriented enabling models.

The Study

The study was commissioned by INAFI-India to document the emerging experiences of the microfinance interventions of its members focusing on alternative methods. INAFI (International Network of Alternative Financial Institutions) is a global network of development organisations involved in supporting microfinance programmes for the poor and disadvantaged. INAFI-India which is a part of INAFI is the country level network of microfinance practitioners pursuing multiple development strategies for addressing poverty. The members of INAFI-India deal with the poor communities in diverse parts of the country. In 2011, INAFI-India had 33 partners spread all over India. The members of INAFI-India aim at achieving wholistic development outcomes by following more inclusive and enabling ways of microfinance wherein local communities and their institutions play a prominent role.

The following specific objectives were identified for the study:

a. To examine the role played by enabling models of microfinance in building social capital and also the expression of alternative principles.

b. To document the institutional development processes engendered by these models at the grassroots level.

c. To highlight the importance of social capital generated by microfinance in enabling and sustaining larger development work.

d. To assess the scalability of these models of microfinance from financial and development perspective.

e. To study the constraints faced by the development NGOs in their effort to promote alternative approaches in microfinance, and look at the ways of furthering their cause.
The present report is based on the case study of eight partners of INAFI-India. The organizations for case study were selected in such a way as to include a set which represents diverse models of working spread over different regions of the country (see Table 1 and 2). The main reason was to get a comparative perspective on the research objectives based on the outcomes of the working of institutions with diverse background and experience. These eight organizations are: Nav Bharat Jagriti Kendra (NBJK), People’s Rural Education Movement (PREM), Development of Human Action (DHAN) Foundation, Shri Ksheethra Dharmasthala Rural Development Project (SKDRDP), Pragathi Seva Samithi (PSS), People’s Education and Development Organization (PEDO), Shramik Bharti (SB), and BAIF Development Research Foundation. The case studies have been carried out using multiple research methods. Focused interactions based on a check list were held with the key stakeholders of these institutions like the promoters, the professionals and the programme participants to capture their views and experiences pertaining to the major research concerns. Selected self-help groups (SHGs), federations and other relevant interventions were visited under each case for gaining insights into the working of the grassroots level structures and the major experiences of their members.

Table 1: Profile of the Organisations Selected for Study

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Organisations</th>
<th>Year of Establishment</th>
<th>Legal Form</th>
<th>Year of Starting MF</th>
<th>Major Activities other than MF</th>
<th>Primary State (Total no. of States covered)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>NBJK</td>
<td>1971</td>
<td>NGO (Society)</td>
<td>1993</td>
<td>Education/Health</td>
<td>Jharkhand (2) Odisha (4)</td>
</tr>
<tr>
<td>2</td>
<td>PREM</td>
<td>1982</td>
<td>NGO(Society)</td>
<td>1990</td>
<td>Education/Child rights</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>DHAN</td>
<td>1997</td>
<td>NGO (Trust)</td>
<td>1990</td>
<td>Dry land Devt. / Local Governance</td>
<td>Tamil Nadu (12)</td>
</tr>
<tr>
<td>4</td>
<td>SKDRDP</td>
<td>1982</td>
<td>NGO (Trust)</td>
<td>1991</td>
<td>Agriculture Devt. / Women</td>
<td>Karnataka (1)</td>
</tr>
<tr>
<td>5</td>
<td>PSS</td>
<td>1991</td>
<td>NGO(Society)</td>
<td>1995</td>
<td>Education / Natural Resource Management</td>
<td>Andhra Pradesh (1)</td>
</tr>
<tr>
<td>6</td>
<td>PEDO</td>
<td>1980</td>
<td>NGO(Society)</td>
<td>1988</td>
<td>Education</td>
<td>Rajasthan (3)</td>
</tr>
<tr>
<td>7</td>
<td>SB</td>
<td>1984</td>
<td>NGO(Society)</td>
<td>1989</td>
<td>Livelihood/Health</td>
<td>Uttar Pradesh (1)</td>
</tr>
<tr>
<td>8</td>
<td>BAIF</td>
<td>1967</td>
<td>NGO (Trust)</td>
<td>1990</td>
<td>Livestock / Land Development</td>
<td>Maharashtra (16)</td>
</tr>
</tbody>
</table>

Besides gathering secondary level data about the physical and financial achievements of these organizations, available studies and evaluations about them were consulted to identify the major findings about their working and impact. The thrust was on identifying the major approach and strategies followed in the delivery of microfinance and the ensuing outcomes experienced under each case. Largely descriptive and qualitative methods have been used to
analyse the case level data. Further, a comparative analysis of the insights from the cases has been attempted to arrive at a synthesis of the diverse experiences. The case studies were carried out during June-November 2011. Time and resources were a major constraint in carrying out a more elaborate and in depth study of the selected organisations. The study in a way is only an exploratory exercise aimed at getting some indicative answers to the research questions based on which further investigation may be carried out.

The conceptual issues concerning the use of the terms social capital and enabling models of microfinance are clarified in the next section before we present the synthesis of the findings.

Social Capital

Social capital is among the few very extensively debated concepts in the development discourse in the recent decades. The concept is as much controversial as it is admired for its theoretical and empirical ramifications for development. As a conceptual tool, social capital has assumed enormous popularity following the works of certain scholars like James Coleman and Robert Putnam who tried to explore and propagate its relevance for economic development and democracy in the western context (Harriss 2002, Dasgupta 2008). Despite the lack of unanimity about its meaning and definition, social capital as a framework of research and an ingredient of development has been enthusiastically co-opted by multilateral and other development agencies in their developmental agenda elevating its status (World Bank 1998; Harriss 2002).

Social capital has come to be identified both as a developmental input/resource and an outcome emerging out of the interpersonal relations and associational life prevalent among the communities having a bearing on collective action. The World Bank which has given considerable prominence and attention to explore ways of using social capital in its research and developmental works defines it as ‘…the institutions, relationships, and norms that shape the quality and quantity of a society's social interactions’(World Bank 2012). To Robert Putnam ‘social capital refers to connections among individuals–social networks and the norms of reciprocity and trustworthiness that arise from them’ (as quoted in GoI 2008, p. i). Another scholar, Fukuyama (2002) defined social capital as ‘shared norms and values that promote social cooperation, instantiated in actual social relationships.’ Dasgupta (2008) arguing that the concept of social capital sits very awkwardly in the economics literature defined it as ‘an aggregate of interpersonal networks.’

As per these definitions, social capital encompasses social norms and values like trust and reciprocity along with networks, relations and institutions in the community that tend to promote collective action. Further, by virtue of the possible causality that may exist between the elements of social capital and various developmental outcomes, social capital has come to be regarded in the development literature almost as a factor of production and as a resource like skill and knowledge that can enhance income and productivity (ibid). The World Bank considers it as a crucial factor of cohesion in promoting prosperity and sustainability. The Second Administrative Reforms Commission of India while recognizing
the importance of social capital ‘as a necessary element of development theory’ has argued for leveraging its strengths for overcoming poverty in the country (GoI 2008). In a similar vein, Fukuyma (2002) extolled social capital by saying that it has become a key ingredient for economic development, and its emergence has been necessitated by the vacuum of cultural values in the prevailing paradigm of economic development.

In order to assess and clarify the role of social capital attempts have been made to identify its components and dimensions at different levels (Yokoyama and Sakurai 2006). Essentially, social capital is supposed to include norm and values and relations and networks. The norms and values which include elements like trust, reciprocity and solidarity are treated as constituting cognitive social capital. Networks, institutions, law etc. which act as structures of social interactions are considered as part of structural social capital. Similarly, aspects of social capital which facilitate local relations between the individuals, within a group, and among the groups are treated as horizontal social capital or bonding social capital. Relationships that are forged by the local groups or communities with those at higher levels or with external agencies are referred as vertical or binding social capital. These vertical relations between local groups and external agencies are considered necessary to enlarge the scope of interactions to reap larger gains.

The World Bank has proposed a five dimensions of social capital which touch upon both structural and cognitive aspects of social relations (World Bank 2012). These are groups and relationships, trust and solidarity, collective action and cooperation, social cohesion and inclusion, and information and communication. To the World Bank enhancing social capital on all these dimensions is a sure way of contributing to sustainable community development and good governance (Ibid).

However, the concept has attracted censure in equal measure on several grounds. There are some who even categorically argue that the concept has to be totally rejected as it is a fundamentally flawed notion (Fine 2007). To others, it can at best be a facade for pushing developmental agendas of certain agencies with vested interest (Harris 2002). The concept has been contested conceptually and in terms of its empirical relevance. A major flaw that is identified is about the notion of ‘capital’ in social capital. Social capital equates certain social and cultural aspects of human life to ‘capital’ almost in the sense of economic or physical capital which is tangible and measurable. Even, if there is something called social capital then it becomes necessary to explicate what is implied by economic capital. There is thus not only an element of ambiguity in social capital but there are even bigger challenges when it comes to its measurement and in establishing the intended causality between social capital and developmental outcomes. How exactly to measure aspects like values and network relations assuming that many of them can possibly help the communities reap benefits of collective action is the measurement challenge. In the absence of direct variables measuring social capital, proxies are used with varied consequences for assessing the role clearly. Moreover, critics have argued that the definitions of social capital have not clearly clarified as to what are the ingredients and what are the outcomes of social capital. There seems to be a sort of circularity in the concept as enunciated by its proponents creating a
challenge to resolving the attribution of causality between social capital and development. As a result, the empirical studies on social capital have faced serious constraints not only in specifying the relevant variables but also in establishing convincingly the causality. Because of these reasons, critics argue that social capital can be no more than an oxymoron (Fine 2007).

The second major criticism pertains to the role of civil society implied in the notion of social capital (Bhattacharya et al 2004). Social capital is perceived as a ‘civic virtue’ for development and democracy to be enhanced by promotion of associational life integral to civil society. In this sense, social capital privileges civil society over the role of state and its institutions for development. However, the discourse on civil society clarifies that even the notion of civil society, be it in developed or developing countries, is ridden with several lacunae and its virtues for development are more often suspect. Not everything of civil society which is seen basically as the associational space that exists between the household and the state, is perceived to be democratic and transparent. Hence the notion of social capital banking on the strengths of civil society alone may lose its perceived merits for development (Harriss 2002).

Further, social capital in the sense of horizontal relationships promoting local collective action is highly location specific and contextual. Its universal replication hence may be constrained leading to varied developmental outcomes across different communities. Moreover, many of the social relations and networks may turn out to be highly discriminatory, exclusive and even exploitative (Dasgupta 2008). The elements of social capital like trust and solidarity may not always produce positive externalities. Both in its horizontal and vertical dimensions social capital tend to ignore the context of power, class, and politics in the social relations having a significant bearing on development. Any effort at meaningful and progressive development cannot afford to ignore the dynamics of class and politics. There is also the danger that self-help implied in the horizontal relations is elevated to the status of a major development strategy for the poor. It is precisely because of this that social capital has been branded as anti-political (Harriss 2002) and as a convenient strategy that encourages capitalist development by subsuming social values under capital (MIA 2012) that weakens the progressive discourse against ill-effects of neoliberal tendencies (Fine 2007).

Interestingly, microfinance is one area of development intervention which has witnessed very extensive application of the social capital concept. The groups and their networks promoted widely under microfinance are seen as the best examples of tapping the strengths of social capital for development. The solidarity groups of microfinance are seen facilitating easy access to credit by the poor for their livelihood generation mainly through their ability to bridge the informational gaps between the lender and borrowers (Fukuyama 2002). Several empirical studies have tried to establish a positive relationship between social capital and the performance of the microfinance groups. The social connections, trust, and peer monitoring within the groups are identified as key factors influencing the positive rates of savings and repayment among the members. The groups are argued to be helping both in creating and
harnessing social capital for the delivery of microfinance (Bastelaer and Leathers 2006; Thamizoli and Prabakar 2006; Karlan 2007; Cassar and Wydick 2010).

The empirical studies on the role of social capital in microfinance have given raise to strong policy implications for promoting social capital to further the cause of financial inclusion. The Second Administrative Reforms Commission of India which has come out with a separate report on social capital (GOI 2008), feels that the groups and networks of poor can be very effective for delivering credit for the poor, and recommends that government facilitates formation of SHGs and their networks through the active partnership of NGOs. Similarly, others have argued that social capital involving wider developmental links has the ability to elevate microfinance into a livelihood generating mechanism for the poor. It is also perceived as a way by which social development perspectives can be integrated into microfinance for enhancing sustainability (Vasimalai 2011; Sohani 2011).

The application of social capital perspectives into microfinance is also not without criticisms. Some of the empirical studies which have captured the positive contribution of social capital have also identified that group mechanism can produce several negative consequences for the poor including exclusion of the very poor (Cassar and Wydick 2010, Malathi 2010, and Yeswant 2011). Others have argued that social capital has been used arbitrarily in microfinance (Ito 2003). The group mechanism especially using horizontal ties may not always ensure positive group performance. The incentive of repeat credit may play a more prominent role than group mechanism per se. Even the vertical relations of the groups with the loan staff perceived as social capital also may bring undesirable influence on the behavior of the group members bordering on ‘patron-client’ relationship. Through the application of social capital concept, the role of social intermediation may have been overstated at the cost of analyzing the actual role of the institutional design of the microfinance programmes (Ibid).

Thus, social capital be it in its application for general development or microfinance is a contested concept. The concept hence cannot be accepted on its face value and needs careful interrogation and assessment. Any narrowly perceived notion of social capital may negate the very cause of development. Broader processes of development involving power and politics have to be necessarily brought into the picture. Collective action for empowerment of the local communities has to go beyond self-help and be integrated with wider networks and institutions involving state, civil society and even market agencies so as to protect and strengthen the rights and bargaining abilities of the poor.

A proposed objective of the present study is to examine how social capital has been built by the case study organizations, and how in turn it has enabled in sustaining larger developmental links. Given the exploratory nature of the present study, the study aims at first clarifying the concept of social capital (as highlighted above) and examine how building of ‘social capital’ has been attempted both in its minimalist and broader sense. More specifically, the study examines how far the NGOs have tried to build more enabling
local collectives and networks of the communities for delivering microfinance by eliminating their negative elements, and help them harness wider links and resources of the state, political groups, social movements and market institutions for the advantage of the poor.

**Enabling Models of Microfinance**

Microfinance which has evolved essentially based on the group method has assumed different forms in different contexts. Legal form apart, the prevailing models of microfinance vary in terms of the nature and control of ownership exercised by the community over the delivery structures and resources. A model which enables or assures complete or high degree of control and ownership for the community can be more empowering. Such models of microfinance may be called as enabling models of microfinance.

Based on the nature of delivery and the degree of control and ownership over the delivery structures, the prevailing models of microfinance in India are categorized into three categories viz., the on-lending model, the linkage model and the enabling model. Under the on-lending model, the NGO/MFI mobilizes the community into groups and directly lends to them from the resources generated from the donors and financial institutions. The NGO/MFI acts as a retail lending agency here and the community as such may not exercise any control or ownership over the structure erected by the NGO/MFI. All the key policy decisions are taken by the NGO/MFI itself. The members of the groups may or may not exercise control even over the internal resources of their own groups. Under the linkage model, the groups formed by the NGOs or the government agencies are linked to the financial institutions like banks or cooperatives for accessing savings and credit. The SHG-bank linkage programme promoted by NABARD falls under this category. The groups here again do not exercise any control or ownership over the delivery agency except over their internal resources (savings). Only in case the financial institution happens to be a legal cooperative and the groups are given due ownership status, can the groups possibly exercise some ownership rights over such institution.

In the third model, the NGO or development agency either proactively or as part of its withdrawal strategy promotes community based organizations (CBOs) to take over the delivery of microfinance and other relevant services. The community here is enabled to exercise full ownership and control over the delivery structures and the resources. Eventually, with the complete withdrawal of the promoting agency, the CBOs are expected to emerge as fully autonomous institutions capable of pursuing on their own microfinance and other interventions based on the needs of their members. The CBOs may mobilize resources from various sources including by way of equity and savings contributions from the members. Such CBOs in India are taking various forms depending upon the interest of the promoting agency and the extant legal provisions. Though cooperative form of organizations can ensure

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1 SHGs linked to the cooperative banks in India in most states have been given only nominal membership which restrains them from exercising any ownership right (Shylendra 2011c).
fairly higher degree of control, ownership and accountability, CBOs having legal forms like trust and societies are also being promoted.

The microfinance programmes of many of the NGOs/MFIs in India are in fact of hybrid nature combining in different degree the elements of the three models identified above. For example, a NGO may simultaneously pursue on-lending, linkage and CBO model of microfinance depending on the resource availability or objectives of the programme under which microfinance has been promoted.

The enabling of models of microfinance thus refers to promotion of empowering structures and organizations wherein the communities are able to take over their ownership, and govern them as per their developmental interests and priorities, be it for microfinance or any other activity. While apparently the enabling models of microfinance appears to be more empowering, the degree to which they can emerge successfully depends on several factors. The promoting agencies have to ensure the autonomous growth and functioning of the CBOs created under the model. They need to build the capacity of these CBOs without compromising on their autonomy. Simultaneously, suitable policy framework including appropriate regulation by the state is necessary so as to enable these CBOs to emerge as really empowered institutions able to generate and harness ‘social capital’ for the poor.

II

Enabling Models: The Praxis and Lessons

In the present section, an attempt is made to present a synthesis of the major findings of the eight case studies and the lessons learnt thereof. Besides identifying some of the constraints/limitations faced under these experiences, a few relevant policy implications are drawn towards making microfinance more enabling. The synthesis is organized based on the major concerns relevant for the objectives of the study.

1. Organisational Background and the Nature of Microfinance

Essentially, microfinance is a response of the civil society to issues of market and state failures to address the financial services needs of the poor. The cases clearly highlight the attempts made by the organizations studied to respond to the felt needs of the community they could identify while working. All these organizations have primarily a NGO background and have emerged based on some particular ideological or spiritual or social work concerns of their promoters for the poor. In the course of working with their target groups, they have realized the need and importance of meeting the credit need of the poor in its own right and to complement the developmental work they were already into. Many of these organisations have made an attempt to provide access to credit in some or the other form even before microfinance emerged or became popular in its current form. It is this need-based entry in providing access to credit which has been a major driving force in determining the their approach to microfinance and its subsequent trajectory.
thus was more a means to address a felt need of the community than to pursue for its own sake.

Another key reason that goes well with the above cause in initiating microfinance is the adoption of the strategy of following multi-pronged developmental activities by these agencies for meeting their goals. All of them over the years have remained as multi-activity NGOs with a range of interventions pertaining to agricultural development, natural resource management, livelihood promotion, health, education, women, children, advocacy etc. Microfinance has been promoted and carried out along with other activities. Though in one or two cases, microfinance has emerged as their prominent activity (SKDRDP and DHAN) but the organizations have tried to pursue other activities without losing much of the zeal and focus. The attention to multiple activities has apparently given certain advantages. It has enabled these organizations to adopt a more integrated perspective to tackle poverty and other developmental challenges. At the same time, the scope for any failure or limitations emerging out of a narrow or even sole focus on microfinance has been minimized in the process.

The cases bringing out another major aspect in the approach to microfinance adopted by these organizations, as identified above the organizations are NGOs working in the domain of civil society. Altruism is an essential characteristic of any civil society movement; profit and other self-seeking goals are not supposed to be their primary goals. The experience of these agencies brings out this particular strength in them even while pursuing an intervention like microfinance which inherently poses several contradictions for a typical NGO. Despite such a challenge, these organizations have tried their best to sustain a not-for-profit approach in their microfinance interventions. In cases where the NGOs themselves have directly taken up delivery of microfinance (NBJK and SKDRDP), they have adopted largely the principle of operational sustainability to meet the essential costs of the programme delivery rather than pursue a goal of excessive surplus generation. Moreover, whatever the surplus these NGOs have generated, they have tried to either plough it back into programme or use it for other developmental interventions. With respect to NGOs which have adopted the enabling models by promoting community based organizations (CBOs) for the delivery of microfinance, they have left it to judgment of these CBOs to decide the issue of profit as per the community needs and the operational concerns of programme implementation.

2. **Delivery Models**

As identify earlier, broadly three models of microfinance delivery have emerged in the Indian context. These three models are the on-lending model, the linkage model, and the enabling model. The assessment based on the cases reveals that the organizations studied have come to adopted over the years some combination these models in trying to deliver microfinance. Their own legal form apart, the approach to microfinance has significantly influenced such an effort (Table 2).
Table 2: Microfinance Delivery Models Adopted by the Study Organisations (past/present)

<table>
<thead>
<tr>
<th>Organisations</th>
<th>Current Primary Model</th>
<th>Other models adopted</th>
<th>For Micro-Insurance</th>
<th>Legal form of the enabling models (CBOs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 NBJK</td>
<td>On-lending</td>
<td>Linkage (in past)</td>
<td>Partnership/In-house (past)</td>
<td>-</td>
</tr>
<tr>
<td>2 PREM</td>
<td>Enabling</td>
<td>Linkage</td>
<td>In-house (in past)</td>
<td>Society</td>
</tr>
<tr>
<td>3 DHAN</td>
<td>Enabling</td>
<td>Linkage/On-lending</td>
<td>Partnership</td>
<td>Society/Trust</td>
</tr>
<tr>
<td>4 SKDRDP</td>
<td>On-lending</td>
<td>Linkage</td>
<td>Partnership/In-house</td>
<td>-</td>
</tr>
<tr>
<td>5 PSS</td>
<td>Enabling</td>
<td>Linkage</td>
<td>Partnership</td>
<td>MACSs</td>
</tr>
<tr>
<td>6 PEDO</td>
<td>Enabling</td>
<td>Linkage</td>
<td>-</td>
<td>Society</td>
</tr>
<tr>
<td>7 SB</td>
<td>Enabling</td>
<td>Linkage/On-lending</td>
<td>Partnership</td>
<td>MBT/Society</td>
</tr>
<tr>
<td>8 BAIF</td>
<td>Linkage</td>
<td>Enabling/On-lending</td>
<td>-</td>
<td>Society/Trust</td>
</tr>
</tbody>
</table>

MACS: Mutually Aided Cooperative Society; MBT: Mutual Benefit Trust

Out of the eight, two of them (NBJK and SKDRDP) are primarily following the on-lending model. NBJK has also tried out bank linkage model in the past but due to inadequate support especially for meeting the cost of group formation and nurturing has decided to pursue primarily the on-lending model. SKDRDP though has been pursuing primarily group based on-lending model, has more recently decided to adopt linkage model in newer areas of intervention to overcome the risk of excessive growth, in the process trying bring in some balance in the role as a financial intermediary. The rest of organizations, except for BAIF, have tried to promote primarily enabling model combining simultaneously the linkage model. The enabling model has been attempted mainly by way of creation of collectives or CBOs either in the form of federation of SHGs or member-based cooperatives. These organizations have found it relevant to adopt the linkage model also to supplement and complement the efforts and resources of the enabling structures built. The BAIF and its associate organizations have been pursuing microfinance mainly based on the linkage model. However, besides adopting some element of on-lending model they have tried to promote CBOs in few places.

Two key drivers could be identified having influence on the promotion of enabling models of microfinance by these organizations. They consider that the creation of CBOs can be greatly empowering for the communities helping them exercise ownership and control over the delivery institutions. Secondly, the enabling model is seen as providing scope for NGO withdrawal at some stage from the intervention. The enabling models also combine elements of linkage model resulting in the adoption of diversified approach to financial intermediation by these CBOs as per their need and local situation. Incidentally, two of the organizations agencies (SB and BAIF) which are into promotion of linkage/enabling models have tried out on-lending model in the past but have decided not to pursue it vigorously given the challenges and contradictions encountered as NGOs.
One more dimension in this regard is the recent emergence of the agency model for insurance services. Most of these organizations have attempted incorporation of micro-insurance in partnership with insurance companies. Here again as per the prominent model being practiced, the organizations have either on their own taken up the agency role (SKDRDP or NBJK) or allowed the CBOs (DHAN) to do so in delivering micro-insurance. Incidentally, some of the organizations have attempted provision of in-house insurance in the past or present on a limited scale despite some regulatory constraints.

Overall, the experience of these organizations largely suggests an attempt to create community based structures which are empowering and which can resolve the dilemmas of microfinance in a more participatory way as compared to an externally driven or commercialized microfinance.


A common approach discernable despite the varying delivery models is the adoption of informal groups for building solidarity and ensuring mutual guarantee. The group method has emerged as the prominent instrument of microfinance delivery all over the world. The group method is supposed to provide several advantages for the poor to overcome the hassles they face in dealing with the formal agencies. The information asymmetry school identifies groups as repositories of information which enable reduction of risks involved in dealing with the poor in the absence collateral (Hoff and Stiglitz 1990). Those supporting social capital concept, as highlighted earlier, argue that the groups form the basis for tapping various forms of social capital latent in the community. The groups as per the social capital framework are expected to work based on shared norms and relations like trust, affinity and reciprocity creating certain positive externalities for all those associated with the groups. Some of the organizations (DHAN and BAIF) studied here have specifically emphasised on the issue of building social capital based on the group approach.

The case studies here reveal attempts by the organizations to adopt and innovate with the group mechanism including integrating them at different levels to reap the underlying benefits of collective action (Table 3). SHGs are the prominent types of groups that are being promoted by these organizations. But at the same time, given their multi-activity nature, some of them have attempted formation of unique groups based on the needs of a specific programme. For example, the BAIF supported agencies form wadi tukadis (orchard groups) which are the groups of small farmers for co-ordinating locally the activities of asset-based orchard development scheme besides pursuing savings and credit. Similarly, SKDRDP has been promoting pragathibandhu groups (groups of farmers for progress) which are the small sized groups of farmers to help pursue collective activities like farm development, labour sharing and savings and credit.
Table 3: Details of Groups and Other Structures Formed for Microfinance

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>Organisations</th>
<th>Primary Groups (SHGs, JLGs etc.)</th>
<th>Federations at local or cluster level</th>
<th>Federations at Higher Level (block/district level)</th>
<th>Other Apex/Specialized Organisations created</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>NBJK</td>
<td>1963</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2</td>
<td>PREM</td>
<td>2572</td>
<td>2572</td>
<td>45</td>
<td>1</td>
</tr>
<tr>
<td>3</td>
<td>DHAN</td>
<td>37,071</td>
<td>1432</td>
<td>283</td>
<td>2</td>
</tr>
<tr>
<td>4</td>
<td>SKDRDP</td>
<td>1,18,918</td>
<td>3910</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>5</td>
<td>PSS</td>
<td>3907</td>
<td>yes</td>
<td>38</td>
<td>1</td>
</tr>
<tr>
<td>6</td>
<td>PEDO</td>
<td>2551</td>
<td>82</td>
<td>12</td>
<td>-</td>
</tr>
<tr>
<td>7</td>
<td>SB</td>
<td>1258</td>
<td>yes</td>
<td>5</td>
<td>-</td>
</tr>
<tr>
<td>8</td>
<td>BAIF</td>
<td>7,789</td>
<td>yes</td>
<td>&gt;5</td>
<td>-</td>
</tr>
</tbody>
</table>

However, SHGs are the mainstay of the microfinance programmes of the organisations studied. Partly, this is attributable to the launch of SBLP programme in India and the support that is available to the formation and nurturing of SHGs. Incidentally, some of these organizations had promoted bigger village level groups initially. But with the formal advent of SHGs during 1990s, they have tried to split the bigger groups into smaller SHGs. All these organizations have received some initial support either from donors or other public agencies to promote the SHGs and build their capacities. Subsequently, with the constraint faced in receiving such funds, the organizations have tried to supplement the effort using funds available under other development programmes (for ex., watershed programme) which they have taken up for implementation including resources generated under their own microfinance initiatives. In few cases (DHAN), the CBOs created have tried to mobilize some resources for SHG promotion, indicating to a positive spillover of creating such local organizations.

The organizations have largely followed certain commonly advocated principles/practices in forming SHGs and to strengthen the bonding among the members. Some of the group principles that could be identified are small sized groups (varying from 5 to 20), homogeneity of membership, self-selection in member enrollment, framing of own rules as per local needs, self-effort in management, and rotational leadership. Relevant capacity building efforts have been made through training and exposure visits and constant support from field staff for handling operational issues. The effort has been to build the strengths of the groups to act both as financial intermediaries and forums for addressing other relevant issues. The groups are being involved in pooling savings to build own resources and to leverage for external funds, provide support in assessing loan needs, and monitoring loan
use and repayment. SHGs are also being used as channels for discussing other social issues and for delivering some development schemes pertaining to health, mid-day meal, and public distribution system.

Further, a clear attempt to integrate SHGs at a higher levels has been made in almost all cases. The SHGs have been brought together at village or cluster of villages level which in turn have been further integrated at block or district level in the form of apex or federated structures (Table 3). The aim has been to help SHGs overcome their constraints as informal units and gain from coming together and networking at various levels. In the ‘social capital’ sense, it represents an attempt to establish vertical linkages or bridges to augment the horizontal relations at the group level (see Table 1A). The promotion and formation of such larger collectives itself can be seen as a major achievement of these organizations under their microfinance programme. Many of these higher level CBOs are emerging as autonomous agencies to take up financial intermediation and other roles.

4. Outreach and Microfinance Services

Apart from the creation of collectives based on groups, the organizations display several unique features about the nature and extent of coverage of their target population and provision of microfinance services.

Outreach of Target Groups: In terms of the outreach of the target groups, while all of them have focused prominently in targeting the needy in rural areas, some of them have simultaneously identified the need to work with the poor in urban areas (Table 4). Given that financial exclusion is equally acute for the urban poor, the effort to cover urban areas hence is noteworthy.

Table 4: Some Details of the Microfinance Outreach of the Selected Organisations

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Organisations</th>
<th>Total Groups</th>
<th>Total Members</th>
<th>Rural (R)/Urban (U)</th>
<th>Estimated Coverage of Women</th>
<th>Focus</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>NBJK</td>
<td>1,963</td>
<td>29,438</td>
<td>R/U</td>
<td>80.0 %</td>
<td>Poor</td>
</tr>
<tr>
<td>2</td>
<td>PREM</td>
<td>2,572</td>
<td>42,526</td>
<td>R</td>
<td>Prominent Tribals/Dalits/Fishermen</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>DHAN</td>
<td>37,071</td>
<td>9,23,865</td>
<td>R/U</td>
<td>100.0%</td>
<td>Poor</td>
</tr>
<tr>
<td>4</td>
<td>SKDRDP</td>
<td>1,18,918</td>
<td>13,13,042</td>
<td>R/U</td>
<td>86.0%</td>
<td>Small Farmers/Labour</td>
</tr>
<tr>
<td>5</td>
<td>PSS</td>
<td>3,907</td>
<td>45,489</td>
<td>R/U</td>
<td>Prominent Marginalised &amp; Disabled</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>PEDO</td>
<td>2,551</td>
<td>45,275</td>
<td>R</td>
<td>100.0%</td>
<td>Tribals</td>
</tr>
<tr>
<td>7</td>
<td>SB</td>
<td>1,258</td>
<td>17,727</td>
<td>R/U</td>
<td>98.0%</td>
<td>Urban and Rural Poor</td>
</tr>
<tr>
<td>8</td>
<td>BAIF</td>
<td>7,789</td>
<td>1,00,000</td>
<td>R</td>
<td>83.0%</td>
<td>Tribals</td>
</tr>
</tbody>
</table>
Coming to the target group, though as such no explicit methods have been adopted by these organizations, but have tried to focus on the poor and disadvantaged groups specific to their regions and who are the focus of attention of their developmental programmes. Tribals, dalits, small and marginal farmers, laborers, and fishermen are some of the disadvantaged groups targeted by these organizations. A common denominator in targeting is reaching out prominently to the women among these communities by all of them, especially under their microfinance programme. In fact some of them have started microfinance or SHG promotion to proactively overcome the male bias of their programmes and reach out to the women (NBJK, SKDRDP, and BAIF).

While generally under the land-based programmes implemented by some of these organizations (BAIF and SKDRDP) men have been targeted, but microfinance has enabled subsequently to attain some balance by bringing in women. Further, as microfinance inherently has a tendency to reach the economically better-off members, some of them have made attempts to bring in poor and other weaker sections into the fold more deliberately. For example, BAIF under its intervention also tries to target the landless as its primary programme is meant for those with some land. Similarly, PSS has made effort to include disabled under its microfinance programme. Again realising the limitation of microfinance, others like SKDRDP are trying reach out to the destitutes outside the microfinance programme.

**Scale of Operation:** A highly mixed picture emerges with regard to the scale of outreach of these organisations under microfinance (Table 4). All the organizations studied are multi-activity NGOs. The extent of outreach under microfinance has been in many cases determined to a significant extent by the outreach and jurisdiction of their primary programmes. The two exceptions are the interventions of SKDRDP and DHAN Foundation. A proactive strategy of expansion adopted by them based on self-sustainability seems to have enabled them to have a significant level of outreach under microfinance as compared to other organizations. By 2011, SKDRDP had reached 1.31 million members, while DHAN’s Kalanjiam programme was reaching 0.92 million members. SKDRDP’s strategy has been to grow primarily based on the on-lending model for which it has banked on its credibility as a committed NGO. DHAN Foundation besides promoting microfinance in multiple states (12) for a wider outreach, has enable local level expansion by the federations as per their need and resources.

Though the overall scenario from the cases depicts a moderate level of achievement with regard to scale, a few strengths of such a level outreach needs to be identified. The composition of the outreach is one of the needy and disadvantaged groups. At the same time, there is an attempt to build quality groups which can sustain on a longer term basis. Moreover, tagging the microfinance outreach to the other programmes is helping combine credit with other developmental assistance. No doubt, some of the organizations have faced constraints in terms of resources and professional capacities needed for scaling up, apparently
a restrained approach has been adopted instead of attaining high outreach at any cost. Largely, all these organizations would like to follow the approach followed in the past for future scaling-up. Some of them may like to adopt newer forms (NBJK) and tap other emerging possibilities like business correspondent or agency model (SKDRDP) to scale up further without compromising on their not-for-profit approach.

**Microfinance Services:** Some of the key concerns in terms of microfinance services are the diversity, accessibility, affordability and adequacy. Diversity would include variety of services like savings, credit and insurance; accessibility would mean easy, flexible and hasslefree delivery of services; affordability indicates reasonable cost in accessing services by the poor; and adequacy would mean meeting realistically the actual amount of loan needed for the purpose. The cases throw up wide variations along with some uniqueness in addressing the above concerns about microfinance services.

One common service that is practiced by all organizations is promoting group level savings as per the capacity of the local members. The members are encouraged to save regularly (weekly or monthly) in small amount both to develop thrift habits and help accumulate individually and collectively reasonable amount of savings over the period. Though some of the organizations (SKDRDP) or their CBOs (DHAN, PSS, PEDO and SB) pay some returns on these savings, the primary purpose is to enable the groups and their CBOs to build-up own resources to pursue internal lending and to leverage accessing external funds. Savings mobilization at multiple levels-SHGs and federation, is being promoted to generate internal funds at various levels. In the case of DHAN, PEDO, and SB, the CBOs are mobilising savings in an innovative way as a result of which local savings have become

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Organisations</th>
<th>Savings With Groups</th>
<th>With Higher or other Structures</th>
<th>Internal Group Loan</th>
<th>From External/Higher Structures</th>
<th>% Funds from Financial Institutions for Loan</th>
<th>Micro-Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>NBJK</td>
<td>Yes</td>
<td>Bank / Post-office</td>
<td>Yes</td>
<td>Yes</td>
<td>18.5 %</td>
<td>Yes</td>
</tr>
<tr>
<td>2</td>
<td>PREM</td>
<td>Yes</td>
<td>Bank</td>
<td>Yes</td>
<td>Yes</td>
<td>-</td>
<td>Yes</td>
</tr>
<tr>
<td>3</td>
<td>DHAN</td>
<td>Yes</td>
<td>Federation/ Bank</td>
<td>Yes</td>
<td>Yes</td>
<td>74.2 %</td>
<td>Yes</td>
</tr>
<tr>
<td>4</td>
<td>SKDRDP</td>
<td>Yes</td>
<td>Bank</td>
<td>Yes</td>
<td>Yes</td>
<td>84.0 %</td>
<td>Yes</td>
</tr>
<tr>
<td>5</td>
<td>PSS</td>
<td>Yes</td>
<td>Federation</td>
<td>Yes</td>
<td>Yes</td>
<td>89.7 %</td>
<td>Yes</td>
</tr>
<tr>
<td>6</td>
<td>PEDO</td>
<td>Yes</td>
<td>Bank</td>
<td>Yes</td>
<td>Yes</td>
<td>38.9 %</td>
<td>no</td>
</tr>
<tr>
<td>7</td>
<td>SB</td>
<td>Yes</td>
<td>Federation/ Bank</td>
<td>Yes</td>
<td>Yes</td>
<td>11.5 %</td>
<td>Yes</td>
</tr>
<tr>
<td>8</td>
<td>BAIF</td>
<td>Yes</td>
<td>Bank</td>
<td>Yes</td>
<td>Yes</td>
<td>-</td>
<td>no</td>
</tr>
</tbody>
</table>

Table 5: Some Details of Microfinance Services Facilitated by the Study Organisations
one of the prominent sources of funds for lending by the groups and their federations. In some cases, many mature SHGs have become even self-reliant due to their own savings (PEDO and NBJK). The mobilization of savings by SHGs and the CBOs is seen by some of the promoting organizations as a key outcome of the ‘social capital’ built through horizontal and vertical linkages (Dhan Foundation 2011).

In general, SHGs have been encouraged or supported to open savings accounts with the banks irrespective of the delivery model. However, in few cases, many of the SHGs have not been able to open bank account for keeping their savings either because they have not been encouraged by the promoting organization or the banks are not easily accessible to them (NBJB and SB). An important practice noticed among the SHGs of some of the organizations (NBJK, SKDRDP and PREM) is the periodic distribution of accumulated savings and/or profit among the group members. Such a behavior though appears shortsighted but has been adopted due to the need for taking advantage of the accumulated owned funds to meet a contingency and to ensure safety of the savings.

Credit is the prominent service being offered or facilitated by the organizations in several ways. Across all the cases, groups are resorting to internal lending to meet short-term small and emergency needs of the members based on their savings. The members of the groups are considering this as an important achievement of their collective action. The groups are charging interest rate varying from 1 to 5 per cent per month based on the local demand and other considerations. While in certain cases many of the groups are relying solely on internal lending to meet the members’ needs, there are also situations where SHGs cannot utilize their savings to the full extent due to restrictions imposed by the organization in case of any external borrowing by the groups.

Coming to the other loan facilities enabled by the organisations, wide variations could be seen in terms of loan amount and rate of interest charged. Diverse and bigger loans are being delivered in case of those organizations which have enabled or obtained access to financial institutions for mobilizing larger resources. This could be seen in the case of organizations like SKDRDP, DHAN Foundation and PSS (Table 5 and 6) which are able to provide loans for wide variety of purposes and duration to help meet different needs and priorities of the members. Many of them have introduced loan for housing purpose-construction and repair, given the significant need and demand helping improve the quality of life. The housing loans are being offered for longer period with lower rate of interest.

Further, those (DHAN, PSS, and PEDO) combining multiple models - enabling and linkage, have helped the groups to tap multiple sources like SHGs, federations and banks. Under the bank linkage model, the loans are available generally as per the norms of SBLP. The banks are lending based on savings, maturity, and quality of the SHGs. The groups decide the loan terms like purpose, rate of interest and repayment schedule. Though there are some flexibility for the groups under the linkage model but certain constraints have been noticed like varying quality of groups leading to varied access, and varying response of the banks to the needs of the SHGs.
Table 6 : Some Details of Credit Services Provided by the Study Organisations

<table>
<thead>
<tr>
<th>Organisations</th>
<th>Loans for multiple-purpose</th>
<th>Some major purposes</th>
<th>Maximum Loan-size</th>
<th>Duration (Months)</th>
<th>Average Loan Size</th>
<th>Rate of Interest* (p.a)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 NBJK</td>
<td>Yes</td>
<td>Income Generation, Housing,</td>
<td>Rs.50,000</td>
<td>6-40</td>
<td>Rs.12,187</td>
<td>30%</td>
</tr>
<tr>
<td>2 PREM</td>
<td>Yes</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>24%</td>
</tr>
<tr>
<td>3 DHAN</td>
<td>Yes</td>
<td>All purposes: working capital, asset building, housing, social, education</td>
<td>Rs.55,000</td>
<td>3-120</td>
<td>Rs.10,894-</td>
<td>18-36%</td>
</tr>
<tr>
<td>4 SKDRDP</td>
<td>Yes</td>
<td>Household, Income generation, Housing, Infrastructure</td>
<td>Rs. 3,00,000</td>
<td>24-125</td>
<td>Rs.7,185</td>
<td>15%</td>
</tr>
<tr>
<td>5 PSS</td>
<td>Yes</td>
<td>Income Generation, Agriculture &amp; Allied, Housing, Education</td>
<td>Rs.50,000</td>
<td>24-36</td>
<td>Rs.12,628</td>
<td>24%</td>
</tr>
<tr>
<td>6 PEDO</td>
<td>Yes</td>
<td>Productive assets, health, housing, education</td>
<td>Rs.55,000</td>
<td>-</td>
<td>Rs.6,043</td>
<td>12%</td>
</tr>
<tr>
<td>7 SB</td>
<td>Yes</td>
<td>Livelihood, Health, Marriage</td>
<td>Rs.20,000</td>
<td>-</td>
<td>-</td>
<td>18%</td>
</tr>
<tr>
<td>8 BAIF</td>
<td>Yes</td>
<td>-</td>
<td>Rs.50,000</td>
<td>-</td>
<td>-</td>
<td>12-27%</td>
</tr>
</tbody>
</table>

*The internal loan rates of the SHGs varied from 1% to 5% per month. What is presented here is the nominal rate charged by the organizations on their main/prominent loan besides other service cost and fee. For BAIF, the source is Masdekar (2011).

Coming to the issues like adequacy, rate of interest and repayment methods, the practices again indicate to prevalence of diverse scenario. Even though there are efforts by many of these organizations to provide loans up to Rs 55,000, the average loan size across is generally low indicating the possible constraints being faced in meeting loan needs adequately (Table 6). About affordability, just based on the nominal interest rate charged on prominent loans (Table 6), the organizations have tried to give their best given several constraints they are operating with. Overall, if various other charges like membership fee and services charges are added the effective rates would be relatively higher as compared to the formal rates. The bank linkage models have shown scope for relatively lower rates than others given the cheaper access provided by the banks to the SHGs. The on-lending and enabling models have a mixed scenario. While one of the on-lending institutions is able to offer fairly a lower rate (SKDRDP), another one (NBJK) has faced constraints in offering lower rates due to the absence of scale economy in its operations. The enabling models though go by the wisdom of the members to decide about the rate of interest, ability to forge viable links with the banks and attain scale economy are important factors in influencing their cost of loans. Moreover, given the not-for-profit nature of these organisations, the tendency has been largely to work based on the principle of ensuring basic level of
operational self-sustainability and not to charge exorbitant rates of interest. In general, given such constraints on the interest rate side, the attempt is to compensate the members with relatively easier and reliable access to loan funds.

About the repayment methods, expect in the case of on-lending models, the repayments are fixed mostly on a monthly basis. Even under the on-lending models, some scope has been given for monthly repayment wherever there has been such demand or need. Moreover, in most cases the loan tenure is reasonably longer and flexible as per the purpose of loan giving adequate cushion for the members to adjust their repayment accordingly (Table 6). In general, all the interventions have shown overall good recovery performance. A common positive feature noticeable in all the cases is the absence of coercion or pressure both in lending and recovery. This is attributable largely to the adoption of need-based microfinance programme by these organisations not driven by excessive commercial orientation. The client-protection has come more naturally under these models.

Apparently, a major outcome of these efforts is the successful tiding over of the crisis that has affected the general working of MFIs in the country in the wake of the problem faced in Andhra Pradesh as exemplified by the case of PSS and SKDRDP. The PSS in Andhra Pradesh managed to convince the local pressure groups which had raised objections to the working practices of its CBOs by clearly highlighting the nature of its microfinance including the ownership structure and the role of the community in the decision making. Similarly, SKDRDP in Karnataka which follows the on-lending model based on its credible way of working has been able to mobilize the needed resources from banks despite the negative scenario prevailing for the MFIs in the country.

Apart from savings and credit, many of the organizations are found offering micro-insurance on a partnership basis (Table 2 and 5). The extent of coverage has varied widely depending on the nature of the partnership and the role played by the organisations or their CBOs as agents. Significant level of coverage could be observed in the case of micro-insurance interventions promoted by DHAN Foundation and SKDRDP. The achievements in these two cases are the result of the proactive efforts of these organisations in collaborating with the companies to design the products, and in mobilizing the community at the local level. The two organizations (DHAN and SKDRDP) have even established specialized agencies to sustain the efforts made so far. Incidentally, a few (NBJK, PREM, and SKDRDP) have promoted in-house insurance schemes on a limited basis and have experienced chequered progress due to regulatory restrictions.

5. Microfinance and Other Developmental Links

Generally, microfinance interventions are minimalist in nature relying on credit alone for making an impact on poverty. As credit alone may not suffice, it is argued that other inputs must accompany credit (credit-plus) for a better impact. The delivery of credit-plus services is a challenging task as it not only needs an integrated perspective but also access to additional resources. The credit-plus approach may involve arranging the needed backward and forward linkages for the activities or projects pursued by the loanees. In a broader sense,
it may go beyond microfinance to combine other dimensions of development like health, education, technology, and asset building to make a major dent on the livelihood conditions of the poor.

The cases indicate to a scenario wherein varied efforts are being made to establish linkages between microfinance and other interventions. The linkages attempted are both the result of the multi-activity nature of these organization as well due to deliberate effort made create such linkages. For example, the agriculture development groups of SKDRDP under which technology, extension, water etc. are arranged combine microfinance leading to a complementarity between the two activities. Similarly, NBJK delivers its reproductive health programmes through the platform of SHGs resulting in a positive impact on the health seeking behavior of the group members. There are also certain uniqueness in the efforts of some of these organizations. For instance, in the case of BAIF operationally the credit based intervention is supposed to follow only after certain basic level of development has been delivered to the poor. Microfinance is supposed to supplement and complement the productive capacity augmented initially through interventions like asset building and technology development. Likewise, PREM which works with the tribal communities combines with microfinance other interventions like tribal mobilization and advocacy to strengthen political decentralization and forest rights crucial for tribal livelihood and development. Such attempted linkages between microfinance and development interventions could be seen across other case study organizations (SB, and DHAN). In a way, by following such an integrated approach the organizations are trying to overcome the limitations or constraints their interventions including microfinance would have faced due to any isolated approach.

The promotion of community based organizations has also facilitated further strengthening of such developmental links. The CBOs besides delivery of microfinance are serving as platforms to take up relevant developmental initiatives. Starting of a separate multi-specialty hospital by the SHG federations promoted by DHAN Foundation to offer affordable health services to the members is one such initiative. The initiative to promote livelihood based groups to support different activities of SHG members again under these federations or the aspect of labour sharing by farmers’ groups and focused women based interventions by the local networks of SHGs under SKDRDP are illustration of developmental links fostered by these collectives. A common aspect that could be observed across cases is the utilisation of the forum of SHGs and their federations by their members for discussing and addressing variety of social issues like health, children education, child marriage, and alcoholism. In certain cases even individual member level problems are also being addressed by these groups. Further, SHGs have become instruments to promote livelihood enhancement activities. The groups are taking up productive activities like group farming or delivery of services (PDS and MDM) under government schemes.

Provision of credit-plus services to SHGs and their members is another attempt by these organizations to go beyond the minimalist credit. There are attempts to provide certain additional inputs or services needed by the microfinance participants to make better use of
their credit. A common input seen across these organizations studied is the provision of training to the members of the groups. The trainings pertain to leadership, SHG management, and entrepreneurial activities. The entrepreneurial trainings are being sourced to some of the government schemes by these agencies. Simultaneously, many of these organizations on their own or through the channel of CBOs are trying to arrange support services like bank linkage, book-keeping and auditing for SHGs on payment of service charges. In needy cases, the organizations or their CBOs are making efforts to enable the groups or their members to access subsidy and other services available from the government agencies.

The promoting organisations are even helping the CBOs get the help of professional staff either on deputation or on regular basis to overcome their managerial challenges. At a higher level, a few have even tried to set up specialized institutions to create or enlarge developmental linkages in a more sustainable way for their CBOs and their members. The promotion of an institution for providing marketing and other forward/backward linkages to group entrepreneurs by both SKDRDP and BAIF, establishment of a specialized agency to partner with the insurance companies on behalf of their SHGs/CBOs by both DHAN and SKDRDP, and establishment of a semi-wholesale agency to source and channelize funds from financial institutions by DHAN are examples of such systematic efforts in this regard. Though such initiatives are limited but are a pointer to the possibilities that exist for integrated development when the needed perspective is present.

Overall, the microfinance interventions of these organizations combined with the above developmental thrust have apparently made many positive differences to the social and economic conditions of the members. The filed insights along with some of the available evidence from other assessments about these organizations indicate that the sustained access to microfinance created by the groups and their CBOs has helped the poor and needy to benefit in many ways. The access to capital has enabled them to augment and diversify their livelihood sources leading to improvements in income, asset-base and quality of life. Further, the improved access to credit and enhanced income conditions have reduced considerably the dependence on moneylenders and informal sources of credit. Some of these positive changes are reflected in visible behavior like good loan repayment performance, increased savings mobilization, and sustained relationship members with their groups. Certain other qualitative transformations observed with potential for empowerment include perceived changes in the social conditions of women because of their association with the groups/CBOs, development of leadership abilities, ownership over CBOs, and increased awareness and changed behavior about social issues like health and education.

6. Constraints and Challenges of the Enabling Models

The enabling models consisting of the member-based groups and CBOs are supposed to generate many positive externalities which are empowering for the communities. Despite some of the achievements noted about the enabling models of microfinance, challenges and constraints of various nature have been experienced restraining them in realising their full...
developmental potential. While the specific constraints are highlighted in the respective cases, some of the more common and prominent ones are identified below.

For creating enabling models which can be really empowering for the communities a major constraint observed has been the prevailing legal and regulatory framework in the country. There are wide variations in the legal form adopted in the creation of CBOs (Table 2). While some have adopted trust and/or society form for promoting CBOs, others have followed cooperative form. Though the diversity may be useful but the legal forms like trust and society, unlike the cooperatives, have certain constraints in ensuring proper ownership and control by the members. Again, CBOs in the form of trust and society face several regulatory constraints in pursuing microfinance effectively. Neither can they offer savings services nor there is a clarity over taxing the surplus earned through microfinance activity. At the same time, needed resources to help develop the capacities of these CBOs to be self-reliant have not been easily forthcoming. There are instances where financial institutions have shown reluctance to deal with such CBOs in the absence of due capacity. Unless the collective action of the above nature takes a proper form and shape with due regulatory and other support, the resultant ‘social capital’ is likely to be vague and weak.

The organizations following the on-lending delivery model in the NGO from (SKDRDP and NBJK) have also faced few constraints. The eternal dilemma of providing credit services by a charitable institution has posed a constant predicament for these organisations. The needs of the poor for credit and the acuteness of the financial exclusion have compelled them to take up and continue with the lending activity. Further, the regulatory challenge mentioned above for the CBOs is true even in the case of these NGO. The existing regulatory provisions have compelled them to fragment or curtail their savings and insurance services. Moreover, the compulsion of dependence on commercial sources of funds for on-lending has posed serious pressure in maintaining sustainability of the intervention and affordability of services. At the same time, these NGO based delivery models are yet to suitably address the issue of withdrawal for ensuring community ownership and future sustainability.

The bank linkage model has emerged as a common form of intermediation across all the study organisations and their CBOs. The linkage model is faced with at least two types constraints as could be observed in the case studies. The response of the banks and financial institutions has been of a varied type bringing uncertainty in ensuring sustained linkage. Second, the much needed support for social intermediation–forming and nurturing of SHGs, has not been forthcoming uniformly resulting in poor and varied spread and quality of groups. The smooth functioning of the linkage model hence has been constrained especially in the needy areas.

Across the models another key challenge observed is the wide variations in the interest rates charged on the loans offered. In certain cases, they are relatively high by formal standards having implications for affordability. Lack of access to cheaper funds due to constraints faced in savings mobilization and forced dependence on market sources for funds is one of the major reasons affecting the level of interest rates. Sustainability constraint has in few
cases brought in bias towards the relatively better-off in the outreach to the relative neglect of the poor.

Some of the common issues or concerns identified with typical microfinance groups could be observed even in the present case studies having implications for building and harnessing ‘social capital’. With few exceptions, the groups have been commonly promoted based on the principle of social homogeneity determined by kinship or caste relations. Though homogeneity has been a contributing factor in ensuring cohesion among the groups, its potential role in sustaining the existing practices of social exclusion or discrimination could not be fully ruled out. The fact that there are also strong groups with diverse composition indicates to the possibility of creating diversity-based cohesion in local groups; homogeneity-based cohesion which tend to be exclusive need not be rule or common principle for ensuring local collective action. The issue of tapping ‘trust’ among the groups for collective action has been of a mixed type. Wide variations could be seen in the application of the norms of peer pressure and joint liability mechanisms both in principle and practice. One could also observe key role being assigned in many cases to own savings and the field staff in determining the loan eligibility and recovery. The groups apparently are working based on multiple factors, not social relations or values alone. Local leadership development, especially among the women, is identified as one of the major positive externalities of the SHGs. Despite having the rule of rotation, the groups across the cases with few exceptions have not been able to rotate the leadership role among the members. This again would have given scope for uneven development of individual capacities for collective action, not to speak of the possible tendency among the leaders to seek higher benefits at the cost of other group members (Sahu and Das 2007).

The ‘social capital’ built in such groups can possibly ensure benefit to the poor only to the extent permitted by the level of ‘trust’ and capacity generated. One indicator of this is the limited collateral-free loan being offered commonly across the organisations and their CBOs studied. Though some of the organizations are offering larger loans, collateral is being insisted in such cases hindering the poor to access adequate capital for their entrepreneurial needs. At the same time, simultaneous loans for more members of a group or multiple purposes are not easily forthcoming in many cases.

Except for some organisations (SKDRDP and DHAN) which have been able to adopt a clear strategy of scaling-up, the level of outreach of most of the organizations has been at best modest. Even in the case of organizations which have promoted the CBOs for microfinance which are locally based, their depth of outreach still leaves much to be desired. The scale of operation of these models has been affected by factors like tagging the spread of microfinance to other development interventions, lack of clear internal strategy and capacity building for scaling-up, and constraints in obtaining large-scale funds from public sources both for formation of the groups and for lending activities are some of major causes identified for the limited outreach of many of the enabling models.
Similarly, the links established between microfinance and other developmental interventions by these models have been of varying nature and scale. The inadequate and uncertain support for providing credit-plus services is also weakening the potential for creating a more wholistic impact. Again, not all the organisations have been able to go beyond microfinance to integrate the poor in a significant way with other developmental interventions.

Thus, the enabling models studied still have a long way to go before they can enhance the scope and potential of their ‘social capital’ generated in microfinance (see Table 1A) for a fuller development of the poor.

### 7. Enabling the Enablers: Some Policy Implications

Arguing the need for a deeper and a more critical examination of the type of interventions studied here, certain broad policy directions may be identified based on insights gathered from the comparative analysis, and the prevailing understanding of the role of microfinance. As identified, the thrust should be on bringing development back to microfinance by strengthening the alternatives including the enabling models. The models studied here—on lending, linkage, and enabling, have simultaneously displayed several strengths and weaknesses. Given the diverse scenario in the country, no single model may hold all the solutions for the problem of financial exclusion. The following lessons need suitable attention at the policy level.

The study in several ways brings out the relevance of the enabling models of microfinance. The enabling models essentially based on community owned structures provide several advantages. By bringing community issues to the fore they help resolve to a great extent many of the contradictions and challenges that go with the delivery of microfinance. Be it the issue of profit or sustainability, the mutual benefit approach inherent in the enabling models help resolve them in a fairly amicable way. The community based structures when organized well bring in additional advantages through their ability to mobilize both local and external resources for effective financial intermediation and for pursuing other developmental activities. The enabling models make this happen in a much more decentralized and participatory way wherein even women and other disadvantaged groups can play a significant role. Eventually, the ultimate NGO withdrawal could be more easier and sustainable.

The second major lesson that emerges is the continued relevance of NGOs and other civil society agencies for microfinance which has got sideline in view of the recent trend towards commercialization. The role for NGOs remains important both for financial and social intermediation as long as financial exclusion persists. The strength of altruism and non-profit approach of the NGOs can aid microfinance retain its focus on the poor and their needs. The NGOs can help promote groups and nurture their capacities under all models or promote CBOs for building enabling models, or even take-up on-lending where ever the financial exclusion is very acute. Simultaneously, through multi-dimensional focus NGOs can try and build the needed links between microfinance and development.
The NGOs and the CBOs no doubt can bring several advantages, but at the same time suffer from many limitations/challenges. The ‘social capital’ they help build through group-based collective action for the poor may suffer from numerous limitations, as identified elsewhere in this chapter, and may need a broader policy support framework to realize the full developmental potential for the poor.

Given the reality, that the NGOs are playing a significant role in delivering financial services for the poor, there is a need to clarify their regulatory position more clearly. The NGOs continue to face various dilemmas in the absence of suitable recognition of their financial intermediation role. The new regulatory framework introduced in the wake of the Malegam Committee report is ridden with several contradictions and is not fully helpful for delivery of microfinance by typical NGOs. The new framework has a very top-down regulatory system, ironically under a liberalized regime (Shylendra 2011). There is nothing that is really enabling for the NGOs and MFIs to make their services affordable and ensure due client protection under this framework. Hopefully the new bill planned on microfinance may materialize soon to create a more enabling environment for the NGOs and CBOs. The state governments also must help create a suitable legal framework for the CBOs on the lines of self-reliant or mutually aided cooperative societies acts enacted by some of the states.

The process of social intermediation involving formation of groups and their CBOs needs considerable resources. The state, financial institutions and other public agencies must invest considerably in this direction. Without a complementary social intermediation, microfinance is bound to face many hurdles. Poorer the groups in terms of their capacity for governance, poorer the trust and other elements of ‘social capital.’

The other crucial support needed is that the state should guarantee the availability of adequate cheaper funds towards meeting the loan fund needs of the microfinance sector. The CBOs, NGOs and MFIs are pursuing the cause of financial inclusion which is a key responsibility of the state. The state cannot allow these agencies to rely solely on the market. The state must devote a significant sum of money which can be used on a revolving basis to provide cheaper refinance facility to these NGOs, CBOs and MFIs. A national level revolving fund may be created with NABARD based on budgetary support and contributions from banks and financial institutions. The primary rationale for the fund is almost similar to the financing of the right-based wage employment programme viz., MNREGA. The fund being recommended here is towards generation of self-employment and livelihood opportunities through microfinance. Such a fund would help ease the undue pressure of ‘financial sustainability’ in the microfinance sector responsible for problems like exclusion of the poor, prevalence of high interest rate, coercive methods of lending and recovery, and growing debt burden.

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2 Another rationale is the argument that like the farmers the poor also need to be provided with access to cheaper loans for their productive activities.
Lastly, the linkages between microfinance and other developmental interventions need to be strengthened. The new National Rural Livelihood Mission (NRLM) needs to be leveraged suitably for this. Resources for capacity building and training have to be augmented and streamlined. To make self-employment viable for the poor, specialized projects and institutions capable of creating effective linkages have to be explored and created.

All these measures can possibly enable microfinance models become more social and wholistic.
## Appendix

### Table 1A: Elements of ‘Social Capital’ Built by the Case Study Organisations

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Organisations</th>
<th>‘Social Capital’ by Type</th>
<th>Other broader linkages attempted</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Bonding/Horizontal</td>
<td>Bridging/Vertical</td>
</tr>
<tr>
<td>1</td>
<td>NBJK</td>
<td>Mutual guarantee/liability; Peer monitoring; Joint-management of groups; Inter-lending; Many self-reliant groups</td>
<td>Group leaders training; Staff interaction and Counseling of groups; Links with banks and post-office; Channelize health schemes through SHGs</td>
</tr>
<tr>
<td>2</td>
<td>PREM</td>
<td>Inter-lending , Income generating schemes by groups</td>
<td>SHG Federations; Social issues by federations, Bank linkage,</td>
</tr>
<tr>
<td>3</td>
<td>DHAN</td>
<td>Inter-lending , help develop trust among group members, leadership development; cluster federation</td>
<td>Links with banks, development ventures by federations like hospital service; Social issues by federations</td>
</tr>
<tr>
<td>4</td>
<td>SKDRDP</td>
<td>Labour sharing; Inter loaning, mutual liability, peer monitoring, local federations, Women’s centres for information sharing; Group enterprises for income generation</td>
<td>Staff interaction and guidance, Bank linkage; MIS Development, Other development assistance of SKDRDP; Insurance linkage; Training in skill development</td>
</tr>
<tr>
<td>5</td>
<td>PSS</td>
<td>Inter-lending , Village level Federations/Organisations;</td>
<td>Block level /District Level Federation, Support of book keepers, bank linkage of SHGs, Links with financial institutions by the federation;</td>
</tr>
<tr>
<td>6</td>
<td>PEDO</td>
<td>Group nurturing, Sub-groups of SHGs for peer pressure, rotation of SHG meeting venue; cluster federation; many self-reliant groups</td>
<td>Accounts keeping by federation, MIS use; Bank linkage.</td>
</tr>
<tr>
<td>7</td>
<td>SB</td>
<td>Group development, Inter-lending, Cluster federation</td>
<td>Formation of federations; Bank linkage; Book-keeping and auditing of groups, Insurance partnership</td>
</tr>
<tr>
<td>8</td>
<td>BAIF</td>
<td>Mutual guarantee, peer monitoring, Local federation</td>
<td>Support of Book-keepers, Bank Linkage; Loans from Organisation; SHG federation formation, exposure, training.</td>
</tr>
</tbody>
</table>
Case Studies
1. **Nav Bharat Jagriti Kendra (NBJK)**

**Introduction**

The Nav Bharat Jagriti Kendra (NBJK) is a non-governmental organization (NGO) set up in 1971 in the undivided state of Bihar by four engineering graduates who were inspired by the social movement led by Shri Jai Prakash Narayan aimed at establishing a ‘just society.’ This ideological background has been a major influencing factor in the working of NBJK since its inception. The stated vision of NBJK is ‘to establish a progressive, peaceful, and a just society based on the values of equality, fraternity and mutual help’. NBJK which is headquarterd at Hazaribagh in the Jharkhand state operates in ten districts of Jharkhand and three districts of Bihar state in the eastern India.

The states of Jharkhand and Bihar fall in one of the backward regions of the country. The Jharkhand state, the primary work area of NBJK, is a newly carved state out of Bihar in 2000 A D. As per the 2001 census, 77.8 per cent of Jharkhand’s population lived in rural areas. About 54 per cent of the state’s population was estimated to be living below the official poverty line. The scheduled tribe (ST) and scheduled caste (SC) population constituted nearly 38 per cent of the state’s population. While the total literacy rate for the state was 54 per cent per cent in 2001, the female literacy rate was low at 39.4 per cent. As per the Committee on Financial Inclusion (GOI 2008a), 12 out of 22 districts of Jharkhand were identified as districts with high level of financial exclusion in terms of the spread of banking network and credit gap.

Given the social and economic background of its area, NBJK has evolved as a multi-activity organization having a specific mission ‘to educate, organize and empower the rural poor to promote development as a liberating force for achieving social justice, economic growth and self-reliance’. NBJK has identified five broad areas for its development interventions namely, education, health, socio-economic development, advocacy, and network. Under each of these areas NBJK takes up a variety of programmes and activities keeping its stated vision and mission in view. Under all its programmes, the thrust is on assisting those sections who are unable to benefit from the broader development process.

**Education:** This is one of the key areas of intervention by NBJK. Focusing on the marginalized children, especially girls, NBJK has established a number of schools, non-formal education centres, hostels for girls from SC/ST community, and remedial coaching centres. Through a multi-pronged approach to education, NBJK aims at mainstreaming the deprived sections in the remote areas of its operation.

**Health:** As health is a critical issue, NBJK has taken up interventions to improve the access to health care, water, and sanitation of common people in rural areas and urban slums. Besides running two state-of-the-art eye hospitals to provide affordable eye care to the poor, NBJK implements many programmes like awareness creation and capacity building of community on health issues, working for rights of persons with disabilities, rehabilitation of
mentally sick, improving drinking and sanitary conditions, and urban solid waste management.

**Socio-economic Development:** To enhance self-reliance of the community, NBJK implements several programmes focusing on increasing income and employment opportunities of the poor and marginalized sections. The prominent activities include microcredit, agriculture development, land and water management, watershed development, livelihood promotion and skill development programme. While NBJK is now implementing its own microcredit programme, in other cases it collaborates with various government and donor agencies by facilitating and providing necessary linkages.

**Advocacy:** Through campaigns and people’s committees, NBJK works for protecting the rights of ordinary citizens, sensitizing community and administration on issues like female feticide, and improving governance of state supported programmes.

**Networking:** To build a strong voluntary movement, NBJK collaborates with a large number grassroots NGOs both to build their capacities as well as provide a platform to raise issues concerning local communities. At national level, NBJK partners with network organizations like INAFI, Sa-Dhan and Credibility Alliance to promote the cause of civil society institutions and good governance.

Thus, NBJK has adopted a multi-pronged strategy in its working to bring about a more holistic development. Microcredit is one of the several interventions of NBJK aimed at social and economic development of the target community.

**Microcredit Intervention of NBJK**

The microcredit programme of NBJK started more formally in 1993 as Women Entrepreneurship Development Programme (WEDP). However, NBJK had made attempts even before that to provide credit to the rural poor. NBJK had created village fund or *gram kosh* in 1980 to take care of the loan needs locally. Since 1991, NBJK even started providing loans to the individual farmers. The group based microcredit programme started with the CORDAID supported WEDP programme (Girija 2006). The microcredit programme received further boost for its expansion when CARE-India provided support in 1997. While CORDAID provided approximately Rs. 80 lakh, CARE-India provided another Rs. 56 lakh towards the fund. The support was meant to help NBJK to initiate and build-up it microcredit activities. The grant funds were utilized for meeting the loan fund needs, operational costs, and capacity building of the members of the programme.

NBJK had come to realize through its other interventions the relevance of credit as a critical linkage in economic empowerment of the poor in general and women in particular. The WEDP enabled NBJK to work towards creating such a linkage through microcredit. The microcredit programme of NBJK started with the following specific objectives:
• To create self-employment through income generation activities.
• To make available easy, timely and appropriate credit and other financial/support services to the target group.
• To reduce the dependence on local money lenders or other middleman for capital.
• To stop land/asset mortgage, advance crop selling and other income eroding process.
• To reduce women’s discrimination and increase their dignity and status in the society.

Currently the microcredit programme of NBJK is operational in about 654 villages spread over six districts of Jharkhand and Bihar (Table 1.1). Through its microcredit activity, NBJK has reached out to nearly 29,438 members in its area of operation. While about 61 per cent of its members are in rural areas, 39 per cent are based in urban areas. Again, nearly 80 per cent of the members are women indicating the prominence given for coverage of women by NBJK as per the objectives of the programme.

Table 1.1: Outreach of NBJK’s MF Programme, 2011

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>Particulars</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Year of establishment</td>
<td>1993</td>
</tr>
<tr>
<td>2</td>
<td>Number of states</td>
<td>Jharkhand, Bihar</td>
</tr>
<tr>
<td>3</td>
<td>No. of districts covered</td>
<td>6</td>
</tr>
<tr>
<td>4</td>
<td>No. of villages</td>
<td>654</td>
</tr>
<tr>
<td>5</td>
<td>Total MF groups Promoted</td>
<td>1963</td>
</tr>
<tr>
<td></td>
<td>SHGs</td>
<td>1516</td>
</tr>
<tr>
<td></td>
<td>JLGs</td>
<td>447</td>
</tr>
<tr>
<td>6</td>
<td>Total members</td>
<td>29,438</td>
</tr>
<tr>
<td></td>
<td>Rural</td>
<td>17,975 (61.0%)</td>
</tr>
<tr>
<td></td>
<td>Urban</td>
<td>11,481 (39.0%)</td>
</tr>
<tr>
<td>7</td>
<td>Male : female ratio (for borrowers)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Men</td>
<td>19.7%</td>
</tr>
<tr>
<td></td>
<td>Women</td>
<td>80.3%</td>
</tr>
</tbody>
</table>

Microfinance Methods of NBJK

**MF models:** Broadly, NBJK has adopted group-based on-lending and bank linkage models under its microfinance programme. Under the on-lending model, NBJK has been directly providing loan and other services to the needy by forming groups. Under the linkage model, NBJK has tried to form groups and link them to formal institutions. The linkage model was attempted only in the pockets of Ramgarh and Chatra districts. For example, in Chatra district about 200 SHGs have been formed which are linked to various banks. In Ramgarh district, NBJK had formed and linked about 100 SHGs. The SHG-bank linkage model, however,
could not be sustained for expansion as NBJK was not able to get the needed support to form and nurture the SHGs.

The major model adopted by NBJK is the on-lending type under which NBJK forms its own groups and provides loans to them using funds mobilized from various sources. For this, NBJK has relied largely on funds received from two donors in the initial phase. It has also tried to augment its funds through loans from two banks and its own retained earnings from microfinance operations (Table 1.2).

Table 1.2: Funds Mobilised by NBJK

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>Agency</th>
<th>Amount</th>
<th>Year</th>
<th>Rate of Interest</th>
<th>Type/Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>CORDAID</td>
<td>Rs. 80 Lakh</td>
<td>1994</td>
<td>-</td>
<td>Revolving grant</td>
</tr>
<tr>
<td>2</td>
<td>CARE</td>
<td>Rs. 56 Lakh</td>
<td>1997</td>
<td>-</td>
<td>Revolving grant</td>
</tr>
<tr>
<td>3</td>
<td>SIDBI</td>
<td>Rs. 20 Lakh</td>
<td>2004</td>
<td>11%</td>
<td>Term Loan</td>
</tr>
<tr>
<td>4</td>
<td>SIDBI</td>
<td>Rs. 30 Lakh</td>
<td>2005</td>
<td>8.5%</td>
<td>Term Loan</td>
</tr>
<tr>
<td>5</td>
<td>SIDBI</td>
<td>Rs. 120 Lakh</td>
<td>2006</td>
<td>8.5%</td>
<td>Term Loan</td>
</tr>
<tr>
<td>6</td>
<td>SIDBI</td>
<td>Rs. 50 Lakh</td>
<td>2007</td>
<td>1%</td>
<td>Soft loan for Corpus support</td>
</tr>
<tr>
<td>7</td>
<td>SIDBI</td>
<td>Rs. 50 Lakh</td>
<td>2008</td>
<td>13%</td>
<td>Term Loan</td>
</tr>
<tr>
<td>8</td>
<td>SIDBI</td>
<td>Rs. 50 Lakh</td>
<td>2009</td>
<td>13%</td>
<td>Term Loan</td>
</tr>
<tr>
<td>9</td>
<td>HDFC Bank</td>
<td>Rs. 75 Lakh</td>
<td>2007</td>
<td>10 &amp; 12%</td>
<td>Term Loan</td>
</tr>
</tbody>
</table>

**Target Group:** NBJK’s aim is to work with a variety of disadvantaged groups. In the case of microfinance, NBJK primarily started it as a women’s empowerment programme. Hence by design NBJK has been trying to mobilize women for self-employment activities through microfinance groups. However, since 2004 NBJK has decided to work with men also under its microfinance. By 2011, the female to male ratio was of the order of about 80:20 in the case of its borrower members indicating the prominence of women’s involvement.

With regard to other social and economic groups, NBJK as such do not have any explicit criteria for targeting. However, the aim is to largely reach out to those who belong to socially and economically backward sections. Socially, the goal is to cover households who are from backward communities, and economically the focus is to reach out to households with relatively lower income and landholding both in rural and urban areas. However, for lending purposes, NBJK tries to focus largely on the economically active households so that they are able to productively make use of their loans. Thus, very poor households are not as such targeted under the microfinance programme.
**Group Method:** NBJK like most other MFIs has adopted group method for delivering microfinance. Using group method, NBJK has tried to build certain collective strengths among the members essential to provide the financial intermediation for the disadvantaged sections who are unable to access formal sources. NBJK promotes two types of groups namely, self-help groups (SHGs) and joint liability groups (JLGs). While the SHGs are being promoted since the inception of its microfinance programme, JLGs have been introduced subsequently in 2004 with the aim of including men under microfinance. SHGs are larger in size having up to twenty members in them. JLGs, on other hand, are smaller in size with a membership of 4-5 members. Another major difference between the SHGs and JLGs is the habit of savings. SHGs mobilize savings from their members on a regular basis (weekly or monthly), in JLGs regular savings is not a requirement for participation. That apart, there are also few differences between SHGs and JLGs especially with regard to lending and recovery methods as explained in subsequent sections (see also Appendix 1.1 for field insights on groups of NBJK).

NBJK’s aim is to build strong groups which can work on the basis of mutual cooperation and mutual liability. In the case of SHGs, NBJK provides training to its leaders and members about the concept of group and its management. There was a major emphasis on the capacity building of the SHGs formed under support from CARE. Generally, SHGs are promoted by NBJK under various programmes it implements in rural and urban areas. The staff also subsequently form newer groups in their area of operation. Some of the needy even directly approach NBJK staff for group formation. Besides training, NBJK provides SHGs with various books at a cost price. The staff visits the SHGs regularly and help them in their management. SHGs are supposed to be managed on self-help basis. They elect their leaders who take care of their management functions. Incidentally, most SHGs prefer to retain their leaders though they are expected to rotate the leadership. However, other members are found helping the leaders in completing the group tasks. NBJK field staff who visit groups regularly help them sort out any problems faced by the groups. The staff besides facilitating lending activity also verifies the books of account of the SHGs. NBJK once in a while gets the books audited from external auditors. SHGs are also helped to open savings accounts with banks. Besides these support, NBJK channelizes some of its developmental activities through SHGs. In the case of JLGs, NBJK provides orientation to the group members. Unlike SHGs, JLGs need not having regular meetings and savings. A JLG elects a leader who coordinates the activities of the group especially while applying for loan and repayment. Like the members of a SHG, JLG members also sign a mutual guarantee agreement for the loan taken by the members.

**Organisational Structure and Strategy**

About the structure needed for the programme, NBJK has tried to evolve based on the emerging experience and its own philosophy and form as an NGO. The microfinance programme has been implemented as development project. A separate wing or department with dedicated staff looks after the programme under the overall supervision of the Executive Director of the NBJK.
Largely, for each major district the structure depicted in Figure 1.1 prevails for the microfinance programme. The thrust of NBJK is to create an efficient and accountable system driven by professionalism and suitable incentives. NBJK has tried to put in place necessary and appropriate systems and practices. As an NGO, the major emphasis is to deliver microfinance on a not-for-profit principle. However, given the compulsion of achieving sustainability and self-reliance, suitable mechanisms have been evolved. Despite several pressures, NBJK has not so far attempted any transformation of its legal form to scale-up and sustain microfinance. The idea now is to possibly create a section 25 company which can take over microfinance but still run on a not-for-profit basis.

Some of the specific initiatives of NBJK towards building its microfinance intervention are on the following lines.

NBJK under support from CORDAID received technical help from ASA, Bangladesh in the initial period to develop its systems. ASA helped NBJK to prepare a manual for its working. The key features of the ASA model were adopted in the Hazaribagh area. NBJK received support from CARE-India to further expand its intervention in 1997. NBJK promoted large number of SHGs under this support in Ranchi and neighbouring areas. The key thrust was on building quality SHGs based on intensive capacity building and exposure.
In order to enhance its credibility and streamline its functioning, NBJK got itself rated periodically from two leading rating agencies viz., M-CRIL and CRISIL. The rating reports brought out the key strengths and weaknesses of NBJK for microfinance and helped take necessary steps to address the relevant issues. By taking help from a well-known MFI, NBJK tried to develop a MIS for its operations. NBJK now is in a position to update and monitor on a daily basis the progress up to SHG level. Besides trying to build a dedicated staff, NBJK has developed a suitable compensation package. It has also adopted a performance based incentive system for both field and managerial staff to improve the productivity both quantitatively and qualitatively.

NBJK has borrowed funds from SIDBI and HDFC Banks to augment its resources for expansion. In order to ensure prudent operations, as per the recommended practices NBJK has introduced loan loss provisioning since 2007. NBJK at the same has been imputing its owned funds under microfinance generated over years at 12 per cent per annum to reflect the real cost of capital for a sustainable operation.

Product and Services

For delivering microfinance, NBJK has tried to create what it calls a `socio-commercial bank at your door step.’ NBJK has tried to design its microfinance services keeping this goal in view within the constraints imposed by its legal form. There has been an attempt to provide diverse services to the members at an affordable rate and in a timely manner.

The savings generation is being enabled through group mechanism. All the SHGs have to compulsorily mobilize savings from their members. SHGs collect savings either on a weekly or monthly basis as per their convenience. SHGs in Ranchi area have monthly savings, and those in Hazaribagh area are following a weekly savings system (see Appendix 1.1). The savings installment varies from Rs. 5 to Rs. 30 as per the group’s decision. Most of the SHGs open a savings account with a nearby bank to deposit their money. Some of the SHGs handle cash on their own and do not have a bank account. Some of those with accumulated savings try and invest part of their money either with post-office or with a bank in fixed deposit form. There are many SHGs of NBJK which are only into savings mobilization. The JLGs do not have the practice of savings mobilization.

The regular savings mobilization has created an opportunity for members to save small amounts on a regular basis and build up their own networth, individually and collectively. The savings is also serving as an instrument for SHGs to pursue lending activity. SHGs are using the funds to rotate it among the needy members for a return. The savings fund is also serving as a collateral for mobilizing bigger loans from NBJK. To ensure safety and to retain trust, many SHGs have adopted the practice of periodically distributing among members the accumulated savings and profit of the group.
Table 1.3: Microfinance Services offered by NBJK

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>Services</th>
<th>Details</th>
</tr>
</thead>
</table>
| 1.    | Savings | ● Compulsory weekly or monthly savings with the group (SHG)  
       |          | ● Installment: Rs. 5 to 30 as decided by group  
       |          | ● SHGs distribute periodically savings and/or earnings among their members  
       |          | ● Most groups have savings account with a nearby bank |
| 2.    | Loan    | **Internal Loan**: SHGs lend from their savings corpus to meet immediate loan needs of the members  
       |          | **Interest**: 1 to 5% per month  
       |          | **Purpose**: Any urgent need  
       |          | **Period**: Generally short period (up to six months) |
|       |          | **NBJK Loans:**  
       |       | **a) Income Generation Loan**: Loan for any income generating activity  
       |       | **Loan size**: First cycle up to Rs. 8,000 in SHGs and Rs. 10,000 in JLGs. Subsequent loans maximum up to Rs. 50,000 with a gradual increase.  
       |       | **Loan Period**: 45 weeks with 2 weeks grace period in Hazaribagh area in SHG and 6 to 30 months in JLG; 6 to 36 months in Ranchi area.  
       |       | **Security**: Joint liability and mutual guarantee of group members plus 10% of loan amount as cash security for JLG. Indirect security of savings in case of SHGs  
       |       | **Repayment Frequency**: Weekly in SHGs and monthly in JLGs in Hazaribagh area; Monthly in Ranchi area  
       |       | **Service Charges**: Rs. 20 membership fee in Ranchi and Rs. 10 in Hazaribagh; 1% processing fee and 12.5% flat rate p.a. in Hazaribagh area; 30/p.a. on a declining balance in Ranchi area.  
       |       | **b) Housing Loan**: For slum residents in Ranchi  
       |       | **Purpose**: Repair, renovation and expansion of houses by SHG members  
       |       | **Amount & Period**: Maximum Rs. 40,000; upto 40 months (3 months moratorium; Interest 18% p.a. on a declining basis.  
       |       | **Security**: Group liability |
| 3.    | Insurance | **a) Micro-Insurance**: In partnership with insurance companies  
       |          | **Purpose**: Life Insurance for SHG members  
       |          | **Nature**: Voluntary |
Coming to the loan services, NBJK has tried to create a mechanism whereby diverse loan needs of the members can get addressed. Almost all the SHGs have an internal loaning system. Using their own savings, the SHGs lend to the members to meet their emergency needs of health, marriage, etc. However, these loans are generally smaller in size (generally less than the individual savings) and given for a very short period ranging from 3 to 6 months. The SHGs decide the rate of interest depending on the demand and other considerations. The rate of interest charged by the SHGs on these loans varies from 1 per cent to 5 per cent per month. The group members find this to be useful as they are able to obtain small loans very quickly. The internal loan is also a source of earning for the SHGs. However, at the same time, SHGs do not want to take up internal lending beyond a point. They would like to leverage their savings for mobilising higher loan amount from NBJK.

The second type of loan facility enjoyed by group members is the one offered by NBJK to the SHGs. The main loan of NBJK is offered for various income generating activities (IGA) taken up by the members. The basis for IGA loan is the mutual guarantee/joint liability accepted by the group members. Further, the savings of the group serve as indirect security, in the case of a JLG a cash security equivalent to 10 per cent of the loan amount is insisted upon. The IGA loan is given for start-up and expansion activities of the SHGs members, and only for expansion of the existing activity in JLGs. Though the loan size is determined based on the savings amount with the group, it is gradually increased based on the past performance and need of the members. Currently, a member can get loan up to Rs. 50,000, both in SHG and JLG, depending on the past performance and assessment of the group by the field staff. A system of graduated lending is followed to incentivize prompt repayment. NBJK aims at sanctioning loan in a timely manner through quicker loan processing. There are certain variations across two major areas of NBJK in the loan tenure and repayment frequency owing to the difference in the initial design adopted in these two areas. The SHGs in Hazaribagh area follow weekly repayment and the loan period extends up to 45 weeks with two weeks of moratorium. The SHGs of Ranchi and JLGs in both the areas follow monthly repayment with the loan period varying from 6 to 36 months. In reality, many SHGs tend to repay even earlier as they intend to borrow newer loans from NBJK to meet the needs of all members.

About rate of interest (called as service charges), NBJK’s main thrust has been to provide loans at a reasonable cost so as to take care of its own sustainability as well as to ensure affordability for the members. Apart from the membership fee of Rs. 20 in Ranchi and Rs. 10 in Hazaribagh area, and a processing fee of 1 per cent, NBJK currently has been charging 12.5 per cent per annum on flat rate basis in Hazaribagh area and 30 per cent per annum on declining basis in Ranchi area. Despite such a variation in the method of interest charged, the goal is to ensure uniform cost to all the borrowers on an effective basis.

Apart from IGA loan, NBJK has more recently started offering housing loan for SHG members in slums of Ranchi. The loan is given for a period of 40 months on group liability and carries an interest rate of 18 per cent per annum on a declining basis. The aim here again is to offer loan at affordable rate to the needy in urban slums.
NBJK has also tried to provide micro-insurance facility to its members. In the past, NBJK had introduced an in-house loan-insurance facility for which it was collecting a premium of 1 per cent. The objective was to write-off loan amount in case of loanee’s death. Due to regulatory issues, NBJK had to stop this in-house insurance. However, it has tried to introduce now a voluntary life insurance service to SHG members in partnership with a private insurance company and the LIC of India.

Some Achievements and Outcomes

The microfinance programme of NBJK has reached more than 29,000 households spread over 650 villages in one of the backward pockets of the country enabling them access easy savings and credit facilities (Table 1.4). The SHGs have mobilized around Rs. 52.5 lakh savings of their own which is helping them in several ways. Through accumulated savings, the members have been able to meet their emergency loan needs and leverage for accessing larger funds.

Table 1.4: Progress of NBJK’s Microfinance Programme
(Figures are for March end)

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>Particulars</th>
<th>2011</th>
<th>2009</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Total groups (SHGs and JLGs)</td>
<td>1963</td>
<td>1894</td>
<td>1092</td>
</tr>
<tr>
<td>2</td>
<td>Total members</td>
<td>29,438</td>
<td>27,797</td>
<td>16,797</td>
</tr>
<tr>
<td>3</td>
<td>Credit linked groups:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>SHGs</td>
<td>1037</td>
<td>1040</td>
<td>606</td>
</tr>
<tr>
<td></td>
<td>JLGs</td>
<td>655</td>
<td>623</td>
<td>496</td>
</tr>
<tr>
<td></td>
<td></td>
<td>382</td>
<td>417</td>
<td>110</td>
</tr>
<tr>
<td>4</td>
<td>Borrower members:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>SHGs</td>
<td>9163</td>
<td>9570</td>
<td>6287</td>
</tr>
<tr>
<td></td>
<td>JLGs</td>
<td>7356</td>
<td>7686</td>
<td>5737</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1807</td>
<td>1884</td>
<td>550</td>
</tr>
<tr>
<td>5</td>
<td>Total group savings (Rs. Lakh)</td>
<td>52.50</td>
<td>-</td>
<td>159.0</td>
</tr>
<tr>
<td>6</td>
<td>Total loan disbursed (Rs. in Lakh)</td>
<td>111.67</td>
<td>86.72</td>
<td>-</td>
</tr>
<tr>
<td>7</td>
<td>Loan disbursed per member (Rs.)</td>
<td>12,187</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>8</td>
<td>Total loan outstanding (Rs. in Lakh)</td>
<td>674.45</td>
<td>514.99</td>
<td>194.0</td>
</tr>
<tr>
<td>9</td>
<td>Recovery rate</td>
<td>98.82%</td>
<td>-</td>
<td>84.0%</td>
</tr>
<tr>
<td>10</td>
<td>No. of staff</td>
<td>69</td>
<td>-</td>
<td>31</td>
</tr>
</tbody>
</table>

Of the total groups (1963) promoted till 2011, nearly 50 per cent of the groups have been able to access credit from NBJK. The proportion of borrowing members accounted for about 32 percent of the total membership. During 2010-11, NBJK has disbursed about Rs. 11.17 crore worth loans to the members of SHGs and JLGs with each borrowers receiving on an average a loan of Rs. 12,187. At the same time through rigorous monitoring, NBJK has been ensuring consistently high level of loan recoveries. The on-time loan recovery was 98.82 per cent during 2010-11. Except in the past, the portfolio at risk (PAR) has been below the accepted norm (5 per cent). Overall, NBJK has attained self-sufficiency in its operations at
the prevailing rates of interest given the costs involved. The rating reports, however, highlighted that NBJK has not been able to attain financial self sufficiency (FSS) required to maintain its net worth after imputing for the subsidies received (Table 1.5).

Table 1.5: Key Financial Figures of NBJK’s Microfinance Programme

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>Particulars</th>
<th>M-CRIL Report</th>
<th>CRISIL Report</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2004</td>
<td>2006</td>
</tr>
<tr>
<td>1</td>
<td>Active borrowers</td>
<td>5034</td>
<td>8878</td>
</tr>
<tr>
<td>2</td>
<td>Average loan size (Rs.)</td>
<td>6822</td>
<td>7450</td>
</tr>
<tr>
<td>3</td>
<td>Total loan disbursement</td>
<td>-</td>
<td>596.1</td>
</tr>
<tr>
<td>4</td>
<td>Total outstanding (Rs. in Lakh)</td>
<td>202.6</td>
<td>347.5</td>
</tr>
<tr>
<td>5</td>
<td>Current repayment rate (%)</td>
<td>84.0</td>
<td>98.7</td>
</tr>
<tr>
<td>6</td>
<td>PAR (&gt;60)</td>
<td>9.0%</td>
<td>1.4%</td>
</tr>
<tr>
<td>7</td>
<td>PAR (&gt;30)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>8</td>
<td>Clients per staff</td>
<td>162</td>
<td>172</td>
</tr>
<tr>
<td>9</td>
<td>Operational Self Sufficiency (OSS) (%)</td>
<td>145</td>
<td>127.3</td>
</tr>
<tr>
<td>10</td>
<td>Financial Self-Sufficiency (FSS) (%)</td>
<td>85.9</td>
<td>89.3</td>
</tr>
</tbody>
</table>

Source: CRISIL (2007); M-CRIL (2006)

The physical and financial achievements of NBJK seemed to have created the necessary potential of making an impact on the social and economic conditions of the participants. The field level interactions carried out as a part of this study gave a clear indication of the possible impact (see Appendix 1.1). Some of the positive outcomes of the intervention are highlighted below:

A major achievement of NBJK is the attempt made to build quality groups which can address the needs of members on a long-term basis. Through sustained effort, NBJK has created a network of quality informal groups capable of providing valuable services to their members. Many of the SHGs of NBJK are functioning for over a decade and members are keen to continue their involvement. Given the fact that members of these SHGs are from poorer sections having difficulty in accessing formal loans, this is a noteworthy achievement in addressing the problem of financial exclusion.

The sustained working of these SHGs/JLGs has resulted in several positive changes for the members, especially the women. The poor and women are able to access savings and credit to consolidate and expand their economic activities. The improved access to credit as well as the resultant increased income have helped reduce, if not totally eradicate their dependence on informal sources. The members are able to access small loans quickly from the internal funds of their SHGs for emergency needs.
Several changes on the social dimensions are also visible. The women members are able to perceive changes in their own status in the family and community due to their continued and productive association with the SHGs. NBJK leadership considers the empowerment of women as one of the key positive outcomes of its microfinance intervention. For many women, their involvement with the SHGs has been beneficial even in terms of improving their reproductive health conditions as NBJK has tried to actively involve SHGs in delivering some of its health programmes (see Box 1).

**Box 1: SHGs and Developmental Interventions**

NBJK makes use of the SHG network it has created for variety of developmental interventions. Under Jagruti, a reproductive health improvement programme for young adults spread over 600 villages, SHG members are actively involved both as the target population of the scheme as and as facilitators helping in the delivery. Apart from creating awareness about the reproductive health among nearly 4000 SHG members, a large number of them were given training to act as motivators for other women. The project has created several positive outcomes on the target population, as per an independent evaluation carried out (NBJK, 2010). Similarly, under other interventions NBJK tries to link SHGs with delivery of non-credit inputs. Some of the specific interventions where such linkage is involved include the Accessing Disability Rights, the Credit-Plus Programme for Self-employment and Livelihood Enhancement, the Watershed Development Programme, the Intervention for Reducing Female Infanticide, and the Small Group Support Programme for Strengthening Voluntary Movement. Under the last programme, the SHGs have been encouraged to obtain license for running public distribution (PDS) outlet through the help of local NGOs. Thus, wherever possible NBJK’s approach has been to follow an integrated method combining microcredit with other services for a holistic development impact.

The second next major achievement that can be identified is about the balance attempted in addressing the conflicting goal of profit versus development. Aided by donor support and its own focus on non-profit approach orientation, NBJK has managed to build a microfinance delivery system which is relatively affordable for the poor and not driven by excessive commercial orientation. Despite several pressures, NBJK has spurned the suggestions for transformation of its microfinance intervention into a more commercial and sustainable form. The leadership has been steadfast to retain its approach of working on a non-profit basis. No doubt it has taken certain measures akin to a commercial programme like introduction of performance based incentives, and an occasional raise in the rate of interest on loans. But has not succumbed to the common trend of floating a commercially oriented organization. It has ensured that no undue pressures are applied by the staff on the members while lending and recovering loans. At the same time, through careful use of measures like performance based incentive system, NBJK’s attempt has been to create a pool of efficient and dedicated staff appreciative of its philosophy.
The NBJK’s microfinance programme has also been faced with certain limitations or constraints.

Despite nearly two decades of intervention, NBJK has not been able to scale-up or widen its operations in a significant way. Both in the spread of the total outreach and active membership, NBJK has been compelled to adopt a very slow incremental approach. Given the fact that, NBJK works in a backward region, its limited outreach has come in the way of a larger section of the needy population being able to access the benefits. Because of the form and approach adopted, NBJK has found itself constrained in mobilizing larger resources for its microfinance operations especially after the initial doses of soft funds. At the rating, agencies have identified the inability of NBJK to create a more professional leadership as a key constraint in scaling-up its operations. But at the same time, conscious of the possible negative fallout of an unbridled growth, NBJK has adopted a restrained approach to its growth focusing more on quality and altruism.

NBJK has restricted the formation of community based organizations only to the level of groups. Higher level integrated structures allowing SHGs to exercise ownership and control have not been promoted. Such an approach would have required formation of co-operatives or federations of SHGs. Though in one or two pockets such structures were attempted but could not be sustained. NBJK considers federation of SHGs as a non-feasible proposition as it may impose several costs and burden on the members. NGO management of SHGs is perceived to be a more effective and sustainable by NBJK. NBJK also has not been able to form SHGs on a large scale even for linking them with the mainstream financial institutions. Lack of adequate and sustained support for such linkages is a major constraint identified by NBJK.

The continuation of the microfinance activity on a project-mode for a long period has also posed a few constraints. Putting in place the needed systems like professional staff, well developed MIS, and standard and codified operating systems across different areas has taken relatively much longer time than expected for a sustained operation.

Despite its own aversion to higher rate of interest, NBJK has not been able to avoid interest rate hike nor has it been able to address the issue of adequacy and timeliness of loan to a satisfactory extent. Moreover, NBJK is unable to reach out to the very poor. Concerns of sustainability have compelled NBJK to focus more on economically active and better-off households displaying the trade-off intrinsic to a typical NGO microfinance programme. Having realized these constraints, the top management is keen to transform NBJK into a possible not-for-profit company which could help resolve some of these contradiction faced internally and from the point of view of external stakeholders.

**Conclusion**

The case of NBJK reflects what a typical developmental NGO driven by its altruistic motto can experience under microfinance. There are both positive and negative fallouts of the
effort. Committed to its not-for-profit approach, NBJK has tried implementing microfinance under its NGO form. The intervention has remained largely as a need based activity to ease the credit constraints of the community. Whatever surplus it has been able to generate is used to augment the own resources for microfinance and build a dedicated staff at the grassroots level.

The group method accompanied by necessary capacity building has served as a means to deliver microfinance in a relatively efficient way and help build several strengths and linkages that are empowering for the members. The NGO form and the not-for-profit approach have imposed several constraints on microfinance. Access to limited funds and resources has come in the way widening the operations especially in areas of acute financial exclusion and in deepening the services being provided. Limited outreach has constrained NBJK in reaping the benefits of the scale-economy to reduce its cost of operations and increase the outreach of poor households. A few questions also emerge over the nature of NGO withdrawal and the scope created for the community to exercise ownership and autonomy over the structures to be empowering. On the whole, the achievements of NBJK as a multi-activity development agency especially in the field of health and education should help compensate for some of the limitations seen under its microfinance, an advantage only an NGO following the integrated approach can possibly reap.
Appendix 1.1

Working of the SHGs/JLGs of NBJK: Field Insights

SHGs in Ranchi Area

The interactions with the SHGs of Ormanji block and Ranchi slums revealed several interesting insights.

**Shanti Mahila Mandal (SMM):** Located in Dardang village of Ormanji block, the SHG was formed in 1999 with 20 women members. The SHG has sustained its activities quite well over one decade of its existence. The membership size has remained same with only minimal addition or drop out. Starting with a weekly savings of Rs. 5, the SHG has increased it to Rs. 10 now. The SHG is continuing with the three office bearers identified initially and who were trained by NBJK. The members also help the leaders in the SHG management. The SHG has a savings account in the village grameen bank and uses its savings for internal lending for which it charges 2 per cent rate of interest per month. The members also take loans from NBJK as and when needed on which they pay 2.5 per cent rate of interest per month. The loans from NBJK though demanded individually are given in group’s name. Most members of the group have availed loans, both internal and external from the group. NBJK loan is given up to Rs. 20,000. The members take loan for a variety of purposes like business, dairying, housing, medicine and school fee. The SHG though looks at the purpose but it does not strictly monitor the utilization. The members argued that they rely on ‘trust’ built for loan use and recovery. The field staff from NBJK visit the SHG every week to collect recovery and to assist in book keeping. NBJK supplies various books to the SHG at cost price. The weekly savings is kept in a box retained with a leader.

The members have neither felt the need for bank loan, nor have the banks approached the group. However, some MFIs explored with the group by offering loans which the group declined. The SHG members resented the recent hike in rate of interest by NBJK (from 2% to 2.5%) as it leaves no margin for them. Like other SHGs, this SHG also has distributed its accumulated savings and profit among the members. NBJK has approached the SHG under one of its health programmes to spread awareness about reproductive health. While the members expressed keenness to obtain some training on income generating programmes, they also claimed that the SHG has given them some status besides empowering them financially.

**Shakti Mahila Mandal:** The SHG started in 2002 with 20 women members. Though the leaders have remained largely same, other members also help in the group management. The SHG members initially saved Rs. 10 per week which has now been increased to Rs. 20. The SHG gives loans for variety of purposes and as such puts no restriction. The members are taking loan for agriculture, housing, business, education, health, etc. The members said that the group is working on the basis of trust, be it for loan repayment or about the responsibilities entrusted to the leaders. The SHG recently decided to reduce the rate of interest on internal loan to 1 per cent per month due to the drought in the village, and wanted
NBJK also to reduce its rate. The group started afresh with a savings of Rs.500 after distributing its accumulated savings and profit. Though the group has borrowed from NBJK in the past, it now primarily depends on members’ savings. The internal loan is given at any time as per the need of the members. The group tried for collective enterprise activity which failed due to the market conditions. The members are keen to get training in IGA. The group has savings accounts in a nearby bank but has not sought any bank loan. The group imposes a fine of Rs. 5 for late coming and absence. Except for minor delay the group has not faced any big default problem. The SHGs in the village have their meetings in a community hall built by the panchayat. The members felt that they are now recognized by their families though they faced many hurdles in the beginning.

Kranti Mahila Mandal: KMM is functioning since 2004 in the Madukam area of Ranchi city inhabited by lower income households. The membership of the SHG has declined from 21 to 15 mainly due to migration. The household of the members are mostly into business and trading. The weekly savings installment has been increased from Rs. 5 to Rs. 10. The three leaders are continuing since beginning and NBJK had trained them in SHG management. NBJK staff continue to help them in book keeping, as they get some score for it under the staff incentive scheme. The SHG meets regularly and imposes a fine of Rs. 2 for any absence. The SHG has mobilized Rs. 81,000 as savings and holds a savings bank account with a nationalized bank. It lends both from its own savings and from the funds of NBJK, and charges 2 per cent and 2½ per cent rate of interest per month, respectively. The SHG has borrowed frequently from NBJK and has an outstanding loan of Rs. 1.9 lakh.

The members’ loan demand is assessed based on the purpose, repaying capacity and past performance. The group is able to make its assessment as it is in a position to know about the members’ needs and ability. NBJK sanctions loan based on the group’s assessment. Even though NBJK sanctions loan for a longer period the group collects back the same quickly within 10-12 months so as to meet the loan demands of other members. NBJK is able to sanction one group loan at a time due to the savings link and the constraint of MIS. The loans from NBJK are given for varied purposes like business, dairying, housing and education. Pure consumption loans are not entertained. The loans from the internal funds of the SHGs are given up to one and half times the member’s savings which is as per the norm suggested by NBJK. The internal loans are given for meeting emergency purposes. The group has disbursed its profit after five year of working.

Except for delay, the group has not faced any major repayment problem. Delayed installment is paid out of the group’s savings. The members now do not go to moneylenders for the borrowing. However, some of the members are taking loans from other MFIs which are very active in the area. Members identified inadequate and untimely loan from NBJK for the cause. But the members were unanimous in their view that NBJK has a relatively lower rate of interest and allows for monthly repayment. The group members made suggestion for higher and more frequent loans by NBJK. The members felt that the SHG has helped them socially and economically. Besides loan, they receive financial counseling from NBJK staff.
The group tried unsuccessfully for a PDS license. The members of the group recently pooled some funds to make a group donation in the marriage of a neighbour’s family.

**The SHG with PDS License:** Some of the NBJK SHGs have got license for running PDS shop from the government. The visit to one such SHG in Madukam area of Ranchi revealed few interesting insights. The members of the SHG have pooled an additional savings of Rs. 2,100 to meet the working capital needs of the PDS shop. The SHG has been allotted about 90 cards. The shop is located in a leader’s house. The members share work of the PDS including maintaining of accounts. The group buys about Rs. 3,000/- worth goods per month. The group has not been able to earn any profit due to fewer cards allotted. The SHG members are hoping that this would be rectified soon by the government. The programme manager of NBJK felt that many of the SHGs with PDS license have faced difficulties in running their units.

**SHGs of Hazaribagh Area**

**SHGs in Saroni village in Sadr-II block of Hazaribagh district:** Two SHGs were visited in this village. The first SHG visited called the Mahila Jagruti Mandal (MJM) is working since 2001. The members belong to a backward community and own small pieces of land. The weekly savings installment has been increased from Rs. 5 to Rs. 20 over the years. The leaders handle the savings personally as the SHG has no bank account and there is no bank in the village. The group has also invested part of its accumulated savings in the post office fixed deposit. The group uses its savings for internal lending to meet urgent loan needs of its members. The loan from internal savings is given for a period of 3 months with an interest of Rs. 5 per month for every hundred rupees. The aim of SHG is to get back the loan as early as possible. The group meets bigger loan demands by borrowing from NBJK. Members take these loans for business and agriculture and repay it in 45 weekly installments. The members said that weekly repayment practice is perfectly fine with their income flow. NBJK loans vary in size from Rs. 8,000 to Rs. 30,000. The loan assessment is carried out by the field staff with the help of the SHG. The field staff looks at savings, assets, regularity of repayment and business of the members before passing on the application to the block office. The SHG also enquires with the members about the purpose for which loan is being sought. Each loanee member has to give co-guarantee of a member from her family besides the joint liability agreement signed by all the members. Generally, within a week’s time the loan is sanctioned by NBJK. The loan is approved by the programme manager at the district level. The loan is disbursed at the block office and all the members have to be personally present there. The loan is given in the name of the group. The other members can seek loan only after the previous loan has been cleared by the group. NBJK charges 12.5 per cent rate of interest p.a. on a flat rate basis.

MJM has so far not faced any default problem though at times members delay the repayment. In case of delay, the group repays out of the savings available with the group and in turn will impose a fine of Rs. 10 on the defaulting member. The members identified several benefits
of their association with MJM. Using the loan facility, many of them have been able to expand their activity base. There is no compulsion now for them to go to mahajans who charge exorbitant rates on their loans. They are also encouraged by their guardians or husbands to proactively participate in the SHG activities as they are helping the family by meeting the loan needs. The SHG has been continuing with the leaders elected at the beginning. The members of the SHG had in between distributed among themselves part of the accumulated savings and profit. The group has so far not faced any major difficulty in its working.

**Second SHG in Sarauni:** The second SHG visited in the village has 22 women members belonging to mainly Kori Mahato community. This SHG was promoted in 2002 by NBJK on the lines of the Bangladesh ASA model. The membership strength of the SHG has remained same except for the changes in the family representatives in one or two cases. The group has increased its savings installment from Rs. 6 to Rs. 20 over the years. All the members own some land. Many grow vegetables which is a source of regular income for them. The SHG has not opened any savings account in a bank though it has kept part of its deposit as fixed deposit in the post office. The group lends small amount from its savings on which it charges an interest of 4 per cent per month. Such loans are especially given for a very short period and are lower than the member’s savings. The group members also seek loans from NBJK regularly. These loans are given only for production and business purposes. Other SHG members try and verify the purpose of the loan sought.

The group members felt that they have collectively and individually benefited from the group. Using loan from NBJK, they have been able to take up income generating activities individually. Some expressed the view that they are now recognized by their individual names unlike in the past. The regular group meetings help them share and discuss relevant issues. Many of them have received training from NBJK and other agencies in activities like tailoring and goatery. Two of the members represented the group in the conferences held at New Delhi and Hyderabad. Like the other SHGs in the village, even members of the group have also distributed their accumulated savings and profit.

**SHG in Okani ward:** This is an SHG located in lower-middle class area of Hazaribagh town. The SHG has 17 members who pursue non-farm activities like retail trade, sale of coal, and running a computer centre. The SHG was started about 10 years ago. The group has increased its weekly savings installment from Rs. 6 to Rs. 15 now. Neither the group has a bank account nor has it found necessary to approach a bank for a loan. The group uses its savings for meeting smaller loan needs of the members and charges 3 per cent interest rate per month. NBJK loans are used for bigger loan needs and given only for business purposes. Many members have been able to diversify and expand their business using NBJK loans.

The group follows weekly repayment system and the members find it useful as it is not burdensome. The group imposes fine for any default in repayment. The members generally repay promptly as they would like to have clear record so as to be eligible for higher loan
amount. The group uses its savings for repaying to NBJK in case of any default and imposes a fine on the member. The leaders had received training in SHG management at the time of group formation. Currently, members receive counseling on SHG management and their financial needs from NBJK staff.

Neither the members go to mahajans for informal loans nor have they taken loan from any other MFI. Despite some MFIs approaching the group members for loans, the members have not shown any interest as they are happy with NBJK’s loan facility including the interest rate charged.

**JLGs in Hazaribagh**

The interaction with the members of two JLGs based in Hazaribagh town revealed many aspects of their working. NBJK started forming JLGs since 2003 with the intention of including men under its microfinance programme. NBJK has formed nearly 170 JLGs in Hazaribagh alone. Those interested approach NBJK staff for JLG formation. A group is formed by the initiative taken by such interested members. The members of JLG are familiar with each other and mostly belong to a neighbourhood. Invariably those pursuing a business are selected as co-members of a JLG. The members of the JLGs visited pursue business activities like vegetable vending, running PDS shop, grocery shop and pan shop. These JLGs have completed 5-6 rounds of loans. Starting with a loan of Rs. 5,000, the group members are now taking loans up to Rs. 35,000. The group selects a leader for co-ordination of activities like collection and repayment. The leaders remind the members about the loan dues. In case of any difficulty other members help by temporarily paying the loan installment.

The JLGs generally have 5 members. The members said they are aware of the concept of joint liability for which they sign an agreement with NBJK which they feel is worth bearing for getting access to a hassle free loan source. They have not been able to access loans from banks which create many hurdles, as narrated by a member. Interestingly, most of them possess savings and fixed deposits with the banks. They have found the NBJK loan system easy and cheaper, and need not now depend upon the costly mahajans which is helping in having better margins in their business. The access to NBJK’s loan has also helped them expand their business.

The members of these JLGs said they have not faced any major difficulty in the working of their group. The members provide co-guarantee of one household member besides executing a joint liability bond. A member suggested reduction in the rate of interest on NBJK’s loan as they do not get any interest on the 10 percent security deposit deducted from them.
2. People’s Rural Education Movement (PREM)

Background and Mission

People’s Rural Education Movement (PREM) is a secular, non-profit and non-political organization located in the state of Odisha but also works in the nearby states such as Andhra Pradesh, Chhattisgarh and Jharkhand. Its headquarter located in Berhampur of Ganjam district in the state of Odisha. PREM completed twenty five years in 2009. PREM’s vision is ‘creation of a new social order in which the present unorganized and marginalized people have a say in decision making, where education creates awareness and develops skills and fosters the growth of talents, where culture is ever creative, where men and women are totally liberated from all dehumanizing and oppressive forces, and where the decisions of individuals and communities are based on values of social justice, equality, truth, freedom and the dignity of human life.’

A few social activists led by Jacob Thundyil and Chacko Paruvanary started working in fifteen villages of Mohana block in Gajapati district of Odisha in 1982. They were inspired by Paulo Freire’s approach to popular education and empowerment. The organization was however registered formally in 1984 (PREM 2009). It started working in functional literacy area to begin with. Freire’s approach on action and reflection looked suitable for activating people in a very backward region. Social mobilization activities were taken up by PREM for removing social exclusion of dalits as well as fishermen community in plain areas which was severe at that time. In this approach of social mobilization women were left out of the process. Hence the organization started making forums for women. In the tribal areas, it took up the task of organizing tribal communities through promotion of people’s organizations. Further, in plain areas PREM undertook promoting people’s organizations for pursuing child based development. The organization has since its inception been trying to empower different social groups which are disadvantaged. PREM has led many communities to come together in people’s forums instrumental in promoting social harmony. PREM’s operational area covers more than 6000 villages and nearly 2.5 million tribals in Odisha and neighboring states.

Focus Areas

In the early years, PREM focused on non-formal education programmes for tribal children along with forming people’s organizations. It started these activities in Udayagiri, Daringbadi, Ramanaguda, Padampur and Raikyia blocks. With fishermen it started working in Gopalpur, Brahmagiri and Chilika areas around the same time. Concerted efforts were made after 1986 for addressing the non admission of children from disadvantaged communities to schools and the consequent high drop-out rates. Pre-schools were opened and bridge courses as well as hostel facilities were set up. Half of the tribal population was illiterate. As school attendance and female literacy were fairly low PREM decided to concentrate on these issues. Vocational education and English medium education was also promoted for promising students in tribal areas. Often, PREM has also associated itself with
relief and rehabilitation work, the engagements during the droughts of 1988 and 1991 in Kalahandi and later during the 1999 super cyclone being the prominent ones.

Gradually, PREM has diversified into fields of livelihoods, agriculture, food security, savings, gender and equality, and malaria prevention and control. It aims to promote village swaraj. For this, PREM promotes responsible grassroots leadership in its field areas. It concentrates on capacity building and promoting gender equality and child rights. For strengthening village swaraj, PREM is currently working for empowering palli sabha institutions through implementation of Panchayati Raj Extension Act to Scheduled Areas (PESA), 1996. This is being done with the support of Concern Worldwide India and Odisha Adivasi Manch. In the tribal areas, the organization is trying to implement PESA and Forest Rights Act (2006). Vast majority of adivasis are landless in the state and a large number of them have also been displaced by dam, mining and industrial development activities. Though PREM’s effort is small against the forces of industrialization, it is trying to raise its voice through advocacy efforts.

Holistic development of early childhood is being currently facilitated by PREM in a big way. This is based on two approaches of home based care and centre based care. It also focuses on mother tongue based education so that smooth transition of tribal children to the formal school is facilitated. This is being undertaken among 350 tribal communities. Important needs of the children are sought to be met through the help of Plan International’s integrated development programmes with 333 communities of Gajapati district and 153 communities around Chilka lake. The main current thematic intervention areas of the organization are:

- Child protection and child rights
- Health
- Education
  - Early childhood care and development
  - Quality education
- Microfinance initiatives and SHGs
- Water, environment and sanitation
- Disaster preparedness

In 2002 PREM also initiated community based health insurance scheme with the support from Plan International. The scheme is known as Peoples’ Rural Health Promotion Scheme. The benefit of this scheme was available not only to individuals but to the entire family. A premium of Rs. 20 was charged for each member of the family. Claims upto Rs. 3600 were allowed for each family. After the coming of the new Government of India scheme viz., Rastriya Swasta Bhima Yojana (RSBY) on health insurance, this scheme has been withdrawn.

PREM is also engaged in a lot of lobbying and advocacy work. It is also part of National Advocacy Council for Development of Indigenous People (NADIP) in 16 states. PREM is
also a member of Odisha Adivasi Manch which is a state level forum in the state. PREM also works with fisher folks and is part of East Coast Fisher People Forum. The profile of fishermen on the east coast is different from those on the west coast. On the west coast, fishing is more commercialized and is done at a bigger scale. On the east coast it is small scale and more traditional.

PREM has formed Utkal Mahila Sanchaya Bikas, an apex organization of its federations which is now a member of Indian National Federation of Self Help Groups (INFOS) - a national forum for SHG federations which aims at capacity building, policy advocacy and self-regulation to strengthen the SHG movement in India. INFOS has a total of 120 federations. PREM is looking after east India regional chapter of INFOS for promoting of microfinance and SHG Federations.

Of late, PREM has been undertaking peace promotion activities in Kandhmal district as it has been affected by communal violence and disharmony. It has been organizing youth camps and sports meets at block and panchayat levels for promoting harmony. PREM has helped some households build their houses which were demolished in communal violence.

**Microfinance Programme of PREM**

The mission of the organisation is to build institutions of people for bringing positive changes in their lives. PREM started forming people’s organizations in its field area in early 80s. By 1986 its outreach had extended to 200 villages. In 1984 the first block level forum was formed. It was named as Bapuji Gramya Kalyan Samaja (BGKS). It was created at the level of 21 panchayats in the Mohana block of Gajapati district. Each panchayat was represented by one man and one woman. From 1990 onwards separate platforms for women were formed. Savings was initiated as part of women’s groups. Initially, microfinance programme started with NOVIB funding. The staff of PREM visited Bangladesh as well as Sri Lanka to learn from microfinance programmes. Based on this learning PREM initiated a pilot microfinance programme in 1000 villages by forming mahila samitis. These samitis were village level groups which were later converted into smaller Self-help groups (SHGs). The savings from these groups were collected by the savings collectors of the organization. They kept all savings with Utkal Mahila Sanchay Bikas o Samaj Mangal Sangathan (UMSB). UMSB was registered as a society in 1992 to take forward the microfinance programme of the organization. It was headed by a Chief Executive from PREM. Its governing board constituted of representatives from the federations of SHGs. At this point of time, Canara bank gave a loan of Rs. 18 lakh to UMBS and allowed loaning upto four times of the member’s savings. The loan was to be returned in two years. For Kandhmal and Puri more grants became available through NORAD and SIDBI. Twenty more federations were promoted with this support.

This format of the microfinance programme was found to be too much centralized and difficult to manage by PREM. It started contemplating an alternative model. A review by a
NOVIB consultant suggested the groups to be reorganized and their savings managed by themselves. It was decided to return all the money and decentralize the structure. The saving collectors were removed and the groups were encouraged to start their own accounts. The system of handling compulsory and optional savings was handed over to the groups themselves. By 1997, the entire re-organisation work was completed.

Around this time, support from NOVIB, NORAD and SCF (Save the Children Fund) came in for formation and capacity building of SHGs and entrepreneurship promotion. The programme since then has crossed the boundary of the state. Currently, there are SHG federations in 22 districts of Odisha, six districts of Andhra Pradesh and 4 districts of Jharkhand and Chhattisgarh. Besides, there are 15 federations in Tamil Nadu. In the past, the funding from the private donors was the main support for promoting SHGs and their federations. Now funding support from government has increased. The federations are mostly people’s organizations at development block levels. Their executive committee is drawn from the SHGs. The federations are usually a registered organization. The members of the federations/SHGs also represent on other forums such as gram panchayat, block panchayat and zilla panchayat. It helps them to tap facilities, funds and other supports available from different institutions of the panchayat raj system.

**Working of the Microfinance Programme: Insights from the Field**

In Brahmagiri block of Puri district the office of Vikas Vahini, a grassroots development organization was visited. It was started by Mr. Valerian D’Lima with support from PREM. In 1983, Valerian had undertaken a one year course on community development organized by SEARCH, Bangalore. On completion of the training, he worked with United Artists’ Association, Ganjam for the marine fisher people. Subsequently, since 1985 to 1990, he worked in a DANIDA funded water and health education program. To his dismay, Mr. Valerian found the situation of the dalits and fisher people of the Brahmagiri and Delang area to be grim. This prompted him and his colleagues to form a voluntary agency along with some localities called Vikas Vahini. The aim of the agency was to intervene to change the exploitative and oppressive situations the weaker sections lived in. Mr. Valerian managed to secure some support from PREM for social mobilization by Vikas Vahini. The activities of Vikas Vahini are spread over 153 villages/hamlets and try to focus on scheduled castes and fishermen communities. In a similar manner, PREM had supported a total of 46 NGOs during this period. All these organizations started working in a movement mode following the Freirian methodology and tried to address social inequalities rampant in societies where they worked. In early 1990s most of them had formed mahila samitis. The focus of these samitis was social action, savings, and lending. In 1992 a federation of SHGs and mahila samitis was formed in Brahmagiri. This came to be known as DEEPICA (Downtrodden’s Emancipation and Eradication of Poverty and Injustice through Community Action). There were approximately 112 mahila samitis in the block. With the coming of NABARD’s SHG-bank linkage programme these groups came to be organized in the form of SHGs. Earlier the federation had three layers at village, panchayat and block level. Later on it became a two layered structure consisting of the village and block levels.
Lending at the rate of 3 per cent per month is the common policy across all SHGs. Apart from lending which is fairly uniform across the entire structure, Vikas Vahini is engaged in social reforms and advocacy. They try to protect dalits and fishermen against discrimination by upper caste people and also address women’s atrocity and divorce related issues. Financial support from PREM is available to DEEPICA particularly when PREM tries to meet its commitments under different projects through such organizations. Apart from SHGs and associated activities Vikas Vahini also mobilizes the youth in Brahmagiri block. There has emerged a youth organization called Yuba Shakti in the process.

DEEPICA has a 12 member executive body and has 3300 member strong general body. It is constituted of 164 SHGs now. The structure has a president, vice president, secretary, joint secretary and cashier. They are elected by secret ballot for a three year term. Every quarter a meeting of the executive body is organized. Apart from savings and lending issues, DEEPICA motivates parents to send their children to school to reduce drop-outs and monitors mid-day meal scheme. It also keeps track of moneylenders as they exploit group members by charging exorbitant interest rates. In the last five years 45 new groups have been formed. Almost all groups are bank linked. Most of the groups are from a single caste and have substantial number of BPL families in them. DEEPICA’s role up to now as a federal body has been capacity building of SHGs, co-ordination among SHGs, conflict resolution, facilitating bank linkage, liasoning with government agencies, and monitoring and extending supervision support to SHGs.

Maa Harchandi SHG and Maa Basantai SHG in the village Bhubanpur in Garh Rodang gram panchayat in Brahmagiri development block of Puri district were visited. The first group has 19 members. It was formed in 1994 and has president, secretary and cashier as office bearers. The savings deposit is Rs. 30 per month now. Earlier, it was Rs. 10 per month. Most of the members are of Bhoi caste and depend on daily labour for their livelihood. The members also engage in small business activities like dehusking and sale of rice. For undertaking any group activity they distribute the work amongst themselves. The total capital of the group is Rs. 1.15 lakh consisting of Rs. 58,000 loan and a subsidy of Rs. 60,000 from an agri-extension scheme. The group earlier had received an assistance of Rs. 2.50 lakh under SGSY. The group had taken up choir processing and making various choir products. The members take loans for health care, sending child to school and income generation activities. On a 300 acres of land the group also does cultivation. An attempt from the upper caste groups in the vicinity was made in the beginning to restrict the movement of women belonging to the group but they were not successful. The group has also been able to exercise control over men by imposing restraint on their drinking.

Maa Basantai SHG was formed in 1994. It has 15 members. The per head monthly savings is Rs. 30. The total savings of the group is Rs.1.25 lakh. The group had way back received a loan of Rs. 25,000 as part of DWACRA. It had invested it in goatery and rice business. There is no outstanding bank loan now but internal loans given by the group amounted to
about Rs. 1.5 lakh rupees. While Maa Harchandi group distributes profit, the Maa Basantai group only adds profit to its deposits.

Padampur village in Karadasingh gram panchayat in Raygada development block of Gajapati district was also visited. In 1996, Lok Samiti, an organization led by Mr. Sudhir Kanta Lima was registered with a focus to work in Raygada development block. Mr. Lima is from a local tribe. He is educated and proficient in speaking Oriya and English. He, off and on, works for different projects of PREM. The focus of the organization was on women empowerment. Later on the focus shifted to livelihoods and awareness generation. There are a total of 42 SHGs in Lok Samiti. The Lok Samiti has supported them develop through funding from NOVIB and NORAD. Sometime assistance from Lok Samiti is given. All the groups in the area have got bank loans and many of these groups have purchased land for developing cashew plantation which is very common in the area. The area is close to Palasa, the cashew city in Srikakulam district of Andhra Pradesh. There are many cashew factories in the nearby areas. In this area, SHGs are also taking contract for cultivation. A few SHGs also do the business of turmeric.

An informal structure resembling a federation has been set up over here. This is known as Lok Samiti Mahasangh and was formed in 2007 with seven executive committee members. The committee has positions of president, vice president, secretary and treasurer and holds quarterly meetings. The issues for the meetings include savings/credit, bank linkage, income generation activities and other social issues. Majority of the groups in the federation do record keeping at their own level. The federation structure is a big help in the oversight of mid-day meal (MDM) scheme and public distribution system (PDS) and local control of alcohol. With the coming of the federation and women’s election to panchayats things have changed significantly in the area. The mobilization of people in groups has enabled Lok Samiti to address social discrimination common in the area. Earlier even taking drinking water from a common well was forbidden for scheduled tribes in the area. Things have changed in the area since Lok Samiti started working in the region. Now even inter-community marriages are also held in the area and many have proved successful as well.

In the village Bikrampur, Indira Vikas SHG and Mohan SHG were visited. The Indira Vikas SHG is almost 12 years old. The group savings is Rs. 10 per month per member. The group has approximately a total savings of Rs. 21,000 of which Rs. 20,000 has been loaned to members. The group has inter-loaning but has not accessed any bank loan. The group takes work on contract from individuals and farmers. The group is also doing distribution of kerosin oil for four villages. The members engage in an elaborate division of labour amongst them. President and secretary are the two office bearers in the group. Apart from savings and lending, the group facilitates delivery cases, immunization, and treatment for serious sickness. The Mohan SHG had a savings of Rs. 20/- per month. The group has 10 members. It was formed in 2008 and had also opened a bank account in the same year. The total savings of the group is Rs. 41,000 approximately. A loan of Rs. 30,000 has been taken from a bank which is circulated at 2 per cent monthly interest among its members. Loans for school dress
and paddy cultivation is fairly common in the area. Both the SHGs had demanded electricity connection to their village.

Two other SHGs were visited. In Putisahi village in Marlabā gram panchayat there is the Mother Teresa SHG. It has 14 members and its monthly saving is Rs. 10 per member. The total savings of the group is Rs. 44,000 and the group has taken a loan of Rs. 2 lakh for seasonal business. Inter-loaning happens at the rate of 3 percent per month. It also lends to people outside the group. The group is constituted of Saura tribe and all members are from BPL households. From 2007 onwards the MDM is being handled by the SHG. They are being given 20 paisa per child for taking care of cooking. In the nearby village called Paraisal of Santundi gram panchayat another SHG which undertook a business of pulse milling was visited. Its name is also Mother Teresa SHG. It has got 10 members. It was formed in 2001 and has now a savings of Rs. 48,000. It had bank loan linkage twice. During the first linkage, it had taken a loan of Rs. 20,000, while second time it borrowed Rs. 2 lakh loan. The SHG started pulse milling in 2009. Orissa Rural Development and Marketing Society (ORMAS) contributed by giving a machine worth Rs. 1.89 lakh to the SHG. The women who work for the mill are paid a wage of Rs. 60/- per day. Each one of them earns around Rs. 1200 in a season by working for 20 days as wage labour in milling pulses.

While talking to the members of the SHGs in both Brahmagiri and Raygada it came out clearly that they focused forcefully on both social and economic empowerment of the marginalized communities. Many SHGs have moved gradually towards livelihood support activities apart from social mobilisation. In an impact assessment of PREM’s programme on education of tribal children in Odisha it was found out that in 1996 only 26 per cent of tribal children were enrolled while in 2010 the ratio had gone up to 95 per cent in the field area. This finding was based on a study of 333 villages (Plan International 2009).

Because of its involvement with social issues many political groups have risen against PREM. During 1999 and 2000 many complaints were made against the organization. However, all these complaints were dismissed by the state government. Since then the organization has invited political leaders from different parties to share the platform provided by the people’s forums to discuss their developmental plans and agenda. This practice has had the effect of communicating a clear message from PREM that they are not against any political party or political leadership as a class, and that they stand for only development of the people.

**Concluding Observations**

PREM’s experience is an example of very early realization of the possible difficulties that may be faced in financial intermediation by a development organization with charitable motives. This helped PREM understood its limitations and change its path of making available finance to the needy people in a delivery mode. The very origin of PREM was in form of a movement and hence could have found it extremely difficult to handle both the roles together. Since then it has assumed the role of a facilitator and has tried to help
community based organizations to grow. Many of these community based organizations functioned alongwith small sized NGOs which were promoted by associates and development workers of the organization. These organizations were mainly dependent on PREM for support and guidance. This loose confederation of PREM and small development organizations has promoted microfinance programme in the form of independent local federations able to pursue different policies in different places. This has led to a greater focus on local social issues and less on developing a uniform top-down microfinance programme. PREM has lesser control on the financial policies of the federations which reflects its lack of desire to impose its own tightly regulated programme. Any such desire on the part of PREM would have also required development of a robust MIS to monitor the working of the programme in different regions. Microfinance for PREM is a means for social development and not an end in itself. The organization is also aware of the weakness of documentation at the level of SHGs and wants to strengthen it with fresh assistance from NABARD. The broad shape of microfinance programme of the organization would remain same in the immediate future as PREM is satisfied with the strategy being currently followed.
## Appendix Table 2.1: Details of Utkal Mahila Sanchya Bikas and its Federations (2011)

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<th>Name of the Village/Area</th>
<th>Name of the Federation</th>
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<th>Total Members</th>
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*Pertains to Active SHGs.
3. Development of Humane Action (DHAN) Foundation

Origin and Founding Principles

The Development of Humane Action (DHAN) Foundation grew out of the separation in 1997 with PRADAN, an organization founded by professional managers interested in voluntary work in the year 1983 in New Delhi. The DHAN Foundation was initiated on October 2, 1997 and was registered as a trust in 1998. Shri M.P. Vasimalai, who holds a post-graduate management degree from a well know business school in the country, was instrumental in setting up DHAN and is currently the Executive Director. DHAN’s mission is ‘building people and institutions for development innovations and scaling up to enable the poor communities for poverty reduction and self-reliance.’

The Foundation intends to promote and nurture new ideas on development themes such as microfinance, small scale irrigation, dry land agriculture, and working with panchayats which can impact on poverty in a significant manner. Its range of activities grew out of its primary focus on microfinance. DHAN believed that people can be moved out of poverty if they could access the needed finance for income generating activities and while doing so were not necessarily constrained in how they used the funds. The constraints of the poor arise because of their exposure to many stresses on fund use due to non availability of other support such as healthcare, education for children, etc.

Thus, DHAN Foundation describes itself a ‘Microfinance Plus’ institution in that it does many more things than simply providing access to microfinance like providing primary health care, school for communities, bus service, enabling access to government schemes, and skill and capacity building. Other potential fallouts from its activities are women empowerment, and reinforcing social capital by cementing group ties. Another corollary would be the other category of institutions which are denoted as ‘Plus Microfinance’, that get created primarily to engage in social work and other developmental activities, and take up microfinance as a supplementary activity.

The DHAN Foundation is currently engaged in:

- Community banking (through Kalanjiam Foundation)
- Tankfed and rainfed agriculture development
- TATA DHAN Academy for training of development professionals
- Development of information technology for poor
- Democratising panchayats
- Alleviating migration
- Youth development
- Climate change adaptation
Kalanjiam Foundation

The microfinance programme of the DHAN Foundation is spearheaded under the umbrella of Kalanjiam Foundation. Kalanjiam means a granary or a storage place to keep grains and valuables in Tamil language. The Kalanjiam Foundation is guided by Mr. M.P. Vasimalai, the managing trustee of DHAN foundation, besides other trustees drawn from society and the rank of Kalanjiam community representing various federations and associated clusters at different levels. Its various activities are:

- Up-scaling the theme of community banking to reach out to one million poor as also policy advocacy and act as a resource center;
- Promote, nurture and sustain people’s institutions with a primary focus on self-help for which it provides operational and strategic guidance, and capacity building of people;
- Collaboration with mainstream financial and development institutions; and
- Deepening the theme of community banking by going beyond microfinance

The Kalanjiam Foundation has currently reached 923,865 families in 54 districts of 12 states. It has been able to organise 37,071 primary groups in 1432 clusters in 10,755 villages. These have been distributed in 283 federations. It currently has on staff 354 professionals and 393 programme staff. The scale of fund based activities of the programme is to the tune of Rs. 9270 million of which Rs. 2390 million are savings and the rest are loans from banks. Its programme management funds are Rs. 280 million during the year 2010-11.

Kalanjiam Operating Model

The target families and communities, who are identified by a baseline survey done in advance by DHAN Foundation, are approached and encouraged to form a self-help groups (SHGs) of up to twenty women members each. Such groups called as Kalanjiams are encouraged by the DHAN field workers to start savings in small sums. The money so collected is distributed as loans to needy members. At some point (nearly 4-6 months) later, the groups are encouraged to open an account with a specific bank. The bank is later entreated to extend a revolving loan facility to the groups, which is then utilized to supplement the corpus of the groups to extend loans to the group members. About 20-25 groups are formed into a cluster, and 8-10 clusters are then grouped together to form a federation. The groups mobilize loans from Cluster Development Associations (CDAs), and CDAs in turn mobilize loans from the federations.

Each federation has several paid employees such as federation coordinator, community accountant, computer operator, cluster associate for each cluster, and one or two cluster accountants for daily operations. The inter-relationships among groups, clusters and federations are described in following schema:
The maturity of SHG groups to form a cluster and develop into a stable federation takes some time, usually 1 to 2 years, in any new location. The time duration depends on not only on the level of education and awareness among the community but also on the response of banks and other agencies who need to be convinced of the financial stability of Kalanjiams before they extend any funding. The DHAN related project staff in such new locations are funded with the help of donors and developmental agencies. Such development costs are estimated to be in the range of Rs. 8 to 15 lakh, which cover initial salaries and expenses of development personnel of DHAN for the period until sufficient number of groups can be formed, so that a federation comes into being. When the institutions like CDAs and federation take root and the community is able to manage and sustain them, the DHAN project staff is either absorbed as employees of the federation or are replaced by local resource persons who have been trained in advance.

**Nested Institutions**

The typical organic evolution and the linking among the three levels of institutions i.e. groups, CDAs and the federation is referred to as ‘the nested institutions’ by DHAN. Such an organic evolution is presumed to be critical to address the variables which affect poverty and create deprivation in a local area context. The relational nature offers scale advantages at cluster and federation level which could result in channelizing demands to formal institutions like a bank or government bodies as also creating a common pool eco-system which can be banked upon to mobilize resources. This system also reinforces solidarity among members which itself is due mainly to its voluntary and democratic nature.
**Governance of SHGs, Clusters and Federation**

SHG is legally an association of persons and may have up to 20 women as members which are self selected and normally live in a neighborhood. There is only one member from one household in a shared dwelling.

The cluster general Body has three members from each SHG and there may be up to 20 SHGs in a cluster. Nine members constitute the executive committee selected from the general body and the term of office is for three years.

A federation is formed of 7-8 clusters and may have up to 200 SHGs within it. Each primary group is an institutional member and represented by three office bearers. The general body of a federation may consists of 450-600 members. Nine to eleven members constitute the board of directors of the federation. Each director is selected by the member groups of a geographical area. The term of office is three years for each director. Five members of the board constitute the executive committee, which include president, secretary, vice-president, treasurer and joint- secretary. A federation is legally registered as a ‘society’ and is formed after 18-24 months of group formation. The need for federation is evolved by involving the groups.

The cluster level leaders, among other things, are responsible for conflict resolution, promoting more groups, and negotiating with panchayat and mainstream government institutions for the benefit of members. A cluster leader would normally be an active individual who can devote time, also bold in action and commands respect. The group members take pride in being elected as cluster leaders as it enhances their social prestige in desired circles.

The federation level leaders are responsible for relating with the mainstream institutions and represent members’ interests, go beyond savings and credit to meet civic needs of members like health and education, and to ensure the quality across clusters through self-regulation. They are also empowered to promote and develop new products in tune with local requirements. One of the necessity and advantage of having local governance structure like a federation is its ability to respond to necessary changes required in any microfinance model in accordance with varying local area needs according to livelihood patterns which are a product of local geography, economy and ecology.

A group gives an interest of 7-7.5 per cent on members’ deposits and charges 18 per cent rate of interest per annum on loans advanced to members, which may also vary according to end use. The bank loans are availed at preferred rates of 10-14 percent in the name of SHG with its members jointly and severally liable. Banks may offer preferred rates in accordance with the government policy as loans to poor and marginal section attract a lower rate of interest.

Each group also pays a service charge per month depending on age of its membership, which can vary from Rs. 100 for less than 1 year membership to Rs. 300 for 1-3 years, and Rs. 500
for more than 3 year membership. The service charge is levied for covering the running expenditure of the groups, clusters and the federation. The books of accounts are maintained at the SHG level and supported by cluster associate. All the money collected in each meeting is disbursed same day to needy group members, after forking out loan repayment installments to the bank. The clusters earn their income from entrance fee, service charge and interest on loan as they are also able to access loans from the federation without spread on interest rate. The federation earns their income from entrance fee, service charges, and interest on loan, as also loans from apex/development banks for housing and other purpose, and access grants from government and other philanthropic agencies.

The micro-insurance services by DHAN cover 576,008 members and their families. The type of insurance products include life insurance for member and husband, health insurance for family, livestock insurance, and housing insurance. The federations identify the local needs and design suitable products in consultation with the mainstream insurance companies. Currently, 21 out of 283 federations are providing insurance services suiting to the local needs.

**Working of SHGs, Clusters and Federation: Field Insights**

The members of the Gangai Vattara Kalanjiam - a Madurai based SHG, have been in the group for 5-15 years and are involved in various activities from rope making to trading in sarees. The loans from the Kalanjiam are utilized for consumption purposes as also to supplement working capital of business activity. The loan is repaid out of either savings from business activity of the member or from other sources of income of the family like income from the job of the son who was educated with funds raised from the group. Most of the members over the years of membership have increased their asset base consisting of both productive and non-productive assets. Low interest rate on loans and ease of obtaining loan in financial emergencies as also other services like primary health care keep members faithful and tied to the group. There have been no member failures of repayment of financial obligations. The members of the group hail from the same locality and are not necessarily relatives.

Sellur Vattara Kalanjiam is a Madurai based SHG. Sellur is an urban slum in Madurai and had a reported reputation as a locality populated by petty and some even hardened criminals. DHAN Foundation started to work in this slum about 15-20 years back by first associating with a social worker linked to a UN program and resident of the locality for a long time. The DHAN staff in collaboration with the social worker organized a street play to communicate the message of savings and loan. Immediately after some 3-4 women showed interest and slowly the idea of group started taking shape. Currently, this Sellur SHG is part of the Madurai Federation and the members have been with the group for the last 15-20 years.

The following episodes were narrated by the members highlighting the role of the Federation in overcoming social difficulties encountered in such sensitive localities.
**Case 1:** A Sellur Kalanjiam member was supported by his SHG with a loan of Rs. 30,000 for getting house tenancy rights. In Madurai, a tenant and a property owner enter into an agreement which entitles the tenant to reside in the housing facility without payment of rent for a pre-defined period. In this case, it turned out that the property owner refused to give possession of the house to the member. He also refused to return the money. Several visits by other group members followed and yet the owner would not return the money. Meanwhile, the group member who had borrowed loan was obligated to pay her due installments which she continued to do despite the extreme difficulty faced. The police also could not help him much. Visits by the cluster and federation committee members also did not yield any result. Yet, the group members persisted with the receiver-owner and finally, two years later the money was got refunded to the member borrower, thereby alleviating her distress.

In such situations, if the Federation was helpless in assisting the member which may have resulted in loss of loan amount. However, such loan losses are not large.

**Case 2:** In another case, a member’s son who was a vegetable vender got into a dispute with other vegetable vendor resulting in a brawl. The member’s son was injured and had to be hospitalized. The son blamed other vendors for stealing money from him and then beating him up. The matter was raised by the member in the cluster as also at federation level meet. The issue was taken to the police by the federation members. The police inspector informed them to apprise themselves of the situation by visiting the locality which the members did. They found the situation to be completely different than described by the member’s son and he turned out to be the guilty party. The federation members then arranged to settle the dispute and admonish the member.

The above two cases are illustrative of the boundaries of social relationships, which are otherwise termed as social capital. The strengths of social relationships as illustrated in the first case lay in the ability of the group members to recover the amount without resorting to legal proceedings, which may be presumed to be not available given the nature of the transaction based on trust rather than an enforceable contract due to non-availability of adequate documentation. Thus, social networks can help replace formal contracting.

The second case may be inferred in terms of the limits to such ‘trust’ based mechanisms as it did not fully suppress or replace opportunism on the part of a member who tried to take advantage of the ‘group strength’ in his favor. The opportunism could work for some time, until the group went further to investigate after the intervention by the law officer. Whether the fact that group felt impelled to investigate facts further than rely on the account of member that can be construed as a natural extension of social contract needs further investigation on a much larger data.

The federation has also started a concept of what it calls ‘micro-justice’ with a view to sort out by arbitration/mediation, family or other disputes related to its primary group members.
The micro-justice cell is assisted by a female lawyer/social worker practicing in Tamilnadu high court bench.

**Discussion of Observations**

The formation of a self energizing and cohesive SHG group of 15-20 women members appears to be the key to all future outcomes. The membership may draw upon existing social relationships like caste or community or even existing kinship among a small group which then becomes the basis of selection of other group members. The selection of group members is a self selection process, the basis of which may be either existing social relationships or close proximity of shared walls of dwellings, which also act as safeguard collateral against future defaults. This pre-selection bias could not be ruled out in limited observations.

The selection may leave out other needy families, who are encouraged to form their own groups. Each Kalanjiam member is motivated enough to encourage formation of other groups. This has led to a claim of some areas being saturated, as also creating an impulse to extend the reach of the DHAN Foundation to other states in India including those in the north.

The SHG members are at first inspired and guided to start small savings. After a maturity period ranging from 6-8 months, when the savings habit and membership is stabilized is the SHG linked to a nearby public sector bank. Once an SHG becomes successful in linking with a bank, its stability builds up further bonding among group members by their shared interest in obtaining a source of emergency funding besides being a source of other income generating and aspirational asset building. There are other benefits like subsidized primary care as DHAN Foundation has established in places like Madurai a primary care center, facility of school bus and so on. The failure of individual members to pay up their loan or regular savings contribution dues was commented as rare or 'never happens' by group members in limited observations.

The financial inclusion so observed appeared stable and socially uplifting. The SHG members aspired to rise higher in the three tiered elected bodies of SHG, cluster and federation, and the stated reason was that such stature was prestigious in their social circles as also socially empowering. The end use of loans obtained by members appeared to be at discretion of the borrowers and as per her capacity to repay. No mandate seemed to be in force for end use. As the membership of the Kalanjiam was prized by members for its indirect and direct benefits, the financial discipline appeared mostly self maintained.

The reverence for Kalanjiam arising from direct and indirect benefits obtained by members has gone to the extent of some members wanting to build a Kalanjiam temple, which was discouraged. Temples in these parts are places of worship of gods but are also erected to honor dominant forces in human lives including cinematic actors.
A study commissioned by Sir Ratan Tata Trust and found, among other things, (Sriram 2007):

- Members were more educated, less unemployed and had higher income per capita and per household in older groups.
- Older group members tended to have higher assets in terms of value and such ownership was wider.
- Quality of housing was higher and level of savings was higher in old mature groups. However this was also associated with higher loan outstanding.
- The share of indebtedness of household was highest in mature groups.
- The share of money lender was constant across groups of different age maturity. However, the share of interest paid to moneylender was lower in mature as compared to newer groups.
- The mature groups tended to lend less for survival purposes and more for working capital and asset purposes.
- All groups tended to borrow for health related purposes.

Conclusions

The last three findings of the above study (Sriram 2007) are interesting, in as much as they relate to other sources of borrowing by the SHG members, particularly money lenders as also use of borrowed funds. The higher borrowing by a group member over a period of time was also observed in limited observations in the field study which seemed to suggest that such members now had higher capacity to repay as having built up either productive assets or enhanced earning by raising productivity of earlier held assets or higher income due to education of their children.

The DHAN Foundation appeared not to have mandated a specific end use of funds by its promoted SHG members. However, its stress on building 'nested institutions', i.e., formation of clusters and federation which have a supervisory role and which draw their general body and governing body membership from the same SHGs appears to act as sufficient monitoring mechanism against misuse or non-repayment of funds.

On use of funds for healthcare, Ela Bhatt\(^3\) argues that microfinance is insufficient in alleviating poverty if it is not accompanied by some sort of health insurance and poor often get into financial distress due to expenditure on health related issues. Thus, not restricting use of funds for health purposes on one hand, and supporting health of SHG members by establishing a full fledged primary health care in Madurai seems to address this issue. How many of DHAN supported SHGs benefit from health care extension services could not be assessed as DHAN supported/promoted SHGs are now spread over many states of India.

\(^3\) ‘When Heath is Security’ by Ela Bhatt in Times of India (Ahmedabad) dated Jan 24, 2012
M. S. Sriram (2012)⁴ argues against formalizing of cash credit (CC) facility by Department of Financial Services, Ministry of Finance, Government of India with a view that such a facility would weaken the discipline of borrower in repaying their loans. Using cash credit limit rather than term loan type of facility has been in use by some groups linked with other MFIs. DHAN promoted groups use term loan kind of arrangement with banks. The monitoring and MIS system developed by DHAN is attuned to regular repayments. DHAN monitors, through the use of extensive information technology and MIS reports, the regularity of such payments by each SHG in its fold.

The term loan facility tends to have an obligation to pay monthly installments. Failure to do so for 2-3 months may enjoin the bank to classify the loan as ‘non performing asset’ as per prudential norms. Given the fact that SHGs are more prone to temporary setbacks in their repayment regularity for a variety of reasons, the move by Government of India to convert such loans into CC limit may be a blessing in disguise as under the cash credit facility the borrowers are not enjoined to make regular payments as per rules. They may chose to do so with self imposed discipline of monthly payments.

The linking of SHGs and their federations with the banks at local level in the microfinancing model adopted by DHAN foundation has many strengths. It can strengthen democratic governance which reinforces empowerment of participants and enable suitable response to local needs and adaptability to typical geographic livelihood patterns than possible to straitjacketed uniform product adopted by market-based and single entity MFIs. Self regulation for financial discipline at individual and group level required under this model would appear to be superior to the external monitoring or enforcement of discipline irrespective of borrower status. It is also more suited with the stated objectives of poverty alleviation as temporary adjustments required in loan repayments are a fundamental necessity for any program targeted at poor who are exposed to many stresses in their regular income stream.

4. Shri Kshethra Dharmasthala Rural Development Project (SKDRDP)

Introduction

Shri Kshethra Dharmasthala Rural Development Project (SKDRDP) is a charitable trust located at Dharmasthala of Belthangady taluka in Dakshina Kannada district of Karnataka state in southern India. SKDRDP was set up in 1982 by the trustees of the historical Hindu shrine of Dharmasthala. The shrine led by Shri Veerendra Heggade is well-known for its spiritual and charitable activities. As the hereditary administrator of the temple, Shri Heggade is responsible for carrying out charity and social services out of the donations received by the temple from its devotees.

SKDRDP was created under the leadership of Shri Heggade as a non-governmental organization to give a concrete shape to the charity acts of the temple. Shri Heggade having realized the limitations of mere charity for development and the importance of self-reliance among the needy decided to have an institutional set up to pursue the charitable and developmental activities in a more systematic way. SKDRDP thus was the off-shoot of Shri Heggade’s idea of moving towards self-reliant development to ensure dignity and self-respect for the poor and the needy.

Since then SKDRDP has emerged as a leading NGO in Karnataka pursuing a variety of developmental activities including microfinance in both rural and urban areas. Though for the planned development activities the jurisdiction of SKDRDP extends over nine districts, its charitable and relief activities cover the entire state of Karnataka. SKDRDP is governed by a group of trustees headed by Shri Veerendra Heggade. The implementation of the programmes are taken care of by a strong team of dedicated staff led by an Executive Director.

The key mission objectives of SKDRDP as stated in its 2009-10 annual report are (SKDRDP 2010):

- To adopt small, marginal and micro land holders as stakeholders and organize them in the informal sector to promote sustainable farming practices. In the process SKDRDP is committed to economically empower the stakeholders to become self-reliant.

- To motivate the individual family to plan for self-development and assist them in realizing their plans. To dare the poor to envision a dream and to work together with them to make it possible.

- To work with the unreached, the poor, the backward, the minorities, the weaker section and above all the women to empower them socially and economically.

- To promote entrepreneurial skills among the poor and escort them to implement the skills.
To work in tandem with all such organizations who dream of vibrant rural India, where in the rich and the poor have their needs met, where the natural resources are put to optimum use without affecting the living environment, where everybody has an equal opportunity to sustain one’s dream.

**Brief History and Progress of Microfinance Programme**

SKDRDP which has been recognized as a leading NGO in the field of development is equally renowned as a large scale micro finance institution (MFI). The microfinance programme known as *Pragathinidhi* (meaning fund for progress) has evolved over the years out of SKDRDP’s endeavor to promote self-reliant development. Started as a supplementary activity way back in 1992, microfinance has now emerged as one of its primary activities. Through microfinance SKDRDP is currently reaching out to nearly 1.31 million families across nine districts of Karnataka with an outstanding loan amount of Rs. 1,085 crore and a savings of Rs. 304 crore (received as margin money) as of March, 2011.

Before launching *Pragathinidhi* in 1996, SKDRDP in its initial years was working with small and marginal farmers for their livelihood promotion by supporting their farm development by providing necessary inputs on a grant basis including wage in kind for labour work on own farm. Many of these farmers who had received rights under tenancy reforms were unable to make the necessary investment for farm development. SKDRDP started this work primarily in Belthangady taluka. Subsequently, SKDRDP tried to organize these farmers into smaller groups of 5-8 members for facilitating savings and credit, labour sharing and technology development. The labour sharing among group members was identified as a key requirement and strength for building mutual bonding and support. SKDRDP also started borrowing from banks to meet the credit needs of these groups. These kinds of groups came to be known as *Pragathibandhu* groups (PBGs) and became the main stay of SKDRDP’s early efforts in microfinance.

Based on the positive response of PBGs including their high loan repayment, SKDRDP decided to launch its microfinance programme in a more systematic manner in 1996. The goal was to expand beyond its initial area of operation as well as to cover even other needy categories like women, labourers and non-farm households not reached by PBGs. The rapid spread of microfinance in the country and the growing support for it from various agencies including banks and financial institutions came in handy for SKDRDP. Besides its own PBGs, SKDRDP adopted the self-help group (SHG) model to reach out to the other target groups especially women. SKDRDP had begun organizing women even before under its *Jnanavikasa* intervention for awareness creation and capacity building among women. *Jnanavikasa centres* had been formed in the original area of operation as a forum for women’s emancipation. With the launch of microfinance, while the existing centres were sub-divided into smaller groups to function as SHGs, in other areas SHGs came to be formed afresh.
Moving away from depending solely on grant funds, SKDRDP began mobilizing funds from banks and financial institutions to augment its resources for the expanded microfinance programme. SKDRDP also came to develop systems including developing MIS necessary for the smooth operation of microfinance. The microfinance programme took rapid strides and by 2001 had reached about 27,500 families. Encouraged by the initial results, SKDRDP decided to further streamline its working and formulated a Modified *Pragathinidhi* programme in 2003. The aim was to widen and deepen its operations through hassle free and convenient services to the members. With technical support from SIDBI, SKDRDP prepared a manual on its microfinance programme codifying all its procedures and rules to aid better implementation by its staff (SKDRDP 2005).

The modified programme had the following objectives:

- To facilitate the self-help groups covered under the programme to avail immediate funds at a competitive rate of interest.
- To provide adequate amount to the group members to take up livelihood activities.
- To facilitate easy repayment pattern according to the convenience of the member.
- To assist the project staff in developing the capacity required to judge ad verify the *pragathinidhi* required by the members.
- To facilitate the federations in financial management.
- To develop resources in an effort to make the project sustainable.
- To develop appropriate management information system and the technical resources to improve the efficiency with the expansion of the project.
- To build strong bond between the project staff and the group members in an effort to strengthen the rural developmental activities.
- To provide credit under various schemes for various purposes.

Towards diversifying its microfinance services, SKDRDP introduced a micro-insurance scheme called *Sampoorna Suraksha* in partnership with public sector insurance companies. The scheme since then has grown into a major intervention of SKDRDP. Two more major developments in the progress of SKDRDP’s microfinance programme are worth mentioning. Till 2006, SKDRDP depended on various banks to help in its operations pertaining to savings, lending, and recovery. Because of the less than expected support from the banks SKDRDP decided to launch a new MIS based operation called *Suvidha* under which the staff of SKDRDP handle all microfinance transactions on their own. *Suvidha* is meant to give SKDRDP good control over its operations and ability for better planning and monitoring. Instead of the banks, SKDRDP is now pooling members’ savings as ‘margin money’ towards the loan and pay interest by way of ‘rebate’.

Another major development is the adoption of the business correspondent (BC) model by SKDRDP beginning from 2008. Under this mode, SKDRDP has spread its operations in newer districts of Dharwar, Haveri, Gadag in northern Karnataka as an agent of the public sector banks. SKDRDP is forming SHGs and facilitating their linkage with the banks for
savings and credit. SKDRDP in the process is also assisting the banks implement their financial inclusion programme by way of opening no-frills savings accounts for the members of the SHGs. By assuming the BC role, SKDRDP hopes to widen its jurisdiction as well as reduce the risk involved in the continued growth of its loan portfolio under the on-lending model.

Methods and Strategies of SKDRDP

Broad Philosophy

The microfinance programme of SKDRDP draws its inspiration from the self-reliant and value based development philosophy of the promoter trustees of SKDRDP. SKDRDP tries to imbibe these values among all the programme participants. Given the nature of microfinance, SKDRDP considers its involvement in it as only a reluctant venture. To SKDRDP, microfinance is only a means for meeting the needs of the community to attain the stated development goals, and not meant for generating profit per se. Though microfinance may help serve the instrumental objective of institutional sustainability, the surplus generated, if any, is to be diverted for developmental works of the organization. SKDRDP tries to combine both charity and self-reliant development as there are many needy for whom compassionate support may be absolutely necessary and may not be served by microfinance. The thrust hence is ‘charity for the needy and business for the capable’. Microfinance is seen as a handy tool in accomplishing this goal of ‘business for the capable.’

Hence for SKDRDP the participants of microfinance emerge more as ‘stakeholders’ working towards their self-reliance and not as ‘beneficiaries’ of a top-down intervention. The ‘stakeholders’ active involvement is considered essential ethically and economically. Ethically, they are expected to utilize the loan for ‘true’ purpose and come up with prompt repayment. Economically, they would strive hard based on a clear plan and with active support from SKDRDP for enhancing their own productive capabilities leading to self-reliance.

Group Based Microfinance

SKDRDP has relied on the group mechanism for delivering its microfinance services along with other related interventions. At the same time groups have been seen as instruments for attaining various social goals like building mutual bonding, developing neighborhood feelings, and as fora for awareness and capacity building. SKDRDP has been forming two types of group viz., PBGs and SHGs. The PBGs are the early from of groups promoted by SKDRDP in original areas of operation. They were targeted mostly at land owning farmers, and meant to primarily promote agricultural development. A PBG consist of 5-8 members, mostly men, who hail from the same neighborhood. The PBG members take up regular savings, and access credit from SKDRDP for their production and other needs. SKDRDP supports farm and livelihood development by encouraging mixed cropping, technology adoption, and diversified activities like dairying and sericulture. A major feature of the PBG
is the requirement of labour sharing by the members on a regular and rotational basis. The practice of labour sharing has been encouraged to help the members both to overcome the problem of labour shortage as well as to strengthen mutual help and reciprocation. The practice as per available some of the available studies (Harper, Rao and Sau 2008 and NABARD 2007) has been perceived by members as a positive aspect of their coming together in a group which has contributed significantly in their farm development. By 2010 nearly 29,015 PBGs have been formed involving about 1.69 lakh members. The working of the PBGs unlike in Dakshina Kannada area has thrown up a mixed picture with the concept not yielding same results in newer areas. Also the PBG concept has suffered from the limitation of being biased mainly towards male and landed farmers ignoring the other needy sections.

Though PBGs are the original groups of SKDRDP, the SHGs have now become the mainstay of the microfinance programme both in the rural and urban areas. As mentioned earlier, SKDRDP has adopted the SHGs both to overcome some of the constraints of PBGs and be in tune with the prominent group methodology in the country for microfinance. Through SHGs, the aim is to organize women from poorer sections, backward classes, minority community, SC/ST community, landless labourers, beedi rollers, working class women, etc. for their social and economic advancement. The SHGs generally consist of 10 to 20 members and take up savings, credit and other activities. By enabling access to savings and credit, SKDRDP tries to support variety of livelihood and income generating activities among the members both on individual and group basis. While the labour sharing is the special feature of the PBGs, awareness creation, education and capacity building is one of the key goals of SHGs. An SHG is called as Jnanavikasa groups by SKDRDP, and a collective of 4-5 such SHGs known as Jnanavikasa Kendra serves as a forum for the women to come together and access information and knowledge on issues like family planning, sanitation, health, floriculture, and skills for self-reliance. The SHGs are formed by SKDRDP using its own resources generated under the on-lending model. However, in the BC model areas, SKDRDP gets one-time payment for formation of SHGs by the sponsoring bank.

Through groups SKDRDP delivers microfinance and channelize other development inputs. SKDRDP provides training to the group members and build their capacities for conducting group meetings, writing books of accounts, managing finances, and preparing business plans. All the group members are encouraged to prepare five year development plans taking guidance from the field staff of SKDRDP. These five year plans are to be operationalised as action plans by the group members. The group members also receive other project related training and inputs.

For microfinance, the groups are expected to take primary level decisions on screening and approving loan applications. The groups are expected to verify the need and purpose of loan, and carry out monitoring of the loan utilization. The group members provide mutual guarantee or liability for loan repayment by signing an inter se agreement. Moreover, group savings serve as the basis for determining the loan limit of the group. Further, the SHGs in a village are brought together under a federation which is again expected to supplement the
group processes in loan sanction and monitoring. The leaders of about 30 SHGs come together to form a federation. A sub-committee of the federation is made responsible for loan assessment and sanction. The field staff of SKDRDP audit the performance of groups based on various parameters and grade them accordingly. The groups are given four grades viz. A, B, C, and D based on their performance and accordingly recommended for loan. Only A and B groups are considered eligible to seek loans from SKDRDP, and C and D groups are recommended improvements in their working. Of the total groups (59,322) graded in 2010, about 91 per cent of them belonged to A and B category indicating in general the satisfactory quality of the SHGs of SKDRDP.

Microfinance Products and Services

In terms of deepening the household access to finance by the poor, SKDRDP has been trying to provide not only diverse services but varied products under these services. Savings, credit and insurance form part of the package of services offered.

**Savings:** Though, SKDRDP has not been able to incorporate savings in a more formal and direct way, given its legal form and regulatory position, it has tried to integrate savings within the group mechanism. Till recently, the SHG members saved regularly on a weekly basis and kept the same with them in a bank account of the group. The groups could use their savings to meet the internal loan requirements of the members besides leveraging the same for borrowing from SKDRDP which fixed the loan limit on the basis of group savings. SKDRDP has now switched over to a new system called Suvidha and the nature of savings has undergone a change. The members of a group generally contribute weekly Rs. 10 towards the savings. The same is pooled and retained by SKDRDP as ‘margin-money’ for loan, and a pays a rebate of 6 per cent per annum on the same in lieu of the interest. While the new arrangement has enabled SKDRDP to pool the regular contribution of group members, but has constrained the groups to access the savings for their internal lending purpose.

**Loan Products:** SKDRP has introduced five types of loans to meet diverse needs of the members by purpose and duration (Table 4.1). Loans can be availed both for individual and group needs. SKDRDP as such does not put any restriction on the purpose of loan. SKDRDP has been revising and improving loan features constantly to meet the growing needs. While all the loans are routed through the groups, more recently the attempt is on addressing the specific needs of the individual members. The eligibility for loan and limit is determined based on the grading of the group, its age, savings and members’ repayment capacity. In the past, group’s repayment capacity worked out based on individual member’s income flow was used as the basis for determining the total group’s eligibility. This has been relaxed with a focus on individual level savings and repayment capacity. What is followed is a graduated approach towards meeting increased loan demands of the members. More recently, SKDRDP has created ‘S’ category of groups having consistent performance which become eligible for higher and easy loan access. The detailed norms have been worked out in the manual which are revised as per the changing needs.
Table 4.1: Features of Loan Products

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Loan Category</th>
<th>Purpose</th>
<th>Tenure</th>
<th>Loan Size (depending on SHG grade/age)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Revolving fund</td>
<td>Household, social and emergent needs</td>
<td>100-150 weeks</td>
<td>Rs.10,000 to 50,000</td>
</tr>
<tr>
<td>2</td>
<td>Group activity loan</td>
<td>For group based income generation activities</td>
<td>Upto 208 weeks</td>
<td>30 times of the group’s savings</td>
</tr>
<tr>
<td>3</td>
<td>Livelihood loan</td>
<td>For variety of farm and non-farm based livelihood activities</td>
<td>Upto 200 weeks</td>
<td>Rs. 30,000 to Rs. 1 Lakh</td>
</tr>
<tr>
<td>4</td>
<td>Infrastructure loans</td>
<td>Land development, vehicle purchase, and creation of infrastructure facilities on farm and in other places</td>
<td>150-250 weeks</td>
<td>Rs. 30,000 to Rs. 1.5 Lakh</td>
</tr>
<tr>
<td>5</td>
<td>Housing loan</td>
<td>For construction, renovation and extension of houses</td>
<td>350 to 500 weeks</td>
<td>Upto Rs. 1 lakh to 3 lakh</td>
</tr>
</tbody>
</table>

* as per the new circular of 2010 except for group activity loan

Generally, for a loan up to Rs. 50,000 the security is the group guarantee and asset hypothecation. Tangible security is demanded only for loan amount beyond Rs. 50,000. SKDRDP entertains multiple loans provided the member or household satisfies the eligibility norms. In case of multiple loans, the maximum loan size varies from Rs. 50,000 to Rs. 3 lakh or 40 times the savings amount.

The loan processing are supposed to be simple and standardized for a quicker and hassle free service. It is also decentralized with due sanction powers given to the project officers/directors at the district level. The typical structure for loan processing under a project office of SKDRDP is depicted below:

Member
↓
Group
↓
Animator
↓
Federation
↓
Supervisor
↓
Project Officer
The documentation includes loan application, group agreement and security papers, if required. The smaller loans get sanctioned at the stage of project officer level but loans beyond Rs. 2 lakh are referred to the project director. Even bigger loans are referred to Pragathi Nidhi Director or Executive Director in the head office. The entire loan process is expected to be completed within 15 days period as per the manual.

The repayment period is determined based on the loan purpose and amount, and is reasonably longer (3 to 10 years) to enable smooth repayment. In many cases, the members decide to repay even earlier to become eligible for newer loans. In terms of repayment frequency while the member to group it is weekly payment, from the group to SKDRDP it is monthly. The purpose is to help members with smaller installment amount and to motivate them to be more disciplined and productive to repay on a regular basis. No penalty is imposed on pre-payments but delays beyond the prescribed period attracts penalty both from the group and the concerned member.

SKDRDP expects its group members to be honest in terms of their utilization and repayment but also has defined clear cut responsibility for loan monitoring and supervision. While groups and the federations take up local level informal monitoring, the animators, supervisors and project officers pursue periodic official level monitoring.

About the cost of loans, SKDRDP’s stated objective is to charge interest rates which are largely comparable with those of the formal system and simultaneously help in attaining operational sustainability. The service charges include a surcharge of 1 per cent and loan interest (charged differently to the group and the members) besides the penalty imposed for delay, if any. The interest rates charged (called service charge as SKDRDP is legally a NGO) currently are 15 per cent per annum on reducing balance basis to groups and 9 per cent per annum on a flat rate basis from group to members for loans up to 3 years. The term loans (above 3 years) for housing and other purposes attract lower rate of interest (11.25 percent). On loans sourced from subsidized sources, SKDRDP charges interest as per the agency’s norm.

**Micro-Insurance:** Provision of insurance on a partnership basis is another service rendered by SKDRDP to its participants of the microfinance programme. A comprehensive health insurance scheme called ‘Sampoorna Suraksha’ is being implemented since 2004 to give protection to the members of SHGs and their families against unforeseen contingencies of hospitalization, child-delivery, death, and accidents. The scheme is run on a voluntary and mutual help basis. The subscribers are insured under the health insurance schemes of the public sector insurance companies. The fee charged to the members is as per the premium quoted by the partnering companies. The annual subscription fee charged for a poor member (BPL) during 2010-11 was Rs. 220 and for a non-poor member (APL) it was Rs. 320. The enrolled member becomes eligible for cashless treatment in the network hospitals upto a maximum of Rs. 5,000. Additional members from the family can be enrolled by payment of incremental fee. SKDRDP also utilizes part of the premium towards running a type of an in-house insurance to meet expenses incurred towards child-delivery and compensate for death,
disability, rest during domiciliary treatment and property damage. These compensations vary from Rs. 1000 for property damage to Rs. 25,000 for disability or accidental death.

The scheme has now grown very significantly to reach out to nearly 1.66 million members helping them get access to a mutual risk mitigation mechanism. SKDRDP has set up a dedicated cell having the required experts and MIS to handle enrollment and settle claims speedily. The premium payment is facilitated through weekly installments and easy loan provision for the same, if needed. Till March 2010, SKDRDP had helped settled nearly 1.57 lakh claims amounting to Rs. 802 million. SKDRDP believes that the insurance scheme has enriched its microfinance programme by providing necessary protection to its SHG members helping in better loan recoveries. The members have also been able to access health services from quality hospitals leading to improved health.

**Institutional Form and Supporting Systems**

SKDRDP has made an attempt to put in place relevant institutional structures including internal systems matching the developmental goals and values and the needs of professionalism. SKDRDP has relied largely on its NGO legal form (as a trust) to deliver microfinance along with other interventions of development and charity. Despite the rapid expansion of its microfinance programme and the growing external pressures to transform it legal form, SKDRDP has continued working in its not-for-profit NGO form to retain its developmental thrust. The trustees in their wisdom have decided that continuing in the NGO form is the right way forward for an organization like SKDRDP.

SKDRDP has not hesitated to get itself rated by leading agencies in the country to know about its strengths and weaknesses and to streamline its operations accordingly. Based on the rating assessments coupled with its own credibility as a value based NGO with committed leadership, SKDRDP been able to borrow funds from a variety of financial institutions to meet the growing needs of the programme. During 2010-11, SKDRDP had borrowed Rs. 908 crore from various commercial banks. This was despite the adverse scenario prevailing in the country for the MFIs in the post-Andhra crisis of 2010.

In order to reduce the excessive risk of borrowing, SKDRD has decided since 2008 to assume the role of a banking correspondent (BC) wherein it could function more as a facilitator for helping the SHGs access savings and credit directly from the banks. SKDRDP’s plan is to take up the BC role in the newer areas more to pursue social intermediation than financial intermediation.

Other institutional arrangements of SKDRDP include the SHGs and their informal federations and few independent agencies promoted for providing specialized services. As explained earlier, the SHGs and their federations help SKDRDP in its local level loan processing and monitoring. This helps in bringing the grassroots level participation of the members in the programme. The role of SHGs/federations is fully backed up by the creation
of dedicated and well-trained staff at different levels of the programme implementation. A key segment of its human resources is the cadre of local level animators called `sevaniratharu’. These animators are school-educated grassroots workers who deal with the groups and their members directly on a daily basis. SKDRDP considers a sevaniratha as a `friend, guide and philosopher’ of the participants. These animators reside in the villages and take up varied functions ranging from mobilizing members to counseling them to delivering development assistance at the village level. They along with supervisors form the field level team of SKDRDP. SKDRDP besides training them to imbibe necessary skills and values, motivates them through necessary compensation package including perks and promotion. The field staff get some incentives for additional work like cash handling and cross-selling of life and animal insurance policies.

SKDRDP also has managed to attract well qualified and trained professionals to look after the planning and implementation of all its programmes including microfinance. The thrust is on retaining the human resources and develop professional abilities of the internal cadre based on attractive compensation package and training. There is no specific performance based incentive so as to eliminate any undue pressure to meet the programme targets. But a variety of allowances and perks are provided to make the package attractive. SKDRDP has set up its own in-house training centre called ‘Centre for Rural Excellence’ for the capacity building of its staff and programme participants.

SKDRDP has developed its own MIS to facilitate quicker and transparent operation of its microfinance and to improve the abilities for better planning and monitoring. Required level of decentralization is promoted to make the staff respond in a timely way with accountability. Simultaneously, SKDRDP has not hesitated to promote specialized institutions to address the emerging developmental and managerial challenges. Apart from the creation of Centre for Rural Excellence, SKDRDP has set up in collaboration with SIDBI a school for microfinance to meet the training needs of microfinance sector. Similarly, a Section-25 company called SIRI has been promoted to provide all the necessary forward and backward linkages to group enterprises of its SHGs.

Thus, through a combination of relevant structures SKDRDP has been striving to deliver microfinance and other interventions in a professional manner.

**Development Linkage and Credit-Plus Interventions**

A unique feature of SKDRDP’s microfinance programme is its implementation in combination with a variety of developmental activities. To SKDRDP, as highlighted earlier, microfinance is only a means for realizing its developmental goals like self-reliance and empowerment. SKDRDP follows an integrated approach wherein microfinance is supplemented and complemented by other relevant interventions or assistance including use of charity and subsidies for needy cases. Basically, SKDRDP has tried to evolve into a multi-activity NGO going beyond the minimalist approach.
The major areas of intervention and focus include agriculture, irrigation and infrastructure development, group enterprises, housing and sanitation, environmental protection, education, capacity building, community assets and support to destitutes. The projects are funded from the temple grant, government support and own surplus generated through microfinance. The target population includes both the members of the microfinance groups and other needy individuals or institutions. The activities are implemented through the help of the field staff and relevant specialists. Sometimes even the SHGs help identify the needy individuals or purposes. In certain cases, SKDRDP works with the on-going government schemes to either provide the necessary project linkages or to tap the available resources for its target groups. While it may be out of scope to go into the details of these interventions, one or two areas are briefly highlighted below for illustrative purposes.

In terms of agricultural development, at the group level two key steps include the farm planning and labour sharing. As highlighted above, labour sharing for agricultural work is essential among the PBG members which generates several social and economic advantages for the members. A farm plan for five year broken down into annual plans has to be prepared by each farmer. The key thrust is on the diversification of crops and activities, infrastructure development and technology adoption. Besides credit, other support measures are provided by the field staff and agricultural officers of SKDRDP as per the need. SKDRDP may also provide subsidy for newer activities like seed production, vermin-compost, horticulture, and plantation. SKDRDP also separately encourages SRI method of paddy cultivation and organic farming. The SHGs are actively used in propagating such practices. Irrigation, watershed development, and farm mechanization are other activities for which SKDRDP provides similar support. The capacity building of farmers for awareness and implementation of planned activities is another major activity of SKDRDP. Training, demonstration plots, field visits, and identifying model farmers are the key methods used in the farmers’ capacity building.

In a similar way, SKDRDP aims at promoting livelihood activities and awareness for women through SHGs. As mentioned earlier, SHGs and the Jnanavikasa centres are actively used for spreading awareness among women on all major social and economic issues pertaining to their livelihood. A dedicated training centre called Jnanavikasa Training Institute has been established in Hubli to train the women volunteers and SHG members for social development and skill building. Among various activities for livelihood promotion of women and their families, one example is the linkage established with the Karnataka Cashew Development Corporation wherein about twenty SHGs have taken up maintenance of cashew garden and harvesting of cashew kernel on a commercial basis. Besides SKDRDP’s loan, a linkage was established with the employment guarantee scheme by enrolling these SHG members as participants helping in the land development of cashew gardens. As mentioned earlier, establishment of SIRI as a dedicated company to provide marketing and other support for group enterprise activities of SHGs is another key developmental linkage for integrated development attempted by SKDRDP. SIRI aims at bridging crucial gaps faced by these enterprises in emerging as successful units. SIRI has supported nearly 249 enterprises covering about 6105 members by 2010.
Through its community development programme (CDP) funded from the grants of the temple and the surplus generated from the microfinance activity SKDRDP tries to reach out to the other needy. Under CDP, SKDRDP supports initiatives like infrastructure development of schools and dairy cooperatives, scholarship for higher education, and pension for destitutes and disabled. The field workers are expected to take extra care to identify such needy.

### Table 4.2: SKDRDP’s Cumulative Achievements under Development Programmes (2010)

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>Particulars</th>
<th>Number/ Units</th>
<th>Outreach</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Farmers’ training</td>
<td>45,680</td>
<td>16,23,915</td>
</tr>
<tr>
<td>2</td>
<td>Irrigation development</td>
<td>32,363</td>
<td>-</td>
</tr>
<tr>
<td>3</td>
<td>Farm mechanisation</td>
<td>2,832</td>
<td>-</td>
</tr>
<tr>
<td>4</td>
<td>Gobar gas plants</td>
<td>9,505</td>
<td>-</td>
</tr>
<tr>
<td>5</td>
<td>Solar lights</td>
<td>5,220</td>
<td>-</td>
</tr>
<tr>
<td>6</td>
<td>Health camps</td>
<td>5,712</td>
<td>-</td>
</tr>
<tr>
<td>7</td>
<td>Environmental protection programmes</td>
<td>38,040</td>
<td>-</td>
</tr>
<tr>
<td>8</td>
<td>Watershed development</td>
<td>72,887</td>
<td>-</td>
</tr>
<tr>
<td>9</td>
<td>Staff / Participants training (2009-10)</td>
<td>360</td>
<td>12,495</td>
</tr>
<tr>
<td>10</td>
<td>De-addiction camps</td>
<td>327</td>
<td>19,198</td>
</tr>
<tr>
<td>11</td>
<td>Village infrastructure</td>
<td>17,074</td>
<td>-</td>
</tr>
<tr>
<td>12</td>
<td>Support to destitutes (2009-10)</td>
<td>-</td>
<td>1080</td>
</tr>
</tbody>
</table>

### Major Achievements and Outcomes the Microfinance Intervention

There are some noteworthy achievements of the microfinance intervention of SKDRDP. While the physical results are quite impressive, as highlighted in earlier sections, one cannot ignore many of the qualitative achievements. The major physical result is the rapid growth and scale achieved under the microfinance intervention (Table 4.3). Within relatively a short period of time SKDRDP despite having an NGO legal form, has been able to expand its outreach, both geographically and socially. Geographically it has moved to newer and needy areas, socially it has extended its coverage from the male and farmer centric groups to women, landless and other socially backward groups. The microfinance programme alone is reaching out to nearly 1.31 million families in 2011 spread over nine districts. The women now account for about 86 percent of its membership. The micro-insurance programme also has received a significant response with an enrollment of 1.66 million members. The growth of the microfinance programme is attributable to the guidance of the committed leadership and the intensive efforts of the dedicated staff. The credibility of SKDRDP due to its leadership coupled with the building of necessary systems has enabled it to mobilize significant resources from diverse sources for an expanded operation with potential for a significant impact on the financial inclusion of the needy.

---

5 Making a reasonable assumption of all SHGs to be of women
Table 4.3: Progress of Microfinance Programme

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>Particulars</th>
<th>2006-07</th>
<th>2009-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Total groups</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>No.</td>
<td>47,656</td>
<td>1,15,172</td>
</tr>
<tr>
<td></td>
<td>Members</td>
<td>4,63,765</td>
<td>12,32,422</td>
</tr>
<tr>
<td>PBGs</td>
<td>No.</td>
<td>15,463</td>
<td>29,015</td>
</tr>
<tr>
<td></td>
<td>Members</td>
<td>85,913</td>
<td>1,69,412</td>
</tr>
<tr>
<td>SHGs</td>
<td>No.</td>
<td>32,193</td>
<td>86,157</td>
</tr>
<tr>
<td></td>
<td>Members</td>
<td>3,77,852</td>
<td>10,63,010</td>
</tr>
<tr>
<td>2</td>
<td>Total savings (Rs. in Lakh)</td>
<td>6,583</td>
<td>20,925</td>
</tr>
<tr>
<td>3</td>
<td>Total loan disbursed</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>No.</td>
<td>41,465</td>
<td>8,06,164</td>
</tr>
<tr>
<td></td>
<td>Amount (Rs. Lakh)</td>
<td>16,502</td>
<td>57,919</td>
</tr>
<tr>
<td></td>
<td>Average (Rs)</td>
<td>39,797</td>
<td>7,185</td>
</tr>
<tr>
<td>4</td>
<td>Total loan outstanding (Rs. in Lakh)</td>
<td>22,776</td>
<td>65,190</td>
</tr>
</tbody>
</table>

Another achievement of the microfinance programme is the package of services being offered to meet the diverse needs of the members. Savings, credit and insurance have been combined to the extent permitted by the legal form for a synergetic outcome. Within the loan service, SKDRDP offers assistance for diverse range of purposes without much of a restriction. This apparently has given the members the flexibility that is needed in using their financial resources as per their priorities and compulsions. The loans under the revolving fund category which account for nearly 49 per cent of the total are available for varied social, household and such other needs. The long term housing loan is another significant product using which SKDRDP has financed nearly 3.70 lakh families for betterment of their housing conditions. Moreover, for the more mature groups SKDRDP has been frequently increasing their loan limit to ensure adequacy. Apart from the concessional loans channelized from development agencies for specific sections, SKDRDP charges interest rates which are affordable and comparable to formal institutions. All these would have significantly contributed for deepening the financial access of the needy. Simultaneously, SKDRDP has been consistently having good loan repayment rates. The portfolio at risk constituted only 0.3 per cent of the total portfolio during 2010. The scale and the efficiency have in turn helped SKDRDP to attain self-sufficiency in its microfinance operations. The operational self sufficiency (OSS) ratio had reached a healthy level of 115 per cent during 2010 (M-CRIL 2011).

The achievements of SKDRDP also cannot be seen merely in terms of the quantitative results. One may have to look beyond these figures to identify other achievements having implications for a larger socio-economic impact. In a scenario dominated by rank commercial
transformation of NGOs for microfinance, SKDRDP has managed to retain its NGO and not-for-profit approach and still achieve certain impressive results. The strategy has proved that a committed NGO can possibly negotiate the contradictions inherent in microfinance for NGOs. The microfinance intervention has helped SKDRDP achieve its organizational self-sufficiency and generate some surplus for other development activities. SKDRDP apparently has shown the way to balance the dichotomous challenge of outreach and sustainability in microfinance despite its not-for-profit approach.

Another outcome discernable from SKDRDP’s experience is the promotion of certain values among the community necessary for harmonious development. The encouragement to the practice of labour sharing shows the potential of social and economic bonding. Similarly, the emphasis on group based approach in the form of SHGs, federations and such networks again is a relevant one for promoting collective strengths within the community.

Lastly, the creation of multi-activity based model wherein different interventions including microfinance complement each other is one more noteworthy achievement. Not only SKDRDP has tried to pursue diverse activities but has attempted linkages across these interventions. The microfinance service is combined with other inputs and activities to break the limitation of a minimalist approach, and creating the potential for a more holistic impact on the living conditions of the programme participants. Some of these achievements have also been highlighted in the available studies on SKDRDP (Harper, Rao and Sahu 2008; Babu and Sahu 2006).

**Constraints and Limitations**

Those positives apart, the experience of SKDRDP goes with a few constraints and limitations having implications for replication and addressing certain development questions in a more meaningful way.

The success of the SKDRDP model in terms of the dedicated involvement of the staff and the programme participants is attributed by the studies also to the influence of the aura of the spiritual devotion provided by the temple and its trustees. While the leadership and the top management is aware of such an influence but argue that they do not try and explicitly mix-up religious values with their developmental work. The studies hence have argued that the true challenge for SKDRDP would be to make up for lack of any such aura especially while working in areas beyond its original territory (Babu and Sahu 2006). SKDRDP itself is now making pro-active efforts to expand in far-off areas. It has been already confronted with such a challenge as identified above in its newer areas. For example, the concepts of PBG and labour sharing so successful in Dakshina Kannada area could not be replicated in Kadur project area in a similar manner (see Appendix 4.1).

In terms of microfinance specific constraints, the rating report of M-CRIL (2011) identified low capital adequacy ratio, delay in loan disbursement process, lack of regulatory clarity in savings, large loan pre-payments, and limited scope of internal audit process as some of the
emerging concerns. Even the present study also could identify certain issues of concern. SKDRDP though like other NGOs is unable to mobilize savings due to regulatory restrictions, but the model currently adopted has posed a specific constraint. Unlike other NGOs which promote flexible group level savings SKDRDP has imposed a fixed weekly uniform savings norm. Such a norm has apparently come in the way of encouraging a more flexible savings among the group members wherever there is such a need. This in a way has curtailed the scope for groups to build their own resources and have some control over them. The promotion of savings can also possibly mitigate the risks of excessive reliance on debt for the poor. Similarly, it is possible that access to multiple loans being provided may be encouraging ostentatious expenses like marriage and jewellery as could be identified during the group level interactions (see Appendix 5.1). Quicker loan repayments, seeking new loans immediately, and accessing loans from other sources are practices seen among groups. While members in areas like Dakshina Kannada may have larger loan absorption capacities, some balancing may be called for in relatively backward areas to prevent any possible debt trap.

SKDRDP has been encouraging a group approach including forming informal federations, however, the strategy for greater empowerment by creating member owned structures is not clear. This may also pose challenge for the question of the eventual NGO withdrawal for participatory development of the community. Another possible constraint that is emerging is the likely divergence that may develop between microfinance and other development interventions of SKDRDP. While SKDRDP has been able to blend microfinance and other interventions to an extent, but how far it would be able to sustain this especially when the microfinance programme is outpacing other activities is a moot question at this stage.

**Conclusion**

The experience of SKDRDP depicts the journey of a development NGO guided by its committed leadership drawing upon the values of its spiritual moorings and altruistic principles. The key result is the emergence of a sustained institutional effort with a thrust on not-for-profit approach to pursue and scale up microfinance and other interventions in a complementary fashion. In the process, SKDRDP has to a considerable extent succeeded in balancing the trade-off between the outreach and sustainability for a more holistic outcome on the goals of financial widening and deepening. The achievements of microfinance have been further enhanced by an integrated approach to livelihood by combining interrelated developmental inputs. Overall, despite some of its limitations, it is a model with certain positive lessons worthy of replication in microfinance.
Appendix 4.1

Microfinance groups of SKDRDP

SHGs/PBGs of Belthangady Taluka

Adarsha SHG: Formed in 2003 the group has members from households who are continuing since its existence. The SHG is in Laila village located close to the Belthangady town. The members are all landless involved in activities like beedi rolling, labour work and other non-farm activities. The members came to know about SHG from members of other SHGs in the village. The SHG does not entertain any new membership except replacement from the existing household. The members have been saving Rs. 10 per week since beginning and have accumulated savings worth Rs. 80,000. The leaders were given training initially in book keeping. The leadership is supposed to be rotated once in two years but the books are actually maintained by one particular member who is educated upto tenth class. The weekly meetings are also held in the same member’s residence as it is convenient for all. The attendance is compulsory but no fine is imposed for absenting.

Each member prepares a family development plan for obtaining loans. The plan is prepared in consultation with the family members and the animators. The group members have to approve and minute the loans demanded in the group after verifying the loan purpose. There is no restriction on the purpose of loan. The applications are then sent to the federation for next level approval. Generally, members use the loan for the purpose demanded. The SHG also monitors loan use. Some of the major purposes of loan in the group include gobar gas plant, house repair and construction, insurance premium, electricity connection, gold purchase, toilet, marriage, education, loan repayment, business, goat, and shelf. The total loan availed in the group currently by the twenty members was Rs. 8.6 lakh and the loan size varied from Rs. 12,700 to Rs.1,33,745. The members now take Suraksha insurance of SKDRDP voluntarily unlike in the beginning. Some have also benefitted from the insurance scheme.

The members said they are not able to get loans from the banks though they maintain savings account. Some of them take gold loans from other companies but have not borrowed from any other MFI. The members felt that they have benefitted from the association with the group. They have been able to meet their credit demand for economic and social needs including getting gold released. They found the weekly loan installment easier to repay. The SHG has been having good loan recovery. The group members help each other if they miss one or two repayments. The group also gives loan out of its savings to the members at same rate of interest (9 % flat) charged by SKDRDP. The internal lending will not be possible under the new Suvidha MIS system introduced. The members also felt that they may find it difficult to make any monthly adjustment for the lapse in weekly loan repayment under the Suvidha. The books of the group are being audited by the internal auditor of SKDRDP who also grades the group. The group has distributed twice the surplus earned.
Matha Pragathibandhu Group: The PBG is based in Odilnala village in Belthangady taluka and was established in 1995. The group has now four members with one member having withdrawn due to old age. Out of the four, three belong to the APL category and one to the BPL category. The members own land ranging from 1 to 8 acres, and grow crops like areca, coconut, banana, vegetable, rubber, paddy and silk. The members are from the same neighborhood and belong to a backward caste. Besides agriculture, they pursue activities like dairying, labour work and carpentry. The members save Rs. 10 per week and also take up labour exchange. They rotate labour sharing work every week and hold group meetings in the respective member’s place. The members have shared in all a total of 3328 days of work among themselves. They find labour sharing useful as it is difficult to get farm labour which has become costly.

The group members have been taking regular loans since inception. They can even take multiple loans from SKDRDP without collateral upto Rs. 50,000. Currently, the group has a total outstanding loan of Rs.5.03 lakh. The members prepare farm plan in consultation with the animators. Some of the purposes of their borrowing include bore-well, agricultural development, rubber cultivation, land preparation, pumpset purchase, cowshed, bank loan repayment and gold purchase. Gold purchase was considered helpful as they can get a loan based on it. The group leader has taken up a sericulture unit under support from the government. The members have also taken loans from banks and local cooperatives for cultivation and land development.

They all agreed that the weekly payment of loan is helpful as the amount is smaller. Their loans are approved by the federation from which they also get information about agriculture and other issues. The new suvidha has been found to be useful as it has reduced their book keeping work because of the simputer use besides helping them get one per cent higher interest on their savings.

Having educated only upto primary school level, the members are keen to educate their children. The leaders felt that agriculture is suffering as they are unable to get good prices for crops like areca and silk due to traders’ control and poor government tariff protection.

Chaitra Jnanavikasa Kendra (JVK): Located in Kukkedi village, the centre was set up in 1996. JVKs were set up as fora for women’s development under the guidance of Mrs. Hegade, the trustee of SKDRDP. The Chaitra JVK has 48 members and is also divided into four SHGs for savings and credit purpose. The JVK has a leader who has been there for a long period despite the system of rotationship. The leader has been given training by SKDRDP and she co-ordinates all the activities including keeping minutes of the proceedings.

The JVK meets once in a month and the attendance is compulsory for the members as it helps them in good grading of their SHGs. The JVK helps members get information on a variety of issues. In a recent meeting held, the JVK had provided information on adolescent health. In
one of the previous meetings, the importance of treating guests well had been highlighted. The SHGs of the JVK work like other SHGs of SKDRDP for obtaining savings, credit and insurance services. Besides SKDRDP loans, the SHGs help BPL members get loans under government poverty alleviation schemes like SGSY.

**Food Unit at Laila:** The unit has been set up under SGSY scheme for the BPL members belonging to five SHGs. It is a group enterprise supported by the SIRI company promoted by SKDRDP. The unit has obtained a loan of Rs. 6.9 lakh under SGSY. Currently, about 17 members are working who have received training in food processing. The membership has declined as many have left the village because of marriage and other reasons. The unit is also mechanized which has reduced the labour needs. The members are paid minimum wages for the work. SIRI provides raw materials and the unit members produce and pack the food items as per standards. The products are marketed by SIRI. The unit is an example of a group enterprise of BPL members receiving the needed forward and backward linkages from a specialized agency like SIRI for its operations.

**SHGs and other Interventions in Kadur Project Area**

The project office (PO) was started in 2007 given mainly the need of the rural areas here. The PO implements all major activities of SKDRDP in rural and urban areas. It is working in about 75 villages out of 180 villages in the area. The target group consists of small and marginal farmers and BPL households. Both PBGs and SHGs have been formed. But PBGs have not succeeded here and are being phased out. The general norms of microfinance programme are also applied here. The area has about 5300 SHGs out of which 550 are in urban areas.

**Kuvempu SHG:** Named after the famous Kannada poet, the aim of the group is to reach greater heights of performance. The group started in 2007 in Yegati village is mixed in terms of members’ castes and occupation. The members are pursuing mainly non-farm occupation with some of them also into agriculture. The eleven members of the group have prepared plans for household and farm development. They save weekly Rs. 10 and also repay loan in weekly installment. The salaried households have opted for monthly repayment with due approval from their federation. All the members have opted for the Suraksha insurance and some have even received compensation for the risk faced. One of the member’s husband who has fractured his leg has been compensated for the disability. Another member is receiving monthly pension from SKDRDP for medical treatment. The members take loan for variety of purposes. Both the SHG and the federation strictly monitor the loan purpose and utilization. The group has not faced as such any default problem though members delay their weekly repayment.

The village has presence of two more MFIs. These MFIs disburse loans very quickly but charge higher rate of interest. The members mentioned about multiple membership and borrowing. But the members said, there is loyalty to the SHGs of SKDRDP despite its rule bound approach. They demanded loan write-off like another MFI in case of the death of a
member or spouse. They also suggested full family coverage under the insurance for single payment instead of an optional member-wise enrollment.

**Gramadevatha SHG:** The SHG has been promoted in 2007. It has 12 members who belong to a backward community. The members hail from the same neighborhood. A few members possess marginal land holding. They pursue farming, agriculture labour and lime making.

All members have prepared their development plans as per SKDRDP’s requirement. The loan purposes include agriculture, bore-well, house repair, etc. The members save and repay loan on a weekly basis. The group members have not borrowed from other MFIs. Some suggested for adoption of monthly repayment system and reduction in interest rate.

**Someshwara Jnanavikas Kendra:** Founded in 2011, this centre is one of the 40 such JVKs promoted by SKDRDP in the area. The centre includes members from 4-5 SHGs. The centre holds regular meetings in which women are provided with various information useful for their awareness. The leader invites resource persons from different sectors to share relevant ideas with women. The women said it is a useful forum for them. As the members belong to SHGs, some of them suggested change over in weekly to monthly repayment system and from flat to reducing balance method of interest calculation.

**Gobar gas plants:** SKDRDP encourages adoption of non-conventional energy units. The fieldworkers select the target members from the SHGs. SKDRDP provide some subsidy for the plant and arranges loan from the SHG. A member has been using it for a long period and has found it useful. Currently the unit was in disuse but she wants to get it repaired. Another member is using it for the last 3 months and has stopped the use of fuelwood. SKDRDP assigns the construction work of the gas units to contractors with necessary standards.

**RO Water Plant:** Installed by SKDRDP in partnership with Nandi Foundation and district panchayat, the RO plant in Yegati village is meant to supply quality drinking water as the area is highly fluoride-prone. The village panchayat has given land and facilitated electricity connection. The users have to pay Rs. 60 per month and can collect 20 litres of water per day. All types of households are allowed from the village. A can is given for Rs. 175 for carrying water by the households. A membership card is issued which is punched every day. The village households including those in SHGs expressed happiness over the plant as they are able to use good water now which has helped improve their heath conditions. They suggested for some help in distribution of water as the plant is located at a distance. There are two employees looking after the plant.

**SHG/PBGs in Mangalore Project Area**

The Mangalore PO has 4,163 SHGs out of which 2,713 are in rural areas.

**Shrinidhi SHG:** The SHG located in Sattikallu hamlet of Bondanthila village was set up in 2003. It is a ‘S’ grade SHG which means it is a high quality group which can access
SKDRDP loans more easily. The group has 13 members with two exit and two new entry. The group has increased its savings installment from Rs. 10 to Rs. 20 per week. The members belong to backward communities. The total accumulated savings of the group amounted to Rs. 72,930. All members own very small pieces of land on which they grow mainly areca and coconut.

The loan need is assessed based on family income. The SHG carefully monitors loan use. The common purpose for which members have taken loan include dairy animal, cowshed, house repair, borewell, gold purchase, education, bank loan repayment, agricultural development, business and insurance premium. The loans currently availed by members varied from Rs. 10,000 to Rs. 1.15 lakh in size. The members can also access from SKDRDP emergency loan up to Rs. 10,000. Generally they borrow one loan at a time. The repayment is done in weekly installment about which they have no major issue. The SHG has not faced any loan repayment problem. Two members who are from the BPL category have received loan and subsidy support under SGSY for floriculture. SKDRDP has provided plants and extension services to these members who have successfully utilized the scheme loan and repaid it. Two members have received scholarship from SKDRDP for higher education of their children. All members have opted for suraksha insurance enrollment and some have received insurance compensation. The leadership is rotated regularly among the members once in two years.

Madhani SHG: The SHG based in Tarigudde hamlet is set up in 2005. The group has 13 members who belong to all major religious communities. The members shared that members of a minority community had received suggestion from some quarter not to get associated with the group of SKDRDP because of its religious affiliation which they ignored. The members are from the landless category and pursue labour work and non-farm activities. They save Rs. 20 per week and borrow loan for housing, toilet construction, repayment of informal loan, etc. For toilets they also get subsidy from SKDRDP. All have installed toilets in their houses. The loan is repaid on a weekly basis. They have not found any major problem in weekly repayment system. They have all taken insurance and some have received benefits under it. The leadership is rotated among the members compulsorily based on serial number assigned. Such a system they felt encourages all women to come forward for taking up the responsibility. The group has been having good loan recovery. The SHG members felt that Jnanavikas Kendra is a useful forum as they get good ideas from it. The JVK also monitors their development action plan. The group would like its members to leave the group only voluntarily and not out of any compulsion.

PBG of Neeru Marga: The PBG was set up in 2003 and has now 4 members with one sole woman member of the group having left. The members are in the neighborhood and possess 2 to 5 acres of land. They grow areca, coconut, banana, and beetle leaf. Earlier they were growing paddy which they have given up now because of diversification and the problem of labour and pig menace. The members have prepared farm and family development plan for which they get loan from SKDRDP. They take up labour sharing which is found to be very useful. The members said that many do not want to form PBG as it involves labour sharing
arrangement. SKDRDP has provided assistance for introducing new variety of banana plantation and vermicompost. Some members have taken loan from the cooperative bank, and also resort to quick informal loans.

**Shrama SHG:** This is a SHG of the households involved in informal sector activities in Emmekere locality of Mangalore city. The members pursue activities like trading, business, tailoring and auto driving. The current group size is 12, down from 15 at the beginning in 2002.

The group and federation approve the loans demanded by the members. Generally, members take one loan at a time. The members have prepared the plans as per SKDRDP’s requirement. Housing, repair, vehicle purchase, education, marriage, gold purchase, repayment of informal loan are some of the major proposed activities under their plans. The group has been graded as ‘S’ category SHG and members are eligible for loan upto Rs. 1 lakh. The members have not borrowed from any bank as it is difficult for them to access a bank. But they take quick emergency loan from neighbors and repay out of the SHG loan. The members felt they have prospered well because of their association with the SHG.
5. Pragathi Seva Samithi (PSS)

Background

Pragathi Seva Samiti (PSS) is a secular, non-political, non-profit development organization based in Warangal district of the state of Andhra Pradesh. The organization was started by Mr. John Gaddala. Mr. Gaddala in the early part of his career worked with Church as a warden for an orphanage. He initially started a social service centre under the management of church and focused on awareness generation amongst the children. The centre was later registered as a separate organization in 1991. After the registration it started with small activities such as family planning promotion, promoting environmental awareness, plantation, and water harvesting. PSS had little funding to begin with. It began working in six development blocks of Warangal. The organisation started forming farmers’ clubs and SHGs in 1995 and by 2000 there were a total of 3000 SHGs and 35 farmers’ clubs.

The vision of PSS is ‘To enable a society living in harmony with nature and itself.’ The mission of PSS is to ‘Organise marginalized sections of society and build their capacities to enable them achieve sustainable development and social justice.’ The current major funders of the programmes of the organization are Kusuma Trust, NABARD, Oxfam India, Andhra Pradesh State AIDS Control Society (APSACS), Deccan Development Society, Ministry of Women and Child Development of Government of India, and National Child Labour Project.

Focus Areas of PSS

The key areas of interventions of PSS currently are:

Education: The education programme of the organization focuses on identification of dropouts and encourages them to rejoin the school. The organization with the support from Kusuma Trust gives financial support to bright students for pursuing higher education. It also stresses on the education of the girl children.

Natural Resource Management: PSS focuses on soil and water conservation activities. It encourages efficiency in use of water by communities. It also aims at promoting food security for people through environment friendly and financially sustainable agriculture. PSS supports farmers’ clubs to pursue organic farming.

Health Care: In the field of health care, PSS aims to promote safe, preventive and healthy behavior with the drug users. It promotes nutritious food through kitchen garden, backyard poultry etc. It also focuses on women empowerment so that they can take due care of their health.

Women Empowerment: PSS offers helpline services to women in distress. It provides shelter home for distressed women. It also provides training for employment.
Microfinance Programme of PSS

The microfinance programme started with the formation of groups of women which were bigger size than the currently found SHGs. These women groups could have as many as 50 members. Initial groups had a monthly savings of Rs. 5/- per member. These groups were later converted into SHGs. In 1995-96, NABARD supported the capacity building of SHGs which had begun to be formed after the enunciation of SHG-bank linkage programme. NABARD provided substantial support for capacity building, formation of groups and studies. In 1999, ACTIONAID started supporting the organization and the focus of the programme was on dalit empowerment, child labour and social rights. This was helpful in orienting both the SHGs and the staff to do a proper blending of social and financial objectives. The CARE India started working with the PSS for capacity building and strategic visioning of the microfinance programme around the same time. The CASHE project of CARE influenced the policy of the organization while consolidating its microfinance programme. The SHGs were grouped into cooperatives in the new format of MACS (mutually aided credit cooperative societies). Each society had 500 to 1000 members and was formed to cover 1 to 5 villages. Under the guidance of CARE India, 22 (MACS) were formed. All these MACS were regrouped into a district level federation called the Pragathi Mahila Samakhya (PMS) in the year 2004. PMS became the sister organisation of PSS in handling its microfinance programme.

Pragathi Mahila Samakhya (PMS)

PMS was registered in 2006. PMS did not receive any grant for its activities. When asked about the reason for the following the MACS route for microfinance, Mr. Gaddala said that they wanted members to be the final owners of the structure. Besides that they wanted a format which could allow the members to save. This was not possible in NGO/NBFC mode. It also allowed for tax exemption. There are a total of 38 MACs now. There are fisheries and sheep cooperatives as well as women dairy cooperatives as members of the PMS. The fisheries / sheep cooperatives were formed way back by the government. They are now being supported with the help from NABARD. Only PSS has been undertaking grant based activities since the formation of PMS. PSS has since then has been specializing in areas on health, education and women empowerment issues. NABARD recently supported 400 farmers’ clubs and 10 watershed schemes of PSS. Currently, organic farming is being promoted in one mandal and is supported by Oxfam.

The vision of PMS is ‘Empowered citizens and collectives through alleviation of poverty,’ while its mission is ‘To enhance the capacities of member societies to become sustainable financing institutions and to be effective catalysts of economic and social development.’ The main values of the organization are financial sustainability and growth, quality services, one to one services for members, accountability, and transparency. Concrete aims and objectives of PMS are as follows:
- Encourage savings and deposits
- Mobilise loan fund by partnership and borrowings from various banks and other financial institutions
- Social security measures for the members and employees
- Empowerment and holistic development of the member and community
- Taking up livelihood promotion activities, skill development and marketing services

Currently, PMS accesses resources from banks and other agencies. PMS sources loans from these agencies at 14 percent and gives loan to MACS at 21 percent; while the MACS is giving loan to its members at 24 percent. As a part of the Umbrella Programme on Natural Resource Management (UPNRM), a scheme of NABARD, PMS is giving loans to farmers and individuals. The members of the farmers’ clubs are also given loans. PMS gets loan from NABARD at 8 percent which it gives to its member at 14 percent for asset based activities such as vermicompost, dairying, sheep rearing and fishing. PMS’ lending was also supported by CASHE project. CASHE provided support for revolving loan fund, staff salary, and capacity building.

The overall structure of the microfinance programme of PMS is as follows:

- District Mahila Samithi or Federation (i.e., the PMS)
- Block Mahila Samithi
- MACS/Village level organization
- Self-help group

SHG is the lowest rung of the PMS structure. The SHGs are part of MACS as well as village level organization promoted as part of government led microfinance programme. More than 25 SHGs can come tighter to have one village level organization. About 30 to 200 SHGs form a MACS. SHG members become the general body members of a MACS. A twelve member executive committee (EC) is elected at MACS level and has got a president and a vice-president. Every month a meeting of the EC is held while the general body meets once in a year. A new president/vice-president are elected every three years while EC members are elected every year.

The Block Mahila Samithi is an intermediate level forum of the representatives of MACS. This is an informal forum and is attended by group leaders of each MACS in a development block. It has no formal intermediation role. The District Mahila Samithi is the federation of all 38 MACS located in the district. The general body is constituted of 76 members (two from each MACS) while the executive board has 12 representatives. In the process towards formation of PMS the organization lost a sizeable number of groups to the government programme. About 1200 SHGs promoted by PSS were taken over by the government as the group members could benefit from the softer loans and gas connections provided by the state government. From 2003 onwards the Indira Kranti Patham (IKP) programme took over these SHGs under Mandal Mahila Samakhya.
Table 5.1: MACS-wise details of Pragathi Mahila Samakhya (2011)

<table>
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<tr>
<th>Sl. No.</th>
<th>Name of the MACS</th>
<th>Village Name</th>
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<th>No. of Member s</th>
<th>Share Capital Rs.</th>
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<td>11,94,868</td>
<td>3,20,50,407</td>
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<tr>
<td>34.</td>
<td>Pragathi</td>
<td>Dornakal</td>
<td>159</td>
<td>2148</td>
<td>50,00,000</td>
<td>21,59,498</td>
<td>2,08,13,596</td>
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<td>Pragathi</td>
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<td>98</td>
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<td>18,75,000</td>
<td>2,18,011</td>
<td>1,44,19,924</td>
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<td>36.</td>
<td>Pragathi</td>
<td>Danthalapally</td>
<td>82</td>
<td>1148</td>
<td>5,00,000</td>
<td>2,41,624</td>
<td>82,68,367</td>
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<tr>
<td>37.</td>
<td>Pragathi</td>
<td>Peddanagaram</td>
<td>72</td>
<td>1019</td>
<td>10,00,000</td>
<td>1,88,167</td>
<td>58,40,161</td>
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<tr>
<td>38.</td>
<td>Pragathi</td>
<td>Huzurabad</td>
<td>54</td>
<td>590</td>
<td>10,00,000</td>
<td>9,29,838</td>
<td>51,18,130</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>3907</strong></td>
<td><strong>45489</strong></td>
<td><strong>50000000</strong></td>
<td><strong>1,45,76,715</strong></td>
<td><strong>28,62,95,586</strong></td>
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</table>

At this point of time, a total of 208 villages are covered by PMS. There are 3907 SHGs associated with PMS (see Table 5.1). The total number of members is 45,489. The share capital comes to Rs. 500 lakh, while the total savings mobilized is Rs. 145.76 lakh. Current loan outstanding is Rs. 28.62 crore, while cumulative loan disbursements amounted to Rs. 81.18 crore. Currently, there are 92 staff members working as part of PMS. The organizational structure of PMS is represented in diagram 1.

**Working of Pragathi Mahila Samakhya (PMS)**

PMS has a broad savings and credit policy across groups. The monthly savings per member is Rs. 100. There is a provision of special savings for education, marriage and housing purposes. Members can save according to their own capacities. The loans are given to only those members who own at least some property. There are four kinds of loan products. Income generating loan is in the range of Rs. 30,000 to Rs. 50,000; agriculture and allied activity loan is in the range of Rs. 20,000 to Rs. 50,000; while housing loans and education loans are in the range of Rs. 20,000 to Rs. 50,000 and Rs. 5,000 to Rs. 20,000 respectively. The repayment period of the loans is usually in the range of 24 to 36 months, and members can repay loans in monthly, quarterly or half yearly installments.

Most of the loans to the members have gone for purchasing productive assets. Members of SHGs in villages could access loans from village organizations as well as from other sources such as MFIs. This led to inability of many people paying back in time resulting in chronic indebtedness. The AP Microfinance Act, 2010 was brought in to rein in this situation. After this act PMS became more cautious in lending. It was thereafter giving loan only for education, house construction/repair, agriculture and entrepreneurship purposes. The loan recovery rate of PMS for the month of March 2011 came to 81.46 percent. The same was 99 percent last year during March. The repayment rate has declined drastically after the coming of Andhra Pradesh Microfinance Act, 2010. But recovered to over 80 percent by March 2011 and over 90 by the end of the year.

Other MFIs operating in the area faced a lot of difficulties as their recoveries slumped significantly. For many, operating in the area became difficult. PMS did not face that kind of a problem. This was mainly because it was seen as peoples’ organization and its lending activities (including interest rates) were transparent. Still, it had to do a lot of explaining after the AP bill came into force. This was centred on ownership and dividend structure. There was some difficulty with four urban MACS wherein local political leadership raised questions. PMS convinced them about its policy. The matter got settled in one case immediately followed by the other three MACS, and gradually the repayment of loans picked up. During this period many private sector banks had shown unwillingness to make funds available for on-lending. Earlier ICICI Bank, HDFC Bank and AXIS Bank made available substantial funds to PMS, while currently the main sources are Indian Overseas Bank, IDBI Bank, SIDBI, National Housing Bank and Malviya Holdings. There has been a shift in the
Diagram 1: Organisational Structure of PMS

(Pragathi Mutually Aided Cooperative Credit and Marketing Federation Ltd.)

Board of Directors

Chief Executive

Sr. Manager

Manager - Business Development
Manager - Credit Operations
Manager - Credit Admin.
Manager - MIS & Software
Manager - Finance
Manager - Admin.
Manager - HR

Area Manager

Mandal MIS/Accountant

Accountant

Accounts Asst./Cashier

Branch Manager

MACS / Field Manager

Field Executive

Internal Audit
sources of funds mainly from private banks to government sector banks. PMS is now planning to reduce borrowings from outside and build its own savings and share capital.

PMS works with disabled as well. There are 1500 groups for the disabled of at least 10 members each. These are in fact SHGs only and are led by two group leaders. Apart from financial issues, PMS has also worked on social issues. There is a Women’s Rights Forum as part of the federation and discussions happen on dowry and education. Attempt is also made to eradicate child marriage by persuading the members. The federation tries to settle disputes amongst its members. It does liaising with the police and judiciary for settling disputes besides providing legal aid to its members.

Some Field Insights

Sindhushree Mahila Podupa Sangham in the scheduled caste colony of Kadipikonda village was visited. It was formed in 2006 and had ten members. The SHG joined PMS in 2008. The SHG has two leaders and savings is done in the group every month. There are two forms of savings. One is for the group while the other is for the federation. A savings of Rs. 50 per head savings is being done for the group. Savings contribution for the federation is optional. Both savings are done in the group meeting itself. The members who save for both have an option to take loan from both the sources. The loan from PMS is possible only when they are saving with it. Both the SHG and PMS loans are made available to members at the rate 24 per cent. As part of bank linkage a loan limit of Rs. 50,000 is kept for each member. As part of a state government scheme called Pavala Vaddi the loan is available at 3 per cent per annum while it is loaned at 12 per cent per annum thereby enabling the group to earn a margin of 9 per cent. The meeting of the group is done on 16th of every month. Rs. 30000/- is the maximum loan anyone can take from PMS. One can take loan from PMS after 4 or 5 months of savings with it. The share capital was Rs. 100 per member with MACS which has now been increased to Rs. 500. Every group in the village also saves Rs. 100 with the village organization every month. Village organization is another source of finance. The group had earlier taken a loan of Rs. 30,000 at the rate 1 percent per month from the village organization. The loan was equally divided amongst all the members. Now, the loan stands repaid.

Two passbooks are maintained at the individual member level- one for the SHG while the other is for PMS. The group members were from Madiga (cobbler) caste but now they mostly work as agricultural labourers and construction workers. They get these works within 15 to 20 kms of their village. The entire colony is of BPL families and all of them had constructed houses with support from Indira Awas Yojana. Village book-keepers trained under Velugu scheme do book-keeping for ten groups for which they are paid by the groups. All members of the group have life insurance. A few members of the group have taken loans from Share and Spandana MFIs in the village. Six members had taken loans of Rs. 10,000 each and they had promised to pay back every week at Rs. 215 every week over 50 weeks period. They had been loaned by these MFIs by regrouping them into joint liability groups. Members however prefer monthly repayment schedule over weekly repayment.
Gundrapalli village of Nekkouda mandal was visited to meet the executive committee (EC) of Marghdarshi MACS. The MACS constituted of 33 SHGs and was having 430 members in all. In the EC, there are 12 members from a total of 33 groups. There is one manager for each MACS while there is one coordinator for six MACS. There is an MIS Coordinator at the mandal level as well. Most of the members are from BPL category except a few. The caste groups are mostly from backward classes like Gaudas, Yadavas, Muslims and Modiraj. Approximately, 10 per cent of the members are landless. Majority of them have small to medium plots of land. The crops that are cultivated are paddy, maize, cotton, chilly, groundnut and turmeric. Those who are better-off have moved to cities. In all, 20 households have migrated out. The main aim of the EC is to discuss issues related to savings and credit. The performance of different groups including their problems are discussed at EC level. The EC also discusses social issues such as encouraging members to send children to school and solving family disputes. The forum used to receive complaints about child marriage and education of child. The meeting of EC happens on the 19th of every month. Every group has a share capital of Rs. 2000 with MACS. Every member saves Rs. 100 per month separately for MACS and SHG. Every month an SHG also deposits Rs. 100 with the village level organization. There is a lot of interpenetration across different institutions at the village level between gram panchayat, village organization and MACS. Some of the MACS members are also ward members and hence are able to influence the discussions at panchayat level. The groups associated with this MACS are all bank linked groups. In the village Share, Swayamkrishi and Spandana MFIs have been lending to people. Those who get loan from MACS would avoid taking loan from other sources. The members’ loan outstanding with the MACS at the end of October 2011 came to Rs. 18 lakh.

In the same village the Saraswathi and Lakshmi SHGs were visited. The Saraswathi SHG had 15 members while Lakshmi SHG had 13 members. The Saraswathi group had a total savings of Rs. 80,000 while Lakshmi had a total savings of Rs. 60,000 approximately. Each member in these groups save Rs. 100 per month. Till six months back the monthly savings was Rs. 50 only. On the 10th of every month the meeting of the group is held. In the Saraswathi SHG five of the members were illiterate, while in the case of Lakshmi SHG there were a total of ten illiterates. Each group had two leaders. The two groups pay service charges to the private book-keeper to help keep their books of accounts and other documents. The Velugu programme had trained eight book-keepers from the village for this purpose. The groups mostly limit themselves to savings and credit activities, while sometimes issues related to education of children and family are also discussed. On one occasion when the houses of two families were burnt, the MACS in the village contributed by giving money, rice and other support to the affected families.

Concluding Observations

The microfinance programme of PSS has evolved over the last two decades. The PSS has developed an autonomous structure in the form of PMS for implementing microfinance. The PMS is located somewhere between a tightly controlled structure of any typical MFI and a fairly decentralized community based model. At the same time, it is a professionally
managed organization and its policies are usually developed keeping in view a division of labour between PSS and PMS to meet the social development agenda of the network. As a professionally managed organization PMS has developed clear systems and policies across the entire length and breadth of the programme. The ownership and dividend structure of PMS clearly tells us about the community based character of the organisation. It was because of this structure and lower lending rate befitting such a structure that PMS did not face any major difficulty when the AP Microfinance Act of 2010 came into being. From the working of PMS it can be inferred that people associated with the programme have emerged stronger. Their attitude to the world has changed. They are comfortable in going to a bank on their own. The orientation of the families of the women members has become positive. This has enabled them to have a greater say in their families. The association with PMS has influenced them to be conscious and persuasive in sending their children to schools.
6. People’s Education and Development Organization (PEDO)

Origin and Founding Principles

The People’s Education and Development Organization (PEDO) (also known as the Jan Shiksha Evam Vikas Sangathan) is working in the Dungarpur district of southern Rajasthan since 1980. After a series of droughts during 1984 to 1988, the tribal communities in Dungarpur suffered due to their dependency on forest and agriculture for livelihood. The moneylenders took the advantage of the situation and gave loans to the tribals on very high rates. The tribals mortgaged their lands and jewelry to the moneylender for loans. Women became the worst sufferers as they lost their resources and the men migrated to the nearby industrial towns to work as daily wage labors. Women had to take care of the rest of the family without any proper source of livelihood and resources.

Initially, PEDO’s efforts were concentrated in freeing the affected people from the clutches of moneylenders by renegotiating payment terms, loan rates and freeing up assets. The money to repay the loans was being collected from a variety of sources including contributions from the society. Mr. Devilal Vyas and his wife were intensely involved as social workers in this activity. Slowly the corpus of funds started growing and the idea of forming Self Help Groups (SHGs) and opening their bank accounts began to take shape.

PEDO started with 10 groups at the beginning. Today it has a network of about 2500 women’s SHGs with about 45,275 members. Mr. Vyas heads the organization entitled as ‘Peoples Education and Development Organization (PEDO) as Director. A study was commissioned by PEDO which led to formulation of purpose, designing of organization structure etc.

PEDO’s goal of community led and owned microfinance was considered a major step towards achieving the objective of promotion of sustainable people’s institutions in any effort to alleviate poverty. Thus PEDO formulated its mission as,

‘To strengthen value based people’s institutions to utilize existing resources for poverty alleviation and environmental upgradation’.

PEDO at a Glance

The district of Dungarpur lies in the southern tip of Rajasthan, surrounded by Udaipur district in north, Banswara in east and south and Sabarkantha and Panchmahal districts of Gujarat lying towards the east. It is one of the smallest districts (3780 Sq km) of Rajasthan and has a population of 0.87 million. Almost 92.7 percent of the population is rural and 70 per cent is tribal consisting mainly of Bhils, Garasias and Damors. The landscape is mostly hilly and

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undulating, and the population lives in widely dispersed villages, consisting of structural hamlets called phalas along the hill slopes.

The literacy level of the district is 24.58 per cent and for rural areas it is 21.63 percent, with female literacy being only 12.44 per cent. Agro-climactically the district falls in the southern plain zone with mild summers and winters. The mean annual rain fall is 761 mm.

PEDO began its existence as the Bicchiwara Block Extension program of the Social Work and Research Center (SWRC) of Tilonia in Dungarpur district in the year 1980. By 1986 it had grown enough to become an independent agency and since then it has continued to make constant progress. The organization’s activities are concentrated in the tribal district of Dungarpur and marginally in adjoining districts of Udaipur and Banswara, the later being in Madhya Pradesh.

PEDO has so far remained focused in extending its microfinance activities mainly in the district of Dungarpur. It organizes SHGs, extends its support in running their activities like promoting savings and linking them with banks to supplement their corpus, and develop group members’ capacity to assume governance responsibilities at all three levels of the organization structure i.e. group, cluster and federation. It supports them with other activities like facilitating information on government schemes especially those on health initiatives or special schemes applicable to tribal community.

Having gained thirty years of experience through various developmental programs, PEDO now concentrates on following major areas:

- Women’s empowerment through microcredit
- Environmental up-gradation and livelihood security through natural resource management
- Promotion of primary education and child rights
- Rural decentralization and strengthening of panchayati raj institutions
- Rural housing and infrastructure
- Promotion of self-sustained people’s institutions
- Irrigation and agricultural development

PEDO has so far covered about 521 out of 875 villages in Dungarpur district, reaching about 29 per cent households and claims to have saturated three out of five blocks. As of August 2011, it had about 2551 groups having a membership of 45,275 women. The groups have been organized in 82 clusters and 12 federations. The funds mobilized through savings are Rs. 428.52 million and through bank loan are Rs. 253.68 million with 24,325 borrowers (see Table 6.1).
### Table 6.1: Details of Women's Saving and Credit Programme of PEDO (August 2011)

<table>
<thead>
<tr>
<th>Sr.No.</th>
<th>Particulars</th>
<th>Detail</th>
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<tr>
<td>1</td>
<td>No. of Villages covered</td>
<td>520</td>
</tr>
<tr>
<td></td>
<td></td>
<td>58%</td>
</tr>
<tr>
<td>2</td>
<td>No. of Federations</td>
<td>12</td>
</tr>
<tr>
<td>3</td>
<td>No. of Clusters</td>
<td>82</td>
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<tr>
<td>4</td>
<td>No. of Groups formed</td>
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<td>5</td>
<td>No. of member in the groups</td>
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<td>6</td>
<td>Cumulative savings (Rs. in million)</td>
<td>104.84</td>
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<tr>
<td>7</td>
<td>Source-wise Cumulative Loan disbursement (Rs. in million)</td>
<td>Savings 428.52</td>
</tr>
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<td>8</td>
<td>Source-wise Loan Outstanding (Rs. in million)</td>
<td>Savings 89.76</td>
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<tr>
<td>9</td>
<td>No. of loanee members</td>
<td>24,325</td>
</tr>
<tr>
<td>10</td>
<td>Loan overdue (Rs. in million)</td>
<td>4.44</td>
</tr>
<tr>
<td></td>
<td>(% of loan outstanding)</td>
<td>3.02 %</td>
</tr>
<tr>
<td>11</td>
<td>Loan Repayment Rate</td>
<td>97.0 %</td>
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<tr>
<td>12</td>
<td>No. of Loans</td>
<td>1,08,155</td>
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<td>13</td>
<td>Loan Balance at Risk (&gt;90 days) (Rs. in million)</td>
<td>Savings 2.10</td>
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<td>14</td>
<td>Average Loan size (Rs.)</td>
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<td>15</td>
<td>Loan to Savings Ratio (8/6)</td>
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<tr>
<td>16</td>
<td>Loan outstanding out of savings</td>
<td>85.0 %</td>
</tr>
<tr>
<td>17</td>
<td>No. of Federation staff</td>
<td>98</td>
</tr>
<tr>
<td>18</td>
<td>No. of Executive Staff of PEDO</td>
<td>3</td>
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Source: PEDO, Udaipur
Operating Model

The SHGs are promoted through the efforts of PEDO in target areas and women are encouraged to start meeting at least once a month and save money. Later at some stage, SHGs are linked to a bank branch to obtain credit for meeting the loan requirements of the members. The groups maintain a savings and a loan account with the bank branch. The Bank of Baroda had adopted Dungarpur district for its special loan assistance with an outlay of Rs. 550 million, giving formal recognition to women’s SHG accounts. The collections (including savings amount and loan installment of each member) of the meeting day are deposited in the respective saving and loan account on the next day.

Each SHG member is given a pass book which has up to date data of her savings, loans and installments payable by her on both savings deposit and loan availed. This record is updated in every meeting and a field representative of the SHG federation facilitates account keeping. Loans are disbursed to individuals through cheques on account maintained with local bank by the SHG and the cheque book is retained at the federation office to ensure security which also reinforces control by the federation. As per the operating practice, the SHG members may fail to pay interest and installment till no penalty is charged. Other members of the group ensure nobody defaults for more than three months.

PEDO has formulated some standardized operating practices. Some of which are outlined as under.

An SHG is defined as a group of women with similar background (financial and social), and the group membership is limited to 20. Mentally challenged women cannot become member of the group. PEDO has uniquely identified an eligible member as the one who has a separate chulha (or kitchen) within a family. So a two or more generation family living together may have two or more separate kitchens for different units within the family, yet choosing to live together are eligible to send one female member for each chulha. PEDO introduced this concept with justification that evolution of a separate chulha is evidence of separate income source of that part of family and therefore capable of independent decision making in financial transactions and thus eligible to become a member. The concept evolved over the years while understanding the customs and social practices of the target society.

Every group member has to pay an annual membership fees (which, in most cases, is decided by the group itself). The group meets once in a month and at least 75 per cent attendance is mandatory for the meeting to be considered as a legitimate one. If the SHG fails on six consecutive occasions to conduct its meetings, the group is dissolved.

All the members have to compulsorily save a fixed amount every month. This amount is fixed by the group considering the capabilities of all the members. In the beginning the amount can be as small as 5 or 10 rupees per month and this may go upto even Rs. 500 as the group matures and members’ earning improves.
Governance of SHGs, Cluster and Federation

**SHG level:** Every SHG has a president and a treasurer. The SHG is divided into 3-4 sub groups. The sub-groups also have their own leaders (called as sub-group leader). All the group members (within the group and sub-group) are required to make sure that the members are repaying the loans on timely basis. The sub-group concept in every SHG is there for power decentralization and preparation of second-line leadership.

Only one member from one household is allowed to join a SHG. PEDO tries to mobilize at least 50 per cent of the households of any particular village which it targets. The focus is on marginalized or poor tribals. Due to typical geography of the Dungarpur district, poor often live in distant hamlets on undulating hilltops. The hamlets can be as small as having only four or five households. Linking people from different hamlets into a group is always a challenge. The financial transactions take place only during the SHG meeting, pre-fixed in terms of time and venue. The fixed saving is compulsory for every SHG member. The venues of the meetings are the houses of the members and fixed on rotational basis so that every member can be the host for SHG meeting. This practice has advantages of acceptance of program by male members of the family, generating mutual trust among members, creating awareness about the SHG in the neighborhood, promoting openness and mobility among the members, and even the houses get cleaned. Foundation day of every SHG is celebrated in the presence of all the leaders of the SHGs every year and presentation of the balance sheets and progress is made to the members. The election of the leadership is mandatory at the SHG level after every two and a half year.

The SHG leaders and elected representatives have to participate in the activities of their cluster and the federation. Failing this, an SHG can be disqualified from getting the support from the federation and the cluster.

**Cluster Level:** A cluster has about 20 SHGs or 400 members. There are three sub-committees in every cluster- finance and credit, planning and management, and conflict resolution committee, which carry out assigned activities.

The venues for the cluster meetings are also fixed on rotational basis at the houses of the every SHG member. The financial matters are reviewed in the meeting along with preparation of financial and livelihood plans. The cluster accounts are verified and audited by an outside auditor. Proposal for bank linkages are also discussed and prepared at the cluster level. The conflict resolution committee resolves the conflicts in any of the microfinance operations. Overall review and monitoring of financial and social progress of the SHGs takes place at cluster level.

**Federation Level:** A federation is formed by integrating about eight SHG clusters or 160 SHGs. There are two bodies in every SHG federation- the general body of federation and the executive body of federation. The general body consists of non-leader members elected by the SHGs (one per SHG) and it works as a policy making body of the federation. It also
works as program-budget preparation and finance approving agency of the federation. The executive body consists of leaders from the clusters and acts as an implementing and administrative body for day to day functions of the federation.

The federation acts as an administrative and monitoring unit for all the clusters and the SHGs. Besides managing its day to day activities it also supervises the functions of the clusters and the SHGs. It implements the decisions of the general body and also oversees the microfinance related operational expenses. It supports the bank transactions of the SHGs and collects and manages contributions of the SHGs and clusters. It also coordinates the internal and external audits of the SHGs and clusters. The federation does a self appraisal exercise on a yearly basis and works as networking face for other microfinance networks. The federation also organizes meetings, workshops and seminars of the SHGs.

The federation acts as an apex governing body with responsibility for policy making as well as financial control. This may be due to the typical nature of Dungarpur district and its large uneducated and tribal population. While people may become self reliant in managing their affairs in SHGs but illiteracy of members may necessitate a supra structure to maintain the ongoing financial affairs and their continuity.

Role of PEDO

For establishing the network linkages between the federation, the clusters and the SHGs, PEDO acts as a promoting and a monitoring agency. PEDO has deployed three cadres of support staff as microfinance staff including field representatives (one for 20 SHGs) and federation secretaries and federation accountants (one for every federation). PEDO’s block coordinator (one for every administrative block) monitors the activity of rest of the microfinance staff. The salary of this staff has to be met by the SHGs and the federation. To meet staff salary and expenses of microfinance operations, a fund has been created with contributions by way of annual membership fees (Rs. 100) and loan fees (1 percent of loan amount). SHGs advance loans to its members at a rate of 12 percent as against the concessional rate of 10.5 percent obtained from the bank. Besides, any subsidy accruing to a member under a government program which was facilitated by the group leadership is also apportioned to group earnings.

Of the total profit of SHGs, 10 percent is set aside as a risk fund and the rest of the profit is distributed among the members as dividend. This measure of profit distribution also adds to every SHG member’s interest in the microfinance operations.

PEDO also maintains a sophisticated management information system, wherein all transactions which include both deposit and loan are updated online. The IT infrastructure was created by taking a grant from Department of Information Technology, Government of India. PEDO’s computer server at Dungarpur is connected with the transaction data of each SHG being fed from mobile phones by the field representatives who are present in each SHG meeting. Each SHG and individual member data is fed into the software which updates all
records. Besides this soft data, hard copy data is also maintained and updated at the federation level. The software enables monitoring of deposits, shortfall in deposit, and loan assets by purpose (like agricultural use, productive use, and consumption like housing and education). The federation level accounts are monitored for gross deposits per cluster, loans from savings, loans from cash credit, overdue accounts etc.

After a certain level of maturity of the groups and leadership in the network, PEDO gradually turns itself into a facilitator. The structure that already exists is allowed to function with PEDO as mere spectator and facilitator, if required. PEDO then finally moves out of the operation and let the structure function independently. PEDO believes that people need to take charge of their affairs and if it does not move out, the local structures become too dependent on PEDO leading to dilution of autonomy and governance.

PEDO worked with two very important aspects while framing the exit policy- socially viability and financially self-sustainability. PEDO has a set withdrawal policy, so as to gradually transfer the roles and responsibilities to the members and their leadership.

All the federations are community owned and managed. As the salaries of employees come from the federations, PEDO’s microfinance staff is now employed by the federations. PEDO has started the process of registering the federations as independent societies. Currently four out of the thirteen federations are registered as societies.

Few Observations

- The definition of family, as identified by a separate *chulha* (Kitchen) does not only embed an extant social structure into basic building block of SHG, but may also contribute to stability of the group by enhancing its cohesiveness. A family may have more than one kitchen, which points to disintegration within a combined family structure. Separation of cooking (*chulha*) is indicative of financial independence of those units of a family but structurally the family may still maintain cohesiveness in other social activities by staying together as larger social and economic challenges still necessitate that disintegrated members also live together. Under the circumstances the membership of SHG becomes an extended circle with which to meet the mounting challenges. Identification of such a social response mechanism and integration of same in the building block of SHG may thus act as organic and mutually reinforcing mechanism, and these two functions embed themselves in SHGs where almost identical obligations are discharged by members of the group.

- The SHGs face 2-3 percent withdrawal rate of members, due to old age and consequently depleted ability to earn or due to migration. Generally, an SHG member is inclined to remain part of the group on an ongoing basis as she is advantaged by association in that she can access loan for her needs, get knowledge of various government schemes, and
bond with other women in her group/ cluster/ federation enlarging her social circle and knowledge.

- Loan asset class is monitored by PEDO, supported by online IT infrastructure in place, and the major classification were productive and non-productive or consumption class, which was almost evenly distributed across membership groups.

- No specific initiative with regard to health challenges appeared to be in place except to link the members with government sponsored schemes, hospitals and other initiatives which are regularly discussed in SHG meetings. The federation representatives who attend each and every SHG meeting introduce new initiatives to groups.

- Even though the members have only borrowed more and more money over the years of their association with SHG, they appeared to have increased confidence in ability to pay up their dues having improved earning capacity due to investment in productive assets like animals, farm bunds, installed pipe lines, deepened wells and land or enhanced capacity to earn due to education of children.

- Role of SHGs in creating and enhancing social relationships is observed specially in this region as physical proximity of SHG members due to the very geography of the region is rare. Residential hamlets are distant and each hamlet may not be larger than 4-10 units. Older the groups more the evidence of social bonding with or without the existence of familial relationship is observable as in absence of physical proximity the risk mitigation mechanism in the event of default is likely to be weakened.

- Despite the constraints of low literacy, physical proximity with each other and outside population and low access to government schemes, the SHG groups have survived and are maturing to conduct their own financial affairs, some even without the support of banks. This indicates to evolution and strengthening of inter-relationships which transcend transactional nature and need further investigation to identify.

- PEDO’s insistence on self-governance of groups, clusters and federation appeared to be emphatic. The uncompromising rules on institutional processes like compulsory attendance, minimum number of meetings, participation in activities etc. evidence the structural aspect of the people’s empowerment process. Then the formal withdrawal mechanism of PEDO upon attainment of social and financial stability by federations seems to further support the empowerment process.

- PEDO has elaborate IT support infrastructure and MIS and closely monitors funds utilization, withdrawals and deposits of members in all the federations including those that have been registered as societies. This mechanism can alternately be used as a feedback mechanism for improved governance at SHG, cluster and federation levels. But necessity of such a system also points to challenges faced in empowering people based
institutions which are inherently weaker largely as a result of illiteracy and other disadvantages.

- Some loan losses are apparent and inevitable. Whether the revenue of groups can alone set off such loan losses can only be ascertained by a detailed study. Government schemes in terms of outright subsidy which is shared among group members may also alleviate this source of stress however its exact role could not be ascertained in this case study.

- As regards the conversion of credit facility from banks from term loan borrowing to cash credit, as is the directive from Government of India, it does not appear to be a major concern in PEDO promoted groups. The lead bank has extended loans to the SHGs in the form of cash credit facility throughout the district of Dungarpur. As the SHGs’ cash transactions i.e. deposits and loans, are immediately converted into bank deposits the next day, and the practice has taken deep roots, the financial discipline of the groups is self-maintained and sustainable.

**Conclusion**

An impact study commissioned by PEDO and conducted by Center for Micro Finance, Jaipur (CMF 2006) contrasted the result of recently joined (control group) with the members’ population in seven mandals in Dungarpur district and found the following:

a. significant decline in the borrowings from the moneylenders, and increased access to loans from SHGs;
b. improved status of women in household as they were involved in decision making;
c. improved awareness and access to various services by government and non-government organizations;
d. improved consumption pattern was observed in quality of clothes worn, expenditure on food and spending on health; and
e. increase in income of member families and increased access to formal institutions, both financial and non-financial was observed.

Whereas the impact study is diffident about cause and effect due to a variety of reasons including model under specification due to host of intervening factors like program attributes, client characteristics, social structure, power relationships, macro-economic environments and other unknown program interventions however these findings are consistent with limited observations made during the field trips for the present case study.

The undiminished desire on the part of group members to remain part of the SHG group, as also aspiring to rise higher in hierarchy like becoming cluster or federation office bearer, councilor or some such position for reason of not only elevated social status but also a desire to contribute for betterment of others can only be seen to be evidence of increased empowerment, social upliftment and improved role in decision making. Such higher level
responsibility also entails acquiring higher skills not only in terms of knowledge and education but also negotiating skills that are the requirements of elevated profile.

Furthermore, PEDO also stated that some groups have become totally independent of bank borrowings and rely mainly on their own savings for group requirement which appears to be evidence of the development phase nearing its stated objectives in those cases. Four federations have already been registered as independent societies whereas several others were in various stages of being registered as of September 2011, illustrating the argument of independence. Besides, PEDO actively promotes that institutions become self-reliant and independent as it believes social sustainability can only come if it is able to withdraw its handholding role in a fixed time frame, mostly three to four years.
7. Shramik Bharti (SB)

Background

The Shramik Bharti (SB) is a nonprofit, secular, non-political and grassroots development organisation. It is a Kanpur based organisation which is functioning for over twenty years in both urban and rural areas of Kanpur Nagar and Ramabai Nagar (erstwhile Kanpur rural) districts. It primarily focuses on empowering women and disadvantaged communities. It works with 125 slums and rural communities in 13 development blocs of Kanpur and Ramabai Nagar districts. It focuses on promoting peoples’ development institutions.

The headquarter of Shramik Bharti is in Kanpur city which is the biggest city of the state. Kanpur Nagar district has a population of approximately 45 lakh\(^7\). The area lies between the fertile region of doab of the Ganges and Yamuna. The rainfall is erratic but more than that of semi-arid regions and hence leads to two crops in most parts of the two districts. The average literacy rate of Kanpur Nagar district in 2011 was 81.31 per cent. The male and female literacy rates were 85.07 per cent and 76.89 per cent respectively. The sex ratio in Kanpur Nagar was 852 per 1000 male in 2011. The average literacy rate of Ramabai Nagar in 2011 was 77.52 per cent, while male and female literacy rates were 85.27 per cent and 68.48 per cent respectively. In Ramabai Nagar the sex ratio was 862 per 1000 male in 2011\(^8\).

The organisation works on both urban and rural development issues. It was set up under the leadership of Shri Ganesh Pandey who was associated with many labour related issues in Kanpur. Shri Pandey has been its chief executive since 1984. It originally started working in urban areas and gradually expanded to rural areas of Kanpur. Shri Pandey is assisted by a team of professionals and field staff who undertake diverse activities to meet the mission of the organisation. In many ways SB has been a leader in development action in this region. It has also been a leader in the field of microfinance in the state. The formation of SHGs by SB started in 1989 and since then it has progressed well in this field. The mission of the organisation is:

‘Working for the empowerment of the poor and underprivileged, with special focus on women and children, Shramik Bharti facilitates and fosters peoples’ democratic institutions. Committed to a human development approach, Shramik Bharti facilitates to enlarge people’s choices by assisting them in the development of their capabilities and preparing them to have better control over their lives. Shramik Bharti is therefore a way of seeing and respecting

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people. Shramik Bharti’s programmes grow out of that respect and faith in the idea of a truly
democratic society, free from exploitations.’

The operational strategy of Shramik Bharti is as follows:

- Organising the community around socially relevant issues
- Developing their capacities for addressing development issues and managing them
- Enabling access to services and provisions being provided by the state and market
- Aggregating community based groups and facilitating them to emerge as community
  based organisations for continuing the interventions initiated by Shramik Bharti.

Focus Areas

As per the Annual Report for 2009-10, SB tries to organise its work around three thematic
centres (SB 2010):

**Centre for Livelihood and Microfinance:** The centre focuses on livelihood systems of the
poor. It helps them to strengthen their existing livelihood portfolio as well as to conceptualise
and add new dimensions to it. It attempts to go beyond mere income generation. In a
sustainable manner SB attempts to focus on non-income dimensions for improving the well
being. The microfinance and livelihood promotion activities are the two important interlinked
areas. The following activities are being carried out under the Centre for Livelihood and
Microfinance:

- Sodic land reclamation
- Sustainable agriculture
- Eri-silk promotion
- Organising women leather artisans
- Equine welfare
- Sponsor a grand parent
- Microfinance

**Centre for Community Health:** The centre aims at improving the preparedness of the
communities for preventive health especially for newborn babies and maternal health. It also
looks at home based solutions for pregnant and lactating mothers and infants, and had
undertaken a long standing project on it. Following activities are being currently done under
the centre:

- Sanjeevani
- Contraceptive education
- HIV/AIDS awareness
- Comprehensive eye care and rehabilitation
- Water and Sanitation
**Centre for Grassroots Democracy:** The centre prepares ‘community and elected leaders for responsible, transparent and democratic governance of grassroots institutions’. This centre is using community based microfinance institutions for promoting grassroots democracy. The following organizations have been promoted by under the centre.

- Boond Bachat Sangh, Kulgaon
- Jagriti Mahila Samiti
- Shakti Mahila Samiti
- Ekta Mahila Samiti
- Maa Mukteshwari Bunkar Samiti

**Microfinance Programme of Shramik Bharti**

SB was registered in 1986 and started working with labour class in urban slums. The initial work was on setting up and reviving small schools for children of labour class working in different mills. The financial needs of these families were mostly unmet at that point of time. Whatever little that was available was in the form of loans borrowed from private lenders at high rates of interests. Considering this need the organisation started setting up SHGs in 1989. The first group was set up in the same year. At that point of time, lending was done with own savings of the groups. In 1995, NABARD came up with the SHG-bank linkage scheme and it became possible for SHGs to access loan from formal banks. In 1993-94 Rashtriya Mahila Kosh (RMK) was set up. SB was involved in initial consultations in designing the schemes of RMK. SB was one of the first organisations in India that was given funds for lending in urban areas. SHG formation also started with the support from Uttar Pradesh Land Development Corporation (UPLDC) in 1995. The focus of the project was to develop land and to help farmers develop groups so that they have finance available for agricultural inputs. SIDBI also made a loan available to SB in 1998 for on-lending. SHGs were also formed with the support of other international donors specially Cordaid. As part of support from SDTT, the organisation worked with SHGs of weavers. As part of PACS (Poorest Areas Civil Societies Program) some work on agriculture and empowering panchayats was also taken up by SB. Groups were also formed and strengthened under the Swashakti scheme of the Government of India including forming SHG based federations.

In 2005, Swashakti scheme was coming to an end, therefore audit of all these groups was proposed on payment of a nominal fee. This was to be done for the groups which were formed with the help of UPLDC. In the past, there were instances of cash mishandling in these groups. 301 groups came forward for auditing and each one of them paid a fee of Rs. 100. The issue of cash misappropriation was resolved. Auditing also cleared the pathway for the formation of block level federation of SHGs to provide fee based support services to the SHGs. These groups are now getting regular support of book writers and printed books of accounts and annual audit. The audit of rest of the groups was being carried out regularly since early 1990s by SB.
By the end of 2011, SB had 600 groups in rural areas where a fee was being charged from groups for providing assistance in book keeping and accounting support. Each group pays Rs. 200 for audit, Rs. 200 as membership fees, Rs. 360 for book keeping and Rs. 150 for the stationery per year. This comes to a total of Rs. 910 per year. This payment is made to the federation. In the case of urban groups the interest margin takes care of the cost of book keeping and other support.

The Quest for a Sustainable Programme

After the funding support for SHG formation dried up around the year 2000, sustainability became an important issue. Covering cost for regular and backstopping support became extremely important. The formation of SHG federations in Kulgaon and other urban areas happened in this backdrop. The influence of new MFIs and the general excitement around delivery model in the neoliberal regime manifested itself in the march towards formation such an organisation in Kulgaon around 2000. The aim was to develop a new organisation which could mature into an MFI. The structure was finally registered as a mutual benefit trust in 2002. Except the Kulgaon federation, others (both in rural and urban areas) were registered in the form of societies. These were registered in the period from 2007 to 2011.

The Kulgaon federation was visited in Kanpur to understand the model.

The consolidation of SHGs into a bigger structure took two directions in SB. In both the cases, SHGs were brought together at two levels—cluster and federation. In the first case, the cluster associations and the federation had only administrative and coordination functions. This was the main model of SB. In this model, the SHGs are bank linked and can access credit directly. The other model focused on giving important financial functions to the federation. In this model, groups would not access bank loans directly but would depend upon the federation to access loan from different sources. This was followed in urban areas where NABARD’s schemes were not applicable and no bank loan was available to these groups. For such groups, bulk loans were available through RMK, SIDBI and HUDCO. The federations before accessing any bulk loan collected the demand from their groups. The Kulgaon federation was patterned on the latter model.

In Kulgaon, an educational process was undertaken with the SHGs to make them understand the concept and operation of the federation named as Boond Bachat Sangha. The members of sangha (federation) were SHGs. It became operational in February 2004. The board of trustees is headed by Shri Rakesh Pandey, Senior Manager with SB. Two representatives from the community and two nominees of the chairman from Shramik Bharti are the other members of the board. There is also an executive committee (EC) in place consisting of representatives of the member SHGs. Both the EC and board of trustees meet every quarter. The cluster associations in this federation are not expected to have any financial roles while the federation has a financial role. Each group in the federation needs to make compulsory deposit of Rs. 1000 per year with the federation on which an interest of 6 percent is paid.
The formation of SHGs began in this area in 1989. There are around 180 SHGs in this federation. Around hundred SHGs are more than ten years old. In the last five years, around 35 groups have been added. Only around 60 groups have bank accounts as groups were not encouraged to start bank accounts as loan was accessed through agencies like RMK, HUDCO, SIDBI and NMMDFC. There are a total of four clusters in this federation. These clusters are informal associations constituted of 30 to 35 SHG groups each. The cluster meetings happen every month in which one member from each group participates. The demand for loan is brought to the level of cluster from the SHGs. These are discussed in the cluster and then sent to the federation for its consideration and sanction. The cluster meeting is an occasion for interacting with members from other groups. The members discuss loan scenario in other groups, repayment, and other related issues.

The loan from the federation is distributed in cash and there is a possibility of leakage. At each cluster level there is an executive committee. It is constituted of five representatives and meets every quarter. The important issues that are discussed at the SHG level relates to loan and social issues. The focus on financial issues is more than on social issues. The SHGs could rotate loans out of their own savings. This is done at the rate of 18 per cent per annum. Loans are made available to SHGs by the federation by pooling unutilised funds of groups. In this case, SHGs make available funds to the federation at 6 per cent rate which is given at 12 per cent rate to SHGs. The SHGs further on-lend their members at 18 per cent. The federation also makes available loans to SHGs out of the compulsory deposits of SHGs made with the federation. Each SHG is expected to maintain a minimum deposit with the federation calculated at the rate of Rs.1000 per year for the number of years it exists. In this case, the federation give loans at 12 per cent to SHGs while the SHGs lend to the members at 18 per cent. The federation gets 6 per cent margin for its operation costs on all loans. Six per cent is given to members as dividend while six percent is transferred to the capital fund. The loan limit in most of the groups is Rs.20,000. There are two guarantors for each loan. Two rupees is charged for not depositing savings in time though loan installment delays do not attract any penalty. The activities of the federation are managed by one senior group organiser, two supervisors and four book-keepers.

SB is currently thinking that the Kulgaon federation could be registered in the form of a society like other federations which are relatively more participatory. This change is being thought of mainly because of a strategic review held in 2005 about the future trajectory of the organisation. This review helped SB to reach a conclusion that a pure microfinance focused model as practiced by a CBO like Kulgoan federation is not appropriate. Besides tax related issue, the federation had to write-off loans in the extreme scenarios when the loanees could not have repaid at all due to death or other such reasons. In the balance sheet of the trust it was shown as an expense with which the income tax department did not agree, and hence SB had to fight a legal case in this regard to resolve the issue.

The SHG meeting of Sneh Boond Bachat Sangathan at Pokhar Purwa revealed many aspects about the microfinance programme of SB. The SHG has 20 members. It was formed in 2003. Since then, the members are depositing Rs. 100 every month. It has a total savings of Rs.
49,371 and a loan outstanding of Rs. 49,200. The loans are taken for surgery, fees payment, marriage and house construction. Most of the loans are used for non-production purposes. The group finally opened a bank account in October 2008. There is a provision of additional funds being deposited at the rate of 3 per cent per month. In the meeting with the group, one of the group members talked about having taken loan from another source. He took a loan of Rs. 3000 from that source and was committed to returning Rs. 60 per day for the next 63 days. This indicated the fact that a part of credit needs of the group members remained unmet.

In Tilokpur, a nearby village of Kulgaon, two SHGs were visited while they were conducting their group meetings. Most of the members were from pal and kushwaha caste groups. In Tilokpur-I group most of the women sent their savings through somebody else. The savings is done at the rate of Rs. 100 per member per month. The groups were formed in 1989. They have an old bank account. They do not give loan of more than Rs. 20,000. In the second group also, known as Tilokpur II, the savings is done at the rate of Rs.100 per month per member. The activities for which financing happens in Tilokpur are for purchasing buffalo, marriage, housing, and fodder. All the group members who are below the age of 58 years are insured for Rs. 10,000 for normal death and Rs. 15,000 for accidental death. The group insurance policy has been offered by an insurance wing of HDFC and facilitated by Shramik Bharti.

In all, SB has promoted six federations in Kanpur Nagar and Ramabai Nagar. In Shivrajpur it is known as Ekta Mahila Samiti and is made up of 96 groups. The Chetna Mahila Samiti is made up of 198 groups and is located at Akbarpur. In Maitha, the federation is made up of 127 groups and is known as Jagriti Mahila Samiti. In Rasoolabad federation there are a total of 122 groups and it is known as Shakti Mahila Samiti. In addition, a good number of SHGs are existing in city slums besides Bidhnau, Ghatampur and Amraudha development blocks. In city slums and Bidhnau block there are a total of 189 and 119 groups respectively (Table 7.1).
### Table 7.1: Details about the Federations of SB (2010) (Rs. in million)

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Kanpur</th>
<th>Ramabai Nagar</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Urban</td>
<td>Rural Shiva</td>
<td>Rural</td>
</tr>
<tr>
<td></td>
<td>Jajmau</td>
<td>accent</td>
<td>Ghatampur</td>
</tr>
<tr>
<td></td>
<td>City</td>
<td>Slums</td>
<td>Bidhanpur</td>
</tr>
<tr>
<td></td>
<td>Kulga</td>
<td>on</td>
<td>Ghatam</td>
</tr>
<tr>
<td></td>
<td>Shiva</td>
<td>Rajpur</td>
<td>Akbarpur</td>
</tr>
<tr>
<td></td>
<td>Amrau</td>
<td>dhap</td>
<td>Rasoolab</td>
</tr>
<tr>
<td>No. of SHGs</td>
<td>179</td>
<td>189</td>
<td>166</td>
</tr>
<tr>
<td>Members</td>
<td>2,870</td>
<td>3,284</td>
<td>2,436</td>
</tr>
<tr>
<td>Women Members</td>
<td>2,821</td>
<td>3,142</td>
<td>2,315</td>
</tr>
<tr>
<td>No. of SHGs having bank a/c</td>
<td>87</td>
<td>50</td>
<td>79</td>
</tr>
<tr>
<td>Saving (Rs)</td>
<td>12.97</td>
<td>13.46</td>
<td>10.48</td>
</tr>
<tr>
<td>Loan Outstanding (Rs)</td>
<td>11.68</td>
<td>10.32</td>
<td>10.86</td>
</tr>
<tr>
<td>Loan Disbursed during year (Rs)</td>
<td>10.70</td>
<td>11.04</td>
<td>10.37</td>
</tr>
<tr>
<td>No. of SHGs Credit linked with banks</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Bank loan (Rs)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
other project. He earlier worked for an Eri-silk project. Since April 2011 the project coordinator is working full-time on federation and linked issues. The federations and cluster associations were quite deliberative in rural areas.

While discussing with the SHGs of SB in both urban and rural areas it became clear that communities with which the organisation has worked have benefitted considerably in terms of accessing formal sources of finance. The CBOs developed for routing microfinance have however been used by SB in limited ways to meet social objectives in the initial phase of the programme. With the availability of funding support for issues such as water, sanitation, health and livelihood promotion, social objectives have been aimed to be addressed by strengthening the CBOs. Significant work on water and sanitation in Jajmau, health in Rasoolabad and Maitha, sustainable agriculture in Shivrajpur, and Eri-silk promotion in Akbarpur area have been done. Especially in the area of water and sanitation, SHGs, cluster associations, federations are acting as important fora for information dissemination and for demanding basic rights by slum dwellers. This could be seen in many slums of Kanpur city such as Dhakna Purwa, Gosain Nagar, Sanjay Nagar, Mahadev Nagar and Jayprakash Nagar.

Concluding Observations

The initial years of microfinance programme were focussed on promoting SHGs in urban areas by SB. Later on SHGs came to be formed in rural areas as well. Early SHGs were not encouraged to open their bank accounts. Most of the transactions were limited to the group itself and hence there always used to be excess demand for loans which was met mostly by SB through funds from apex lending agencies. The organisation continued with this arrangement for nearly a decade in urban areas. But all the same it started asking and supporting groups to have their own bank accounts in rural areas. This happened because of the influence of the SHG-bank linkage programme. They were encouraged to access the mainstream source of finance by taking loans from banks. SB started helping SHGs develop appropriate systems and processes to reach the minimum standards to be able to access finance from banks. The organisation finally has decided to renounce the pure delivery model after a review, and is attempting to change its strategies to suit a community based enabling model. Being an NGO it had difficulty in recovering loans defaulted mostly in conditions of distress. SB could not have acted ruthlessly in such scenarios all the while knowing about people’s predicament. SB began realizing gradually that on-lending model is not an appropriate method of microfinance for it. It occurred to the leadership in the organisation that it should work towards promoting institutions of the people for accessing finance. The Kulgaon federation has of late started facing difficulties in accessing finance as banks were not ready to give loans to the SHG federations. They were rather interested in providing loans to SB and expected it to do the
distribution of loans. The insights from the working of SHGs and their federations suggest that the social content of the microfinance programme was not strong in the initial years of functioning. The programme was majorly financial in character. This was untenable for SB being primarily a development oriented organisation with the welfare of the community always close to its heart. SB had a great resource in CBOs it had developed on the foundation of SHGs ready to be harnessed. Visualising this potential the organisation has come back strongly in the last ten years and is trying to use CBOs for meeting the social development objectives.
8. BAIF Development Research Foundation (BAIF-DRF)

Background

BAIF-DRF (BAIF hereafter) is a multi-state non-governmental organization working since 1967 focusing on integrated development of rural communities. BAIF (Bharaitiya Agro-Industries Foundation) was founded by Dr. Manibhai Desai, a follower of Mahatma Gandhi and his ideals. Dr. Desai’s idea of starting BAIF was to give a concrete shape to his earlier community development efforts involving nature cure, livestock development and lift irrigation in and around Urulikanchan village near Pune. Since then BAIF has emerged as a major developmental agency having presence in sixteen states of India with a wide range of interventions for uplifting the socio-economic conditions of poor and other needy population in a holistic manner. The vision of BAIF is to build a self-reliant rural society so as to ensure access to basic needs besides upholding high moral values and clean environment. To accomplish the vision, BAIF has the mission ‘…to create opportunities of gainful self-employment for the rural families, especially disadvantaged sections, ensuring sustainable livelihood, enriched environment, improved quality of life and good human values.’ (BAIF 2009)

Interventions of BAIF

BAIF follows a multi-pronged approach to ensure inclusive and sustainable development. Based on its long experience, BAIF has identified the following major areas of interventions.

Livestock of Development: Livestock development is the earliest and the largest programme activity of BAIF. As milch animals and goats are the key assets of rural households, BAIF has been pursuing in a complementary way breed improvement, provision of veterinary services and forage development. The development of dairy husbandry is the key focus area under livestock development. The services are provided through cattle development centres operated through trained local youths partly on a self-sustaining basis. BAIF had reached nearly 4 million households under its livestock development programme by 2011.

Agri-Horti-Forestry (Wadi): This is one of the very popular programmes of BAIF which has made a significant impact of the livelihoods of participating farmers. Launched as a orchard development initiative for rehabilitation of tribal farmers with degraded lands, wadi scheme combines agriculture, horticulture and forestry in a intensive manner to provide assured returns. BAIF provides the needed assistance and technology for orchard development on small plots of land with contribution from the farmers by way of labour and other inputs. The orchard development is further complemented with in-situ water resource development. Agri-business development involving processing and marketing of produce from the orchards add further value. BAIF had reached nearly 1.65 lakh farmers under its wadi programme by 2011.
**Water Resources Development:** As water is a critical resource for farm development, and domestic use, BAIF pursues development of water resources in a variety of ways. Checkdams, spring development, diversion channels, wells, lift irrigation, drip and drums, and treadle pumps are some of the ways by which water resources are developed for individual and collective use. Water resource development is also taken up as part of watershed development under which again variety of soil and water conservation measures are pursued through people’s participation.

**Women Empowerment:** Though the focus of BAIF is family based development, given the disadvantages women face, BAIF has take up empowerment of women in a focused way. A multi-pronged strategy is adopted to develop and empower women through hardship reduction measures, mobilization through self-help groups (SHGs), capacity building through skill and leadership development, gender sensitization, health care and livelihood promotion. Formation of SHGs and their federations emerge as key component of women empowerment programmes.

**Community Health:** Realising the importance of health for enhancing the quality of life, BAIF undertakes interventions for community health improvement through preventive and other measures with a focus on women and children. The specific measures include awareness about hygiene and sanitation, provision of safe drinking water, rising kitchen gardens, and developing alternative therapies based on traditional healing methods. Again SHG members are used as key channels for delivering health services.

**Strategies of BAIF**

Besides the multi-pronged approach to formulation of programmes as highlighted above, BAIF adopts certain common strategies of development to make them sustainable. While the multi-pronged approach itself is a key strategy for addressing the multi-dimensional nature of poverty and backwardness, BAIF has identified several other pathways for an integrated development. Some of these key strategies are briefly highlighted below.

- Cluster-development approach: For all its interventions, BAIF follows normally a cluster-development approach evolved based on implementing several multi-disciplinary projects across the country. A cluster consists of contiguous groups of 12 to 15 villages where participatory approach is adopted in identifying the needy, and relevant schemes for them. A package of interventions are taken up for implementation with necessary support and linkages arranged by BAIF. The multiple schemes not only help in efficient resource deployment in the cluster but also enable poorer sections to take advantage of the multiple opportunities for sustained improvement. Simultaneously, there is emphasis on targeting family as a unit for much needed involvement of all members in contributing resources and to ensure a balance in the outreach. The cluster based approach aims at ensuring assured livelihood for the poor to overcome failures and desperations.
- Tapping local resources: Self-reliance being the primary goal, BAIF strives towards tapping local resources for a sustained impact. The schemes of BAIF are augmented through development of local resources like land, water, labour, animals, and skills. Stakes are created through mobilizing local resources. Moreover, the aim is to build productive assets based in a cost effective way to help reduce risk associated with external inputs.

- Research and Technology: BAIF believes in propagating proven methods for increasing productivity of the poor. Through own and collaborative research, BAIF aims at developing cost effective and appropriate technology for the poor. Emphasis is also placed on wider dissemination of technology and its adoption by the poor, be it for development of water, crops, land, animals or health.

- People’s Organisations: Programme sustainability is to be ensured through community participation at different stages of a project. Community is involved actively at the stage of planning and implementation. Formation of a variety of people’s organization (POs) is the common method adopted across schemes for participation and sustainability. POs like SHGs, wadi tukadis (groups), watershed committees, common interest groups, federations and cooperatives are promoted under various interventions. BAIF hopes to realize its withdrawal strategy through these POs.

For conceiving and executing programmes locally, BAIF has promoted 14 associate organizations. These associate organizations are autonomous bodies capable of operating as independent development agencies under the overall guidance of BAIF. While BAIF takes up national level and common projects, each of the associate organizations takes up locally relevant interventions as per the given context and opportunities. These associate organizations are monitored and guided by BAIF for adopting the common values and strategies cherished by BAIF for success. Both BAIF and its affiliate organizations work with government agencies, donors and other relevant organizations through seeking support and networking.

**Microfinance Interventions of BAIF**

As highlighted above, BAIF and its associate organizations do not have a separate or explicit microfinance programme. The microfinance programme of BAIF has been pursued more as a supplementary and complementary component of the ongoing programmes, especially the women empowerment programme. The long term strategy is to enable people’s organizations promoted to take up microfinance for the poor, and also help individual participants develop linkages with banks towards strengthening their self-reliance.
The main rationale as to why BAIF has not pursued microfinance like many other NGOs emerges out of its holistic strategy adopted for livelihood promotion. For improving the livelihood conditions of its target groups like tribal farmers and landless who are socially and economically weak, BAIF’s strategy has been to provide direct grant based support initially. Given their vulnerable conditions, BAIF would like to build their capacities and asset base so as to enable them to come out of poverty in an assured way with least possible risk. Grant based support for inputs and technology augmented by local resources is the preferred way of BAIF. Credit which goes with several constraints like high risk and poor accessibility is to be used initially for meeting consumption needs and subsequently for supplementing the grant-based interventions through diversification and asset augmentation. The remark of the former president of BAIF in one of his papers on strategy for rural development captures the essence of this strategy: ‘…. it is better to initiate the development programme with an aid component and subsequently encourage the families to avail of loans’ (Hegde 1998:17)

Evolved as a hard core development agency, BAIF is loath to pure commercial thrust inherent in pursuing microfinance as a separate intervention. It believes that neither it has the expertise and nor is under any compulsion to take up microfinance for sustaining its activities. Hence, microfinance is not a prominent or specialized area of intervention for BAIF and its associate organizations. However, having identified its supplementary role, BAIF has promoted microfinance in its own unique way even calling it as Vikas Arth (Development Finance).

Though Dr. Manibai Desai, the founder of BAIF had worked for elimination of moneylenders during early phase of his developmental work, a more formal intervention for creating access to credit for rural households was started in the year 1990 only. BAIF started promoting out of its own resources SHGs for women in its Urulikanchan project area. The purpose was to work with women to improve their social and economic conditions (Halwe 2005). The SHGs were formed in about 26 villages of Pune district, and in about fifteen years BAIF had promoted about 213 SHGs with 3775 members in this project area. The SHGs took up regular savings and lending based on the savings mobilized. BAIF made efforts to strengthen these SHGs. It appointed and trained village level workers (VLWs) who would act as a link between SHGs and BAIF. These VLWs were members of the SHGs and were expected to guide the SHGs in their activities like SHG management, training and bank linkage. BAIF even tried to mobilize some service charges from the SHGs to pay for the honorarium of the VLWs. The intervention gave BAIF experience of SHG formation and challenges involved in sustaining them. The assessment of Urulikanchan experience also showed some positive impact on the livelihood conditions of the SHG members. The support from SHGs has helped many women to take up livelihood enhancement activities in agriculture, non-farm and dairying (BAIF 2007). Subsequently, a cooperative society named Sankalpa Streewadi Sahakari Sanstha for marketing of the products prepared by the SHG members was formed in August 2000. In order to recognize the contribution and ensure development of SHGs, BAIF has instituted a practice of giving award to best SHGs since 1999. A centre called Yashaswini has been launched in Urulikanchan to build capacities of socially
challenged women to emerge as development facilitators and entrepreneurs. The centre runs a six-month training course covering, among others, subjects like leadership development and microcredit management.

BAIF has subsequently encouraged its associate organizations to replicate its initial SHG development initiative all over India as a part of the women development programme. While the emphasis largely has been to enable SHGs to work based on own savings and funds accessed from bank linkage, some of the associate organizations have also tried out on-lending model in a limited way. Either using funds availed from SIDBI or available under some developmental programmes, attempts have been made to provide loan to members of SHGs and other groups for pursuing livelihood activities. In some of these cases loans have been provided in kind form similar to inputs provided under various livelihood programmes. The on-lending programmes have thrown up mixed results in terms of quality delivery of services, adequacy of loan, impact on livelihood activities and repayment (Mori 2005, MITTRA 2011a). BAIF and its associate organizations have however decided not to purse on-lending on a long term basis. Instead, the strategy evolved is to enable people’s organizations especially at higher levels like the SHG federations and cooperatives to take up microfinance both under bank linkage and on-lending models as per their need. BAIF and its associate organizations would continue with their promotional activities including assuming the role of a banking facilitator. Thus, the thrust is to use microfinance as a supplementary strategy to augment livelihood activities and scale it up using linkage and enabling models.

By March 2011, overall 7789 SHGs have been formed by BAIF and its associate organizations under various development programmes. Out of the total SHGs, nearly 80 percent of them are exclusively of women, 15 percent of men, and the rest 5 percent being mixed. The SHGs have mobilized cumulative savings worth Rs. 87.2 millions and have enabled their members access loans amounting to Rs. 110.4 millions from own savings, banks, and other sources. Nearly 2650 of these SHGs have been linked to banks for savings and credit purpose.

We visited one of the associate organizations of BAIF namely MITTRA based in Nashik, Maharashtra for a micro level understanding of the working of BAIF’s strategy. The key insights gained are highlighted below.

The Experience of MITTRA

MITTRA (Maharashtra Institute of Technology Transfer for Rural Areas) was formed in 1993 with the goal of implementing livelihood strategies of BAIF in the state of Maharashtra. The vision and mission of MITTRA goes with those of BAIF. MITTRA is working in 24 districts of Maharashtra with a coverage of nearly 0.21 million households. Nashik, Ahmednagar, Thane,
Pune, Amarawati, Jalgaon and Nandurbar are some of the districts with prominent presence of MITTRA. Many of these districts also have considerable tribal population. MITTRA implements all major development interventions designed by BAIF like livestock development, orchard (wadi) development, watershed development, women empowerment, landless development, and community health. The broader strategies evolved by BAIF are adopted by MITTRA too, including formation of people’s organizations for programme sustainability.

Like BAIF, there is no exclusive programme for microfinance under MITTRA. Microfinance is integrated with its other development interventions, and implemented mainly under the women development programme. MITTRA has formulated and implemented several major programmes under support from government agencies and donors. The Adivasi Development Programme, Maharashtra (ADPM), Jan UtkaRash, Jan Utthan, Jan Samruddhi are some of the major programmes of MITTRA. MITTRA also has implemented several other programmes having a focus on certain developmental issues namely Holistic Watershed Programme, National Agricultural Innovation Programme, Sukhi-Baliraja Scheme for Farming System Revival, and Shikshan-Mitra Project.

SHGs as local microfinancial intermediaries form an integral component of these programmes targeting especially the women. In a typical programme like ADPM, a separate women empowerment scheme is taken up. After two or three years of the project intervention, SHGs are formed to mobilize the women belonging to both landed and landless families. The SHGs can have membership of up to twenty members with homogenous background. However, most SHGs tend to have 10-12 members. The SHG leaders - president and secretary, are given training by MITTRA in SHG management. Regular savings and internal lending for consumption purposes constitute the major activity. As the SHGs mature, MITTRA tries to link them to banks for seeking bigger loan funds to take up various income generating activities. Besides SHGs, MITTRA also forms farmers’ groups under its wadi scheme called wadi tukadis (WTs). These are groups of 8-10 neighboring farmers who have taken up wadi programme, and they help coordinate activities like input distribution and extension. Many of the wadi tukadis also take up savings and credit activities like SHGs.

MITTRA brings together SHGs/WTs of nearby villages under a vibhag or cluster federation. These cluster federations are informal bodies which take up coordination, marketing and savings activities. In certain cases, larger and more formal federations of SHGs are formed at block level to pursue financial intermediation and other developmental activities. MITTRA hopes that these federations and other cooperatives formed for agribusiness would ultimately take over its role locally including microfinance activities.

In addition to promoting SHGs and linking them to banks, MITTRA has taken up provision of direct credit to farmers under some of its developmental programmes. Under ADPM, a scheme has
been introduced to provide credit to wadi farmers and landless households to augment their livelihood base. The aim is also to encourage borrowing for continuation of development in the post project period by imbibing credit discipline among the participants. The existing SHGs/WTs which are regular in functioning are eligible to receive the loan support. The loan applications are sent through executive committee of a vibhag to MITTRA’s field office. The loans are sanctioned in kind to ensure quality and better utilization. While the staff of MITTRA handle loan assessment and disbursement, community accountants have been appointed at vibhag level to help in SHG management. A maximum of Rs. 3000 loan is sanctioned for agricultural and non-agricultural needs. The scheme though initially faced some recovery problems due to misconception but has been able to record 100 per cent loan recovery subsequently. MITTRA charged 10 per cent interest rate per annum on these loans. A total of Rs. 37.3 million had been spent under the scheme till March 2011 (MITTRA 2011a).

As per the progress report on ADPM, MITTRA’s strategy for microfinance include: (a) Improve credit delivery and monitoring; (b) Expand credit programme to include farmers’ organizations; (c) Attempt financial mainstreaming through SHG-bank linkage programme. The aim is to improve access to credit on a long term basis. MITTRA hopes that it emerges as a banking facilitator and the people’s organizations as financial intermediaries having links to banks (MITTRA 2011).

As of March 2011, MITTRA has been able to form nearly 9720 people’s organizations of various kinds. The POs consisted of 4,473 SHGs, 5224 wadi tukadis and 23 higher level structures like cooperatives and federations. Of the total SHGs, about 237 SHGs have been formed for landless families. An estimated 10,337 members belonging 1358 SHGs have started income generating activities.

**People’s Organisations of MITTRA: Field Insights**

**Case of a Landed and a Landless Household:** RG is a wadi farmer in Vanvasi village of Jawhar taluka in Thane district. RG belongs to tribal community. MITTRA has implemented wadi development intervention scheme in the village in 1997. 42 out of 66 households in the village are part of the scheme. MITTRA provided the necessary assistance to set up wadi by way of saplings and other inputs. RG and his family worked hard to develop their wadi. Having reaped benefits of the wadi developed, RG has expanded the area on his own by making investment. RG has installed a pipe-line for watering the orchard. Currently, has bought a tractor by borrowing from a cooperative bank. RG also grows flowers on his orchard. He is a member of the wadi tukadi which is linked to village level committee. The committee handles input distribution and marketing activities. It also deducted compulsory savings from the farmer’s sales proceeds which it has now stopped due to surplus fund.
CBS is a barber in Kumbala village of Peint taluka in Nashik district. CBS was earlier pursuing barbery through house-to-house visit. MITTRA identified CBS under the landless scheme and offered him support (of Rs. 3000) to buy equipments. CBS made investment to set up a regular shop in the village. The village panchayat allotted land for his shop. The shop has helped CBS to increase his business. CBS said he is better-off now and has even made savings in the bank.

The SHGs promoted for the landless in the village did not work successfully. MITTRA local staff revealed that they were not clear about the scheme for landless. As many came forward, they had to carefully select the needy. The assistance was given as per the need and assessment.

**Mamta Mahila Mandal:** This is an SHG of landless households located in Nirgude village in Peint taluka of Nashik district. The group has 10 members belonging to Hindu Mahadev Koli community. The members pursue mainly labour work for their livelihood. The SHG was formed in 2007 along with five more SHGs in the village. The group collects a monthly savings of Rs. 25 from each member. A community accountant appointed by MITTRA helps in the maintenance of books. The group members received training in goatery and poultry. The group received grant support from MITTRA under landless development scheme and obtained six goats to pursue group-based goatery. The group has hired a labour to look after the goats. The group pays Rs. 10 per month for per goat to the labour. The group has been able to increase the unit size to nine goats. It has earned a revenue of Rs. 9000 by sale of goats. The money has been ploughed back into group which is used for meeting various loan needs of the members. The group has been graded and is linked to a bank. It has obtained a loan of Rs. 15,000 from the bank. The group would like to diversify its activity and wants to set up a sugarcane juice unit in the nearby market and is likely to get a loan under the SGSY scheme. The group is part of the local vibhag. The members also procure cashew from local farmers on behalf of the processing cooperative on a commission basis. The members identified trust and cohesion as the factors responsible for their success. The other SHGs in the village belong to the landed households. But these SHGs have not been able to get linked to bank. The local staff of MITTRA corroborated this and said only some SHGs have succeeded in bank linkage.

**Vrundavan Pushpa Utpadak Sangh:** The cooperative head quartered in Jawhar has been set up in 2005 under Jan Utkarsha Programme. We visited its branch at Pochade village. The members are flower producers supported under wadi programme. These farmers have taken up floriculture as an add on activity. The cooperative does collection and marketing of flowers produced by its members. The members have been helped to get good variety of Jasmine flowers by the cooperative. The flowers collected daily are sent to Mumbai for marketing. The members are able to get assured market and remunerative price for the flowers. The cooperative also deducts Rs. 5 per kilo of flower sold as member’s savings.

**Dr. Manibhai Desai Gramin Adivasi Mahila Sangh:** The SHG federation was set up in 2003 as a trust and a society. It has currently 3450 women members from 280 SHGs promoted by
MITTRA in Jawhar taluka under various programmes. The SHGs came together to form the federation to address the larger problems of women which could not be handled locally by them.

The federation which is working as an autonomous agency has taken up and implemented several schemes. Some of the key projects implemented include community based monitoring, village development programme, crèche for children, and community health project under which mentally challenged persons are treated. These programmes have been sourced from agencies like NABARD, social welfare board and health department. Water resource development, wormi-compost, nursery, mushroom cultivation, tailoring are the specific activities pursued by the federation.

As far as microfinance activity is concerned, the federation has followed both linkage and on-lending model. The SHGs save regularly with themselves and with their vibhags (cluster federation). Some of the vibhags in turn save with the main federation. Besides inter-lending, SHGs access loan from banks. The federation helps the SHGs to establish bank linkage for a small commission. Many of the SHGs which have mobilized considerable savings do not seek any external loans. The federation audits the books of the SHGs for a fee. The SHG members from the federation have availed loans from various banks to the tune of Rs. 22 lakh over the period. The federation also borrowed once from a bank for on-lending purpose out of which it sanctioned loans to its members for various purposes including house construction. Though initially there was difficulty in loan recovery, the federation managed to recover much of the loan amount lent. About Rs. 5 lakh worth loan amount is currently due from the SHGs.

The federation wants to improve its management but it is finding difficulty to get a good accountant as it cannot pay high salary. The leaders said they even want to appoint a MSW graduate who can help prepare project proposals for them.

**SHGs and Development Links:** SHGs have been primarily promoted as instruments for women’s participation and empowerment. While savings and credit are the basic activities taken up by the SHGs, MITTRA involves them in a wide range of activities both to reach out to the target groups as well as enhance the impact of the schemes. Two such areas are community health and helping SHGs to access development assistance. Many of the activities under community health are channelized through SHGs and their federations. SHGs are used as platforms to create awareness about hygiene, sanitation, reproductive health, maternal and child health. MITTRA has managed to train about 41,561 participants under health awareness using the medium of SHGs. SHGs are encouraged to take up health camps and access health insurance schemes. Many SHGs have established grain banks and taken up processing and distribution of feed mix for improving nutrition of children. SHGs even discuss and address frequently social issues like school enrollment, child marriage, widow problem, and alcoholism. Even some drudgery reduction initiatives are facilitated through SHGs.
SHGs are leveraged for accessing several other benefits. MITTRA organizes annually a state level exhibition to display and help market the products made by the SHGs and their members. Social scheme camps are conducted involving disadvantaged women members and government officials. Well-trained SHG members act as facilitators in mobilizing the needy members for the camps. Besides creating awareness, these camps help poor and destitute women to obtain needed documents for accessing government schemes meant for them. Another innovative project called ‘Suprakashita’ has been launched on a pilot basis to generate awareness about various community development activities among SHG members. Two members of interested and well-functioning SHGs are chosen and given systematic training in areas like agriculture, law, health and IGAs. These two members in turn train the other members of SHGs on these themes for awareness and follow-up action. Thus, SHGs have become instruments of multi-pronged strategy for community development.

Some Achievements and Outcomes of BAIF’s Interventions

BAIF is a unique organization following diverse interventions which have made considerable impact on its target groups across India. The flagship projects like wadi and livestock development not only have reached a fairly large number of needy but also have contributed positively in improving their livelihoods. As the poor face several risks in alleviating their conditions, a proactive grant based support by way of quality inputs and proven technology is the key approach evolved and adopted to ensure assured livelihood impact. What is more important is the holistic strategy that accompanies the formulation and implementation of these interventions. This is the core lesson replicated by all the associate organizations of BAIF.

In all these, microfinance emerges only as an add-on or a supplementary strategy for consolidating the gains made under the core strategy for the poor. SHG based linkage is the primary model espoused for delivering microfinance with necessary facilitation. The SHG model is seen as an integral component of the women’s empowerment strategy conceived as part of the core programmes. Microfinance, thus, comes neither for its own sake nor as a compulsive strategy for ensuring organisational sustainability.

With about 8000 SHGs having a coverage of nearly one lakh households in 6 states, the microfinance intervention of BAIF is poised for further consolidation and expansion. The creation of federations as CBOs has brought in scope for sustainability of the programme with members exercising control over these structures. Wherever the linkages with banking institutions have been strengthened SHG members have got an opportunity to access savings and credit to augment their livelihood (Masdekar 2011). At the same time, many farmers are able to individually access credit from the formal system based on their productive capacity enhanced through interventions like wadi. Further, the network of member based institutions involving
SHGs, federations and cooperatives has thrown up prospects to leverage for various developmental links and benefits.

The BAIF’s approach to microfinance is also confronted with a few constraints and challenges. As microfinance activity is integrated with the ongoing programmes, its extent of outreach and scale is conditioned by the resource endowments under these programme. Given that the asset development programmes of BAIF are relatively resource intensive, the scalability of operations is inherently constrained. As SHG formation is not taken up independently and has to go parallely with other programmes it faces a structural limitation for its expansion. As a result, the overall spread of the SHGs of BAIF and its associate organizations is relatively limited.

In addition to the limited spread, the actual linkage with the banking system to access financial services is found to be low. Overall, only 34 per cent of the SHGs have been linked to banks. The depth of the linkage is apparently thin. This is attributable to several reasons. The SHGs of BAIF are mostly located in tribal and remote areas. In many such areas the banking network is weak. The SHG-bank linkage programme has not reached such areas effectively. Hence, the SHGs find it difficult to get access to loans from the banks. The banks are eager to provide linkage to SGSY groups because of the annual targets given to them by the government ignoring the needs of other SHGs. Lack of sustained efforts to develop quality SHGs was found be the reason for poor linkage in a few cases, especially with regard to SHGs of the landless. As SHG promotion is largely linked to project funding, there are challenges to providing continued support and guidance to SHGs in post-project phase. The same reason has also constrained establishing widespread linkages for other services like microinsurance. SHGs are encouraged to access only some of basic insurance schemes implemented by the government agencies for the poor. Realising this, BAIF in one of the project areas had made attempts to collect some fee from the SHGs to provide post-project support (Halwe 2005). This approach has been now taken up in all the areas of BAIF to ensure continuation of BAIF’s presence and interest of the participants.

Few issues pertaining delivery of credit also have emerged. As BAIF provides initially grant based support, any attempt to infuse credit to supplement the basic intervention brings in some confusion among the participants. The mixing-up of grant and credit has come in the way of ensuring smooth recycling of credit. In some of the interventions of BAIF where credit has been provided either out of project fund or on-lending basis, the loan recovery has not been smooth. The project staff have been compelled to make additional efforts to convince the participants about the need for prompt repayment. At the same time, lack of specialized exposure to microfinance among the staff has constrained them in designing suitable loan products and services (BAIF 2011).

In some of the projects, loans have been provided in kind form like other inputs to aid in better utilisation. This has created several operational difficulties in obtaining right kind of assets or
inputs required by the borrowers and in effectively delivering them at the door steps (Mori 2006). Another operational constraint encountered is the difficulty faced in reaching out to the landless category of households while forming SHGs. Due to self-exclusion and lack of proactive efforts by project staff, the coverage of landless has been lower than the expected levels in some of the projects implemented by MITTRA. MITTRA also could not form adequate number of SHGs in naxalite-prone districts of Maharashtra. The opposition of naxals to formation of such community based organizations has posed difficulty in promoting SHGs.

Lastly, financial intermediation apart the goal of empowerment of women through SHGs has faced several constraints, if not in all areas. The available evidence in some specific pockets of BAIF’s intervention, suggests that the contributions of SHGs to impact the village economy, change the gender equations, and enable the participation of women in political and other developmental process have been of limited nature. Need to go beyond microcredit has been emphasised in such cases (Masdekar 2011).

**Concluding Remarks**

The experience of BAIF presents as a unique case wherein credit is supposed to follow certain basic level of development for the poor. For BAIF and its associate organisations, microfinance is not practiced for its own sake. It is in fact part of a multi-pronged strategy of building first productive (asset/skill) base through a proactive grant based support supplemented by credit-based efforts for diversification and self-reliance. Microfinance also emerges as a complementary mechanism to empower women. Enabling structures are built in an integrated way for a holistic impact. SHGs are promoted as the key enablers of the process of mobilization and intermediation. Women are mobilized and trained through SHGs. Livelihood enhancement is facilitated through various backward and forward linkages including savings and credit. SHG federations are evolved as CBOs for further consolidation and sustainability.

To conclude, the attempt of BAIF is thus noteworthy in so far as building an intrinsically sound microfinance model bereft of inherent contradiction is concerned. The effort would have been even more admirable had the clarity and quality matched the much required scale and outreach underscoring the relevance of broader policy support for such locally built ‘social capital’ to make a larger impact.

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